

City of Ann Arbor, Michigan



**Comprehensive Annual Financial Report
Fiscal Year Ended June 30, 2003**

CITY OF ANN ARBOR
COMPREHENSIVE ANNUAL FINANCIAL REPORT

County of Washtenaw
State of Michigan

Fiscal Year Ended June 30, 2003



Issued by:

Finance Department
100 N. Fifth Avenue
Ann Arbor, Michigan 48107
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CITY OF ANN ARBOR
COMPREHENSIVE ANNUAL FINANCIAL REPORT

June 30, 2003

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CITY OF ANN ARBOR, MICHIGAN
100 North Fifth Avenue, P.O. Box 8647, Ann Arbor, Michigan 48107

October 21, 2003

**To the Honorable Mayor, Members of the City Council
And Citizens of the City of Ann Arbor**

The Comprehensive Annual Financial Report (CAFR) of the City of Ann Arbor for the year-end June 30, 2003, is submitted. Staff in the Finance Department prepared the report, with assistance from the Pension System, Downtown Development Authority, Housing Commission and other City staff. The City has the responsibility for all disclosure and accuracy of material contained in this report.

State law requires that all local governments, subject to certain size criteria, publish within six months of the close of each fiscal year a complete set of financial statements presented in conformity with generally accepted accounting principles (GAAP) and audited in accordance with generally accepted auditing standards by a firm of licensed certified public accountants. Pursuant to that requirement, we hereby issue the comprehensive annual financial report of the City of Ann Arbor for the fiscal year ended June 30, 2003.

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

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

The CAFR is designed in a manner to assist and guide the reader in understanding its contents. The report consists of three sections:

- The Introductory Section includes the table of contents, this transmittal letter, the City's organization chart, and a list of principal officials.
- The Financial Section includes the MD&A, the basic financial statements, required supplementary information and various other statements and schedules, as well as the independent accountants' report based on an audit of the basic financial statements.
- The Statistical Section includes selected financial and demographic information, generally presented on a multi-year basis.

Profile of the Government

The City of Ann Arbor was founded in 1824 and incorporated as a city in 1851. The City is located in the approximate center of Washtenaw County in the southeastern section of Michigan's lower peninsula. The City is approximately 28 square miles in area and serves as the County Seat. The City has an excellent public transportation system for its citizens and visitors to enjoy. The City is nationally known for its outstanding educational and medical facilities, serving as the home of the University of Michigan.

The City operates under a Mayor and Council type of government. The Council is comprised of the Mayor and ten Council Members. The City is divided into five wards, two Council Members are elected from each ward. The Council has the authority to appoint a City Administrator to serve as the administrative agent of the City. The organizational chart of the City is shown following the transmittal letter.

The component units discussed below are included in the City's financial reporting entity because of the significance of their operational or financial relationships with the City. In accordance with generally accepted accounting principles and Governmental Accounting Standards Board (GASB) Statement No. 14, "*The Financial Reporting Entity*," these financial statements present the City (the primary government) and its component units. The criteria established by the GASB for determining the reporting entity includes financial accountability and whether the financial statements would be misleading if data were not included.

Blended Component Unit. The Ann Arbor Building Authority is presented as a blended component unit. Commissioners of the Authority are appointed by the Mayor and confirmed by City Council. Although it is legally separate from the City, the Authority is reported as if it were part of the primary government because its sole purpose is to issue revenue bonds to finance major capital construction by the City.

Discretely Presented Component Units. The Component Unit columns in the government-wide financial statements include the financial data of the City's other Component Units. They are reported in separate columns to emphasize that they are legally separate from the City. The following Component Units are included in the reporting entity because the primary government is financially accountable and is able to impose its will on the organization.

Downtown Development Authority (DDA). The DDA was created to finance rehabilitation and redevelopment in the downtown area. Commissioners of the DDA are appointed by the Mayor and approved by City Council. Development plans are approved by Council and Council must approve all modifications to the plan. The City maintains all accounting records for the DDA, whose primary source of funding is from Tax Increment Financing revenues. Bonds secured by those revenues are issued by the City on behalf of the DDA, which does not have the ability to issue debt.

Ann Arbor Housing Commission. The Housing Commission was created to provide low-income housing for City residents. Commissioners of the Housing Commission are appointed by the Mayor and approved by City Council. City Council is notified of all grant applications and any changes to contracts with the Department of Housing and Urban Development, the Commission's primary funding source. The Commission maintains its own accounting records and bank accounts. The City provides limited, special purpose financial support to the Commission, subject to request and Council approval, and is contingently liable for its debt.

The City is responsible for managing and financing many of the services for its citizens. The service areas include: Administrative Services, Community Services, Financial Services, Public Safety, Public Services and Other.

FACTORS AFFECTING FINANCIAL CONDITIONS

The information presented in the financial statements should be considered on a broad perspective within the specific environment of the City.

Local Economy

The City remains in good financial condition, as is demonstrated by the financial statements and schedules included in this report. The assessed value of the taxable property (2002) increased by 7.37% over the 2001 valuation. The City provides a full range of services including: police, fire, refuse collection and disposal, recycling collection and processing, recreation, social services by contract, public improvements, planning and zoning, and general administrative services. These services are enjoyed by the citizens and transients of the City. Ann Arbor was recognized in *Money Magazine* as the 11th best place to live. The City is surrounded by three higher educational centers 1) The University of Michigan, 2) Concordia College, and 3) Cleary College. Additionally, located within a 10-mile radius are two other higher educational centers. Over 69% of the residents have completed four or more years of college.

The City of Ann Arbor has the largest population base in Washtenaw County and serves as the County Seat. The 2000 Census identified 114,061 residents an Arbor, representing 35% of the population base in Washtenaw County. The median household income of our citizens is \$33,344. Personal income in the City has risen in recent years, which is an indication of a healthy economy.

The City is endowed with several major corporations located within its boundaries. During the fiscal year 2001-02, the City made a major commitment to Pfizer Pharmaceutical Company by granting a five-year industrial facility tax exemption on personal property and 12 years on real property. The City anticipates that Pfizer's expansion will further stimulate the economy. In addition, Ann Arbor is home to one of the largest employers in the County, the University of Michigan, that employs 16,800 people. Ann Arbor is also known for its excellent technology infrastructure that has attracted several large technology firms to the area.

The City makes major investments in the maintenance of its infrastructure. Ann Arbor is accessible by three major Interstate highways connecting Detroit to the east, Chicago to the west, the Upper Peninsula to the north, and Ohio to the south.

Budget Process

The City Administrator is required by City Charter to prepare and submit an annual budget to City Council. This budget is prepared on the modified accrual basis and is adopted by City Council as required by the State of Michigan. Budgetary control is maintained at the departmental level for the General Fund. The City Administrator is authorized to transfer budgeted amounts within the General Fund departments. Budgetary control for all other funds is maintained at the fund level. Revisions to a department total of the General Fund or to the fund total must be approved by City Council.

Long-term Financial Planning

The City Council and City Administrator are committed to strategies designed to ensure the long-term financial health of the City. Facing legal and political limits on the amount of property taxes that can be levied in Ann Arbor, the City Council provided the newly hired administrator with instructions to improve upon the cost reduction steps that began with the 2001-2002 budget cycle. From a high of 1,024 full-time equivalent (FTE) positions approved in the 1999-2000 budget, the current year fiscal plan includes only 861 FTE positions. It is anticipated that spending on personnel costs, as a percentage of overall budget, will continue to be reduced in future budgets.

By reducing personnel expenditures, available funds will be used to make long overdue investments in municipal facilities. Timely execution of current plans will have a new, centralized maintenance facility on-line in 2004 and a new or substantially remodeled city hall in place 12-18 months later.

Reductions in staffing levels are accompanied by certain reorganizations designed to maintain the City's long-standing commitment to outstanding customer service. Employee teams have been working to identify strategies that will help assure quality and consistency in the service provided. Significant new leadership training programs have been implemented early in 2003.

The long-term financial health of the City will benefit from our dramatically improved ability to live within the existing financial resources while finally implementing significant portions of our long-term capital plan.

Cash Management Policies and Practices

Cash balances are invested according to the City's investment policy and State law. Certain cash balances are pooled in an investment fund. The cash resources of the Pension Trust Fund and certain other funds are invested separately. Short-term investments are generally restricted to: 1) certificates of deposit; 2) commercial paper of corporations rated A-1 and P-1; 3) U.S. Treasury bills; and 4) savings accounts. U.S. Treasury notes are usually purchased with cash available for longer periods of time. Maturities are intended to correspond with cash flow needs.

For fiscal year 2003, the accounting return on investments (realized and accrued income and gains plus accretion and amortization of premiums and discounts) on the pooled investment portfolio was 2.37%. The market rate of return (reflects market adjustments) was 1.87%.

Risk Management

As permitted by State law, the City is self-insured (up to certain limits) for employee medical expenses, workers' compensation, unemployment claims, general liability, and property damage. Funding for claims and insurance is provided through an Internal Service Insurance Fund. This fund receives revenues from the operating accounts. The City contracts with several insurance providers to administer the medical program for its employees.

Pension and Other Post-employment Benefits

The City provides a defined benefit pension plan and post-employment healthcare benefit plan for all permanent employees. The pension system is administered by City staff and a seven member Trustee Board. The assets of the defined benefit pension plan on June 30, 2003 were \$354,065,182, and the post-employment healthcare plan was \$27,151,506. The annual actuarial valuations, applicable to the defined benefit pension plan, continue to reflect a favorable trend in the funding of those plans.

AWARDS AND ACKNOWLEDGEMENTS

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Ann Arbor for its comprehensive annual financial report for the fiscal year ended June 30, 2002. To be awarded a certificate of Achievement, a governmental unit must publish an easily readable and efficiently organized comprehensive annual financial report whose contents conform to program standards.

The City has been awarded this certificate annually since 1985. Such reports must satisfy both generally accepted accounting principles and applicable legal requirements. A Certificate of Achievement is valid for a period of one year only. We believe our current report continues to conform to the Certificate of Achievement Program requirements, and we are submitting it to the GFOA to determine its eligibility for another certificate.

Sincerely,

A handwritten signature in black ink that reads "Roger W. Fraser". The signature is written in a cursive, slightly slanted style.

Roger W. Fraser,
City Administrator

Certificate of Achievement for Excellence in Financial Reporting

Presented to

City of Ann Arbor,
Michigan

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2002

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



President

Executive Director

CITY OF ANN ARBOR, MICHIGAN

John Hieftje, Mayor

Council Members

Jean Carlberg
Kim Groome
Marcia Higgins
Michael Reid
Wendy A. Wood

Christopher S. Easthope
Heidi Cowing Herrell
Robert M. Johnson
Margie Teall
Joan Lowenstein

CITY ADMINISTRATOR

Roger Fraser

CHIEF FINANCIAL OFFICER

Jeffrey Starks

FINANCE DIRECTOR

Brenda L. Smith

ASSOCIATE FINANCE DIRECTOR

Karen M. Lancaster

CITY TREASURER

Mary L. Seifert

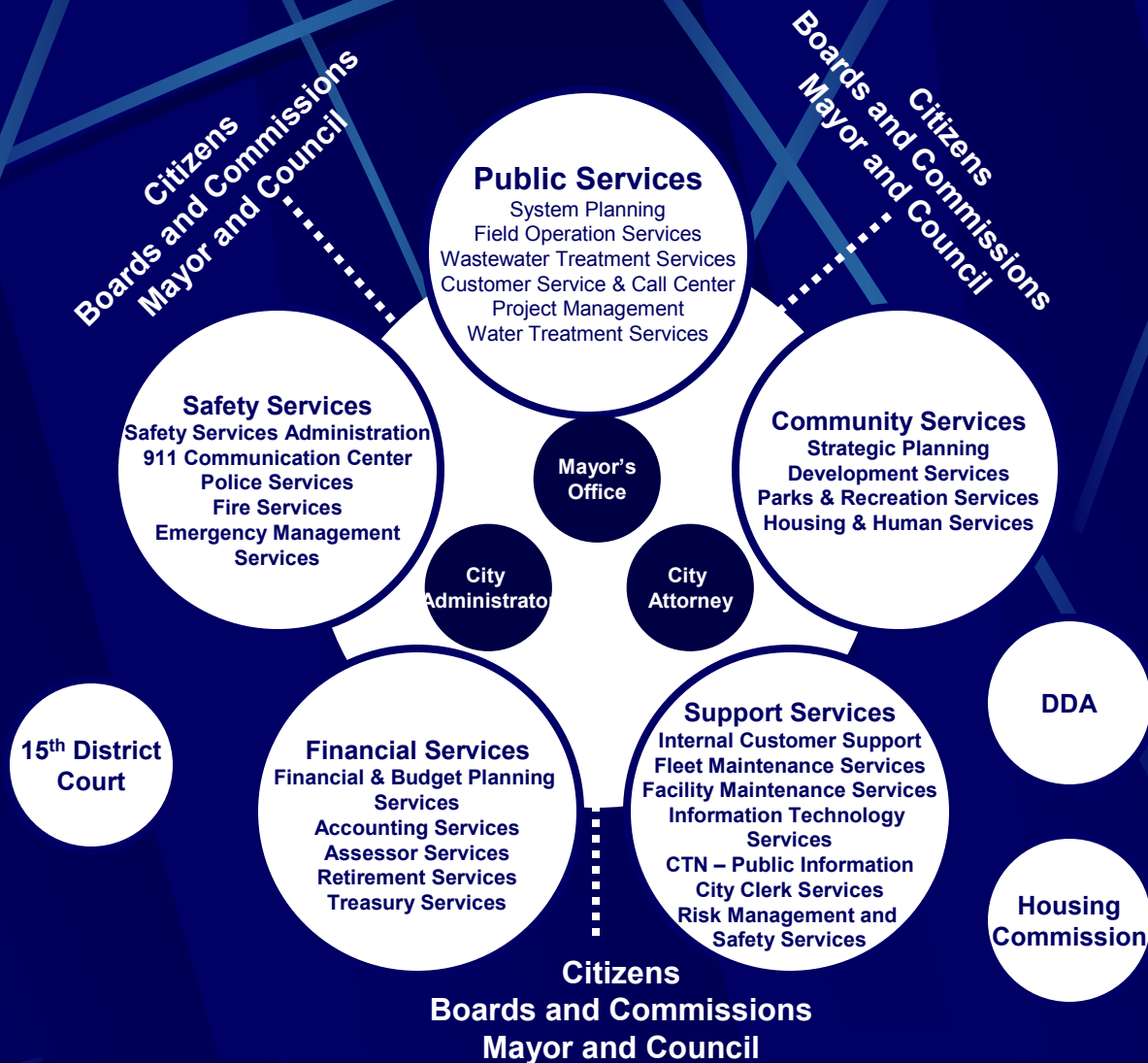
CITY ATTORNEY

Stephen K. Postema

CITY CLERK

Kathleen M. Root

Proposed Reorganization: City of Ann Arbor Government



Financial Section



REHMANN ROBSON

Certified Public Accountants

A member of THE REHMANN GROUP



an independent member of

BAKER TILLY

INTERNATIONAL

INDEPENDENT AUDITORS' REPORT

October 21, 2003

Honorable Mayor and
Members of the City Council
City of 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 the *City of Ann Arbor, Michigan*, as of and for the year ended June 30, 2003, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Ann Arbor'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 Ann Arbor Housing Commission (a discretely presented component unit), which represents 35% and 43%, respectively, of the assets and revenues of the aggregate discretely presented component units. Those financial statements were audited by other auditors whose report was furnished to us, and our opinion, insofar as it relates to the amounts included for the Ann Arbor Housing Commission discretely presented component unit, is based solely on the report 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 report of the other auditors provide a reasonable basis for our opinions.

In our opinion, based on our audit and the report of the 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 the City of Ann Arbor, Michigan, as of June 30, 2003, and the respective changes in financial position and cash flows, where applicable, thereof 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 October 21, 2003, on our consideration of the City of Ann Arbor, 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 and the historical pension supplementary information as listed in the table of contents 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 the City of Ann Arbor'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 in the audit of the basic financial statements and, in our opinion, based on our audit and the report of the 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 in the audit of the basic financial statements and, accordingly, we express no opinion on them.

A handwritten signature in cursive script that reads "Lehmann Johnson".

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the City of Ann Arbor, Michigan, we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal years ended June 30, 2003 and June 30, 2002. 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 1-5 of this report.

FINANCIAL HIGHLIGHTS

- The assets of the City exceed its liabilities at the close of the most recent fiscal year by \$783,358,866. Of this amount, \$71,205,945 (unrestricted net assets) may be used to meet the government's ongoing obligations to citizens and creditors.
- The City's total net assets increased by \$21,826,676 during the year.
- At the close of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$68,914,130, an increase of \$9,598,386 in comparison with the prior year. The increase in fund balance is primarily due to conservation of resources and increases in revenues from the tax levy. Of the fund balance amount, \$53,000,585 is available for spending at the government's discretion (unreserved fund balance).
- The general fund recognized a gain of \$940,029. At the end of the current fiscal year, unreserved general fund balance was \$7,759,394, or 10.42 % of the total general fund expenditures. The total fund balance for the general fund was \$8,557,443.
- The City's total bonded debt decreased by \$5,761,037, (new issues less retirements), during the current fiscal year.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of a series of financial statements: 1) management discussion and analysis (this section), 2) government-wide financial statements, 3) fund financial statements, and 4) notes to the financial statements.

Government-wide Statements

The government-wide statements are designed to provide readers with an overview of the City's financial health as a whole, similar to those used in the private-sector companies. Two components of the government-wide statements include:

- The Statement of Net Assets is the difference between assets and liabilities, which can be used as an indicator of the City's financial health, or position. This statement includes all of the City assets and liabilities.
- The Statement of Activities provides information about the City activities as a whole, as it relates to the City's revenues and expenses. The statement of activities accounts for revenues and expenses when they occur, regardless of when cash is received or paid. This statement indicates whether the City's revenues exceed its expenses, which is another way to monitor the overall health of the City.

MANAGEMENT'S DISCUSSION AND ANALYSIS

The Statement of Net Assets and the Statement of Activities, contain information in the following three categories:

- Governmental activities - All of the City's basic services such as police, fire, public works, and general administration are included in governmental activities. Property taxes, fees and charges, state shared revenues, and state and federal grants finance most of these activities.
- Business-type activities - The City assesses fees and charges to cover the cost of services provided in these business-type activities. Business-type activity areas include water and sewer systems, parking facilities, golf courses, and an airport.
- Component units - Included in the component units for the City are the Downtown Development Authority and the Ann Arbor Housing Commission. Although the Downtown Development Authority and the Ann Arbor Housing Commission are separate legal entities, the City is financially accountable for them. The Housing Commission provides low-income housing to City residents. The City provides limited, special purpose financial support to the Commission and is contingently liable for its debt.

The government-wide statements can be located on pages 22-24 of this report.

Fund Financial Statements. The fund financial statements provide detailed information about the City's most significant funds, not the City as a whole. The City uses the fund financial statements to account for specific funding sources and its spending patterns. Some funds are required to be established by State law and by bond covenants. The City Council establishes other funds to control and manage funds for particular purposes or to show it complies with legal requirements. The fund financial statements are divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

Governmental funds. Most of the City's basic services are reported in the governmental funds, which focus on how cash flows in and out of those funds and its balances at year-end that are available for spending/reserve purposes. The governmental funds provide a detailed short-term view of the City's general operations and the basic services it provides. In addition, it assists management in the assessment of whether there are more or fewer resources, which can be spent on future City programs.

Because the focus of governmental funds is narrower than that of governmental-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 City maintains thirty-two 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 and street repair millage funds. Data from the other thirty governmental funds are combined in a single, aggregated presentation. Individual fund data for each of these non-major governmental funds is provided in the form of combining statements elsewhere in this report.

The basic governmental fund financial statements can be located on pages 25-30 of this report.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Proprietary funds. The City maintains twelve different proprietary funds. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses enterprise funds to account for its water, storm and sanitary sewer operations. Internal service funds are an accounting device used to accumulate and allocate costs internally among the City's various functions. The City uses internal service funds to account for its central stores; fleet services; park services headquarters; and insurance funds. Because internal funds benefit predominantly 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 water, sanitary sewer operations, parking system, market, golf courses, airport, stormwater system, and hydroelectric power system funds, each of which are considered major funds of the City.

The basic proprietary fund financial statements can be located on pages 31-35 of this report.

Fiduciary funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the government. The City is the trustee, or fiduciary, for certain assets held on behalf of others. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the City's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds. Fiduciary fund statement information is contained in the combining section of the CAFR.

The basic fiduciary fund financial statements can be located on pages 36-37 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 38-61 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 the major fund budgetary comparisons and a schedule concerning the City's progress in funding its obligation to provide pension benefits to its employees. Required supplementary information can be found on pages 62-72 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 located on pages 73-96 of this report.

FINANCIAL ANALYSIS OF THE CITY AS A WHOLE

The government-wide financial analysis focuses on the net assets and changes in net assets of the City'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 City's assets exceeded its liabilities by \$783,358,866 at June 30, 2003 versus \$761,532,190 at June 30, 2002.

MANAGEMENT'S DISCUSSION AND ANALYSIS

**City of Ann Arbor
Net Assets
Comparative Schedule- June 30, 2003 and 2002**

	June 30, 2003 Governmental Activities	June 30, 2002	June 30, 2003 Business-type Activities	June 30, 2002	June 30, 2003 Total	June 30, 2002 Total
Current and other assets	\$90,666,934	\$81,103,685	\$48,657,697	\$53,562,135	\$139,324,631	\$134,665,820
Capital assets	607,773,839	602,703,567	174,120,511	172,905,484	781,894,350	775,609,051
Total assets	698,440,773	683,807,252	222,778,208	226,467,619	921,218,981	910,274,871
Long-term liabilities outstanding	34,600,172	34,046,461	73,833,777	80,475,037	108,433,949	114,521,498
Other liabilities	18,441,653	20,852,315	10,984,513	13,368,868	29,426,166	34,221,183
Total liabilities	53,041,825	54,898,776	84,818,290	93,843,905	137,860,115	148,742,681
Net assets:						
Invested in capital assets, net of related debt	583,715,108	580,089,833	95,615,594	87,975,478	679,330,702	668,065,311
Restricted	19,772,929	15,693,682	13,049,290	13,745,677	32,822,219	29,439,359
Unrestricted	41,910,911	33,124,961	29,295,034	30,902,559	71,205,945	64,027,520
 Total net assets	 \$645,398,948	 \$628,908,476	 \$137,959,918	 \$132,623,714	 \$783,358,866	 \$761,532,190

By far the largest portion of the City's net assets reflects its investment in capital assets (i.e., land, buildings, vehicles, equipment and infrastructure), less any related debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City'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 City's net assets at June 30, 2003 (\$32,822,219) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets of \$71,205,945 may be used to meet the government's ongoing obligations to citizens and creditors. The increase in Restricted Net Assets from \$29,439,359 in 2002 to \$32,822,219 in 2003 is due to an increase in Reserved for Capital Projects due to a bond sale in the spring of 2003. Certain items have been reclassified in the prior year.

Liabilities have decreased significantly from 2002 to 2003 mainly due to the decrease in bond indebtedness and accrued compensated absences. In addition, other liabilities have decreased from 2002 to 2003 due to the repayment of money advanced to the City from the Downtown Development Authority component unit during the year.

At the end of the current fiscal year, the City is able to report positive balances in all three categories of net assets, both for the government as a whole, as well as for its separate governmental and business-type activities.

MANAGEMENT'S DISCUSSION AND ANALYSIS

City of Ann Arbor Changes in Net Assets Comparative Schedule for the Years Ended June 30, 2003 and 2002

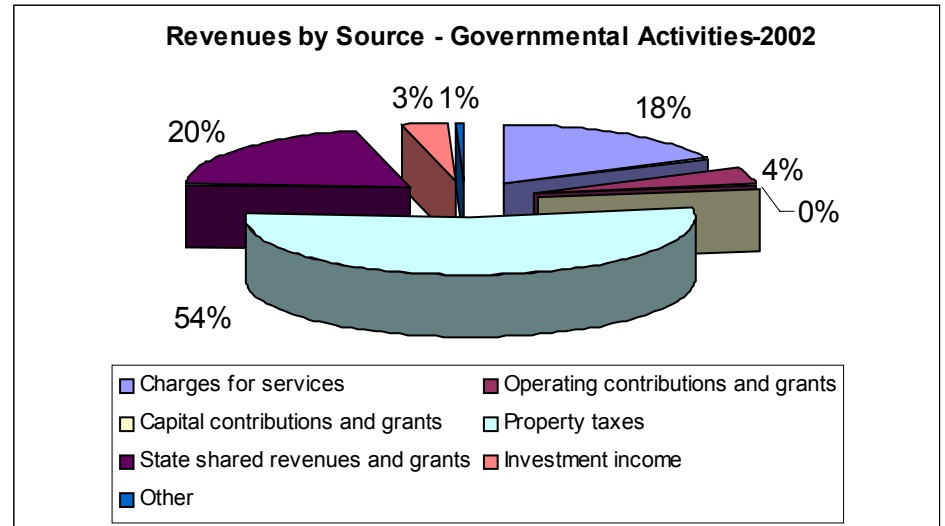
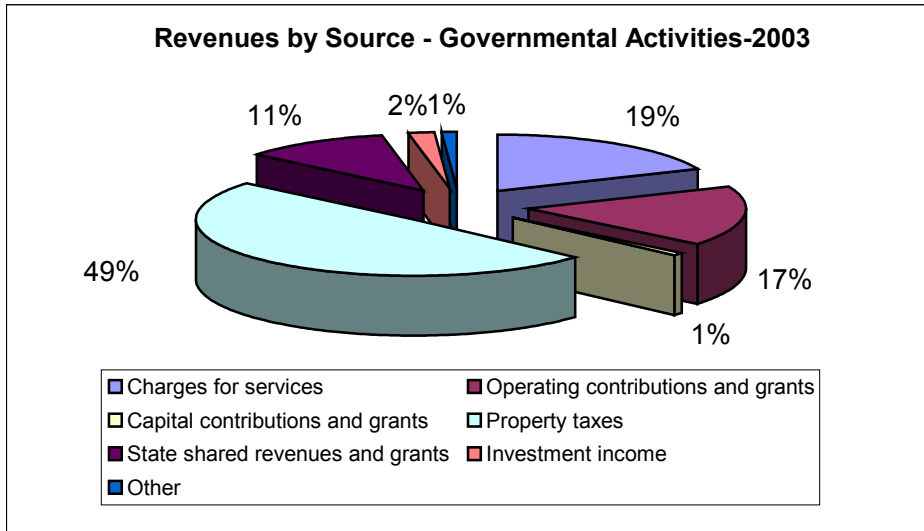
	2003 Governmental Activities	2002	2003 Business-type Activities	2002	2003 Total	2002
Revenue:						
Program revenue:						
Charges for services	\$23,092,945	\$19,624,720	\$41,370,394	\$45,298,634	\$64,463,339	\$64,923,354
Operating contributions and grants	21,132,464	4,653,491			21,132,464	4,653,491
Capital contributions and grants	893,925				893,925	
General revenue:						
Property taxes	61,284,172	58,095,088			61,284,172	58,095,088
State shared revenues and grants	13,227,051	21,877,296			13,227,051	21,877,296
Investment income	2,495,814	3,659,707	1,083,726	1,589,314	3,579,540	5,249,021
Other	1,372,371	591,049	46,255	90,103	1,418,626	681,152
Total revenue	123,498,742	108,501,351	42,500,375	46,978,051	165,999,117	155,479,402
Expenses:						
Governmental activities:						
General government	18,911,586	17,518,453			18,911,586	17,518,453
Public safety	36,517,037	37,281,245			36,517,037	37,281,245
Highways and streets	8,807,135	11,670,492			8,807,135	11,670,492
Solid waste	7,106,296	7,381,695			7,106,296	7,381,695
Culture and recreation	11,586,697	10,019,656			11,586,697	10,019,656
Social services	2,705,147	3,108,694			2,705,147	3,108,694
Transportation (payment to AATA)	7,613,357	7,137,843			7,613,357	7,137,843
Community access television	959,968	952,185			959,968	952,185
Information services	1,766,646	2,621,118			1,766,646	2,621,118
Urban redevelopment and housing	1,499,422	657,168			1,499,422	657,168
Economic development	10,187,500				10,187,500	
Unallocated depreciation	27,326	14,841			27,326	14,841
Interest on long-term debt	943,997	1,029,598			943,997	1,029,598
Business-type activities:						
Water			14,521,017	13,262,228	14,521,017	13,262,228
Sewer			13,665,415	14,282,194	13,665,415	14,282,194
Parking			2,630,276	3,695,555	2,630,276	3,695,555
Market			121,863	97,002	121,863	97,002
Golf courses			1,465,206	1,452,657	1,465,206	1,452,657
Airport			837,252	639,529	837,252	639,529
Stormwater			1,879,044	1,753,065	1,879,044	1,753,065
Hydropower			420,254	440,838	420,254	440,838
Total expenses	108,632,114	99,392,988	35,540,327	35,623,068	144,172,441	135,016,056
Increase in net assets before transfers	14,866,628	9,108,363	6,960,048	11,354,983	21,826,676	20,463,346
Transfers	1,623,844	1,813,700	(1,623,844)	(1,813,700)		
Increase in net assets	16,490,472	10,922,063	5,336,204	9,541,283	21,826,676	20,463,346
Net assets: beginning of year	628,908,476	617,986,413	132,623,714	123,082,431	761,532,190	741,068,844
Net assets: end of year	\$645,398,948	\$628,908,476	\$137,959,918	\$132,623,714	\$783,358,866	\$761,532,190

MANAGEMENT'S DISCUSSION AND ANALYSIS

The City's net assets increased by \$21,826,676 during the current fiscal year and \$20,463,346 in the prior fiscal year.

Governmental activities. Governmental activities for the City's net assets increased by \$16,490,472, accounting for 76% of the total growth in the net assets of the City. During 2001-02, governmental activities increased by \$10,922,063 which is 53% of 2001-02 of the total growth. Key elements are as follows:

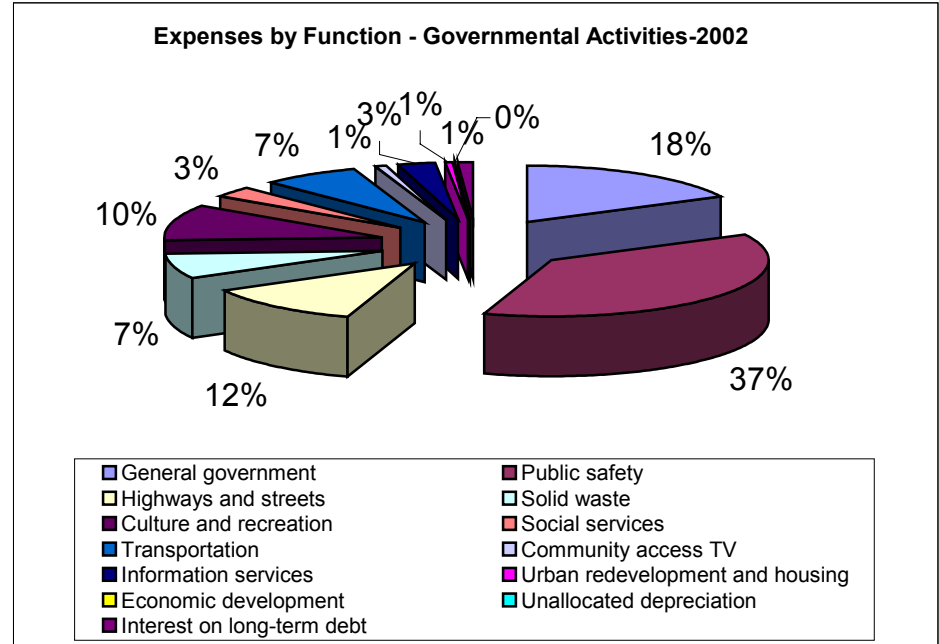
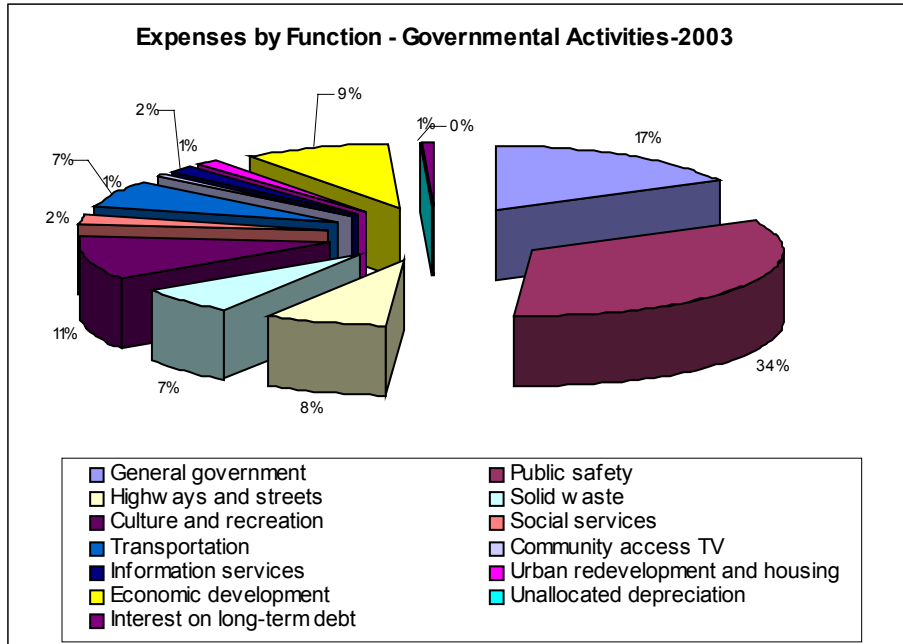
- Property taxes increased by approximately 5.5% in 2002-03 and 5.48% in 2001-02. Most of this increase is due to increased taxable values and residential growth.
- Intergovernmental revenue (which is a combination of operating contributions and grants and state-shared revenues and grants) increased 29.5% from 2002. This increase is due to the receipt of a \$10,000,000 state grant for the development of a technology corridor in the City. The City passed through the funding (which is reflected in governmental activities expenses) as required by the grant agreement. State shared revenue, primarily sales and use tax and income tax, decreased 8.9% in 2002-03 due to reductions of revenue sharing at the State level. In 2001-02, these revenues increased by approximately 7.25% during the year because of the population growth as documented by the 2000 census.
- Investment income decreased approximately 32% in 2002-03 and 39% in 2001-02, due in part to a lower volume of invested funds and due to a lower interest rate environment.



MANAGEMENT'S DISCUSSION AND ANALYSIS

Governmental activities' expenses. Expenses for governmental activities increased \$9,239,126 from 2002 to 2003. Key elements are as follows:

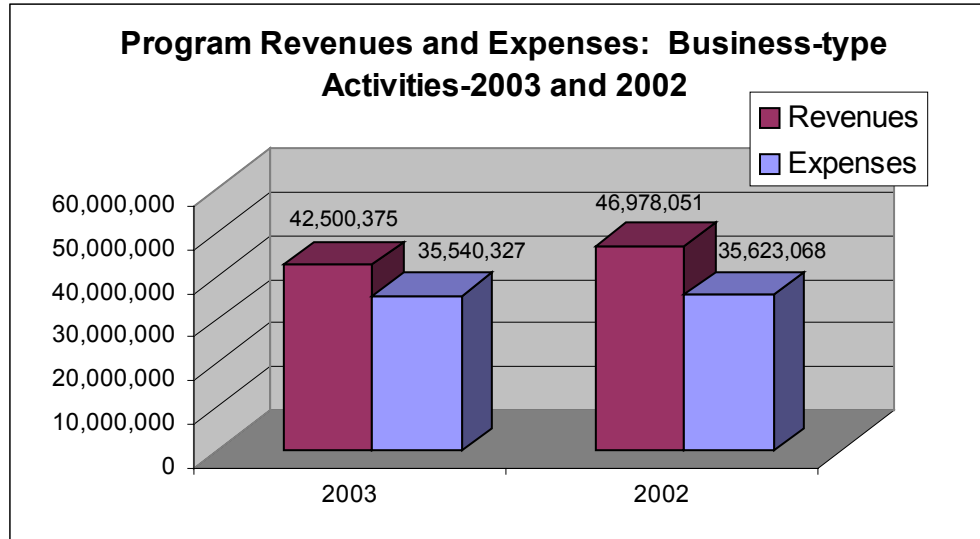
- The increase in governmental activities' expenses was due primarily to the passthrough of the grant for the technology corridor as mentioned above. In the economic development activity, the City passed through \$10,000,000 from the State of Michigan.
- General government expenses increased due to an increase in expenses related to quasi-external transactions with the Pension Trust funds and component units (primarily insurance and health care costs). These are offset by a corresponding increase in Charges for Services revenue.



MANAGEMENT'S DISCUSSION AND ANALYSIS

Business-type activities. Business-type activities increased the City's net assets by \$5,336,204 for 2002-03 and by \$9,541,283 for 2001-02, accounting for 25% and 47% of the total growth in the government's net assets for the current year and prior year, respectively. Key elements of this increase are as follows:

- Charges for services for business-type activities have decreased by \$3,928,240, or 8.7%, in the current year, primarily due to decreased water and parking revenues. In 2001-02, charges for services increased by \$5,088,385, or 13.5% compared to the prior year.
- Expenses remained relatively flat in growth from the prior year.
- Investment income decreased in 2002-03 by 32% and by 57.6% compared to the prior fiscal year as a result of a lower interest rate environment.



Financial Analysis of the Government's Funds

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

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

At the end of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$68,914,130 at June 30, 2003 versus \$59,315,744 at June 30, 2002, an increase of \$9,598,386 in 2003 and \$5,402,473 in comparison with the prior year. Of that amount, \$53,000,585 at June 30, 2003 and \$46,232,156 at June 30, 2002 constitutes unreserved fund balance, which is available for spending at the government's discretion.

The general fund is the chief operating fund of the City. At the end of the current fiscal year, unreserved fund balance of the general fund was \$7,759,394 at June 30, 2003 versus \$6,488,557 at June 30, 2002, while total fund balance was \$8,557,443 and \$7,617,414 at June 30, 2003 and 2002. 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 10.42 percent at June 30, 2003 and 8.62 percent at June 30, 2002 of total general fund expenditures.

MANAGEMENT'S DISCUSSION AND ANALYSIS

The fund balance of the City's general fund increased by \$940,029 during the current fiscal year in comparison to a decrease by \$2,503,672 during the prior fiscal year. This is primarily attributable to severance costs associated with pension ordinance amendments that included an Early Retirement Window option in 2001-02, as well as some expenditure savings in the Solid Waste activity for 2002-03.

Proprietary funds. The City'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 water, sanitary, storm sewer, hydroelectric power systems, parking system, market, golf courses, and airport, at the end of the year amounted to \$29,295,034. The water, sanitary, storm, hydroelectric systems, and parking system had an increase in net assets for the year of \$5,778,453, whereas, the Golf Course, Airport and Market funds had a decrease of \$442,249. Other factors concerning the finances of these funds have been addressed in the discussion of the City's business-type activities.

General Fund Budgetary Highlights

Differences between the original and final budgets for expenditures resulted in a 1.3% increase in 2002-03 compared to a 4.00% increase in 2001-02. The increase in expenditures was primarily precipitated by the impact of the Early Retirement Window severance pay.

Budget to actual comparisons for the City's street repair millage fund were generally favorable.

Capital Asset and Debt Administration

Capital assets. The City's investment in capital assets for its governmental/business-type activities as of June 30, 2003 was \$781,894,350 compared to \$775,609,051 at June 30, 2002 (net of accumulated depreciation). This investment in capital assets includes land, buildings, infrastructure, improvements, machinery and equipment and construction in progress. The total increase in the City's investment in capital assets for the current fiscal year was less than 1% compared to 2.9% in 2001-02. Major capital asset events during the fiscal year 2003 included a variety of street construction projects costing \$8,191,160.

City of Ann Arbor's Capital Assets (net of depreciation)

	2003 Governmental Activities	2002	2003 Business-type Activities	2002	2003 Total	2002 Total
Land	\$18,574,234	\$18,573,233	\$6,776,491	\$6,775,561	\$25,350,725	\$25,348,794
Construction in progress	1,659,495	949,409	40,104,360	41,084,031	41,763,855	42,033,440
Buildings	23,872,729	23,275,214	78,703,556	130,522,167	102,576,285	153,797,381
Leasehold improvements	0	453,561			0	453,561
Improvements other than buildings	1,879,523	1,441,331	127,899,088	45,423,934	129,778,611	46,865,265
Machinery and equipment	14,712,977	28,824,418	34,380,197	57,559,646	49,093,174	86,384,064
Vehicles	15,477,911		1,601,589		17,079,500	
Infrastructure	646,621,880	638,430,720			646,621,880	638,430,720
Less: accumulated depreciation	(115,024,910)	(109,244,319)	(115,344,770)	(108,459,855)	(230,369,680)	(217,704,174)
Total capital assets net of depreciation	\$607,773,839	\$602,703,567	\$174,120,511	\$172,905,484	\$781,894,350	\$775,609,051

MANAGEMENT'S DISCUSSION AND ANALYSIS

The City has established an additional asset type for vehicles, therefore, a reclassification of assets was necessary to move vehicles from machinery and equipment. We also eliminated the classification of Leasehold Improvements and reclassified them as necessary to Buildings or Improvements other than buildings. Additional information on the City's capital assets can be located in note 7 on pages 50-51 of this report

Long-term debt. At the end of the current fiscal year, the City had total bonded debt outstanding of \$108,910,000. Of that amount, \$66,700,000 comprises debt backed by the full faith and credit of the City. The remainder of the City's debt represents bonds secured solely by specified revenue sources (i.e., revenue bonds).

City of Ann Arbor's Outstanding Debt

	2003 Governmental Activities	2002	2003 Business-type Activities	2002	2003 Total	2002 Total
Capital Projects Bonds	\$16,180,000	\$17,770,000			\$16,180,000	\$17,770,000
General Obligation Portion of Special Assessment Bonds	1,150,000	1,250,000			1,150,000	1,250,000
General Obligation Portion of Special Revenue Bonds	4,000,000				4,000,000	
General Obligation Portion of Special Revenue Bonds (DDA)	8,261,040	9,096,349			8,261,040	9,096,349
Special Assessment Bonds	2,335,000	2,730,000			2,335,000	2,730,000
Ann Arbor Building Authority Bonds			31,505,000	33,040,000	31,505,000	33,040,000
Other Bonds			3,268,960	3,938,651	3,268,960	3,938,651
Revenue Bonds			42,210,000	45,855,000	42,210,000	45,855,000
Lease Contracts Payable			800,000	1,200,000	800,000	1,200,000
Other Long-term Debt	460,250	815,889	720,956	956,354	1,181,206	1,772,243
Total outstanding debt	\$32,386,290	\$31,662,238	\$78,504,916	\$84,990,005	\$110,891,206	\$116,652,243

The City's total debt decreased by \$5,761,037 or 4.9 percent during the fiscal year. The City issued new debt in the following category:

New Bonds

- Limited Tax General Obligation Developmental Bonds (LTGO) \$ 4,000,000

The City has an AAA rating on this bond from Standard & Poor's. Moody's rated this issue at an Aaa.

State statutes limit the amount of the general obligation debt a governmental entity may issue to 10 percent of its total assessed valuation. The current debt limitation for the City is \$367,497,490, which is significantly in excess of the City's outstanding general obligation debt.

Additional information on the City's long-term debt can be located in note 9 of this report.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Economic Factors and Next Year's Budgets and Rates

The following factors were considered in preparing the City's budget for fiscal year 2003-04:

- The unemployment rate for the City is currently 4.1 percent, which has increased from the unemployment rate of 2.9 percent a year ago. This compares favorably to the state's average unemployment rate of 7.4 percent and the national average rate of 6.2 percent.
- Property tax revenues are budgeted to increase to 5.03 percent in 2003-04.
- Inflationary trends in the region compare favorably to national indices.

Contacting the City's Financial Management

This financial report is designed to provide a general overview of the City'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 the City Finance Department, 100 North Fifth Avenue, P.O. box 8647, Ann Arbor, Michigan 48107-8647.

Basic Financial Statements

CITY OF ANN ARBOR
STATEMENT OF NET ASSETS
June 30, 2003

	Primary Government			Component Units -	
	Governmental Activities	Business-type Activities	Total	Ann Arbor Housing Commission	Downtown Development Authority
ASSETS					
Cash	\$9,021,484	\$1,847,699	\$10,869,183	\$1,210,920	\$7,660,232
Equity in pooled cash and investments (Note 4)	68,891,156	30,574,193	99,465,349		10,665,149
Investments, at fair value (Note 4)	3,705,052		3,705,052	311,641	1,604,204
Restricted assets:					
Cash		3,935,957	3,935,957		
Cash with fiscal agents		625	625		
Cash and cash equivalents, held at County of Washtenaw		205,375	205,375		
Equity in pooled cash and investments (Note 4)		1,572,592	1,572,592		
Investments, at fair value (Note 4)		3,163,114	3,163,114		
Receivables:					
Accounts		503,624	503,624		
Interest receivable		27,271	27,271		
Less: Allowance for uncollectibles		(152,337)	(152,337)		
Receivables:					
Taxes	186,485		186,485		66,721
Accounts	3,021,831	6,116,794	9,138,625	17,140	397,805
Special assessments	1,268,934		1,268,934		
Accrued interest and dividends	49,820		49,820		
Improvement charges	8,620	510,675	519,295		
Loans	1,126,369		1,126,369		
Unbilled district costs	288,147		288,147		
Less: Allowance for uncollectibles	(726,231)	(85,774)	(812,005)		(64,000)
Internal balances	837,096	(837,096)			
Due from component units (Note 5)	180,258		180,258		
Due from primary government (Note 5)					14,997
Due from other governments	1,637,291		1,637,291	53,788	
Prepaid items	120,030	9,609	129,639		
Deferred charges		944,839	944,839	29,127	40,854
Inventory, at cost	1,050,592	320,537	1,371,129	19,101	
Capital assets, at cost:					
Land	18,574,234	6,776,491	25,350,725	844,637	
Buildings	23,872,729	78,703,556	102,576,285	16,867,930	
Improvements other than buildings	1,879,523	127,899,088	129,778,611		
Machinery, equipment, and vehicles	14,712,977	34,380,197	49,093,174	551,596	
Vehicles	15,477,911	1,601,589	17,079,500		
Infrastructure	646,621,880		646,621,880		
Less: Accumulated depreciation	(115,024,910)	(115,344,770)	(230,369,680)	(8,921,869)	
Construction in progress	1,659,495	40,104,360	41,763,855		
Total Assets	698,440,773	222,778,208	921,218,981	10,984,011	20,385,962

(Continued)

CITY OF ANN ARBOR
STATEMENT OF NET ASSETS
June 30, 2003

	Primary Government			Component Units -	
	Governmental Activities	Business-type Activities	Total	Ann Arbor Housing Commission	Downtown Development Authority
LIABILITIES					
Liabilities:					
Accounts payable	\$4,126,723	\$1,583,148	\$5,709,871	\$69,438	\$847,770
Estimated claims payable (Note 11)	4,048,656		4,048,656		
Accrued liabilities	2,450,925	390,048	2,840,973	7,115	14,286
Accrued interest payable	325,844		325,844		99,483
Payable from restricted assets:					
Accounts payable		826,098	826,098		
Accrued liabilities		3,371	3,371		
Accrued interest payable		1,450,264	1,450,264		
Due to primary government (Note 5)				150,417	29,841
Due to component unit (Note 5)	14,997		14,997		
Due to other governments	403,000		403,000	235,231	893,168
Deposits	1,443,737	135,388	1,579,125	95,965	
Deferred revenue	2,490,961		2,490,961	7,201	
Non-current liabilities:					
Due within one year:					
Accrued compensated absences	550,710	79,491	630,201	72,388	
Bonds payable	2,270,000	5,982,024	8,252,024		832,976
Other debt payable	316,100	534,681	850,781		
Due in more than one year:					
Accrued compensated absences	13,127,541	1,845,565	14,973,106	42,736	
Bonds payable	21,328,481	71,001,936	92,330,417		7,428,064
Other debt payable	144,150	986,276	1,130,426		
Total Liabilities	53,041,825	84,818,290	137,860,115	680,491	10,145,588
NET ASSETS					
Invested in Capital Assets, net of related debt	583,715,108	95,615,594	679,330,702	9,342,294	
Restricted for:					
Capital Projects	15,548,584	8,828,290	24,376,874		1,210,259
Debt Service	1,990,759	4,221,000	6,211,759		
Endowment	2,233,586		2,233,586		
Unrestricted	41,910,911	29,295,034	71,205,945	961,226	9,030,115
Total Net Assets	\$645,398,948	\$137,959,918	\$783,358,866	\$10,303,520	\$10,240,374

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

CITY OF ANN ARBOR
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2003

Functions/Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Assets			Component Units	
	Expenses	Charges for Services	Operating Contributions and Grants	Capital Contributions and Grants	Primary Government	Total	Ann Arbor Housing Commission	Downtown Development Authority	
					Governmental Activities				Business-type Activities
Primary Government:									
Governmental activities:									
General government	\$ 18,911,586	\$ 6,915,638	\$	\$	(\$11,995,948)	\$	(\$11,995,948)	\$	
Public safety	36,517,037	10,347,613	1,008,461		(25,160,963)		(25,160,963)		
Highways and streets	8,807,135	1,837,958	7,484,374		515,197		515,197		
Solid waste	7,106,296	334,555			(6,771,741)		(6,771,741)		
Culture and Recreation	11,586,697	2,119,851	199,079		(9,267,767)		(9,267,767)		
Social services	2,705,147		2,253,050		(452,097)		(452,097)		
Transportation (payment to AATA)	7,613,357	76,113			(7,537,244)		(7,537,244)		
Community access television	959,968	1,461,217			501,249		501,249		
Information services	1,766,646				(1,766,646)		(1,766,646)		
Urban redevelopment and housing	1,499,422				(1,499,422)		(1,499,422)		
Economic development	10,187,500		10,187,500		-		-		
Unallocated depreciation	27,326				(27,326)		(27,326)		
Interest on long-term debt	943,997			893,925	(50,072)		(50,072)		
Total governmental activities	<u>108,632,114</u>	<u>23,092,945</u>	<u>21,132,464</u>	<u>893,925</u>	<u>(63,512,780)</u>		<u>(63,512,780)</u>		
Business-type activities:									
Water	14,521,017	16,174,325				1,653,308	1,653,308		
Sewer	13,665,415	16,042,136				2,376,721	2,376,721		
Parking	2,630,276	4,328,687				1,698,411	1,698,411		
Market	121,863	80,162				(41,701)	(41,701)		
Golf courses	1,465,206	1,201,935				(263,271)	(263,271)		
Airport	837,252	687,558				(149,694)	(149,694)		
Stormwater	1,879,044	2,641,035				761,991	761,991		
Hydropower	420,254	214,556				(205,698)	(205,698)		
Total business-type activities	<u>35,540,327</u>	<u>41,370,394</u>				<u>5,830,067</u>	<u>5,830,067</u>		
Total primary government	<u>\$ 144,172,441</u>	<u>\$ 64,463,339</u>	<u>\$ 21,132,464</u>	<u>\$ 893,925</u>	<u>\$ (63,512,780)</u>	<u>\$ 5,830,067</u>	<u>\$ (57,682,713)</u>		
Component units:									
Housing Commission	\$11,819,232	\$755,703	\$10,743,753					(319,776)	
Downtown Development Authority	14,395,752	11,858,794						(2,536,958)	
Total component units	<u>\$26,214,984</u>	<u>\$12,614,497</u>	<u>\$10,743,753</u>					<u>(319,776)</u>	<u>(2,536,958)</u>
General revenues:									
Taxes:									
Property taxes, levied for general purpose					53,597,747		53,597,747	3,171,528	
Property taxes, levied for debt service					7,686,425		7,686,425		
State-shared revenues and grants					13,227,051		13,227,051		
Investment income					2,495,814	1,083,726	3,579,540	16,224	
Gain on sale of assets					268,143	46,255	314,398	(667)	
Other					1,104,228		1,104,228	41,082	
Total general revenues					<u>78,379,408</u>	<u>1,129,981</u>	<u>79,509,389</u>	<u>56,639</u>	<u>3,642,964</u>
Transfers					1,623,844	(1,623,844)			-
Total general revenues and transfers					<u>80,003,252</u>	<u>(493,863)</u>	<u>79,509,389</u>	<u>56,639</u>	<u>3,642,964</u>
Change in net assets					16,490,472	5,336,204	21,826,676	(263,137)	1,106,006
Net assets at beginning of year					628,908,476	132,623,714	761,532,190	10,566,657	9,134,368
Net assets at end of year					<u>\$ 645,398,948</u>	<u>\$ 137,959,918</u>	<u>\$ 783,358,866</u>	<u>\$10,303,520</u>	<u>\$10,240,374</u>

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

CITY OF ANN ARBOR
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2003

ASSETS	General	Street Repair Millage	Other Governmental Funds	Total Governmental Funds
Cash	\$4,715,784	\$264,327	\$2,918,512	\$7,898,623
Equity in pooled cash and investments (Note 4)	5,854,913	18,636,613	35,988,406	60,479,932
Investments, at fair value (Note 4)			3,705,052	3,705,052
Receivables:				
Taxes	149,562	17,892	19,031	186,485
Accounts	2,215,023	14,421	756,798	2,986,242
Special assessments			1,268,934	1,268,934
Accrued interest and dividends			49,820	49,820
Improvement charges			8,620	8,620
Loans			1,126,369	1,126,369
Unbilled district costs			288,147	288,147
Less: Allowance for uncollectibles	(519,415)	(31,269)	(146,958)	(697,642)
Due from other funds (Note 5)	1,952,295		28,660	1,980,955
Due from component units (Note 5)	180,258			180,258
Due from other governments			1,637,291	1,637,291
Prepaid items	2,270		3,735	6,005
Inventory, at cost	203,062		4,332	207,394
Total Assets	\$14,753,752	\$18,901,984	\$47,656,749	\$81,312,485

(Continued)

CITY OF ANN ARBOR
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2003

	General	Street Repair Millage	Other Governmental Funds	Total Governmental Funds
LIABILITIES, EQUITY AND OTHER CREDITS				
Liabilities:				
Accounts payable	\$1,728,011	\$1,255,446	\$960,095	\$3,943,552
Accrued liabilities	2,124,154	35,507	221,666	2,381,327
Due to other funds (Note 5)	19,955	1,496	1,160,832	1,182,283
Due to component unit (Note 5)	11,360	1,762	1,875	14,997
Due to other governments	403,000			403,000
Deposits	1,419,548		24,189	1,443,737
Deferred revenue			2,490,961	2,490,961
Accrued compensated absences (Note 9)	490,281	213	48,004	538,498
Total Liabilities	6,196,309	1,294,424	4,907,622	12,398,355
Fund balances:				
Reserved for prepaid items	2,270		3,735	6,005
Reserved for encumbrances	592,717	9,700,970	958,744	11,252,431
Reserved for landfill			155,225	155,225
Reserved for endowment			2,232,064	2,232,064
Reserved for inventories	203,062		4,332	207,394
Reserved for Material Recovery Facility equipment replacement			554,224	554,224
Reserved for recycling vehicle replacement			876,941	876,941
Reserved for Material Recovery Facility capital repair			30,131	30,131
Reserved for compost equipment			264,325	264,325
Reserved for radio equipment			88,928	88,928
Reserved for groundwater monitoring			245,877	245,877
Unreserved balances:				
Designated for subsequent year's expenditures	150,614			150,614
Designated for subsequent year's expenditures, nonmajor special revenue funds			1,963,668	1,963,668
Undesignated	7,608,780	7,906,590		15,515,370
Undesignated, nonmajor capital projects funds			15,260,231	15,260,231
Undesignated, nonmajor debt service funds			1,990,759	1,990,759
Undesignated, nonmajor special revenue funds			18,119,943	18,119,943
Total Fund Balances	8,557,443	17,607,560	42,749,127	68,914,130
Total Liabilities and Fund Balances	\$14,753,752	\$18,901,984	\$47,656,749	\$81,312,485

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

CITY OF ANN ARBOR
 GOVERNMENTAL FUNDS
 RECONCILIATION OF FUND BALANCE ON THE BALANCE SHEET FOR GOVERNMENTAL FUNDS
 TO NET ASSETS OF GOVERNMENTAL ACTIVITIES ON THE STATEMENT OF NET ASSETS
 JUNE 30, 2003

Fund balances of governmental funds	\$	68,914,130
Amounts reported for governmental activities in the statement of net assets are different because:		
Capital assets have not been included as financial resources in governmental fund activity.		711,353,154
Depreciation of capital assets.		(107,330,667)
Long-term debt and compensated absences are not due and payable in the current period and therefore have not been included in the governmental funds.		
Bonds payable		(24,028,731)
Compensated absences		(12,875,288)
Accrued interest payable for the current portion of interest due on bonds has not been reported in the governmental funds.		(325,569)
Internal service funds are used by management to charge the costs of certain activities, such as equipment management and self-insurance, to individual funds. The assets and liabilities of the internal service funds must be added to the statement of net assets.		9,691,919
Net assets of governmental activities	\$	645,398,948

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

CITY OF ANN ARBOR
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
For the Year Ended June 30, 2003

	General	Street Repair Millage Fund	Other Governmental Funds	Total Governmental Funds
Revenues:				
Taxes	\$46,449,620	\$7,148,127	\$7,686,425	\$61,284,172
Special assessments/improvement charges			893,925	893,925
Licenses, permits and registrations	3,001,458			3,001,458
Federal grants	175,829		2,842,674	3,018,503
State shared revenues and grants	13,203,430	463,100	17,674,482	31,341,012
Charges for services	5,724,064	206,026	2,245,796	8,175,886
Fines and forfeits	5,652,985		248,240	5,901,225
Interest and penalties			86,841	86,841
Investment income	565,535	445,144	1,314,227	2,324,906
Rentals	4,906		47,933	52,839
Contributions and donations			140,025	140,025
Sale of property and equipment	96,533		1,135	97,668
Intra-governmental sales			47,048	47,048
Miscellaneous	202,198	480,136	421,894	1,104,228
Total Revenues	75,076,558	8,742,533	33,650,645	117,469,736
Expenditures:				
Current:				
Mayor and Council	195,520			195,520
Administration	754,925		2,445,697	3,200,622
Clerk/Elections	628,453			628,453
Planning	850,129			850,129
Law enforcement	20,246,671		495,179	20,741,850
Fire department	11,178,956			11,178,956
District court	3,137,177			3,137,177
Building department	2,406,859			2,406,859
Highways and streets		7,504,073	4,039,128	11,543,201
Social services	1,949,232		232,283	2,181,515
Parks and recreation	6,399,727		4,844,520	11,244,247
Historic district commission	51,814			51,814
Public transportation	7,613,357			7,613,357
Solid waste	6,589,484			6,589,484
Economic development			10,187,500	10,187,500
General government	12,478,796			12,478,796
Community access television			959,968	959,968
Urban redevelopment and housing			1,499,422	1,499,422
Information services			1,612,762	1,612,762
Capital outlay			1,687,981	1,687,981
Debt service:				
Principal retirement			2,470,661	2,470,661
Interest and fiscal charges			970,388	970,388
Total Expenditures	74,481,100	7,504,073	31,445,489	113,430,662
Excess of Revenues over (under) Expenditures	595,458	1,238,460	2,205,156	4,039,074

(Continued)

CITY OF ANN ARBOR
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
For the Year Ended June 30, 2003

	General	Street Repair Millage Fund	Other Governmental Funds	Total Governmental Funds
Other Financing Sources (Uses):				
Transfers in	\$2,265,540	\$4,748,182	\$2,638,662	\$9,652,384
Transfers out	(1,920,969)	(687,088)	(5,429,901)	(8,037,958)
Bond proceeds			4,000,000	4,000,000
Bond discount			(55,114)	(55,114)
Total Other Financing Sources (Uses)	<u>344,571</u>	<u>4,061,094</u>	<u>1,153,647</u>	<u>5,559,312</u>
Excess of Revenues and Other Financing Sources over (under) Expenditures and Other Financing Uses	940,029	5,299,554	3,358,803	9,598,386
Fund Balances - July 1, 2002	<u>7,617,414</u>	<u>12,308,006</u>	<u>39,390,324</u>	<u>59,315,744</u>
Fund Balances - June 30, 2003	<u>\$8,557,443</u>	<u>\$17,607,560</u>	<u>\$42,749,127</u>	<u>\$68,914,130</u>

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

CITY OF ANN ARBOR
 RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
 AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
 TO THE STATEMENT OF ACTIVITIES
 YEAR ENDED JUNE 30, 2003

Net change in fund balances - total governmental funds	\$	9,598,386
<p>Amounts reported for governmental activities in the statement of activities differs from the amounts reported in the statement of revenue, expenditures, and changes in fund balances because:</p>		
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the costs of those assets is allocated over their estimated useful lives as depreciation expense.		11,131,796
Depreciation in the current period.		(6,566,840)
Bond proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net assets.		(3,944,886)
Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.		2,470,661
Accrued Interest for Debt. This is the net change in accrued interest for the current period.		28,856
The changes in accrual for compensated absences expenses reported in the statement of activities require the use of current financial resources and therefore are not reported as expenditures in governmental funds.		812,131
Internal service funds are used by management to charge the costs of certain activities, such as equipment management and self-insurance, to individual funds. The net revenues (expenses) of the internal service funds is reported with governmental activities.		<u>2,960,368</u>
Change in net assets of governmental activities	\$	<u><u>16,490,472</u></u>

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

CITY OF ANN ARBOR
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
June 30, 2003

Business-Type Activities
Enterprise Funds

	Water Supply System	Sewage Disposal System	Parking System	Market	Golf Courses	Airport	Stormwater Sewer System	Hydroelectric Power System	Total	Governmental Activities Internal Service Funds
ASSETS										
Current Assets:										
Cash	\$779,976	\$765,390		\$8,654	\$44,188	\$37,012	\$201,036	\$11,443	\$1,847,699	\$1,122,861
Equity in pooled cash and investments	7,449,061	19,347,227	62,135	477,086		229,115	1,366,544	1,643,025	30,574,193	8,411,224
Receivables:										
Accounts	2,706,414	2,727,666	24,715	2,679	10,145	81,933	525,909	37,333	6,116,794	35,589
Improvement charges	219,628	263,867					27,180		510,675	
Less: Allowance for uncollectibles	(29,720)	(8,113)	(18,515)	(804)	(2,683)	(21,477)	(4,462)		(85,774)	(28,589)
Due from other funds	473	20,975			205		3,107		24,760	50,645
Prepaid items							9,609		9,609	114,025
Deferred charges	425,295	68,752	423,674		17,475		9,643		944,839	
Inventory, at cost	242,471	49,934			28,132				320,537	843,198
Total Current Assets	11,793,598	23,235,698	492,009	487,615	97,462	326,583	2,138,566	1,691,801	40,263,332	10,548,953
Restricted Assets:										
Cash	2,187,748	1,136,346	611,817				46		3,935,957	
Cash with fiscal agents			625						625	
Cash and cash equivalents, held at County of Washtenaw		205,375							205,375	
Equity in pooled cash and investments			1,483,996				88,596		1,572,592	
Investments	1,756,563		1,406,551						3,163,114	
Receivables:										
Accounts	25,000		478,624						503,624	
Interest receivable	27,271								27,271	
Less: Allowance for uncollectibles	(8,750)		(143,587)						(152,337)	
Due from unrestricted assets	2,020,333	5,865,783					470,966	471,208	8,828,290	
Total Restricted Assets	6,008,165	7,207,504	3,838,026				559,608	471,208	18,084,511	
Capital assets, at cost:										
Land	412,830	339,582	4,522,293	84,120	693,739	708,927	15,000		6,776,491	194,707
Buildings	8,538,769	31,500,770	35,408,010	332,206	506,024	1,871,570		546,207	78,703,556	496,105
Improvements other than buildings	66,712,919	50,814,364	523,891		2,305,074	143,404	2,754,875	4,644,561	127,899,088	62,407
Machinery and equipment	10,800,843	22,287,575	172,578		593,325	256,306	269,570		34,380,197	2,325,363
Vehicles	683,632	687,561			42,054	67,594	120,748		1,601,589	8,367,013
Less: Accumulated depreciation	(28,380,878)	(66,848,843)	(12,652,832)	(119,570)	(1,134,068)	(1,959,489)	(587,800)	(3,661,290)	(115,344,770)	(7,694,243)
Construction in progress	6,315,927	9,031,404	24,069,886	19,700			667,443		40,104,360	
Net Capital Assets	65,084,042	47,812,413	52,043,826	316,456	3,006,148	1,088,312	3,239,836	1,529,478	174,120,511	3,751,352
Total Assets	82,885,805	78,255,615	56,373,861	804,071	3,103,610	1,414,895	5,938,010	3,692,487	232,468,354	14,300,305

(Continued)

CITY OF ANN ARBOR
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
June 30, 2003

Business-Type Activities
Enterprise Funds

	Water Supply System	Sewage Disposal System	Parking System	Market	Golf Courses	Airport	Stormwater Sewer System	Hydroelectric Power System	Total	Governmental Activities Internal Service Funds
LIABILITIES										
Current Liabilities (payable from current assets):										
Accounts payable	\$835,739	\$584,035		\$34,562	\$27,101	\$64,336	\$36,316	\$1,059	\$1,583,148	\$183,171
Estimated claims payable										4,048,656
Accrued liabilities	181,205	129,082		2,203	46,516	15,503	15,499	40	390,048	69,598
Accrued interest payable										275
Due to restricted assets	2,020,333	5,865,783					470,966	471,208	8,828,290	
Due to other funds	18,860				841,815		1,181		861,856	12,221
Deposits	128,659	1,428				600	4,701		135,388	
Other debt-current portion					12,077		122,604		134,681	30,000
Accrued compensated absences	38,575	36,298			519	3,580	519		79,491	12,212
Total Current Liabilities (payable from current assets)	3,223,371	6,616,626		36,765	928,028	84,019	651,786	472,307	12,012,902	4,356,133
Current Liabilities (payable from restricted assets):										
Accounts payable	522,414	303,684							826,098	
Accrued liabilities	922	405	2,044						3,371	
Accrued interest payable	692,049	189,147	525,322		22,111		3,487	18,148	1,450,264	
Revenue bonds payable - current portion	2,470,000	1,115,000					110,000		3,695,000	
Lease contracts payable - current portion		400,000							400,000	
Ann Arbor Building Authority bonds payable - current portion			1,535,000		70,000				1,605,000	
Other bonds payable - current portion			472,024					210,000	682,024	
Total Current Liabilities (payable from restricted assets)	3,685,385	2,008,236	2,534,390		92,111		113,487	228,148	8,661,757	
Long-Term Liabilities:										
Revenue bonds - non-current portion	30,305,000	7,555,000					655,000		38,515,000	
Lease contracts payable - non-current portion		400,000							400,000	
Ann Arbor Building Authority bonds payable - non-current portion			28,805,000		1,095,000				29,900,000	
Other bonds payable - non-current portion			1,746,936					840,000	2,586,936	
Other long-term debt - non-current portion					32,908		553,368		586,276	
Accrued compensated absences - non-current portion	842,237	674,106		3,446	117,389	79,074	129,313		1,845,565	252,253
Total Long-Term Liabilities	31,147,237	8,629,106	30,551,936	3,446	1,245,297	79,074	1,337,681	840,000	73,833,777	252,253
Total Liabilities	38,055,993	17,253,968	33,086,326	40,211	2,265,436	163,093	2,102,954	1,540,455	94,508,436	4,608,386
NET ASSETS										
Invested in Capital Assets, net of related debt	32,309,042	38,342,413	19,484,866	316,456	1,796,163	1,088,312	1,798,864	479,478	95,615,594	3,721,352
Restricted for debt service	3,277,500	867,000					76,500		4,221,000	
Restricted for equipment replacement	2,020,333	5,865,783					470,966	471,208	8,828,290	
Unrestricted (deficit)	7,222,937	15,926,451	3,802,669	447,404	(957,989)	163,490	1,488,726	1,201,346	29,295,034	5,970,567
TOTAL NET ASSETS	\$44,829,812	\$61,001,647	\$23,287,535	\$763,860	\$838,174	\$1,251,802	\$3,835,056	\$2,152,032	\$137,959,918	\$9,691,919

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

CITY OF ANN ARBOR
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
For the Year Ended June 30, 2003

	Business-Type Activities Enterprise Funds								Governmental Activities Internal Service Funds	
	Water Supply System	Sewage Disposal System	Parking System	Market	Golf Courses	Airport	Stormwater Sewer System	Hydroelectric Power System		Total
Operating Revenues:										
Charges for services	\$16,174,325	\$16,042,136	\$4,328,687	\$80,162	\$1,201,935	\$687,558	\$2,641,035	\$214,556	\$41,370,394	\$20,330,138
Miscellaneous revenue										6,511
Total Operating Revenues	16,174,325	16,042,136	4,328,687	80,162	1,201,935	687,558	2,641,035	214,556	41,370,394	20,336,649
Operating Expenses:										
Personal services	4,475,224	3,360,550	(30,845)	50,715	821,780	430,995	457,988	23,519	9,589,926	2,037,186
Municipal service charge	993,856	932,199		11,947	97,099	49,950	97,188	20,927	2,203,166	
Overhead charges from Water Supply System		1,025,472					565,870	21,748	1,613,090	
Materials and supplies	1,836,524	735,533	(7,396)	9,423	153,742	41,158	70,190	7,889	2,847,063	85,190
Utilities	1,309,469	1,071,836	7,907	7,881	33,216	52,166	6,738	207	2,489,420	105,105
Insurance	277,409	256,015		1,878	26,672	39,051	42,501	8,787	652,313	12,273,040
Contractual services	521,627	1,090,691		1,245	2,138	78,933	29,427		1,724,061	100,046
Maintenance	284,476	117,393		4,527	49,406	29,808	16,937	5,994	508,541	61,722
Professional fees	199,943	616,245	21,706	18,050		42,294	162,528	25,770	1,086,536	227,475
Rent	395,194	291,363			37,165	5,392	163,040	1,722	893,876	
Miscellaneous	335,870	80,705	57,393	7,899	16,686	23,422	68,729	1,368	592,072	51,703
Cost of goods sold										1,707,809
Depreciation and amortization	2,081,187	3,629,338	904,795	8,298	116,946	44,083	104,597	245,731	7,134,975	988,500
Total Operating Expenses	12,710,779	13,207,340	953,560	121,863	1,354,850	837,252	1,785,733	363,662	31,335,039	17,637,776
Operating Income (Loss)	3,463,546	2,834,796	3,375,127	(41,701)	(152,915)	(149,694)	855,302	(149,106)	10,035,355	2,698,873
Nonoperating Revenues (Expenses):										
Interest income	336,618	513,300	119,184	14,160	685	5,727	47,674	46,378	1,083,726	84,067
Net gain (loss) on retirement of capital assets	14,467	23,834					7,954		46,255	
Interest expense and fiscal charges	(1,810,238)	(409,151)	(1,676,716)		(110,356)		(93,311)	(56,592)	(4,156,364)	(2,465)
Lease charges in lieu of interest		(48,924)							(48,924)	170,475
Total Nonoperating Revenues (Expenses)	(1,459,153)	79,059	(1,557,532)	14,160	(109,671)	5,727	(37,683)	(10,214)	(3,075,307)	252,077
Income (Loss) Before Transfers	2,004,393	2,913,855	1,817,595	(27,541)	(262,586)	(143,967)	817,619	(159,320)	6,960,048	2,950,950
Transfers in	112,387	5,608					12,647	270,093	400,735	50,644
Transfers out	(79,522)	(13,362)	(1,799,840)		(220)	(7,935)	(123,700)		(2,024,579)	(41,226)
Net Transfers In (Out)	32,865	(7,754)	(1,799,840)		(220)	(7,935)	(111,053)	270,093	(1,623,844)	9,418
Changes in Net Assets	2,037,258	2,906,101	17,755	(27,541)	(262,806)	(151,902)	706,566	110,773	5,336,204	2,960,368
Net Assets - July 1, 2002	42,792,554	58,095,546	23,269,780	791,401	1,100,980	1,403,704	3,128,490	2,041,259	132,623,714	6,731,551
Net Assets - June 30, 2003	\$44,829,812	\$61,001,647	\$23,287,535	\$763,860	\$838,174	\$1,251,802	\$3,835,056	\$2,152,032	\$137,959,918	\$9,691,919

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

CITY OF ANN ARBOR
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
For the Year Ended June 30, 2003

Business-Type Activities
Enterprise Funds

	Water Supply System	Sewage Disposal System	Parking System	Market	Golf Courses	Airport	Stormwater Sewer System	Hydroelectric Power System	Total	Governmental Activities Internal Service Funds
Increase (decrease) in cash and cash equivalents:										
Cash flow from operations:										
Receipts from customers	\$16,688,927	\$16,045,474	\$3,994,792	\$78,287	\$1,200,095	\$683,344	\$2,581,870	\$215,996	\$41,488,785	\$20,362,191
Receipts from interfund services provided	234,805	617,978	86,214		10,936	7,632	25,113		982,678	3,709,166
Payments to suppliers	(5,489,117)	(5,865,017)	(478,115)	(31,775)	(403,817)	(315,671)	(1,233,911)	(93,375)	(13,910,798)	(15,839,710)
Payments to employees	(4,642,614)	(3,311,341)	(32,646)	(52,178)	(793,823)	(457,480)	(409,572)	(23,999)	(9,723,653)	(2,050,457)
Payments for interfund services used	(594,800)	(221,065)	(3,055,490)		(112,447)	(8,111)	(24,401)	(5,367)	(4,021,681)	(103,764)
Net cash provided by (used in) operating activities	6,197,201	7,266,029	514,755	(5,666)	(99,056)	(90,286)	939,099	93,255	14,815,331	6,077,426
Cash flows from noncapital financing activities:										
Transfers in	112,387	5,608					12,647	270,093	400,735	50,644
Transfers out	(79,522)	(13,362)	(1,799,840)		(220)	(7,935)	(123,700)		(2,024,579)	(41,226)
Net cash provided by (used in) noncapital financing activities	32,865	(7,754)	(1,799,840)		(220)	(7,935)	(111,053)	270,093	(1,623,844)	9,418
Cash flows from capital and related financial activities:										
Acquisition and construction of capital assets	(4,483,667)	(1,767,110)	(1,976,960)	(19,700)		(7,000)	(173,177)		(8,427,614)	(1,512,600)
Principal paid on revenue bonds, maturities, capital leases and notes	(2,240,000)	(1,700,000)	(1,929,691)		(117,794)		(227,604)	(210,000)	(6,425,089)	(30,000)
Interest paid on bonds, notes, and capital leases	(1,746,875)	(443,493)	(1,610,697)		(111,074)		(92,435)	(60,093)	(4,064,667)	(2,740)
Proceeds from sale of equipment	17,846	24,311					81,711		123,868	189,107
Net cash provided by investing activities	(8,452,696)	(3,886,292)	(5,517,348)	(19,700)	(228,868)	(7,000)	(411,505)	(270,093)	(18,793,502)	(1,356,233)
Cash flows from investing activities:										
Sale of investment securities	5,173,088		2,156,509						7,329,597	
Interest and dividends on investments	337,657	513,300	119,904	14,159	685	5,727	47,674	46,378	1,085,484	84,067
Net cash provided by (used in) investing activities	5,510,745	513,300	2,276,413	14,159	685	5,727	47,674	46,378	8,415,081	84,067
Net increase (decrease) in cash and cash equivalents	3,288,115	3,885,283	(4,526,020)	(11,207)	(327,459)	(99,494)	464,215	139,633	2,813,066	4,814,678
Cash and cash equivalents at beginning of the year	7,128,670	17,569,055	6,684,593	496,947	371,647	365,621	1,192,007	1,514,835	35,323,375	4,719,407
Cash and cash equivalents at end of the year	\$ 10,416,785	\$ 21,454,338	\$ 2,158,573	\$ 485,740	\$ 44,188	\$ 266,127	\$ 1,656,222	\$ 1,654,468	\$ 38,136,441	\$ 9,534,085

(Continued)

CITY OF ANN ARBOR
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
For the Year Ended June 30, 2003

	Business-Type Activities Enterprise Funds								Governmental Activities Internal Service Funds	
	Water Supply System	Sewage Disposal System	Parking System	Market	Golf Courses	Airport	Stormwater Sewer System	Hydroelectric Power System		Total
Reconciliation of operating income (loss) to net cash provided by operating activities:										
Net operating income (loss)	\$ 3,463,546	\$ 2,834,796	\$ 3,375,127	\$ (41,701)	\$ (152,915)	\$ (149,694)	\$ 855,302	\$ (149,106)	\$ 10,035,355	\$2,698,873
Adjustments not affecting cash:										
Depreciation and amortization	2,081,187	3,629,338	904,795	8,298	116,946	44,083	104,597	245,731	7,134,975	988,500
(Increase) decrease in assets and increase (decrease) in liabilities										
Allowance for uncollectible accounts	21,275	(3,055)	(307,942)	315	126	19,483			(269,798)	24,286
Accounts receivable	493,327	6,393	(25,953)	(2,190)	(1,966)	(23,697)	(59,165)	1,440	388,189	1,256
Inventory	67,129	18,976			8,246				94,351	46,380
Prepaid items			7,828				(1,480)		6,348	(53,082)
Accounts payable	610,488	333,179	(406,333)	31,075	4,061	46,503	(11,137)	1,037	608,873	(66,885)
Accrued compensated absences	(217,032)	20,119	(52,876)	(2,464)	21,451	(3,250)	41,544		(192,508)	(15,893)
Estimated claims payable										(1,154,033)
Accrued liabilities	49,642	29,090	(10,615)	1,001	6,506	(23,235)	6,872	(480)		2,622
Due to other funds	(594,800)	(221,065)			(112,447)	(8,111)	(24,401)	(5,367)	(966,191)	(112,368)
Due from other funds	234,805	617,978			10,936	7,632	25,113		896,464	3,703,382
Due from component units			86,214						86,214	14,388
Due to component unit			(3,055,490)						(3,055,490)	
Deposits	(12,366)	280					1854		(10,232)	
Net cash provided by (used in) operating activities	\$ 6,197,201	\$ 7,266,029	\$ 514,755	\$ (5,666)	\$ (99,056)	\$ (90,286)	\$ 939,099	\$ 93,255	\$ 14,815,331	\$ 6,077,426

NONCASH CAPITAL FINANCING ACTIVITIES:

During the fiscal year, there were no non-cash capital financing activities.

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

CITY OF ANN ARBOR
 ALL FIDUCIARY FUNDS
 STATEMENT OF FIDUCIARY NET ASSETS
 June 30, 2003

	Employees' Benefit Trust Funds	Agency Funds	Total
ASSETS			
Cash	\$403,491	\$1,254,704	\$1,658,195
Equity in pooled cash and investments	2,458,981		2,458,981
Investments, at fair value	379,708,523		379,708,523
Accounts receivable	25,027	55,291	80,318
Accrued interest and dividends	1,929,728		1,929,728
Due from other governments		62,475	62,475
Property, plant & equipment (net of depreciation of \$9,381)	14,007		14,007
	<hr/>		
Total Assets	\$384,539,757	\$1,372,470	\$385,912,227
LIABILITIES			
Liabilities:			
Accounts payable	\$3,219,389	\$826,335	\$4,045,724
Accrued liabilities	11,693		11,693
Accrued compensated absences	91,987		91,987
Due to other governments		456,584	456,584
Deposits		89,551	89,551
	<hr/>		
Total Liabilities	3,323,069	\$1,372,470	4,695,539
Net Assets:			
Held in Trust for Pension Benefits and Other Purposes	\$381,216,688		\$381,216,688
	<hr/>		

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

CITY OF ANN ARBOR
 FIDUCIARY FUNDS
 STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
 For the Year Ended June 30, 2003

ADDITIONS	<u>Total Employee Retirement Funds</u>
Investment income:	
Net realized and unrealized appreciation in fair value of investments	\$965,600
Interest	9,055,179
Dividends	<u>987,938</u>
Total investment income	11,008,717
Less investment expense	<u>1,618,619</u>
Net investment earnings	<u>9,390,098</u>
Contributions:	
Employer	6,866,489
Plan member	<u>2,622,572</u>
Total contributions	<u>9,489,061</u>
Total additions	<u>18,879,159</u>
DEDUCTIONS	
Benefits	19,922,150
Refund of contributions	1,814,475
Administrative expense	<u>6,081,504</u>
Total deductions	<u>27,818,129</u>
Change in net assets	(8,938,970)
Net assets held in trust for benefits at beginning of year	<u>390,155,658</u>
Net assets held in trust for benefits at end of yea	<u><u>\$381,216,688</u></u>

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

CITY OF ANN ARBOR

NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2003

1. FINANCIAL REPORTING ENTITY

The City of Ann Arbor, Michigan (the City) was incorporated in 1851. On April 9, 1956, a City Charter (home rule) was ratified by electors in accordance with Michigan law. The City operates under a Council-Administrator form of government and provides the following services as authorized by its charter: public safety (police, fire, and building inspection), traffic control and street maintenance, refuse collection, water and wastewater, parks and recreation, public improvements, planning and zoning, airport, urban redevelopment and housing, golf courses, and general administrative services. The City's population is approximately 114,061 people within an area of 28.6 square miles. The component units discussed below are included in the City's financial reporting entity because of the significance of their operational or financial relationships with the City. In accordance with generally accepted accounting principles and Governmental Accounting Standards Board (GASB) Statement No. 14, "*The Financial Reporting Entity*," these financial statements present the City (the primary government) and its component units. The criteria established by the GASB for determining the reporting entity includes financial accountability and whether the financial statements would be misleading if data were not included.

Blended Component Unit. The Ann Arbor Building Authority is presented as a blended component unit. Commissioners of the Authority are appointed by the Mayor and confirmed by City Council. Although it is legally separate from the City, the Authority is reported as if it were part of the primary government because its sole purpose is to issue revenue bonds to finance major capital construction by the City.

Discretely Presented Component Units. The Component Unit columns in the government-wide financial statements include the financial data of the City's other Component Units. They are reported in separate columns to emphasize that they are legally separate from the City. The following Component Units are included in the reporting entity because the primary government is financially accountable and is able to impose its will on the organization.

Downtown Development Authority (DDA). The DDA was created to finance rehabilitation and redevelopment in the downtown area. Commissioners of the DDA are appointed by the Mayor and approved by City Council. Development plans are approved by Council and Council must approve all modifications to the plan. The City maintains all accounting records for the DDA, whose primary source of funding is from Tax Increment Financing revenues. Bonds secured by those revenues are issued by the City on behalf of the DDA, which does not have the ability to issue debt.

Ann Arbor Housing Commission. The Housing Commission was created to provide low-income housing for City residents. Commissioners of the Housing Commission are appointed by the Mayor and approved by City Council. City Council is notified of all grant applications and any changes to contracts with the Department of Housing and Urban Development, the Commission's primary funding source. The Commission maintains its own accounting records and bank accounts. The City provides limited, special purpose financial support to the Commission, subject to request and Council approval, and is contingently liable for its debt.

1. FINANCIAL REPORTING ENTITY (Concluded)

Separate combining statements for the discretely presented Component Units are not presented as each Component Unit is shown as a separate column on the government wide financial statements. Complete financial statements of the individual Component Units can be requested from the City of Ann Arbor Finance Department.

Related Organizations. The Ann Arbor Transportation Authority (AATA) and the Ann Arbor Economic Development Corporation (EDC), are not included in the financial reporting entity. The members of the governing board of each are appointed by the Mayor and confirmed by the City Council, but the City's accountability for these organizations does not extend beyond making the appointments. The EDC, whose purpose is to foster business development within the City, and which has issued bonds bearing the City's tax-exempt status (for which the City is not contingently liable), had, as of June 30, 2003, assets and a fund balance of \$70,062.

2. DESCRIPTION OF CITY OPERATIONS AND FUND TYPES

The accounts of the City are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures or expenses, as appropriate. Governmental Accounting Standards Board Statement #34, (hereafter known as GASB #34) sets forth minimum criteria (percentage of the assets, liabilities, revenues or expenditures/expenses of either fund category or the governmental and enterprise combined) for the determination of major funds. The non-major funds are combined in a column in the fund financial statements and detailed in the combining section. The City reports the following major funds:

Governmental Funds.

General Fund. This fund is the general operating fund of the City; it is used to account for all financial resources not required to be accounted for in another fund.
Street Repair Millage Fund. This fund is used to account for the proceeds of the street repair millage.

Proprietary Funds.

Water Supply System - To account for the provision of treated water of the City and some township residents.
Sewage Disposal System - To account for the collection and treatment of the sewage of the City and some township residents.
Parking System - To account for the operations of the City's parking structures, lots and meters.
Market - To account for the costs of operating the City's Farmers' Market.
Golf Courses - To account for the operation of the City's two 18-hole golf courses.
Airport - To account for the operation of the City's airport including the rental of hangars and tie-down space.
Stormwater Sewer System - To account for the collection and disposal of the City's stormwater.
Hydroelectric Power System - To account for sale of power from two City power generation dams.

2. DESCRIPTION OF CITY OPERATIONS AND FUND TYPES (Concluded)

Non-Current Governmental Assets/Liabilities: GASB Statement #34 eliminates the presentation of Account Groups, but provides for these records to be maintained and incorporates the information into the governmental activities column in the government-wide Statement of Net Assets.

Other Fund Types:

Internal Service Funds. These funds are used to account for goods or services provided by the Central Stores, Fleet Services, Insurance, or Park Headquarters to departments of the City, or to other governments, on a cost-reimbursement basis.

Employee Retirement/Benefits Funds. To account for the accumulation of resources to be used for retirement pension and annuity payments. Resources are contributed by employees at rates fixed by law and by the City at amounts determined by an annual actuarial study.

Permanent Fund. To account for monies provided by a private bequest to finance tree planting and maintenance for the Elizabeth Dean Fund. The principal amount of the bequest is to remain intact and invested. Investment earnings are used for the above stated purposes.

Agency Funds. These fund are used to account for assets held by the City as an agent for individuals, private organizations, or other governments. Agency fund are, by nature, custodial; therefore, operation results are not measured. Such funds include: Current Tax, Delinquent Tax, Contractor's Retainage and Fifteenth District Court.

3. SIGNIFICANT ACCOUNTING POLICIES

Government-Wide and Fund Financial Statements. The basic financial statements include both government-wide (based on the City as a whole) and fund financial statements. While the previous financial reporting model emphasized fund types (the total of all funds of a particular type), in the new financial reporting model the focus is on either the City as a whole, or major individual funds (within the fund financial statements). Both the government-wide and fund financial statements (within the basic financial statements) categorize primary activities as either governmental or business-type. In the government-wide Statement of Net Assets, both the governmental and business-type activities columns (a) are presented on a consolidated basis by column, (b) and are reflected, on a full accrual, economic resource basis, which incorporates long-term assets and receivables as well as long-term debt and obligations.

The government-wide Statement of Activities reflects both the gross and net costs per functional category (Police, Fire, Public Services, etc.), which are otherwise being supported by general government revenues (property taxes, certain intergovernmental revenues, etc.). The Statement of Activities reduces gross expenses (including depreciation) by related program revenues, operating and capital grants. The program revenues must be directly associated with the function (Police, Fire, Public Services, etc.) or a business-type activity. The operating grants include operating-specific and discretionary (either operating or capital) grants while the capital grants column reflects capital-specific grants. Amounts reported as program revenue include 1) charges for services, 2) federal and state operating grants, and 3) special assessments.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

The net cost (by function or business-type activity) is normally covered by general revenue (property taxes, intergovernmental revenues, interest income, etc.). Historically, the previous financial reporting model did not summarize or present net cost by function or activity.

The City does not currently employ an indirect cost allocation system. An administrative service fee is charged by the General Fund to the other operating funds, that is eliminated like a reimbursement (reducing the revenue and expense in the General Fund), to address administrative services (finance, personnel, purchasing, legal, technology management, etc.) provided.

This government-wide focus is more on the sustainability of the City as an entity and the change in aggregate financial position resulting from the activities of the fiscal period. The fund financial statements are, in substance, very similar to the financial statements presented in the previous financial reporting model. Emphasis here is on the major funds in either the governmental or business-type categories. Non-major funds (by category) are summarized into a single column.

The governmental funds major fund statements in the fund financial statements are presented on a current financial resource and modified accrual basis of accounting. This is the manner in which these funds are normally budgeted. This presentation is deemed most appropriate to (a) demonstrate legal and covenant compliance, (b) demonstrate the source and use of liquid resources, and (c) demonstrate how the City's actual experience conforms to the budget fiscal plan. Since the governmental fund statements are presented on a different measurement focus and basis of accounting than the government-wide statements' governmental activities column, a reconciliation is presented on the page following each statement, which briefly explains the adjustment necessary to transform the fund based financial statements into the governmental activities column of the government-wide presentation.

Internal service funds of the City (which provide services primarily to other funds of the City) are presented, in summary form, as part of the proprietary fund financial statement. Since the principal users of the internal services are the City's governmental activities, financial statements of internal service funds are consolidated into the governmental activities column when presented at the government-wide level. The costs of these services are allocated to the appropriate functional activity (Police, Fire, Public Services, etc.).

When appropriate, surplus or deficits in the Internal Service funds may be allocated back to customers at the entity-wide Statement of Activities. This creates a reconciling item between the business-type activities column and the Proprietary Funds fund level statements as reflected on the bottom of each statement.

The City's' fiduciary funds (which have been redefined and narrowed in scope) are presented in the fund financial statements by type (pension and agency). Since, by definition, these assets are being held for the benefit of a third party (other legal governments, private parties, pension participants, etc.) and cannot be used to address activities or obligations of the government, these funds are not incorporated into the government-wide statements.

The focus of the Statement #34 model is on the City as a whole and the fund financial statements. The focus of the Fund Financial Statements is on the major individual funds of the governmental and business-type categories, as well as the fiduciary presentation, and the statements provide valuable information that can be analyzed and compared (between years and between governments) to enhance the usefulness of the information.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of Accounting. The modified accrual basis of accounting is used by all governmental fund types. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual (i.e. when they become both measurable and available). *Measurable* means the amount of the transaction can be determined and *available* means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Major sources of revenue considered susceptible to accrual are community development grants, state shared revenues and grants, delinquent property taxes collected during the fiscal year or within a period of 60 days thereafter, and interest on investments.

Expenditures are recorded when the related fund liability is incurred. Principal and interest on general long-term debt are recorded as fund liabilities when due or when amounts have been accumulated in the debt service fund for payments to be made early in the following year. The government-wide financial statements and the proprietary, fiduciary and component unit financial statements are presented on an accrual basis of accounting. The governmental funds in the fund financial statements are presented on a modified accrual basis.

In applying the "susceptible to accrual" concept to intergovernmental revenues pursuant to GASB Statement #33 (the City may act as either provider or recipient), the provider should recognize liabilities and expenses and the recipient should recognize receivables and revenue when the applicable eligibility requirements including time requirements, are met. Resources transmitted before the eligibility requirements are met, should, under most circumstances, be reported as advances by the provider and deferred revenue by the recipient.

The City reports deferred revenue on its balance sheet. Deferred revenues arise when a potential revenue does not meet both the *measurable* and *available* criteria for recognition in the current period. Deferred revenues also arise when resources are received by the government before it has a legal claim to them, as when grant monies are received before qualifying expenditures are incurred. In subsequent periods, when both revenue recognition criteria are met, or when the City has a legal claim to the resources, the liability for deferred revenue is removed from the balance sheet and revenue is recognized.

The measurement focus of the governmental funds is based on determination of financial position and changes in financial position (sources, uses, and balances of financial resources) rather than net income determination.

The Enterprise and Fiduciary Funds are maintained on the accrual basis. These Funds' revenues are recognized when earned, and expenses recorded when incurred. Unbilled Water and Sewer Fund utility service provided is recorded as receivables and revenue at year-end. The measurement focus for enterprise funds is based on cost of service and maintenance of capital. Enterprise funds follow Generally Accepted Accounting Principles (GAAP) prescribed by the Governmental Accounting Standards Board (GASB) and all Financial Accounting Standards Board standards issued prior to November 30, 1989. The City also has the option of following subsequent private-sector guidance for business-type activities and enterprise funds to the extent that the guidance does not contradict guidance of the GASB. The City has elected not to follow subsequent private-sector guidance. In June 1999, the Governmental Accounting Standards Board (GASB) unanimously approved "Basic Financial Statements and Management Discussion and analysis for State and Local Governments" (Statement #34). This Statement provides for the most significant change in financial reporting in over twenty years and is scheduled for a phased implementation (based on size of government) starting with fiscal years ending 2002 (for larger governments). As part of this Statement, there is a new reporting requirement regarding the local government's infrastructure (roads, bridges, traffic signals, etc). This requirement permits an optional four-year further delay for implementation to the fiscal year ending in 2006. The City elected to implement the basic model and the infrastructure-related portion for the year ended June 30, 2002.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Budgetary Accounting Controls. The City Administrator is required by City Charter to prepare and submit an annual budget to City Council. A budget is prepared for the General Fund, and Special Revenue Funds. These budgets are prepared on the modified accrual basis and are adopted by City Council as required by the State of Michigan. Budgetary control is maintained at the departmental level for the General Fund. The City Administrator is authorized to transfer budgeted amounts within the General Fund departments. Budgetary control for the Special Revenue Funds is maintained at the fund level. Revisions to a department total of the General Fund or to the fund total of a Special Revenue Fund must be approved by City Council; some supplemental budgetary appropriations, of immaterial size, were necessary during the fiscal year. At the close of each year, the unencumbered balance of each appropriation reverts to the respective fund from which it was appropriated and becomes subject to future appropriations. Any outstanding encumbrances are carried forward to the succeeding fiscal year. Enterprise, Internal Service, and Pension Trust Funds also have legally adopted budgets. Four Special Revenue Funds do not have legally adopted budgets – Police and Fire Relief and Cemetery Perpetual Care, as they were formerly Expendable Trust Funds and Federal Equitable Sharing Forfeiture and Michigan Economic Development Smart Zone grant funds as they were created after the current year’s budget process to keep these monies separate from the General Fund.

Investments. Investments are stated at fair value in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*.

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 “due to/from other funds” (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”. Interfund balances at year-end relate to items accrued after year-end related to interfund transfers. These items are repaid immediately in the new year.

Inventories. Inventories of materials and supplies are stated at cost using the first-in, first-out method. The cost is accounted for as an expenditure in governmental funds and an expense in the proprietary funds at the time inventories are used.

Capital Assets. Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., road, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$2,500 and an estimated useful life in excess of two 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. Interest incurred during the construction phase of capital assets of business-type activities, if any, is included as part of the capitalized value of the assets constructed. No such interest expense was incurred during the current fiscal year.

Capital assets of the primary government are depreciated using the straight line method over the following estimated useful lives:

<u>Type</u>	<u>Years</u>
Structures and improvements	40-50
Improvements other than buildings	20-99
Machinery, equipment and vehicles	3-15
Infrastructure	15-25

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Encumbrances. Encumbrances represent commitments related to unperformed contracts for goods or services. Encumbrance accounting (under which purchase orders, contracts and other commitments for the expenditure of resources are recorded to reserve that portion of the applicable appropriation) is utilized in the governmental funds. Encumbrances outstanding at year-end are reported as reservations of fund balances and do not constitute expenditures or liabilities because the commitments will be honored during the subsequent year.

Compensated Absences. The City accrues vacation pay, compensatory time off, severance pay for sick leave, and any salary-related payments for these compensated absences in accordance with GASB Statement No. 16, *Accounting for Compensated Absences*. The current obligations of all funds and the long-term obligations of Proprietary Funds are recorded in the respective funds. City employees are granted vacation time based on length of service. Most employees have the option of receiving compensatory time off in lieu of pay for overtime worked up to 120 hours. Sick pay is earned at the rate of one day per month, and unused sick days may be accumulated without limitation. An employee is paid, in most cases, a maximum 960 unused sick hours and the total of any remaining accumulated hours upon retirement or death. City policy provides for payment of unused vacation and compensatory time off, but not unused sick hours, to terminated employees. The City accrues accumulated unpaid vacation and sick leave and associated employee-related costs when earned (or estimated to be earned) by the employee. For all funds, the current portion is the amount estimated to be used in the following year. In accordance with GAAP, for the governmental funds, in the Fund Financial Statements, the non-current portion of the compensated absences are considered long-term and therefore, are not a fund liability and represents a reconciling item between the fund level and government-wide presentations. In addition to the Proprietary Funds, the General Fund, and several nonmajor special revenue funds have been used to liquidate the liability for compensated absences.

Interfund Transactions. During the course of normal operations the City has numerous transactions between funds, including expenditures and transfers of resources to provide services, construct assets, and service debt. The basic financial statements generally record such transactions as operating transfers. Operating subsidies are also recorded as operating transfers. Internal Service Funds are used to record charges for services to all City departments and funds as operating revenue for the services provided. All City funds record payments to the Internal Service Funds as operating expenditures.

Certain funds remit payments for municipal service charges in lieu of taxes to the General Fund based on a pro rata share of general administrative overhead of the City government. Payments are recorded as revenue in the General Fund and as operating expense in Enterprise Funds.

Self Insurance. The City is self-insured for property, casualty, and employee benefit coverage. Costs of actual claims and estimated incurred but not reported claims, less any excess insurance coverage, are expensed in the Insurance Internal Service Fund at the time the liability is estimated.

Reserves and Designations. In the fund financial statements, reserves indicate portions of fund equity not appropriable for expenditures and/or legally segregated for a specific future use. Designations indicate tentative plans for financial resource utilization in a future period. Such plans are subject to change, and may never be legally authorized or result in expenditures. 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.

Grants and Other Intergovernmental Revenues. Federal grants and assistance awards made on the basis of entitlement periods are recorded as intergovernmental receivables and revenues when entitlement occurs. All other grants are recorded as intergovernmental receivables and revenues when the related expenditures are incurred.

3. SIGNIFICANT ACCOUNTING POLICIES (Concluded)

Statements of Cash Flows. The City presents Statements of Cash Flows for all proprietary fund types. These statements, which have been prepared utilizing the *direct method*, analyze the net increase or decrease in cash/cash equivalents by source. For purposes of the statement of cash flows, the City considers all highly liquid investments purchased with an original maturity of three months or less and the deposits in the investment funds to be cash equivalents.

Use of Estimates. The preparation of financial statements in conformity with generally accepted accounting principles requires management to make significant estimates and assumptions that 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.

Operating Revenues and Expenses. Proprietary funds distinguish operating revenue and expenses from nonoperating revenue and expenses. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's ongoing operations. The principal operating revenues of the City's enterprise and internal service funds are charges for services. The City also recognizes as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the system. Operating expenses for the enterprise and internal service funds include the cost of sales and service, administrative expenses and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as nonoperating revenues and expenses.

4. EQUITY IN POOLED CASH AND INVESTMENTS

The City maintains an investment pool for all City funds. Each fund's portion of the investment pool is displayed on the balance sheet as "Equity in Pooled Cash and Investments." The Consolidated Investment Fund is eliminated for financial reporting purposes. In addition, the cash resources of the Pension Trust Fund and certain other funds are invested separately.

Deposits. At year end, the carrying amount of the City's deposits was \$25,540,487 and the bank balance was \$28,645,340. Of the bank balance, \$400,625 was covered by federal depository insurance. The remaining \$28,244,715 was uninsured and uncollateralized.

Investments. Michigan statutes and City policy authorize the City to invest in obligations of the U. S. Treasury, where interest and principal are backed by the full faith and credit of the U.S. Government (including GNMA), commercial paper (rated at the time of purchase by at least two of the major rating agencies within one of their two highest ratings), bankers acceptances, repurchase agreements, bank investment pools and the State Treasurer's Investment Pool. Pension fund investment policy is governed by the Pension Trustees and makes additional allowances for investments in equities, long-term securities and other securities of relatively higher risk.

Portfolio Risk. Investments held at June 30, 2003 are categorized as follows to indicate the level of risk assumed by the City. Category one includes all investments insured, registered, or for which the securities are held by the City or its agent in the City's name. Category two includes all uninsured and unregistered investments for which the securities are held by the counterparty's trust department at a financial institution in the City's name. Category three includes all uninsured or unregistered investments for which the securities are held by the counterparty's broker or dealer, but not in the City's name.

NOTES TO FINANCIAL STATEMENTS (Continued)

4. EQUITY IN POOLED CASH AND INVESTMENTS (Concluded)

	Investments By Category			Fair Value
	1	2	3	
U. S. Government Agencies	\$62,447,501			\$62,447,501
U. S. Treasury Bonds & Notes	94,920,736			94,920,736
Corporate Bonds and Notes	100,089,586			100,089,586
Commercial Paper	3,036,271			3,036,271
Municipal Bonds	2,141,754			2,141,754
Repurchase Agreements	15,528,240			15,528,240
Stocks - Common	191,512,502			191,512,502
Partnerships and Joint Ventures	275,000			275,000
Real Estate Participation Interest	11,016,287			11,016,287
Collateralized Mortgage Obligations	4,620,522			4,620,522
Total	<u>\$485,588,399</u>	\$	\$	<u>\$485,588,399</u>
Mutual Funds - unclassified as to risk				<u>17,066,206</u>
Total Investments				<u><u>\$502,654,605</u></u>

Cash and investments are presented in the financial statements as follows:

	Cash	Investments	
		Equity in pooled cash and investments	Investments
Governmental activities	\$9,021,484	\$68,891,156	\$3,705,052
Business-type activities	5,989,656	32,146,785	3,163,114
Component units	8,871,152	10,665,149	1,915,845
Fiduciary funds	1,658,195	2,458,981	379,708,523
Totals	<u>\$25,540,487</u>	<u>\$114,162,071</u>	<u>\$388,492,534</u>
		<u>\$502,654,605</u>	

The Pension Trust Fund's investments represent approximately 78% of the total in category one, and 58% of the assets in mutual funds.

The Pension Trust Fund's investments and all other City investments are carried at fair value in accordance with GASB Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans* and GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*.

NOTES TO FINANCIAL STATEMENTS (Continued)

5. INTERFUND RECEIVABLES AND PAYABLES

	Due From Other Funds	Due To Other Funds	Due From Component Unit/ Primary Government	Due To Component Unit/ Primary Government
Primary Government:				
General Fund	\$1,952,295	\$19,955	\$180,258	\$11,360
Special Revenue Funds:				
Street Repair Millage		1,496		1,762
Nonmajor funds	14,400	1,127,219		1,260
Total Special Revenue Funds	14,400	1,128,715		3,022
Debt Service Funds:				
Nonmajor Debt Service Funds	3,761	15,743		615
Capital Projects Funds:				
Nonmajor Capital Projects Funds	10,499	17,870		
Enterprise Funds				
Water Supply System	473	18,860		
Sewage Disposal System	20,975			
Golf Courses	205	841,815		
Stormwater Sewer System	3,107	1,181		
Total Enterprise Funds	24,760	861,856		
Internal Service Funds	50,645	12,221		
Total Primary Government	2,056,360	2,056,360	180,258	14,997
Component Units				
Downtown Development Authority			14,997	29,841
Ann Arbor Housing Commission				150,417
Total Component Units			14,997	180,258
Total All Funds and Component Units	\$2,056,360	\$2,056,360	\$195,255	\$195,255

6. PROPERTY TAXES

Each July 1st the City property tax is levied and becomes a lien on the related property, the value of which is equalized by the State of Michigan and limited by Act 415 of 1994. The City's operating tax rate levied July 1, 2002, as controlled by the Headlee Amendment, Act 415 and City Charter, is 6.0315 mills. Real and personal property located in the City as of December 31, 2001 were assessed and equalized at \$4,370,512,600, representing 50% of estimated current value. Act 415 of 1994 limits annual increases in taxable value to 5% or the Consumer Price Index, whichever is less. The 2002 taxable value on March 1, 2003 was \$3,674,974,899. Property taxes are due July 31st of each year and any delinquent real property taxes are turned over to Washtenaw County for collection the following March 1st. The County pays all its municipalities from a revolving fund for delinquent real property taxes. Delinquent personal property taxes are negligible.

7. CHANGES IN CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2003 was as follows:

	Beginning Balance July 1, 2002	Reclassifications	Additions	Retirements	Ending Balance June 30, 2003
Governmental Activities					
Non-Depreciable Assets:					
Land	\$18,573,233		\$1,001		\$18,574,234
Construction in progress	949,409		1,487,501	(777,415)	1,659,495
Depreciable Assets:					
Buildings	23,275,214	584,240	22,470	(9,195)	23,872,729
Leasehold improvements	453,561	(453,561)			
Improvements other than buildings	1,441,331		438,192		1,879,523
Machinery and equipment	28,467,707	(15,105,620)	1,567,679	(216,789)	14,712,977
Vehicles	356,711	14,974,941	1,730,814	(1,584,555)	15,477,911
Infrastructure	638,430,720		8,191,160		646,621,880
Total at historical cost	711,947,886		13,438,817	(2,587,954)	722,798,749
Less accumulated depreciation for:					
Buildings	(8,357,270)		(598,128)	2,355	(8,953,043)
Improvements other than buildings	(252,111)		(43,000)		(295,111)
Equipment and vehicles	(19,236,598)		(2,601,228)	1,768,777	(20,069,049)
Infrastructure	(81,398,340)		(4,309,367)		(85,707,707)
Total accumulated depreciation	(109,244,319)		(7,551,723)	1,771,132	(115,024,910)
Governmental activities capital assets, net	\$602,703,567		\$5,887,094	(\$816,822)	\$607,773,839

NOTES TO FINANCIAL STATEMENTS (Continued)

CHANGES IN CAPITAL ASSETS (Concluded)

	Beginning Balance July 1, 2002	Reclassifications	Additions	Retirements	Ending Balance June 30, 2003
Business-type Activities					
Non-Depreciable Assets:					
Land	\$6,775,561		\$930		\$6,776,491
Construction in progress	41,084,031	(541,820)	8,163,010	(8,600,861)	40,104,360
Depreciable Assets:					
Buildings	130,522,168	(51,818,612)			78,703,556
Improvements other than buildings	45,423,933	80,657,167	1,817,988		127,899,088
Machinery and equipment	57,033,831	(29,391,284)	6,984,446	(246,796)	34,380,197
Vehicles	525,815	1,094,549	49,468	(68,243)	1,601,589
Total at historical cost	281,365,339		17,015,842	(8,915,900)	289,465,281
Less accumulated depreciation for:					
Buildings	(34,879,377)		(1,913,161)		(\$36,792,538)
Improvements other than buildings	(52,782,025)		(3,108,182)		(55,890,207)
Equipment and vehicles	(20,798,453)		(2,113,632)	250,060	(22,662,025)
Infrastructure					
Total accumulated depreciation	(108,459,855)		(7,134,975)	250,060	(115,344,770)
Business-type activities capital assets, net	\$172,905,484		\$9,880,867	(\$8,665,840)	\$174,120,511

Depreciation expense was charged to governmental functions as follows:

General government	\$723,484
Public safety	665,945
Highways and streets	4,475,181
Solid waste	809,365
Culture and Recreation	449,791
Social services	5,396
Information services	386,358
Unallocated depreciation	36,203
	<u>\$7,551,723</u>

Capital assets held by the City's internal service funds are charged to the various functions based on their usage of assets.

8. LEASES

Operating Lease Obligations Payable. The City is the lessee of various properties (primarily office and storage space, as well as parking facilities) under operating leases for periods through 2009. The expenses and related revenues in connection with the leases are recorded in the General, Enterprise and Pension Trust Funds, as well as the Downtown Development Authority Component Unit. The total rent expense for fiscal year 2003 was \$947,060. The following is a table of future minimum noncancellable lease payments by the City:

2004	\$654,321
2005	357,831
2006	319,684
2007	269,897
2008	271,304
2009	<u>163,045</u>
Total	<u>\$2,036,082</u>

The City as lessee has other lease arrangements, which have been appropriately accounted for as operating leases. Minimum lease payments payable on such leases are immaterial in amount.

Operating Lease Obligations Receivable. The City is the lessor of various parking office and airport facilities under operating leases for periods through 2018. Revenues and the related expenses for these leases are recorded in the Enterprise and Pension Trust Funds and in the Downtown Development Authority Component Unit. The total rent revenue for fiscal year 2003 was \$333,357. The following is a table of future minimum noncancellable lease payments to the City:

2004	395,837
2005	347,494
2006	264,172
2007	264,172
2008	194,965
2009-2013	788,756
2014-2018	<u>567,219</u>
Total	<u>\$2,822,615</u>

The City as lessor has other lease arrangements which have been appropriately accounted for as operating leases. Minimum lease payments receivable on such leases are immaterial in amount.

8. LEASES (Concluded)

Capital Lease Obligations Payable. The City has entered into certain lease agreements as lessee for financing the purchase of (primarily) various types of equipment, as well as several drain construction projects. These lease agreements qualify as capital leases for accounting purposes and, therefore, have been recorded at the present value of the future minimum lease payments as of the date of their inception. The following is an analysis of the items recorded under capital leases as of June 30, 2003:

<u>Asset Type</u>	<u>Enterprise Fund</u>
Equipment	\$ 62,028
Drains	<u>1,524,516</u>
	1,586,544
Less: accumulated depreciation	<u>223,218</u>
Net book value	<u>\$1,363,326</u>

The following is a schedule of the future minimum lease payments under these capital leases, and the present value of the net minimum lease payments at June 30, 2003:

<u>Year Ending June 30</u>	<u>Enterprise Fund</u>
2004	168,560
2005	162,373
2006	156,008
2007	108,675
2008	64,515
2009-2011	<u>179,630</u>
Total minimum lease payments	839,761
Less: amount representing interest	<u>118,805</u>
Present value of future minimum lease payments	<u>\$ 720,956</u>

NOTES TO FINANCIAL STATEMENTS (Continued)

9. LONG-TERM OBLIGATIONS

The following is a summary of the governmental activities long-term debt obligations (including accrued compensated absences) of the City for the year ended June 30, 2003:

	Governmental Activities					Total	Governmental Activities Accrued Compensated Absences	Total Governmental Activities Debt	Component
	Capital Projects Bonds	General Obligation Portion of Special Assessment Bonds	General Obligation Portion of Special Revenue Bonds	Special Assessment Bonds	Other Long-term Debt				Principal
Bonds and other debt payable at July 1, 2002	\$17,770,000	\$1,245,599		\$2,722,176	\$875,889	\$22,613,664	\$15,007,269	\$37,620,933	\$9,096,349
Debt issued and other increases:									
Debt issued/acrued			4,000,000			4,000,000	3,453,446	7,453,446	
Amortization of bond discounts				820		820		820	
Debt retired and other decreases:									
Decrease in accrued compensated absences							4,782,464	4,782,464	
Bond discounts			55,114			55,114		55,114	
Debt retired	1,590,000	100,000		395,000	415,639	2,500,639		2,500,639	835,309
Bonds and other debt payable at June 30, 2003	\$16,180,000	\$1,145,599	\$3,944,886	\$2,327,996	\$460,250	\$24,058,731	\$13,678,251	\$37,736,982	\$8,261,040
Balance due within one year	\$1,665,000	\$125,000	\$75,000	\$405,000	\$316,100	\$2,586,100	\$550,710	\$3,136,810	\$832,976

(Continued)

NOTES TO FINANCIAL STATEMENTS (Continued)

9. LONG-TERM OBLIGATIONS (Continued)

The following is a summary of the business-type long-term debt (including accrued compensated absences in enterprise funds) transactions of the City for the year ended June 30, 2003:

	Business-Type Activities						Total Proprietary Fund Type Debt
	Ann Arbor Building Authority Bonds	Lease Contract Payable	Revenue Bonds	Other Long-Term Debt	Other Bonds	Accrued Compensated Absences	
Bonds and other debt payable at July 1, 2002	\$33,040,000	\$1,200,000	\$45,855,000	\$896,355	\$3,938,651	\$2,117,564	\$87,047,570
Debt issued and other increases:							
Debt issued/acrued						496,604	496,604
Debt retired and other decreases:							
Decrease in accrued compensated absences						689,113	689,113
Debt retired	1,535,000	400,000	3,645,000	175,398	669,691		6,425,089
Bonds and other debt payable at June 30, 2003	<u>\$31,505,000</u>	<u>\$800,000</u>	<u>\$42,210,000</u>	<u>\$720,957</u>	<u>\$3,268,960</u>	<u>\$1,925,055</u>	<u>\$80,429,972</u>
Balance due within one year	\$1,605,000	\$400,000	\$3,695,000	\$134,681	\$682,024	\$79,491	\$6,596,196

(Continued)

9. LONG-TERM OBLIGATIONS (Continued)

General Obligation Bonds are collateralized by the full faith and credit of the City; Other Long-Term Debt is collateralized by the revenues of the related funds or the full faith and credit of the City or General Fund appropriations. General Obligation Bonds' requirements will be met primarily through the debt service property tax levy. Special Assessment Bonds are serviced by the underlying special assessments. The Special Assessment Bonds are backed by the full faith and credit of the City to the extent that liens foreclosed against property involved in the special assessment districts are insufficient to retire the outstanding bonds.

Other obligations are as follows: Lease Contract Payable is to Washtenaw County for sewage system improvements and is serviced by the Sewage Disposal system. Revenue Bonds are serviced by the Water Supply System (\$32,775,000) in bond principal at June 30, 2003; Sewage Disposal System (\$8,670,000) and Stormwater Disposal System (\$765,000). Other Long-Term Debt includes various long-term obligations (notes and contracts) paid from general operations and other sources.

Other Bonds will be serviced from the revenues of the Hydroelectric Power System (\$1,050,000) in bond principal at June 30, 2003 and the Downtown Development Authority for the Parking System (\$2,218,960). Various limitations and restrictions are contained in the various bond indentures. The City is in compliance with all significant limitations and restrictions.

In fiscal year 1999, the City defeased certain general obligation and other bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the defeased bonds. This advance refunding met the requirements of an in-substance debt defeasance. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the City's financial statements. The balance of the defeased bonds outstanding was \$0 at June 30, 2003.

NOTES TO FINANCIAL STATEMENTS (Continued)

9. LONG TERM OBLIGATIONS (Continued)

Below is a summary of general long-term debt (with various issue dates) and annual debt service requirements as of June 30, 2003:

Governmental Activities Debt										
Fiscal Year Ending	Capital Projects Bonds	General Obligation Portion of Special Assessment Bonds	General Obligation Portion of Special Revenue Bonds	Special Assessment Bonds	Other Long-term Debt	Total Governmental Activities Debt Principal	Total Governmental Activities Debt Interest	Total Governmental Activities Debt Requirements	Downtown Development Authority Bonds Principal	Downtown Development Authority Bonds Interest
2004	\$1,665,000	\$125,000	\$75,000	\$405,000	\$316,100	\$2,586,100	\$1,014,683	\$3,600,783	\$832,976	\$317,239
2005	1,755,000	130,000	135,000	400,000	96,100	2,516,100	899,500	3,415,600	1,028,614	281,821
2006	1,820,000	135,000	140,000	365,000	48,050	2,508,050	786,728	3,294,778	1,085,947	241,554
2007	1,885,000	140,000	145,000	360,000		2,530,000	673,291	3,203,291	1,120,613	199,327
2008	1,925,000	75,000	155,000	125,000		2,280,000	566,194	2,846,194	1,157,946	154,672
2009	1,955,000	75,000	160,000	125,000		2,315,000	465,878	2,780,878	1,199,944	107,213
2010	1,960,000	80,000	170,000	125,000		2,335,000	365,455	2,700,455	575,000	72,825
2011	1,965,000	80,000	175,000	120,000		2,340,000	265,344	2,605,344	610,000	50,400
2012	625,000	80,000	185,000	90,000		980,000	192,223	1,172,223	650,000	26,000
2013	625,000	80,000	190,000	80,000		975,000	146,308	1,121,308		
2014		80,000	200,000	80,000		360,000	116,126	476,126		
2015		20,000	210,000	25,000		255,000	100,864	355,864		
2016		25,000	220,000	20,000		265,000	90,910	355,910		
2017		25,000	230,000	15,000		270,000	80,258	350,258		
2018			240,000			240,000	69,125	309,125		
2019			250,000			250,000	59,230	309,230		
2020			260,000			260,000	48,673	308,673		
2021			275,000			275,000	37,417	312,417		
2022			285,000			285,000	25,256	310,256		
2023			300,000			300,000	12,375	312,375		
	\$16,180,000	\$1,150,000	\$4,000,000	\$2,335,000	\$460,250	\$24,125,250	\$6,015,835	\$30,141,085	\$8,261,040	\$1,451,049
Interest Ranges	3.750 - 5.50%	3.000- 6.25%	2.50- 4.50%	3.00- 7.150%	3.60- 5.15%				3.00- 5.00%	

NOTES TO FINANCIAL STATEMENTS (Continued)

9. LONG TERM OBLIGATIONS (Concluded)

Below is a summary of the business-type activity and component unit debt (with various issue dates) and annual debt service requirements as of June 30, 2003:

Fiscal Year Ending	Enterprise Funds					Total Enterprise Fund Principal Requirements	Total Enterprise Fund Interest Requirements	Total Enterprise Fund Requirements
	Ann Arbor Building Authority Bonds	Lease Contract Payable	Revenue Bonds	Other Long-Term Debt	Other Bonds			
2004	\$1,605,000	\$400,000	\$3,695,000	\$134,681	\$682,024	\$6,516,705	\$3,640,786	\$10,157,491
2005	1,680,000	400,000	3,840,000	135,286	551,386	6,606,672	3,341,732	9,948,404
2006	1,755,000		3,980,000	135,922	554,053	6,424,975	3,045,075	9,470,050
2007	1,830,000		4,150,000	95,067	559,387	6,634,454	2,738,365	9,372,819
2008	1,795,000		4,305,000	55,000	562,054	6,717,054	2,440,939	9,157,993
2009	1,705,000		3,960,000	55,000	360,056	6,080,056	2,138,671	8,218,727
2010	1,785,000		3,900,000	55,000		5,740,000	1,849,800	7,589,800
2011	1,870,000		4,045,000	55,000		5,970,000	1,560,544	7,530,544
2012	1,940,000		3,465,000			5,405,000	1,278,238	6,683,238
2013	2,010,000		3,410,000			5,420,000	1,011,270	6,431,270
2014	2,080,000		1,410,000			3,490,000	781,663	4,271,663
2015	2,150,000		675,000			2,825,000	633,602	3,458,602
2016	2,120,000		675,000			2,795,000	495,127	3,290,127
2017	2,190,000		700,000			2,890,000	352,044	3,242,044
2018	1,665,000					1,665,000	240,036	1,905,036
2019	1,720,000					1,720,000	148,723	1,868,723
2020	1,070,000					1,070,000	66,516	1,136,516
2021	260,000					260,000	22,417	282,417
2022	275,000					275,000	9,167	284,167
	<u>\$31,505,000</u>	<u>\$800,000</u>	<u>\$42,210,000</u>	<u>\$720,956</u>	<u>\$3,268,960</u>	<u>\$78,504,916</u>	<u>\$25,794,715</u>	<u>\$104,299,631</u>
Interest Ranges	3.000- 5.88%	5.000 - 5.00%	3.50- 7.30%	3.60- 6.80%	3.60- 5.70%			

NOTES TO FINANCIAL STATEMENTS (Continued)

10. TRANSFERS

A reconciliation of the interfund transfers is as follows:

	<u>Transfers In</u>	<u>Transfers Out</u>
General Fund	\$2,265,540	\$1,920,969
Street Repair Millage	4,748,182	687,088
Water Supply System	112,387	79,522
Sewage Disposal System	5,608	13,362
Parking System		1,799,840
Golf Courses		220
Airport		7,935
Stormwater System	12,647	123,700
Hydroelectric Power System	270,093	
Nonmajor governmental funds	2,638,662	5,429,901
Internal Service Funds	<u>50,644</u>	<u>41,226</u>
	<u>\$10,103,763</u>	<u>\$10,103,763</u>
Transfers from component units to primary government		
General Fund	\$445,848	
Nonmajor funds	669,999	
Parking System	3,540,119	
Downtown Development Authority		<u>\$4,655,966</u>
Total Transfers	<u>\$14,759,729</u>	<u>\$14,759,729</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.

11. RISK MANAGEMENT

The City 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. During fiscal year 1969, the City established an Insurance Fund (an Internal Service Fund) to account for and finance its uninsured risk of loss. Under this program, the Insurance Fund currently provides coverage for up to a maximum of \$300,000 for each worker's compensation claim; \$1,000,000 for each general liability claim, \$50,000 for each property damage claim, and Blue Cross Blue Shield health insurance claims. The City purchases (where coverage is available and properly priced) commercial insurance for claims in excess of coverage provided by the Fund. Settled claims have not exceeded this commercial coverage in any of the past three fiscal years.

All funds of the City participate in the insurance program and make payments to the Insurance Fund based on estimates of the amounts needed to pay prior and current-year claims and to establish a reserve for Incurred But Not Reported (IBNR) losses. The IBNR reserve was \$1,832,148 at June 30, 2003 and is included in Estimated Claims Payable. The total Estimated Claims Payable of \$4,048,656 is reflected in the Insurance fund at June 30, 2003. A liability for claims must be reported if information prior to the issuance of the financial statements indicates 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. Changes in the fund's claim liability amount in fiscal years 2001, 2002, and 2003 are summarized below:

	<u>Beginning of Fiscal Year Liability</u>	<u>Current Year Claims and Changes in Estimates</u>	<u>Claim Payments</u>	<u>Balance at Fiscal Year End</u>
2001	\$3,877,561	\$5,448,161	(\$4,851,279)	\$4,474,443
2002	4,474,443	6,710,811	(5,982,565)	5,202,689
2003	5,202,689	4,375,811	(5,529,844)	4,048,656

12. DEFERRED COMPENSATION PLAN

The City offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan, available to all permanent City employees, permits each to defer a portion of their salary until future years. The deferred compensation is not available for distribution to employees until termination, retirement, death, or unforeseeable emergency.

All amounts of compensation deferred under the plan, all property and rights purchased with those amounts, and all income attributable to those amounts, property, or rights, are held in trust, with the City serving as trustee, for the exclusive benefit of the plan participants and their beneficiaries. The assets shall not be diverted to any other purpose. All provisions of the plan, and the trust, are in conformance with Internal Revenue Code Section 457.

The plan's funds are excluded from the financial statements in conformance with the reporting and disclosure requirements in GASB Statement Number 32, *Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans*.

13. POST RETIREMENT BENEFITS

In addition to providing pension benefits, the City provides certain health care and life insurance benefits for retired employees in accordance with 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 by either a health maintenance organization or through an administrative service contract under which the City reimburses the administrator for claims paid plus an administration fee. Life and health insurance premiums are based on the forecasted benefits to be paid. The City records the cost of providing these benefits as expenses when paid. The costs of providing these benefits for 745 retirees for the year ending June 30, 2003 was estimated at \$5,563,590.

The City and the Retirement System Board entered into an agreement allowed under Michigan statutes, Act 28 for reimbursement of current health care premiums for retirees and the Pension System reimbursed the Insurance Fund for 2002-2003 retirees health care costs of \$5,563,590. Act 28 allows the Pension System to pay current retiree health care benefits from investment earnings on employer assets in excess of the actuarial rate of return.

This agreement between the City and Retirement System Board allows amounts designated from the Pension and Benefit tax levy and budgeted in operating departments for payment of health and life insurance premiums to be transferred to a VEBA Trust. The Trust was established by the City to accumulate funds for the future payment of retiree health and life insurance costs. The agreement will continue for up to ten years and allows for a maximum contribution to the VEBA Trust until it is fully funded.

14. RETIREMENT COMMITMENTS

Plan Description. The City of Ann Arbor Employees' Retirement Plan is a single-employer defined benefit plan administered by the City of Ann Arbor Employees' Retirement System (CAAERS). CAAERS provides retirement, disability and death benefits to plan members and beneficiaries. Cost of living adjustments are provided to members and beneficiaries per the Ann Arbor City Code Section 1:573 of Chapter 18. Chapter 17.1 of the Ann Arbor City Charter assigns the authority to establish and amend benefit provisions to City Council. CAAERS issues a publicly available financial report that includes financial statements and required supplementary information for the plan. That report may be obtained by writing to City of Ann Arbor Employees' Retirement System, 301 E. Liberty St., Suite 680, Ann Arbor, Michigan, 48104 or by calling 734-994-4590.

Summary of Significant Accounting Policies

Basis of Accounting. CAAERS' financial statements are prepared using the accrual basis of accounting. Plan member and employer contributions are recognized in the period in which the contributions are due. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan.

Method Used to Value Investments. 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 price are reported at estimated fair value. There are no concentrations where investments are five percent or more of the net plan assets.

Funding Policy. The contribution requirements of plan members are established and may be amended by the City Council. Plan members are required to contribute 5% of annual compensation. The City is required to contribute at an actuarially determined rate; the rate for the fiscal year ended June 30, 2003, was 0.00% of annual covered payroll. Administrative costs of CAAERS are financed through investment earnings.

14. RETIREMENT COMMITMENTS (Concluded)

Annual Pension Cost and Net Pension Obligation. The City's annual pension cost and net pension obligation to CAAERS for the current year were as follows (dollar amounts in thousands):

Fiscal Year Ending <u>June 30</u>	Annual Pension <u>Cost (APC)</u>	Percentage of APC <u>Contributed</u>	Net Pension <u>Obligation</u>
2003	-	100.0%	-
2002	-	100.0%	-
2001	-	100.0%	-

The annual required contribution for the current year was determined as part of the June 30, 2001, actuarial valuation using the entry age actuarial cost method. The actuarial assumptions included (a) 7.0% rate of return (net of administrative expenses) and (b) projected salary increases of 4.0% to 6.5% per year. Both (a) and (b) included an inflation component of 4.0%. The assumptions did not include postretirement benefit increases which are funded as a pay-as-you-go basis through City Council appropriation. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a five-year period. There is no unfunded actuarial accrued liability to be amortized. The excess is amortized over fifteen and thirty years and used as a credit against the normal cost.

15. ENDOWMENT FUNDS

In 1964, the City became the recipient of an endowment from Elizabeth Dean which is recorded as a permanent trust fund. The corpus of the trust is to remain invested and may not be liquidated in order to generate investment income. This investment income is to be used for the purchase and maintenance of trees in the City of Ann Arbor. Net appreciation on investments is not considered investment income until realized. The amount in the Elizabeth Dean fund is shown as reserved for endowment on the Statement of Net Assets.

16. BUILDING DEPARTMENT

In accordance with State of Michigan, Act 245, State Construction Code Act, the City is disclosing revenue and expenditures for the City's Building Department. For the year ended June 30, 2003, revenues generated by the Building Department were \$1,915,954 and expenditures were \$2,402,071 including \$651,419 in overhead costs. The excess of expenditures over revenue is \$486,117. In the prior year, the General Fund reserve for the Building Department was eliminated due to excess expenditures over revenues. The Building Department revenues are only intended to cover the costs associated with operating the Building Department.

17. CONTINGENT LIABILITIES

Litigation. Various lawsuits are pending against the City, some of which are for substantial amounts. On the basis of opinions and information furnished by the City Attorney and Risk Manager, it is the judgment of City management that the ultimate liability, if any, resulting from such lawsuits would not materially affect the financial position of the City.

The City has been cited by the Michigan Department of Environmental Quality (MDEQ) for violating environmental regulations at the closed Ann Arbor landfill. The City is in the process of taking remedial action to comply with MDEQ requirements. As part of these requirements, the City has posted a \$1,000,000 letter of credit to ensure compliance with the landfill cleanup regulations. An onsite and (interim) offsite Remedial Action Plan (RAP) has been approved by the MDEQ and has been implemented. This implementation includes a slurry wall almost two miles in length enclosing most of the landfill; the wall is now constructed. A consultant has completed the City's final offsite RAP. Capital costs associated with the landfill cleanup are funded by a series of voter-approved bonds totaling \$28,000,000. Operating and maintenance costs for the closed landfill are immaterial.

Therefore, no liability has been accrued in the Statement of Net Assets. These costs will be funded through the City's earmarked solid waste (refuse collection) property tax levy. The projects to be accomplished are subject to major changes (both in the nature of the work to be accomplished and in the cost thereof) due to inflation, changes in technology or changes in regulatory requirements.

Grants. Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies, primarily 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 City expects such amounts to be immaterial.

18. SUBSEQUENT EVENTS

Subsequent to year-end, the City issued bonds in the amount of \$1,160,000 to refund the Ann Arbor Building Authority Bonds for the Golf Course Enterprise Fund. The City defeased these revenue bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the defeased bonds. This advance refunding met the requirements of an in-substance debt defeasance. Accordingly, the trust account assets and the liability for the defeased bonds will not be included in the City's financial statements.

Additionally, subsequent to June 30, 2003, the city settled two of its nine union contracts covering varying periods from July 1, 2001 to June 30, 2003. The total liability associated with these settlements is estimated to be \$800,000.

19. SIGNIFICANT COMMITMENTS

As of June 30, 2003, the City had \$7,105,920 in construction commitments for various projects including resurfacing of streets, bridge reconstruction and other road improvements.

REQUIRED SUPPLEMENTARY INFORMATION

GENERAL FUND

To account for resources traditionally associated with governments which are not required to be accounted for in another fund.

SPECIAL REVENUE FUND

Street Repair Millage - to account for the proceeds of a special millage to repair streets.

CITY OF ANN ARBOR
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

1. BUDGETS AND BUDGETARY ACCOUNTING

The City follows these procedures in establishing the budgetary data reflected in the basic financial statements:

1. The City uses the "Target Based" budgeting technique. Under this system, the City Administrator determines funding levels for each department by matching funding needs with available revenue. Targets are established based on anticipated revenues and growth in expenditures.
2. In late November, each department is given a "bottom line" amount for operations. The department then determines the best way to allocate funds among expenses to remain within the target while meeting the assigned goals.
3. Department budget requests are then submitted with expenditures outlined and areas of concern identified so that adjustments can be made as needed. By allowing the departments to determine how funds are spent within the department, the operating departments have a greater ownership in how they provide services.
4. The City Administrator's recommended budget is submitted to City Council at the second meeting in April. The City Council, with at least seven affirmative votes, must adopt the budget no later than the end of its second meeting in May. According to City Charter, should the City Council not adopt an amended Budget, the City Administrator's recommended budget will automatically take effect as submitted.
5. After the budget has been adopted, City Council may amend the budget by a concurring vote of not fewer than eight members of City Council.

Formal budgetary integration is employed as a management control device during the year. The City presents a comparison of annual budgets to actual results for all major governmental funds. Budgeted revenue amounts represent the original budget modified by Council-authorized adjustments during the year which were contingent upon new or additional revenue sources. Budgeted expenditure amounts represent original appropriations adjusted for supplemental appropriations during the year. The amount of \$1,079,025 was made in fiscal 2003 for supplemental appropriations. Budgets are prepared in accordance with Generally Accepted Accounting Principles using the modified-accrual basis of accounting.

The City Administrator is authorized to transfer appropriated funds between major expenditure categories within departments. However, any revisions which alter the total appropriations of any department must be approved by City Council. For budgeting purposes, the General Fund is composed of several departments. Expenditures may not legally exceed appropriations at the department level.

The City utilizes an encumbrance system as a management control technique to assist in controlling expenditures. Under this procedure, encumbrances representing purchase orders, contracts and other commitments are reported as reservations of fund balances at year-end. All appropriations lapse at the end of the fiscal year, except for certain capital projects which are approved without regard to fiscal year. For any of these projects which are under construction at year-end, the appropriations are allowed to carry forward with the amount being adopted for the current budget year.

CITY OF ANN ARBOR
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

2. EXPENDITURES IN EXCESS OF APPROPRIATIONS (Concluded)

Environmental coordination services \$654

This deficit was attributable to higher than anticipated capital outlay costs.

Historic District Commission \$12,135

This deficit was attributable to Historic District Commission payroll fringe benefits expenditures budgeted under the Building Department, rather than the Historic District Commission.

CITY OF ANN ARBOR
 BUDGETARY COMPARISON SCHEDULE
 GENERAL FUND
 For the Year Ended June 30, 2003

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (negative)
Revenues:				
Taxes:				
General operations	\$21,778,554	\$21,778,554	\$21,747,480	(\$31,074)
Transportation (AATA)	7,617,349	7,617,349	7,602,514	(14,835)
Refuse collection	9,141,107	9,141,107	9,123,017	(18,090)
Employee benefits	7,617,349	7,617,349	7,602,514	(14,835)
Interest, penalties, payments in lieu of taxes and excess of roll	564,800	564,800	374,095	(190,705)
 Total taxes	 46,719,159	 46,719,159	 46,449,620	 (269,539)
 Licenses, permits and registrations	 2,760,130	 2,760,592	 3,001,458	 240,866
 Federal grants	 73,146	 129,219	 175,829	 46,610
 State shared revenues and grants	 14,029,450	 14,029,450	 13,203,430	 (826,020)
Charges for services:				
Police department	1,007,852	1,007,852	1,021,956	14,104
Fire department	1,131,570	1,131,570	422,974	(708,596)
Ann Arbor Transportation Authority	76,173	76,173	76,113	(60)
Construction overhead	1,182,000	1,182,000	913,576	(268,424)
Central services	350,000	350,000	327,930	(22,070)
Recreation facilities	1,866,042	1,870,092	1,843,360	(26,732)
Cemetery	4,000	4,000	6,050	2,050
Fleet services	5,000	5,000	3,258	(1,742)
Landfill	222,000	222,000	304,911	82,911
Public services	641,000	641,000	445,848	(195,152)
Miscellaneous	232,250	232,250	358,088	158,345
 Total charges for services	 6,717,887	 6,721,937	 5,724,064	 (997,873)

(Continued)

CITY OF ANN ARBOR
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
For the Year Ended June 30, 2003

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (negative)
Revenues (Concluded):				
Fines and forfeits:				
Standing violations	\$2,528,435	\$2,528,435	\$2,969,076	\$440,641
District court	3,168,947	3,168,947	2,683,909	(485,038)
Total fines and forfeits	5,697,382	5,697,382	5,652,985	(44,397)
Investment income	979,000	979,000	565,535	(413,465)
Rentals	505	505	4,906	4,401
Miscellaneous revenue:				
Sale of property and equipment	5,700	5,700	96,533	90,833
Other	140,600	150,770	202,198	51,428
Total miscellaneous revenue	146,300	156,470	298,731	142,261
Total Revenues	77,122,959	77,193,714	75,076,558	(2,117,156)
Expenditures:				
General government:				
Mayor and Council	196,506	196,506	195,520	986
Administration	649,941	793,028	754,925	38,103
Human resources	1,453,991	1,346,604	1,177,485	169,119
Administrative services	2,272,036	2,272,036	2,111,474	160,562
Attorney	1,185,974	1,287,421	1,269,861	17,560
Clerk/Elections	551,972	551,972	628,453	(76,481)
Finance	2,640,120	2,643,320	2,669,266	(25,946)
Environmental Coordinaton Services	186,472	398,021	398,675	(654)
Public services	4,571,178	4,571,178	4,085,282	485,896
Planning	801,852	801,852	850,129	(48,277)
Information technology services	2,377,501	2,377,501	2,003,866	373,635
Pension and social security	1,349,330	1,349,330	1,485,964	(136,634)
Insurance	447,003	447,003	447,003	
Contingencies	810,000	810,000		810,000
Miscellaneous	265,000	265,000	(220,251)	485,251
Municipal service charge	(2,953,379)	(2,953,379)	(2,949,829)	3,550
Total general government expenditures	16,805,497	17,157,393	14,907,823	2,256,670

(Continued)

CITY OF ANN ARBOR
 BUDGETARY COMPARISON SCHEDULE
 GENERAL FUND
 For the Year Ended June 30, 2003

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (negative)
Expenditures (Concluded):				
Public safety and justice:				
Police department	\$20,541,576	\$20,974,497	\$20,246,671	\$727,826
Fire department	11,538,511	11,383,035	11,178,956	204,079
District court	3,268,049	3,268,049	3,137,177	130,872
Building department	2,497,430	2,497,892	2,406,859	91,033
Total public safety and justice expenditures	37,845,566	38,123,473	36,969,663	1,153,810
Social services:				
Transfers to other agencies	1,536,941	1,653,963	1,643,387	10,576
Other	367,829	367,829	305,845	61,984
Total social services expenditures	1,904,770	2,021,792	1,949,232	72,560
Culture and recreation:				
Parks and recreation	6,577,123	6,581,173	6,399,727	181,446
Historic district commission	39,679	39,679	51,814	(12,135)
Total culture and recreation expenditures	6,616,802	6,620,852	6,451,541	169,311
Other:				
Public transportation	7,628,872	7,628,872	7,613,357	15,515
Solid waste	7,228,291	7,556,441	6,589,484	966,957
Total other expenditures	14,857,163	15,185,313	14,202,841	982,472
Total Expenditures	78,029,798	79,108,823	74,481,100	4,627,723
Excess of Revenues over Expenditures	(906,839)	(1,915,109)	595,458	2,510,567

(Continued)

CITY OF ANN ARBOR
 BUDGETARY COMPARISON SCHEDULE
 GENERAL FUND
 For the Year Ended June 30, 2003

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (negative)
Other Financing Sources (Uses):				
Transfers in	\$2,837,036	\$2,884,586	\$2,265,540	(\$619,046)
Transfers out	(1,951,488)	(1,951,488)	(1,920,969)	30,519
Total Other Financing Sources (Uses)	<u>885,548</u>	<u>933,098</u>	<u>344,571</u>	<u>(588,527)</u>
Excess of Revenues and Other Financing Sources over (under) Expenditures and Other Financing Uses	(21,291)	(982,011)	940,029	1,922,040
Fund Balance - July 1, 2002	<u>21,291</u>	<u>982,011</u>	<u>7,617,414</u>	<u>6,635,403</u>
Fund Balance - June 30, 2003	<u>\$</u>	<u>\$</u>	<u>\$8,557,443</u>	<u>\$8,557,443</u>

CITY OF ANN ARBOR
 BUDGETARY COMPARISON SCHEDULE
 STREET REPAIR MILLAGE FUND
 For the Year Ended June 30, 2003

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (negative)
Revenues:				
Taxes	\$7,160,943	\$7,160,943	\$7,148,127	(\$12,816)
State shared revenues and grants	363,000	363,000	463,100	100,100
Charges for services	-	-	206,026	206,026
Investment income	500,000	500,000	445,144	(54,856)
Miscellaneous	-	-	480,136	480,136
Total Revenues	8,023,943	8,023,943	8,742,533	718,590
Expenditures:				
Current:				
Street repair and maintenance	8,023,943	15,631,100	7,504,073	8,127,027
Total Expenditures	8,023,943	15,631,100	7,504,073	8,127,027
Excess of Revenues over (under) Expenditures		(7,607,157)	1,238,460	8,845,617
Other Financing Sources (Uses):				
Transfers in		6,512,245	4,748,182	(1,764,063)
Transfers out		(687,088)	(687,088)	
Total Other Financing Sources (Uses)		5,825,157	4,061,094	(1,764,063)
Excess of Revenues and Other Sources over (under) Expenditures and Other Financing Uses		(1,782,000)	5,299,554	7,081,554
Fund Balances - July 1, 2002		1,782,000	12,308,006	10,526,006
Fund Balances - June 30, 2003			\$17,607,560	\$17,607,560

CITY OF ANN ARBOR
 EMPLOYEES' RETIREMENT SYSTEM
 REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF FUNDING PROGRESS

(amounts expressed in thousands)

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Entry Age (b)	Unfunded (Overfunded) AAL [UAAL (OAAL)] (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL (OAAL) as a Percentage of Covered Payroll [(b-a)/c]
6/30/03	\$417,623	\$353,620	(\$64,003)	118.1%	\$46,213	-138.5%
6/30/02	426,440	336,340	(90,100)	126.8%	46,744	-192.8%
6/30/01	425,538	304,349	(121,189)	139.8%	47,449	-255.4%
6/30/00	407,468	258,286	(149,182)	157.8%	44,092	-338.3%
6/30/99	377,462	249,242	(128,220)	151.4%	43,621	-293.9%
6/30/98	290,178	226,727	(63,451)	128.0%	42,419	-149.6%

CITY OF ANN ARBOR
EMPLOYEES' RETIREMENT SYSTEM
REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF EMPLOYER CONTRIBUTIONS

(amounts expressed in thousands)

<u>Year Ended June 30</u>	<u>Annual Required Contribution</u>	<u>Percentage Contribution</u>
2003	\$0	100%
2002	0	100%
2001	0	100%
2000	1,316	100%
1999	2,653	100%
1998	3,143	100%

NONMAJOR SPECIAL REVENUE FUNDS

Major Streets - to account for repairs, maintenance and construction on the City's major streets. The revenues consist primarily of State-shared gasoline and weight tax collections.

Local Streets - to account for repairs, maintenance and construction on the City's local streets. The revenues consist primarily of State-shared gasoline and weight tax collections.

Community Development - to account for funds received from the federal government for the City's Community Development Block Grant and HOME grant programs.

Leslie Homestead - to account for the proceeds from an estate used to maintain the Leslie Homestead which consists of a historic home and laboratories.

Affordable Housing - to account for funding of selected affordable housing projects with the General Fund and federal funds.

Community Television Network - to account for the costs of running the City's community access channels on the local cable television system. Revenues are derived primarily from franchise fees.

Solid Waste - to account for various landfill-related projects.

Drug Enforcement - to account for confiscated property and money related to drug law enforcement activity and provide funds for future enforcement activity.

Michigan Justice Training - to account for State funds used for law enforcement training.

Parks Acquisition and Development Programs - to account for funds derived from property tax millages earmarked for parks acquisition and development.

NONMAJOR SPECIAL REVENUE FUNDS (continued)

Special Assistance - to account for funds provided by a utility bill checkoff to provide assistance to needy citizens.

Special Projects - to account for various Information Services projects.

Court Facilities - to account for a court fee to pay for facility improvements for the district court.

Major Grants - to account for various grant monies other than community development.

Local Law Enforcement Block Grant- to account for federal grant monies received for fingerprinting equipment.

Federal Equitable Sharing Forfeitures- to account for monies received as a result of joint operations with federal law enforcement. These monies are restricted for use in future law enforcement activities.

Police and Fire Relief - to account for the receipt of investment earnings on previously transferred General fund monies. These earnings are used to subsidize the incomes of certain beneficiaries of deceased police officers and firefighters.

Cemetery Perpetual Care - to account for the receipt and expenditures of fees paid for the perpetual care of gravesites at the City-owned Fairview Cemetery.

Bandemer - to account for rental income used to maintain and operate Bandemer Park.

Michigan Economic Development Smart Zone Grant- to account for the monies passed through to establish a Smart Zone in the City limits.

Energy Projects - to account for funding of City Energy Consumption Improvement projects.

NONMAJOR DEBT SERVICE FUNDS

General Debt Service - to accumulate tax revenues and operating transfers in for payment of principal and interest on non-bonded debt and general obligation bonds sold for various capital purposes.

Special Assessment Bonds-Debt Service - to accumulate revenues for payment of principal and interest on general obligation bonds sold to finance various special assessment projects. The primary sources of revenues are special assessments and related revenues (including interest and penalties).

NONMAJOR CAPITAL PROJECTS FUNDS

1991/1992/1993 Environmental Bonds - to account for bond proceeds and related revenues expended for improvements to the City's landfill.

General Capital Improvements - to account for capital project expenditures for various non-bonded improvements to certain City-owned facilities.

Maintenance Facility Construction - to account for revenues expended for the construction of a new vehicle maintenance facility.

2000 Michigan Transportation – these bonds were never sold so this fund will be closed as of June 30, 2003.

Special Assessments – to account for bond proceeds and related revenues expended for various public improvements financed in part by assessments against benefited properties.

2003 Michigan Transportation – to account for the related expenditures for the replacement of the existing two Broadway Bridges.

NONMAJOR PERMANENT FUND

Elizabeth R. Dean Trust Fund - to account for monies provided by a private bequest to finance tree planting and maintenance. The principal amount of the bequest is to remain intact and invested. Investment earnings are used for the above stated purposes.

CITY OF ANN ARBOR
NONMAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEET
June 30, 2003

Special Revenue

	Major Streets	Local Streets	Community Development	Leslie Homestead	Affordable Housing	Community Television Network	Solid Waste	Drug Enforcement	Michigan Justice Training	Parks Acquisition & Development Programs
ASSETS										
Cash	\$574,892	\$149,701	\$556,834	\$35,344	\$4,547	\$45,848	\$23,510	\$40	\$70	\$176,919
Equity in pooled cash and investments	4,368,875	1,000,527	21,447		728,497	1,688,859	4,128,442	20,608	60,943	7,344,692
Investments, at fair value							155,224			
Receivables:										
Taxes										12,788
Accounts	148,914		2,001			320,938				
Special assessments										
Accrued interest and dividends										
Improvement charges										
Loans			1,126,369							
Unbilled district costs										
Less: Allowance for uncollectibles	(129,040)									(12,040)
Due from other funds			14,400							
Due from other governments	943,951	267,237	384,801							
Prepaid items									2,213	
Inventory				4,332						
Total Assets	\$5,907,592	\$1,417,465	\$2,105,852	\$39,676	\$733,044	\$2,055,645	\$4,307,176	\$20,648	\$63,226	\$7,522,359
LIABILITIES AND FUND BALANCES										
Liabilities:										
Accounts payable	84,017	13,743	\$123,623	\$2,472		\$63,463		\$2,680	\$1,363	\$397,554
Accrued liabilities	81,150	34,878	4,280	9,750		32,281	1,250			41,768
Due to other funds			841,088	20,758			40,000			1,074
Due to component units										1,260
Deposits	10,000					10,000		4,189		
Deferred revenue			1,126,369							
Accrued compensated absences	30,013		3,070	65		3,418				10,388
Total Liabilities	205,180	48,621	2,098,430	33,045		109,162	41,250	6,869	1,363	452,044
Fund Balances:										
Reserved for prepaid items/deferred charges									2,213	
Reserved for encumbrances	63,283				93,551	96,502				414,155
Reserved for landfill							155,225			
Reserved for endowment										
Reserved for inventory				4,332						
Reserved for Material Recovery Facility equipment replacement							554,224			
Reserved for recycling vehicle replacement							876,941			
Reserved for Material Recovery Facility capital repair							30,131			
Reserved for compost equipment							264,325			
Reserved for radio equipment							88,928			
Reserved for groundwater monitoring							245,877			
Unreserved balances:										
Designated for subsequent year's expenditures	16,094				330,000	349,810		5,000	66,658	1,196,106
Undesignated, nonmajor debt service funds										
Undesignated, nonmajor capital projects funds										
Undesignated, nonmajor special revenue funds	5,623,035	1,368,844	7,422	2,299	309,493	1,500,171	2,050,275	8,779	(7,008)	5,460,054
Total Fund Balances	5,702,412	1,368,844	7,422	6,631	733,044	1,946,483	4,265,926	13,779	61,863	7,070,315
Total Liabilities and Fund Balances	\$5,907,592	\$1,417,465	\$2,105,852	\$39,676	\$733,044	\$2,055,645	\$4,307,176	\$20,648	\$63,226	\$7,522,359

(continued)

CITY OF ANN ARBOR
NONMAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEET
June 30, 2003
(continued)

Special Revenue

	Special Assistance	Special Projects	Court Facilities	Major Grants	Local Law Enforcement Block Grant	Federal Equitable Sharing Forfeiture	Police and Fire Relief	Cemetery Perpetual Care	Bandemer	Michigan Economic Development Smart Zone Grant	Energy Projects
ASSETS											
Cash	\$315	\$9,250	\$4,934	\$40,629	\$37,228		\$3,268				\$1,634
Equity in pooled cash and investments	6,175	55,425	629,758			42,697	529,817	44,882	213,104	62,956	260,363
Investments, at fair value							100,286				
Receivables:											
Taxes											
Accounts				272,463					2,850		9,632
Special assessments											
Accrued interest and dividends											
Improvement charges											
Loans											
Unbilled district costs											
Less: Allowance for uncollectibles											
Due from other funds											
Due from other governments				34,392							
Prepaid items											
Inventory											
Total Assets	\$6,490	\$64,675	\$634,692	\$347,484	\$37,228	\$42,697	\$633,371	\$44,882	\$215,954	\$62,956	\$271,629
LIABILITIES AND FUND BALANCES											
Liabilities:											
Accounts payable	\$6,090	\$62,415	\$568	\$57,851					\$18	\$62,500	\$55,678
Accrued liabilities		1,809		10,616							
Due to other funds				195,088	29,211						
Due to component units											
Deposits											
Deferred revenue				72,718	8,017						
Accrued compensated absences											
Total Liabilities	6,090	64,224	568	336,273	37,228				18	62,500	55,678
Fund Balances:											
Reserved for prepaid items/deferred charges											
Reserved for encumbrances				400							2,500
Reserved for landfill											
Reserved for endowment											
Reserved for inventory											
Reserved for Material Recovery Facility equipment replacement											
Reserved for recycling vehicle replacement											
Reserved for Material Recovery Facility capital repair											
Reserved for compost equipment											
Reserved for radio equipment											
Reserved for groundwater monitoring											
Unreserved balances:											
Designated for subsequent year's expenditures											
Undesignated, nonmajor debt service funds											
Undesignated, nonmajor capital projects funds											
Undesignated, nonmajor special revenue funds	400	451	634,124	10,811		42,697	633,371	44,882	215,936	456	213,451
Total Fund Balances	400	451	634,124	11,211		42,697	633,371	44,882	215,936	456	215,951
Total Liabilities and Fund Balances	\$6,490	\$64,675	\$634,692	\$347,484	\$37,228	\$42,697	\$633,371	\$44,882	\$215,954	\$62,956	\$271,629

(continued)

CITY OF ANN ARBOR
NONMAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEET
June 30, 2003
(concluded)

	Debt Service		Capital Projects					Permanent	Total	
	General Debt Service	Special Assessment Bonds - Debt Service	1991/1992/1993 Environmental Bonds	General Capital Improvements	Maintenance Facility Construction	2000 Michigan Transportation Bonds	Special Assessments	2003 Michigan Transportation Bonds		Elizabeth R. Dean Trust
ASSETS										
Cash	\$35,217	\$51,424	\$25,857	\$2,748	\$54,558	\$	\$131,966	\$946,857	\$4,922	\$2,918,512
Equity in pooled cash and investments		\$356,436	4,152,448	722,514	8,763,494	850		777,362	7,235	35,988,406
Investments, at fair value		1,254,688							2,194,854	3,705,052
Receivables:										
Taxes	6,243									19,031
Accounts										756,798
Special assessments		1,268,934								1,268,934
Accrued interest and dividends		19,479							30,341	49,820
Improvement charges		8,620								8,620
Loans										1,126,369
Unbilled district costs		288,147								288,147
Less: Allowance for uncollectibles	(5,878)									(146,958)
Due from other funds	2,580	1,181					10,499			28,660
Due from other governments	6,910									1,637,291
Prepaid items									1,522	3,735
Inventory										4,332
Total Assets	\$45,072	\$3,248,909	\$4,178,305	\$725,262	\$8,818,052	\$850	\$142,465	\$1,724,219	\$2,238,874	\$47,656,749
LIABILITIES AND FUND BALANCES										
Liabilities:										
Accounts payable	\$595	\$2,412	\$21,397	\$51	\$		\$18	\$	\$1,587	\$960,095
Accrued liabilities				66			1,008		2,810	221,666
Due to other funds	1,629	14,114				850	17,020			1,160,832
Due to component units	615									1,875
Deposits										24,189
Deferred revenue		1,283,857								2,490,961
Accrued compensated absences							159		891	48,004
Total Liabilities	2,839	1,300,383	21,397	117		850	18,205		5,288	4,907,622
Fund Balances:										
Reserved for prepaid items/deferred charges									1,522	3,735
Reserved for encumbrances				244,749			43,604			958,744
Reserved for landfill										155,225
Reserved for endowment									2,232,064	2,232,064
Reserved for inventory										4,332
Reserved for Material Recovery Facility equipment replacement										554,224
Reserved for recycling vehicle replacement										876,941
Reserved for Material Recovery Facility capital repair										30,131
Reserved for compost equipment										264,325
Reserved for radio equipment										88,928
Reserved for groundwater monitoring										245,877
Unreserved balances:										
Designated for subsequent year's expenditures										1,963,668
Undesignated, nonmajor debt service funds	42,233	1,948,526								1,990,759
Undesignated, nonmajor capital projects funds			4,156,908	480,396	8,818,052		80,656	1,724,219		15,260,231
Undesignated, nonmajor special revenue funds										18,119,943
Total Fund Balances	42,233	1,948,526	4,156,908	725,145	8,818,052		124,260	1,724,219	2,233,586	42,749,127
Total Liabilities and Fund Balances	\$45,072	\$3,248,909	\$4,178,305	\$725,262	\$8,818,052	\$850	\$142,465	\$1,724,219	\$2,238,874	\$47,656,749

CITY OF ANN ARBOR
NONMAJOR GOVERNMENTAL FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
For the Year Ended June 30, 2002

Special Revenue Funds

	Major Streets	Local Streets	Community Development	Leslie Homestead	Affordable Housing	Community Television Network	Solid Waste	Drug Enforcement	Michigan Justice Training	Parks Acquisition & Development Programs
Revenues:										
Taxes	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$5,108,484
Special assessments/improvement charges										
Federal grants			2,253,050							
State shared revenues and grants	5,477,229	1,544,045							38,293	199,079
Charges for services	521,308	150,000		77,670		1,461,217	29,644			1,957
Fines and forfeits								16,254		
Interest and penalties										
Investment income	176,090	48,463			15,402	57,870	132,058	657	1,611	229,219
Rentals				11,933						
Contributions and donations				88,922	25,000					8,040
Sale of property and equipment						1,135				
Intra-governmental sales	39,720	188								7,140
Miscellaneous	85,798			85	166,577	20,284				119,762
Total Revenues	6,300,145	1,742,696	2,253,050	178,610	206,979	1,540,506	161,702	16,911	39,904	5,673,681
Expenditures:										
Current:										
Administration	1,698,154		538,180	2,425						110,996
Police								16,366	49,661	
Street repair and maintenance	2,654,354	1,384,774								
Social services - transfers to other agencies			232,283							
Parks and recreation				202,067						4,332,539
Economic development										
Community access television						959,968				
Urban redevelopment and housing			1,476,857		6,975			9,500		
Information services										
Capital outlay	3,550	9,800				28,130				180,397
Debt Service:										
Principal retirement										
Interest and fiscal charges										
Total Expenditures	4,356,058	1,394,574	2,247,320	204,492	6,975	988,098		25,866	49,661	4,623,932
Excess of Revenues over (under) Expenditures	1,944,087	348,122	5,730	(25,882)	200,004	552,408	161,702	(8,955)	(9,757)	1,049,749
Other Financing Sources (Uses):										
Transfers in	7,500			28,000	100,000		89,454			
Transfers out	(2,060,715)	(542,493)				(24,278)	(126,896)			
Bond proceeds										
Bond issuance costs										
Total Other Financing Sources (Uses)	(2,053,215)	(542,493)		28,000	100,000	(24,278)	(37,442)			
Excess of Revenues and Other Financing Sources over (under) Expenditures and Other Financing Uses	(109,128)	(194,371)	5,730	2,118	300,004	528,130	124,260	(8,955)	(9,757)	1,049,749
Fund Balances - July 1, 2002	5,811,540	1,563,215	1,692	4,513	433,040	1,418,353	4,141,666	22,734	71,620	6,020,566
Fund Balances - June 30, 2003	\$5,702,412	\$1,368,844	\$7,422	\$6,631	\$733,044	\$1,946,483	\$4,265,926	\$13,779	\$61,863	\$7,070,315

(continued)

CITY OF ANN ARBOR
NONMAJOR GOVERNMENTAL FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
For the Year Ended June 30, 2002
(continued)

Special Revenue Funds

	Special Assistance	Special Projects	Court Facilities	Major Grants	Local Law Enforcement Block Grant	Federal Equitable Sharing Forfeiture	Police and Fire Relief	Cemetery Perpetual Care	Bandemer	Michigan Economic Development Smart Zone Grant	Energy Projects
Revenues:											
Taxes	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
Special assessments/improvement charges											
Federal grants				367,198	222,426						
State shared revenues and grants				204,715						10,187,500	
Charges for services								4,000			
Fines and forfeits			218,650			13,336					
Interest and penalties											
Investment income	19		14,564		684	1,249	15,868	1,005	4,188	456	4,504
Rentals									36,000		
Contributions and donations	6,149			2,282							9,632
Sale of property and equipment											
Intra-governmental sales											
Miscellaneous											
Total Revenues	6,168		233,214	574,195	223,110	14,585	15,868	5,005	40,188	10,187,956	14,136
											29,428,609
Expenditures:											
Current:											
Administration		11,528	8,747	4,587							63,927
Police				292,616	136,536						
Street repair and maintenance											
Social services - transfers to other agencies											
Parks and recreation				191,370					4,955		
Economic development										10,187,500	
Community access television											
Urban redevelopment and housing	6,090										
Information services		1,612,762									
Capital outlay		28,735	6,149	150,764	86,574						
Debt Service:											
Principal retirement											
Interest and fiscal charges											
Total Expenditures	6,090	1,653,025	14,896	639,337	223,110				4,955	10,187,500	63,927
											26,689,816
Excess of Revenues over (under) Expenditures	78	(1,653,025)	218,318	(65,142)		14,585	15,868	5,005	35,233	456	(49,791)
Other Financing Sources (Uses):									(2,805,027)	1,521,990	139,079
Transfers in		1,049,000		108,957							
Transfers out				(50,645)							
Bond proceeds											
Bond issuance costs											
Total Other Financing Sources (Uses)		1,049,000		58,312					(2,805,027)	1,521,990	139,079
Excess of Revenues and Other Financing Sources over (under) Expenditures and Other Financing Uses	78	(604,025)	218,318	(6,830)		14,585	15,868	5,005	(2,769,794)	1,522,446	89,288
Fund Balances - July 1, 2002	322	604,476	415,806	18,041		28,112	617,503	39,877	180,703		126,663
Fund Balances - June 30, 2003	\$400	\$451	\$634,124	\$11,211		\$42,697	\$633,371	\$44,882	(\$2,589,091)	\$1,522,446	\$215,951

(continued)

CITY OF ANN ARBOR
NONMAJOR GOVERNMENTAL FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
For the Year Ended June 30, 2003
(concluded)

	Debt Service		Capital Projects					Permanent	Total
	General Debt Service	Special Assessment Bonds - Debt Service	1991/1992/1993 Environmental Bonds	General Capital Improvements	Maintenance Facility Construction	2000 Michigan Transportation Bonds	Special Assessments	2003 Michigan Transportation Bonds	
Revenues:									
Taxes	\$2,577,941	\$	\$	\$	\$	\$	\$	\$	\$7,686,425
Special assessments/improvement charges		790,925					103,000		893,925
Federal grants									2,842,674
State shared revenues and grants				23,621					17,674,482
Charges for services									2,245,796
Fines and forfeits									248,240
Interest and penalties	351	86,490							86,841
Investment income	2,844	29,092	121,565	17,791	253,232	22	(471)	15,270	1,314,227
Rentals									47,933
Contributions and donations									140,025
Sale of property and equipment									1,135
Intra-governmental sales									47,048
Miscellaneous	7,388			22,000					421,894
Total Revenues	2,588,524	906,507	121,565	63,412	253,232	22	102,529	15,270	33,650,645
		3,495,031						556,030	
Expenditures:									
Current:									
Administration	7,153								2,445,697
Police									495,179
Street repair and maintenance									4,039,128
Social services - transfers to other agencies									232,283
Parks and recreation								113,589	4,844,520
Economic development									10,187,500
Community access television									959,968
Urban redevelopment and housing									1,499,422
Information services									1,612,762
Capital outlay			121,980	55,473			1,016,429		1,687,981
Debt Service:									
Principal retirement	2,075,661	395,000							2,470,661
Interest and fiscal charges	830,155	140,233							970,388
Total Expenditures	2,912,969	535,233	121,980	55,473			1,016,429		31,445,489
		3,448,202						1,193,882	
Excess of Revenues over (under) Expenditures	(324,445)	371,274	(415)	7,939	253,232	22	(913,900)	15,270	57,386
Other Financing Sources (Uses):									
Transfers in	419,584						697,088		2,638,662
Transfers out	(270,093)					(850)	(117,994)	(2,235,937)	(5,429,901)
Bond proceeds								4,000,000	4,000,000
Bond issuance costs								(55,114)	(55,114)
Total Other Financing Sources (Uses)	149,491					(850)	579,094	1,708,949	1,153,647
Excess of Revenues and Other Financing Sources over (under) Expenditures and Other Financing Uses	(174,954)	371,274	(415)	7,939	253,232	(828)	(334,806)	1,724,219	57,386
Fund Balances - July 1, 2002	217,187	1,577,252	4,157,323	717,206	8,564,820	828	459,066	2,176,200	39,390,324
Fund Balances - June 30, 2003	\$42,233	\$1,948,526	\$4,156,908	\$725,145	\$8,818,052		\$124,260	\$1,724,219	\$42,749,127

CITY OF ANN ARBOR
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES - BUDGETARY COMPARISONS
For the Year Ended June 30, 2003

	Major Streets			Local Streets			Community Development		
	Modified Budget	Actual	Variance with Final Budget Positive (Negative)	Modified Budget	Actual	Variance with Final Budget Positive (Negative)	Modified Budget	Actual	Variance with Final Budget Positive (Negative)
Revenues:									
Taxes	\$	\$	\$	\$	\$	\$	\$	\$	\$
Federal grants							4,953,850	2,253,050	(2,700,800)
State shared revenues and grants	5,217,251	5,477,229	259,978	1,523,974	1,544,045	20,071			
Charges for services	524,000	521,308	(2,692)	150,000	150,000				
Fines and forfeits									
Investment income	116,000	176,090	60,090	57,000	48,463	(8,537)			
Rentals									
Contributions and donations									
Sale of property and equipment									
Intra-governmental sales	24,500	39,720	15,220		188	188			
Miscellaneous	2,000	85,798	83,798						
Total Revenues	5,883,751	6,300,145	416,394	1,730,974	1,742,696	11,722	4,953,850	2,253,050	(2,700,800)
Expenditures:									
Current:									
Administration	2,386,024	1,698,154	687,870				594,622	538,180	56,442
Police									
Street repair and maintenance	2,943,393	2,654,354	289,039	1,542,226	1,384,774	157,452	1,927,848	232,283	1,695,565
Social services - transfers to other agencies									
Parks and recreation									
Solid waste									
Community access television									
Urban redevelopment and housing							2,431,380	1,476,857	954,523
Information Services									
Capital outlay	19,100	3,550	15,550	146,255	9,800	136,455			
Total Expenditures	5,348,517	4,356,058	992,459	1,688,481	1,394,574	293,907	4,953,850	2,247,320	2,706,530
Excess of Revenues over (under) Expenditures	535,234	1,944,087	1,408,853	42,493	348,122	305,629		5,730	5,730
Other Financing Sources (Uses):									
Transfers in	7,500	7,500							
Transfers out	(2,358,980)	(2,060,715)	298,265	(517,601)	(542,493)	(24,892)			
Total Other Financing Sources (Uses)	(2,351,480)	(2,053,215)	298,265	(517,601)	(542,493)	(24,892)			
Excess of Revenues and Other Sources over (under) Expenditures and Other Financing Uses	(1,816,246)	(109,128)	1,707,118	(475,108)	(194,371)	280,737		5,730	5,730
Fund Balances - July 1, 2002	2,987,920	5,811,540	2,823,620	500,000	1,563,215	1,063,215		1,692	1,692
Fund Balances - June 30, 2003	\$1,171,674	\$5,702,412	\$4,530,738	\$24,892	\$1,368,844	\$1,343,952		\$7,422	\$7,422

CITY OF ANN ARBOR
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES - BUDGETARY COMPARISONS
For the Year Ended June 30, 2003

	Leslie Homestead			Affordable Housing			Community Television Network		
	Modified Budget	Actual	Variance with Final Budget Positive (Negative)	Modified Budget	Actual	Variance with Final Budget Positive (Negative)	Modified Budget	Actual	Variance with Final Budget Positive (Negative)
Revenues:									
Taxes	\$	\$	\$	\$	\$	\$	\$	\$	\$
Federal grants									
State shared revenues and grants									
Charges for services	75,860	77,670	1,810				1,098,000	1,461,217	363,217
Fines and forfeits									
Investment income				12,000	15,402	3,402	45,000	57,870	12,870
Rentals	8,702	11,933	3,231						
Contributions and donations	30,000	88,922	58,922		25,000	25,000			
Sale of property and equipment				5,000		(5,000)		1,135	1,135
Intra-governmental sales									
Miscellaneous	55,000	85	(54,915)	5,000	166,577	161,577	41,000	20,284	(20,716)
Total Revenues	169,562	178,610	9,048	22,000	206,979	184,979	1,184,000	1,540,506	356,506
Expenditures:									
Current:									
Administration		2,425	(2,425)						
Police									
Street repair and maintenance									
Social services - transfers to other agencies									
Parks and recreation	230,000	202,067	27,933						
Solid waste									
Community access television							1,245,000	959,968	285,032
Urban redevelopment and housing				489,500	6,975	482,525			
Information Services									
Capital outlay							134,500	28,130	106,370
Total Expenditures	230,000	204,492	25,508	489,500	6,975	482,525	1,379,500	988,098	391,402
Excess of Revenues over (under) Expenditures	(60,438)	(25,882)	34,556	(467,500)	200,004	667,504	(195,500)	552,408	747,908
Other Financing Sources (Uses):									
Transfers in	60,438	28,000	(32,438)	100,000	100,000				
Transfers out							(26,000)	(24,278)	1,722
Total Other Financing Sources (Uses)	60,438	28,000	(32,438)	100,000	100,000		(26,000)	(24,278)	1,722
Excess of Revenues and Other Sources over (under) Expenditures and Other Financing Uses		2,118	2,118	(367,500)	300,004	667,504	(221,500)	528,130	749,630
Fund Balances - July 1, 2002		4,513	4,513	367,500	433,040	65,540	221,500	1,418,353	1,196,853
Fund Balances - June 30, 2003		\$6,631	\$6,631		\$733,044	\$733,044		\$1,946,483	\$1,946,483

CITY OF ANN ARBOR
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES - BUDGETARY COMPARISONS
For the Year Ended June 30, 2003

	Solid Waste			Drug Enforcement			Michigan Justice Training		
	Modified Budget	Actual	Variance with Final Budget Positive (Negative)	Modified Budget	Actual	Variance with Final Budget Positive (Negative)	Modified Budget	Actual	Variance with Final Budget Positive (Negative)
Revenues:									
Taxes	\$	\$	\$	\$	\$	\$	\$	\$	\$
Federal grants									
State shared revenues and grants							43,131	38,293	(4,838)
Charges for services	15,000	29,644	14,644						
Fines and forfeits				13,000	16,254	3,254			
Investment income	74,891	132,058	57,167	1,000	657	(343)	2,200	1,611	(589)
Rentals									
Contributions and donations									
Sale of property and equipment									
Intra-governmental sales									
Miscellaneous									
Total Revenues	89,891	161,702	71,811	14,000	16,911	2,911	45,331	39,904	(5,427)
Expenditures:									
Current:									
Administration									
Police				42,000	16,366	25,634	50,000	49,661	339
Street repair and maintenance									
Social services - transfers to other agencies									
Parks and recreation									
Solid waste									
Community access television									
Urban redevelopment and housing				9,500	9,500				
Information Services									
Capital outlay									
Total Expenditures				51,500	25,866	25,634	50,000	49,661	339
Excess of Revenues over (under) Expenditures		161,702	71,811	(37,500)	(8,955)	28,545	(4,669)	(9,757)	(5,088)
Other Financing Sources (Uses):									
Transfers in	115,000	89,454	(25,546)						
Transfers out	(662,550)	(126,896)	535,654						
Total Other Financing Sources (Uses)	(547,550)	(37,442)	510,108						
Excess of Revenues and Other Sources over (under) Expenditures and Other Financing Uses	(457,659)	124,260	581,919	(37,500)	(8,955)	28,545	(4,669)	(9,757)	(5,088)
Fund Balances - July 1, 2002	457,659	4,141,666	3,684,007	37,500	22,734	(14,766)	4,669	71,620	66,951
Fund Balances - June 30, 2003		\$4,265,926	\$4,265,926		\$13,779	\$13,779		\$61,863	\$61,863

CITY OF ANN ARBOR
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES - BUDGETARY COMPARISONS
For the Year Ended June 30, 2003

	<u>Parks Acquisition & Development Program</u>			<u>Special Assistance</u>			<u>Special Projects</u>		
	Modified Budget	Actual	Variance with Final Budget Positive (Negative)	Modified Budget	Actual	Variance with Final Budget Positive (Negative)	Modified Budget	Actual	Variance with Final Budget Positive (Negative)
Revenues:									
Taxes	\$ 5,118,313	\$ 5,108,484	(9,829)	\$	\$		\$	\$	\$
Federal grants	319,000		(319,000)						
State shared revenues and grants	415,000	199,079	(215,921)						
Charges for services	3,600	1,957	(1,643)						
Fines and forfeits									
Investment income	199,000	229,219	30,219	200	19	(181)	69,000		(69,000)
Rentals									
Contributions and donations	12,700	8,040	(4,660)	8,000	6,149	(1,851)			
Sale of property and equipment									
Intra-governmental sales		7,140	7,140						
Miscellaneous	145,850	119,762	(26,088)						
Total Revenues	6,213,463	5,673,681	(539,782)	8,200	6,168	(2,032)	69,000		(69,000)
Expenditures:									
Current:									
Administration	26,540	110,996	(84,456)				11,528		(11,528)
Police									
Street repair and maintenance									
Social services - transfers to other agencies									
Parks and recreation	3,719,613	4,332,539	(612,926)						
Solid waste									
Community access television									
Urban redevelopment and housing				8,200	6,090	2,110			
Information Services							1,044,664	1,612,762	(568,098)
Capital outlay	2,341,738	180,397	2,161,341				540,000	28,735	511,265
Total Expenditures	6,087,891	4,623,932	1,463,959	8,200	6,090	2,110	1,584,664	1,653,025	(68,361)
Excess of Revenues over (under) Expenditures	125,572	1,049,749	924,177		78	78	(1,515,664)	(1,653,025)	(137,361)
Other Financing Sources (Uses):									
Transfers in	3,244,164		(3,244,164)				1,000,000	1,049,000	49,000
Transfers out									
Total Other Financing Sources (Uses)	3,244,164		(3,244,164)				1,000,000	1,049,000	49,000
Excess of Revenues and Other Sources over (under) Expenditures and Other Financing Uses	3,369,736	1,049,749	(2,319,987)		78	78	(515,664)	(604,025)	(88,361)
Fund Balances - July 1, 2002	2,065,755	6,020,566	3,954,811		322	322	515,664	604,476	88,812
Fund Balances - June 30, 2003	\$5,435,491	\$7,070,315	\$1,634,824		\$400	\$400		\$451	\$451

CITY OF ANN ARBOR
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES - BUDGETARY COMPARISONS
For the Year Ended June 30, 2003

	Court Facilities			Major Grants			Local Law Enforcement Block Grant		
	Modified Budget	Actual	Variance with Final Budget Positive (Negative)	Modified Budget	Actual	Variance with Final Budget Positive (Negative)	Modified Budget	Actual	Variance with Final Budget Positive (Negative)
Revenues:									
Taxes	\$	\$	\$	\$	\$	\$	\$	\$	\$
Federal grants				25,000	367,198	342,198	291,425	222,426	(68,999)
State shared revenues and grants				158,656	204,715	46,059			
Charges for services				60,000		(60,000)			
Fines and forfeits	145,000	218,650	73,650						
Investment income	1,100	14,564	13,464					684	684
Rentals									
Contributions and donations				12,001	2,282	(9,719)			
Sale of property and equipment									
Intra-governmental sales									
Miscellaneous									
Total Revenues	146,100	233,214	87,114	255,657	574,195	318,538	291,425	223,110	(68,315)
Expenditures:									
Current:									
Administration	200,000	8,747	191,253		4,587	(4,587)			
Police				302,281	292,616	9,665	168,665	136,536	32,129
Street repair and maintenance									
Social services - transfers to other agencies									
Parks and recreation				105,000	191,370	(86,370)			
Solid waste									
Community access television									
Urban redevelopment and housing									
Information Services									
Capital outlay	75,000	6,149	68,851		150,764	(150,764)	122,760	86,574	36,186
Total Expenditures	275,000	14,896	260,104	407,281	639,337	(232,056)	291,425	223,110	68,315
Excess of Revenues over (under) Expenditures	(128,900)	218,318	347,218	(151,624)	(65,142)	86,482			
Other Financing Sources (Uses):									
Transfers in				109,067	108,957	(110)			
Transfers out					(50,645)	50,645			
Total Other Financing Sources (Uses)				109,067	58,312	50,535			
Excess of Revenues and Other Sources over (under) Expenditures and Other Financing Uses	(128,900)	218,318	347,218	(42,557)	(6,830)	35,727			
Fund Balances - July 1, 2002	128,900	415,806	286,906	44,337	18,041	(26,296)			
Fund Balances - June 30, 2003		\$634,124	\$634,124	\$1,780	\$11,211	\$9,431			

CITY OF ANN ARBOR
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES - BUDGETARY COMPARISONS
For the Year Ended June 30, 2003

	Bandemer			Energy Projects		
	Modified Budget	Actual	Variance with Final Budget Positive (Negative)	Modified Budget	Actual	Variance with Final Budget Positive (Negative)
Revenues:						
Taxes	\$	\$	\$	\$	\$	\$
Federal grants						
State shared revenues and grants						
Charges for services						
Fines and forfeits						
Investment income	5,000	4,188	(812)	5,000	4,504	(496)
Rentals	36,000	36,000				
Contributions and donations				9,632	9,632	
Sale of property and equipment						
Intra-governmental sales						
Miscellaneous						
Total Revenues	41,000	40,188	(812)	14,632	14,136	(496)
Expenditures:						
Current:						
Administration				137,000	63,927	73,073
Police						
Street repair and maintenance						
Social services - transfers to other agencies						
Parks and recreation	41,000	4,955	36,045			
Solid waste						
Community access television						
Urban redevelopment and housing						
Information Services						
Capital outlay						
Total Expenditures	41,000	4,955	36,045	137,000	63,927	73,073
Excess of Revenues over (under) Expenditures		35,233	35,233	(122,368)	(49,791)	72,577
Other Financing Sources (Uses):						
Transfers in				127,327	139,079	11,752
Transfers out						
Total Other Financing Sources (Uses)				127,327	139,079	11,752
Excess of Revenues and Other Sources over (under) Expenditures and Other Financing Uses		35,233	35,233	4,959	89,288	84,329
Fund Balances - July 1, 2002		180,703	180,703		126,663	126,663
Fund Balances - June 30, 2003		\$215,936	\$215,936	\$4,959	\$215,951	\$210,992

CITY OF ANN ARBOR
ALL INTERNAL SERVICE FUNDS

COMBINING STATEMENT OF NET ASSETS
June 30, 2003

ASSETS	Central Stores	Park Service Headquarters	Fleet Services	Insurance	Total
Current Assets:					
Cash	\$18,762	\$5,377	\$76,296	\$1,022,426	\$1,122,861
Equity in pooled cash and investments	586,111	-	1,115,649	6,709,464	8,411,224
Accounts receivable	-	-	31,333	4,256	35,589
Less: allowance for uncollectibles	-	-	(24,333)	(4,256)	(28,589)
Due from other funds	-	-	50,645	-	50,645
Prepaid items	-	-	-	114,025	114,025
Inventory, at cost	367,056	-	476,142	-	843,198
Total Current Assets	971,929	5,377	1,725,732	7,845,915	10,548,953
Property, Plant and Equipment, at cost:					
Land	-	98,440	96,267	-	194,707
Buildings	90,663	152,159	253,283	-	496,105
Improvements other than buildings	-	-	62,407	-	62,407
Vehicles	-	-	8,367,013	-	8,367,013
Machinery and equipment	75,733	-	2,249,630	-	2,325,363
Less: Accumulated depreciation	(108,398)	(140,623)	(7,445,222)	-	(7,694,243)
Net Property, Plant and Equipment	57,998	109,976	3,583,378	-	3,751,352
Total Assets	1,029,927	115,353	5,309,110	7,845,915	14,300,305
LIABILITIES					
Current Liabilities:					
Accounts payable	\$46,943	-	\$66,575	\$69,653	\$183,171
Estimated claims payable	-	-	-	4,048,656	4,048,656
Accrued liabilities	9,133	-	46,283	14,182	69,598
Accrued interest payable	-	-	275	-	275
Due to other funds	-	12,221	-	-	12,221
Accrued compensated absences - short term	875	-	10,997	340	12,212
Note Payable, current portion	-	-	30,000	-	30,000
Total Current Liabilities	56,951	12,221	154,130	4,132,831	4,356,133
Long Term Liabilities:					
Accrued compensated absences	28,308	-	191,885	32,060	252,253
Total Long-Term Liabilities	28,308	-	191,885	32,060	252,253
TOTAL LIABILITIES	85,259	12,221	346,015	4,164,891	4,608,386
Net Assets:					
Invested in Capital Assets, net of related debt	57,998	109,976	3,553,378	-	3,721,352
Unrestricted (deficit)	886,670	(6,844)	1,409,717	3,681,024	5,970,567
TOTAL NET ASSETS	\$944,668	\$103,132	\$4,963,095	\$3,681,024	\$9,691,919

CITY OF ANN ARBOR
ALL INTERNAL SERVICE FUNDS

COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
For the Year Ended June 30, 2003

	Central Stores	Park Service Headquarters	Fleet Services	Insurance	Total
Operating Revenues:					
Charges for services	\$1,072,111	\$122,250	\$3,465,361	\$15,670,416	\$20,330,138
Miscellaneous revenues			6,511		6,511
Total Operating Revenues	1,072,111	122,250	3,471,872	15,670,416	20,336,649
Operating Expenses:					
Personal services	250,207	45,198	1,280,129	461,652	2,037,186
Materials and supplies	16,195	10,623	45,997	12,375	85,190
Utilities	3,029	49,378	50,117	2,581	105,105
Insurance	21,194	2,240	72,877	12,176,729	12,273,040
Contractual services	88,237	5,797	6,012		100,046
Maintenance	1,754	1,195	58,752	21	61,722
Professional fees	438			227,037	227,475
Miscellaneous	10,849	5,675	34,740	439	51,703
Cost of goods sold	638,114		1,069,695		1,707,809
Depreciation and amortization	5,437	3,287	979,776		988,500
Total Operating Expenses	1,035,454	123,393	3,598,095	12,880,834	17,637,776
Operating Income (Loss)	36,657	(1,143)	(126,223)	2,789,582	2,698,873
Nonoperating Revenues (Expenses):					
Investment income	10,384		32,130	41,553	84,067
Interest expense and fiscal charges			(2,465)		(2,465)
Net gain on retirement of capital assets			170,475		170,475
Total Nonoperating Revenues (Expenses)	10,384		200,140	41,553	252,077
Income (Loss) Before Transfers	47,041	(1,143)	73,917	2,831,135	2,950,950
Transfers In			50,644		50,644
Transfers Out	(3,513)		(37,713)		(41,226)
Net Transfers In (Out)	(3,513)		12,931		9,418
Change in Net Assets	43,528	(1,143)	86,848	2,831,135	2,960,368
Net Assets - July 1, 2002	901,140	104,275	4,876,247	849,889	6,731,551
Net Assets - June 30, 2003	\$944,668	\$103,132	\$4,963,095	\$3,681,024	\$9,691,919

CITY OF ANN ARBOR
 ALL INTERNAL SERVICE FUNDS
 COMBINING STATEMENT OF CASH FLOWS
 For the Fiscal Year Ended June 30, 2003

	Central Stores	Park Service Headquarters	Fleet Services	Insurance	Total
Increase (decrease) in cash and cash equivalents:					
Cash Flows from Operations:					
Receipts from customers	\$1,072,111	\$122,250	\$3,497,414	\$15,670,416	\$20,362,191
Receipts from interfund services provided	1,399	9,686		3,698,081	3,709,166
Payments to suppliers	(735,721)	(77,337)	(1,432,832)	(13,593,820)	(15,839,710)
Payments to employees	(248,525)	(49,322)	(1,300,260)	(452,350)	(2,050,457)
Payments for interfund services used			(103,764)		(103,764)
Net cash provided by (used in) operating activities	89,264	5,277	660,558	5,322,327	6,077,426
Cash flows from noncapital financing activities:					
Transfers in			50,644		50,644
Transfers out	(3,513)		(37,713)		(41,226)
Net cash flows used in noncapital financing activities	(3,513)		12,931		9,418
Cash flows from capital and related financing activities:					
Principal paid on capital leases and notes			(30,000)		(30,000)
Interest paid on capital leases and notes			(2,740)		(2,740)
Proceeds from sale of equipment			189,107		189,107
Acquisition of capital assets			(1,512,600)		(1,512,600)
Net cash flows used in capital and related financing activities			(1,356,233)		(1,356,233)
Cash flows from investing activities:					
Interest and dividends on investments	10,384		32,130	41,553	84,067
Net cash flows provided by investing activities	10,384		32,130	41,553	84,067
Net increase (decrease) in cash and cash equivalents	96,135	5,277	(650,614)	5,363,880	4,814,678
Cash and cash equivalents - July 1, 2002	508,738	100	1,842,559	2,368,010	4,719,407
Cash and cash equivalents - June 30, 2003	\$604,873	\$5,377	\$1,191,945	\$7,731,890	\$9,534,085

(Continued)

CITY OF ANN ARBOR
 ALL INTERNAL SERVICE FUNDS
 COMBINING STATEMENT OF CASH FLOWS
 For the Fiscal Year Ended June 30, 2003

	Central Stores	Park Service Headquarters	Fleet Services	Insurance	Total
Reconciliation of operating income (loss) to net cash provided by operating activities:					
Net operating income (loss)	\$36,657	(\$1,143)	(\$126,223)	\$2,789,582	\$2,698,873
Adjustments not affecting cash:					
Depreciation and amortization	5,437	3,287	979,776		988,500
(Increase) decrease in assets and increase (decrease) in liabilities:					
Allowance for uncollectible accounts			24,286		24,286
Accounts receivable			1,256		1,256
Inventory	40,482		5,898		46,380
Prepaid items				(53,082)	(53,082)
Accounts payable	3,607	(2,429)	(100,540)	32,477	(66,885)
Accrued compensated absences	(887)	(398)	(28,201)	13,593	(15,893)
Estimated claims payable				(1,154,033)	(1,154,033)
Accrued liabilities	2,569	(3,726)	8,070	(4,291)	2,622
Due to other governments					
Due to other funds		9,686	(122,054)		(112,368)
Due from other funds	1,399		18,290	3,683,693	3,703,382
Due from component units				14,388	14,388
Net cash provided by (used in) operating activities	\$89,264	\$5,277	\$660,558	\$5,322,327	\$6,077,426

CITY OF ANN ARBOR
 ALL FIDUCIARY FUNDS
 COMBINING STATEMENT OF FIDUCIARY NET ASSETS
 June 30, 2003

	Employee Retirement Funds			Agency Funds				Total Agency Funds
	Employees' Retirement System	VEBA Trust Fund	Total Pension Funds	Treasurer's Current Tax	Treasurer's Delinquent Tax	Contractors' Retainage	Fifteenth District Court	
ASSETS								
Cash	\$403,491		\$403,491		\$371,558	\$687,885	\$195,261	\$1,254,704
Equity in pooled cash and investments		2,458,981	2,458,981					
Investments, at fair value	355,072,135	24,636,388	379,708,523					
Accounts receivable	25,027		25,027		55,291			55,291
Accrued interest and dividends	1,845,366	84,362	1,929,728					
Due from other governments				56,221	6,254			62,475
Property, plant & equipment (net of depreciation of \$9,381)	14,007		14,007					
Total Assets	357,360,026	27,179,731	384,539,757	56,221	433,103	687,885	195,261	1,372,470
LIABILITIES								
Liabilities:								
Accounts payable	\$3,191,164	\$28,225	3,219,389	\$56,221	\$82,229	\$687,885		\$826,335
Accrued liabilities	11,693		11,693					
Accrued compensated absences	91,987		91,987					
Due to other governments					350,874		105,710	456,584
Deposits							89,551	89,551
Total Liabilities	3,294,844	28,225	3,323,069	56,221	433,103	687,885	195,261	1,372,470
Net Assets:								
Held in Trust for Pension Benefits and Other Purposes	\$354,065,182	\$27,151,506	\$381,216,688	\$	\$	\$	\$	\$

CITY OF ANN ARBOR
 FIDUCIARY FUNDS
 STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
 For the Year Ended June 30, 2003

	Employee Retirement Funds		Total
	Employees' Retirement System	VEBA Trust Fund	
ADDITIONS			
Investment income:			
Net realized and unrealized appreciation in fair value of investments	\$346,678	\$618,922	\$965,600
Interest	8,548,628	506,551	9,055,179
Dividends	771,135	216,803	987,938
Total investment income	9,666,441	1,342,276	11,008,717
Less investment expense	1,510,293	108,326	1,618,619
Net investment earnings	8,156,148	1,233,950	9,390,098
Contributions:			
Employer		6,866,489	6,866,489
Plan member	2,622,572		2,622,572
Total contributions	2,622,572	6,866,489	9,489,061
Total additions	10,778,720	8,100,439	18,879,159
DEDUCTIONS			
Benefits	19,922,150		19,922,150
Refund of contributions	1,814,475		1,814,475
Administrative expense	6,063,029	18,475	6,081,504
Total deductions	27,799,654	18,475	27,818,129
Change in net assets	(17,020,934)	8,081,964	(8,938,970)
Net assets held in trust for benefits at beginning of year	371,086,116	19,069,542	390,155,658
Net assets held in trust for benefits at end of year	\$354,065,182	\$27,151,506	\$381,216,688

CITY OF ANN ARBOR
ALL AGENCY FUNDS

COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
For the Year Ended June 30, 2003

	Balance July 1, 2002	Additions	Retirements	Balance June 30, 2003
PAYROLL FUND				
ASSETS				
Cash	\$125,508		\$125,508	
Due from other governments	17,937		17,937	
Total Assets	\$143,445		\$143,445	
LIABILITIES				
Due to other governments	143,445		143,445	
Total Liabilities	\$143,445		\$143,445	
TREASURER'S CURRENT TAX FUND				
ASSETS				
Cash	\$6,861	\$585,543,291	\$585,550,152	
Equity in pooled cash and investments	2,281	175,915,736	175,918,017	
Accounts receivable	5,284		5,284	
Accrued interest and dividends		9,849	9,849	
Due from other funds		476,508	476,508	
Due from other governments		56,221		56,221
Total Assets	\$14,426	\$762,001,605	\$761,959,810	\$56,221
LIABILITIES				
Accounts payable	\$14,426	\$1,616,185	\$1,574,390	\$56,221
Due to other funds		4,431,541	4,431,541	
Due to other governments		206,047,748	206,047,748	
Total Liabilities	\$14,426	\$212,095,474	\$212,053,679	\$56,221

CITY OF ANN ARBOR
ALL AGENCY FUNDS

COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
For the Year Ended June 30, 2003

	Balance July 1, 2002	Additions	Retirements	Balance June 30, 2003
TREASURER'S DELINQUENT TAX FUND				
ASSETS				
Cash	\$24,388	\$2,081,544	\$1,734,374	\$371,558
Equity in pooled cash and investments		1,211,374	1,211,374	
Accounts Receivable		55,291		55,291
Due from other funds		263,156	263,156	
Due from other governments		6,254		6,254
				<u>6,254</u>
Total Assets	<u>\$24,388</u>	<u>\$3,617,619</u>	<u>\$3,208,904</u>	<u>\$433,103</u>
LIABILITIES				
Accounts payable	\$1,820	\$488,074	\$407,665	\$82,229
Due to other funds		592,795	592,795	
Due to other governments	22,568	1,411,784	1,083,478	350,874
Deposits		21,582	21,582	
				<u>21,582</u>
Total Liabilities	<u>\$24,388</u>	<u>\$2,514,235</u>	<u>\$2,105,520</u>	<u>\$433,103</u>
CONTRACTORS' RETAINAGES FUND				
ASSETS				
Cash	588,850	4,090,738	3,991,703	687,885
Equity in pooled cash and investments		1,500,531	1,500,531	
				<u>1,500,531</u>
Total Assets	<u>588,850</u>	<u>5,591,269</u>	<u>5,492,234</u>	<u>687,885</u>
LIABILITIES				
Accounts payable	588,850	1,086,961	987,926	687,885
Due to other funds		1,004,874	1,004,874	
				<u>1,004,874</u>
Total Liabilities	<u>588,850</u>	<u>2,091,835</u>	<u>1,992,800</u>	<u>687,885</u>

CITY OF ANN ARBOR
ALL AGENCY FUNDS

COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
For the Year Ended June 30, 2003

	Balance July 1, 2002	Additions	Retirements	Balance June 30, 2003
FIFTEENTH DISTRICT COURT				
ASSETS				
Cash	\$210,680	\$683,910	\$699,329	\$195,261
LIABILITIES				
Due to other funds		\$468,166	\$468,166	
Due to other governments	94,940	10,770		105,710
Deposits	115,740		26,189	89,551
Total Liabilities	\$210,680	\$478,936	\$494,355	\$195,261
TOTAL - ALL AGENCY FUNDS				
ASSETS				
Cash	\$956,287	\$592,399,483	\$592,101,066	\$1,254,704
Equity in pooled cash and investments	2,281	178,627,641	178,629,922	
Receivables:				
Accounts	5,284		5,284	55,291
Accrued interest and dividends		9,849	9,849	
Due from other funds		739,664	739,664	
Due from other governments	17,937	62,475	17,937	62,475
Total Assets	\$981,789	\$771,839,112	\$771,503,722	\$1,372,470
LIABILITIES				
Accounts payable	\$605,096	\$3,191,220	\$2,969,981	\$826,335
Due to other funds		6,497,376	6,497,376	
Due to other governments	260,953	207,470,302	207,149,163	456,584
Deposits	115,740	21,582	47,771	89,551
Total Liabilities	\$981,789	\$217,180,480	\$216,664,291	\$1,372,470

Statistical Section

TABLE I

CITY OF ANN ARBOR
GENERAL GOVERNMENTAL EXPENDITURES BY FUNCTION
LAST TEN FISCAL YEARS
(Unaudited)

Fiscal Year	General Government	Public Safety and Justice	Highways and Streets	(1) Fleet Services	Solid Waste	Health/ Social Services	Culture and Recreation	Debt Service	Transfers to Ann Arbor Transportation Authority	Other	Total
1993-94	\$20,149,923	\$19,772,704	\$9,660,588	\$2,244,186	\$4,062,696	\$2,933,007	\$4,073,916	\$5,439,648	\$5,275,675	\$3,045	\$73,615,388
1994-95	20,711,684	20,820,162	10,893,294	2,334,290	3,933,877	4,213,949	4,628,379	5,736,615	5,408,737	1,695	78,682,682
1995-96	21,987,922	22,367,044	13,461,610	2,508,410	4,058,967	2,598,020	5,201,288	5,537,039	5,560,123	1,797	83,282,220
1996-97	22,582,732	23,891,469	12,112,829	2,718,602	4,565,859	3,494,159	5,897,498	5,458,333	5,753,186	94	86,474,761
1997-98	14,665,219	31,352,475	10,661,950		5,817,958	3,685,771	7,906,103	5,671,627	5,967,106	1,334,460	87,062,669
1998-99	14,936,004	32,109,227	14,746,181		5,946,846	3,837,878	9,684,027	5,088,188	6,265,996		92,614,347
1999-00	17,771,338	32,893,940	18,637,509		6,482,045	3,219,633	9,231,520	5,105,664	6,523,601		99,865,250
2000-01	17,901,505	39,436,291	18,218,884		6,406,705	4,207,320	9,428,250	4,803,225	6,776,531		107,178,711
2001-02	18,493,802	37,125,565	13,676,514		6,855,787	3,752,615	9,669,723	3,610,715	7,137,843		100,322,564
2002-03	19,978,064	37,464,842	11,543,201		6,589,484	3,680,937	11,130,658	3,441,049	7,613,357	10,187,500	111,629,092

Note:

Includes all operating expenditures for General, Special Revenue, Expendable Trust (for years prior to 2001-2002), and Debt Service Funds (except capital outlay in Special Revenue Funds).

(1) The operations of Fleet Services (Motor Equipment Fund) were consolidated into the General Fund on July 1, 1992 and re-established as an Internal Service Fund on July 1, 1997.

Source: City of Ann Arbor - Finance Department

TABLE II

CITY OF ANN ARBOR
GENERAL GOVERNMENTAL REVENUES BY SOURCE
LAST TEN FISCAL YEARS
(Unaudited)

Fiscal Year	Property Taxes	Licenses, Permits and Registrations	Inter-Governmental	Rentals	Charges for Services	Fines and Forfeits	Investment Income	Other	Total
1993-94	\$42,208,645	\$1,406,062	\$18,360,617	\$29,221	\$9,238,598	\$4,255,316	\$1,076,108	\$1,673,608	\$78,248,175
1994-95	43,497,874	1,633,000	20,231,116	42,338	9,245,475	4,411,736	2,194,562	4,427,481	85,683,582
1995-96	44,836,635	1,488,056	22,115,238	44,965	9,414,722	4,043,519	2,983,843	1,743,271	86,670,249
1996-97	46,036,783	1,772,740	21,855,209	73,744	9,380,459	4,260,334	2,989,792	1,437,028	87,806,089
1997-98	48,174,774	2,698,512	22,762,448	71,993	9,564,778	5,052,292	7,031,196	4,519,795	99,875,788
1998-99	50,960,730	2,945,101	23,733,677	52,171	9,154,370	5,238,081	2,737,210	2,130,291	96,951,631
1999-00	52,787,520	4,099,147	23,940,639	50,107	10,368,179	5,737,482	2,661,456	1,991,066	101,635,596
2000-01	54,797,240	3,122,293	25,665,530	49,163	10,196,953	5,541,929	4,558,874	1,306,055	105,238,037
2001-02	57,801,733	2,856,377	26,530,787	53,363	7,335,366	5,321,733	3,355,595	982,161	104,237,115
2002-03	61,284,172	3,001,458	34,335,894	52,839	7,060,039	5,901,225	1,746,522	2,244,735	115,626,884

Note:

Includes General, Special Revenue, Debt Service and Expendable Trust Funds (prior to 2001-02).

Source: City of Ann Arbor - Finance Department

Table III

CITY OF ANN ARBOR
PROPERTY TAX LEVIES AND COLLECTIONS
LAST TEN FISCAL YEARS
(Unaudited)

Fiscal Year	Total Tax Levy	Current Collections to March 1, each year		Collected to June 30	
		Amount	Percent	Amount	Percent
1993-94	\$40,972,304	\$39,404,313	96.2	\$40,917,243	99.9
1994-95	42,409,296	41,139,492	97.0	42,304,902	99.8
1995-96	43,641,062	42,377,759	97.1	43,498,845	99.7
1996-97	44,954,725	43,764,688	97.4	44,835,252	99.7
1997-98	47,465,910	46,477,106	97.9	47,352,198	99.8
1998-99	50,297,248	49,305,383	98.0	50,189,332	99.8
1999-00	52,075,252	51,162,749	98.3	51,958,008	99.8
2000-01	54,210,561	53,385,722	98.5	54,138,837	99.9
2001-02	57,214,924	56,263,669	98.3	57,096,077	99.8
2002-03	61,993,518	60,937,583	98.3	61,781,727	99.7

Ad valorem taxes are levied July 1st annually, and are due July 31st. Delinquent real property taxes are turned over to the County for collection the following March 1st. The County pays all its municipalities from a revolving fund for delinquent real property taxes. Delinquent personal property taxes are negligible.

Source: City of Ann Arbor - Finance Department, Treasury Division

TABLE IV

CITY OF ANN ARBOR
 ASSESSED AND ESTIMATED ACTUAL VALUE OF TAXABLE PROPERTY
 LAST TEN FISCAL YEARS
 (Unaudited)

Fiscal Year	Taxable Value		Final Equalized Or Taxable Valuation	Assessed Value	True Cash Value
	Real Property	Personal Property			
1993-94	\$2,285,559,100	\$210,902,500	\$2,496,461,600	\$2,496,461,600	\$4,992,923,200
1994-95	2,347,073,100	215,302,000	2,562,375,100	2,562,375,100	5,124,750,200
1995-96	2,403,581,095	224,140,700	2,627,721,795	2,633,642,600	5,267,285,200
1996-97	2,487,377,168	233,044,900	2,720,422,068	2,722,634,200	5,445,268,400
1997-98	2,561,309,025	242,149,600	2,803,458,625	2,867,066,700	5,734,133,400
1998-99	2,696,959,403	260,367,000	2,957,326,403	3,049,361,700	6,098,723,400
1999-00	2,812,309,779	280,181,600	3,092,491,379	3,274,785,900	6,549,571,800
2000-01	2,949,820,311	267,104,900	3,216,925,211	3,540,261,000	7,080,522,000
2001-02	3,153,455,816	269,398,975	3,422,854,791	3,951,507,650	7,903,015,300
2002-03	3,375,930,999	299,043,900	3,674,974,899	4,370,512,600	8,741,025,200

Notes:

- (1) Taxable property in the City is assessed by the City Assessor and is subject to review by the County Board of Equalization. Tax levies on property in Michigan were applied against the assessed value of all property as finally equalized by the State through 1994. Current statutes require assessments to be 50% of the true cash value of both personal and real property for equalization purposes.
- (2) In accordance with Act 409, Public Acts of Michigan, 1965, and Article 9, Section 2 of the Michigan Constitution, as amended by Joint Resolution S on March 15, 1994, state equalized value shall not exceed 50% of the true cash value. With the passage of Proposal "A", another value is required on each property. The new value is termed "taxable value". Increases in taxable value are limited to 5%, the Consumer Price Index, or State Equalized Value, whichever is less.
- (3) 2002/03 Per Capita Taxable Value \$32,219
 2002/03 Per Capita True Cash Value \$76,635
- (4) A breakdown of the City's 2002 Taxable Value by use and class is as follows:

By Use		By Class	
Residential	59.05%	Real Property	91.81%
Commercial	33.35%	Personal Property	8.19%
Industrial	6.63%	Total	<u>100.00%</u>
Utility	0.97%		
Total	<u>100.00%</u>		

Source: City of Ann Arbor - Finance Department, Assessing Division

TABLE V

CITY OF ANN ARBOR
 PROPERTY TAX RATES - DIRECT AND OVERLAPPING GOVERNMENTS
 (PER \$1,000 OF ASSESSED VALUE)
 LAST TEN FISCAL YEARS
 (Unaudited)

CITY OF ANN ARBOR													
Fiscal Year	General Operating	Refuse Collection	Transportation*	Employee Benefits	Debt Service	Parks	Major Street Repair	Subtotal	Ann Arbor Public Schools**	Ann Arbor District Library***	Washtenaw County	Washtenaw Community College	Total
Homestead 1993-94	6.3600	2.5100	2.1500	1.7700	1.1900	0.8400	1.8700	16.6900	37.4600		5.8800	3.1000	63.1300
Homestead 1994-95	6.3476	2.5410	2.1505	1.9252	1.1145	0.8379	1.9086	16.8253	24.1987		5.8600	3.0900	49.9740
Non-Homestead 1994-95	6.3476	2.5410	2.1505	1.9252	1.1145	0.8379	1.9086	16.8253	30.8409		5.8600	3.0900	56.6162
Homestead 1995-96	6.4515	2.5806	2.1505	1.8671	1.0397	0.8379	1.9509	16.8782	24.8739		5.6000	3.0700	50.4221
Non-Homestead 1995-96	6.4515	2.5806	2.1505	1.8671	1.0397	0.8379	1.9509	16.8782	32.2625		5.6000	3.0700	57.8107
Homestead 1996-97	6.4515	2.5806	2.1505	1.9060	0.9241	0.8379	1.9509	16.8015	20.8288	1.6500	5.5775	2.9329	47.7907
Non-Homestead 1996-97	6.4515	2.5806	2.1505	1.9060	0.9241	0.8379	1.9509	16.8015	30.6155	1.6500	5.5775	2.9329	57.5774
Homestead 1997-98	6.4515	2.5806	2.1505	2.1146	1.0864	0.8379	2.0000	17.2215	21.4759	1.6500	5.5322	3.9029	49.7825
Non-Homestead 1997-98	6.4515	2.5806	2.1505	2.1146	1.0864	0.8379	2.0000	17.2215	30.5031	1.6500	5.5322	3.9029	58.8097
Homestead 1998-99	6.4515	2.5806	2.1505	2.1505	1.0275	0.9450	2.0000	17.3056	20.6808	1.6500	5.5629	4.1029	49.3022
Non-Homestead 1998-99	6.4515	2.5806	2.1505	2.1505	1.0275	0.9450	2.0000	17.3056	30.2352	1.6500	5.5629	4.1029	58.5566
Homestead 1999-00	6.4515	2.5806	2.1505	2.1505	0.8539	0.9450	2.0000	17.1320	19.9233	1.6500	5.5809	4.0319	48.3181
Non-Homestead 1999-00	6.4515	2.5806	2.1505	2.1505	0.8539	0.9450	2.0000	17.1320	29.6256	1.6500	5.5809	4.0319	58.0204
Homestead 2000-01	6.0655	2.5674	2.1395	2.1395	0.7901	1.4377	1.9898	17.1295	18.8558	1.9500	5.5317	3.9944	47.4614
Non-Homestead 2000-01	6.0655	2.5674	2.1395	2.1395	0.7901	1.4377	1.9898	17.1295	29.4965	1.9500	5.5317	3.9944	58.1021
Homestead 2001-02	6.0315	2.5530	2.1275	2.1275	0.7549	1.4295	1.9786	17.0025	18.1505	1.9500	5.7269	3.9721	46.8020
Non-Homestead 2001-02	6.0315	2.5530	2.1275	2.1275	0.7549	1.4295	1.9786	17.0025	29.1050	1.9500	5.7269	3.9721	57.7565
Homestead 2002-03	6.0315	2.5302	2.1085	2.1085	0.6916	1.4166	1.9822	16.8691	19.2398	1.9500	5.6420	3.8559	47.5568
Non-Homestead 2002-03	6.0315	2.5302	2.1085	2.1085	0.6916	1.4166	1.9822	16.8691	30.6320	1.9500	5.6420	3.8559	58.9490

* Represents millage collected for Ann Arbor Transportation Authority.

** Includes Washtenaw Intermediate School Ann Arbor District millage of 3.1311 mills and State Education Tax of 6.0 mills on both Homestead and Non-Homestead properties. On Non-Homestead properties, an additional 10.641 mills is included for School Operating Tax.

*** Ann Arbor District Library is now a separate taxing unit, beginning with 1996 tax, and previously was included in Ann Arbor Public Schools millage.

The City has enjoyed a stable property tax rate in all taxing jurisdictions due to annual increases in valuations as a result of economic growth.

Source: City of Ann Arbor - Finance Department, Assessing Division

TABLE VI

CITY OF ANN ARBOR
SPECIAL ASSESSMENT LEVIES AND COLLECTIONS
LAST TEN FISCAL YEARS
(Unaudited)

Fiscal Year	Current Assessments Due	Current Assessments Collected	Ratio of Collections to Assessments Due	Outstanding Current and Delinquent Assessments
1993-94	\$1,098,235	\$1,098,235	100	-0-
1994-95	828,100	828,100	100	-0-
1995-96	632,106	632,106	100	-0-
1996-97	655,083	655,083	100	-0-
1997-98	580,572	580,572	100	-0-
1998-99	520,036	520,036	100	-0-
1999-00	535,772	535,772	100	-0-
2000-01	411,752	411,752	100	-0-
2001-02	568,966	568,966	100	-0-
2002-03	323,895	323,895	100	-0-

Note:

All assessments are either paid when due or added to the property tax bill. Delinquent taxes are turned over to the County for collection the following March 1st. The County pays all its municipalities from a revolving fund for delinquent real property taxes. Therefore, all assessments are considered collected currently.

Source: City of Ann Arbor - Finance Department, Treasury Division

TABLE VII

CITY OF ANN ARBOR
 RATIO OF NET GENERAL BONDED DEBT
 TO ASSESSED/TAXABLE VALUE AND NET BONDED DEBT PER CAPITA
 LAST TEN FISCAL YEARS
 (Unaudited)

Fiscal Year	Population	Assessed/ Taxable Value	Gross Bonded Debt (1)	Debt Service Monies Available (2)	Net Bonded Debt	Ratio of Net Bonded Debt to Assessed/ Taxable Value	Net Bonded Debt Per Capita
1993-94	109,440	\$2,496,461,600	\$29,055,000	\$54,849	\$29,000,151	0.0116	\$264.99
1994-95	109,440	2,520,567,000	28,330,000	536,672	27,793,328	0.0110	253.96
1995-96	109,440	2,627,721,795	27,475,000	450,970	27,024,030	0.0103	246.93
1996-97	109,440	2,720,422,068	26,395,000	(20,501)	26,415,501	0.0097	241.37
1997-98	109,440	2,803,458,625	25,110,000	255	25,109,745	0.0090	229.44
1998-99	109,440	2,957,326,403	23,380,000	180,634	23,199,366	0.0078	211.98
1999-00	109,472	3,092,491,379	21,840,000	199,356	21,640,644	0.0070	197.68
2000-01	113,992	3,216,925,211	20,300,000	199,700	20,100,300	0.0062	176.33
2001-02	114,061	3,422,854,791	19,020,000	188,202	18,831,798	0.0055	165.10
2002-03	114,061	3,674,974,899	17,330,000	42,233	17,287,767	0.0047	151.57

Notes:

(1) All long-term general obligation debt, except debt issued for Enterprise Funds, Special Revenue bonds and Ann Arbor Building Authority bonds.

(2) General Debt Service Fund Balance (deficit) at end of fiscal year (General Debt Only).

Source: City of Ann Arbor-Finance Department.

TABLE VIII

CITY OF ANN ARBOR
COMPUTATION OF LEGAL DEBT MARGIN
June 30, 2003
(Unaudited)

Taxable value of real and personal property	<u>\$ 3,674,974,899</u>
Legal debt limit (10% of taxable value)	<u>367,497,490</u>
Debt subject to limit:	
Net direct debt	49,059,852
Less: Special Assessment bonds (general obligation portion)	(1,150,000)
Indirect debt	<u>-</u>
	<u>47,909,852</u>
Legal debt margin	<u><u>\$ 319,587,638</u></u>

Source: City of Ann Arbor-Finance Department

TABLE IX

CITY OF ANN ARBOR
 COMPUTATION OF NET DIRECT, INDIRECT AND OVERLAPPING DEBT
 June 30, 2003
 (Unaudited)

	Gross Amount Outstanding	Self-Supporting Or Paid By Benefited Entity	Net Amount Outstanding
DIRECT AND INDIRECT DEBT			
General Obligation Bonds	\$29,591,040	\$12,261,040	\$17,330,000
Special Assessment Bonds	2,335,000	2,335,000	
Ann Arbor Building Authority Bonds	31,505,000		31,505,000
Lease Contract Payable (Wastewater Treatment Plant)	800,000	800,000	
Revenue Bonds	42,210,000	42,210,000	
Other Long-Term Debt	1,181,206	956,354	224,852
Other Bonds	3,268,960	3,268,960	
NET DIRECT AND INDIRECT DEBT	\$110,891,206	\$61,831,354	49,059,852
OVERLAPPING DEBT			
62.37% Ann Arbor School District	36,663,000	13,796,287	22,866,713
33.10% Washtenaw Community College	67,130,000	44,909,970	22,220,030
32.43% Washtenaw County at Large	35,263,354	23,827,448	11,435,906
NET OVERLAPPING DEBT	\$139,056,354	\$82,533,705	56,522,649
NET DIRECT, INDIRECT AND OVERLAPPING DEBT			\$105,582,501
PER CAPITA (114,061)			
Net Direct and Indirect Debt			\$430.12
Net Direct, Indirect and Overlapping Debt			\$925.67
RATIO TO 2002/2003 TAXABLE VALUE (\$3,674,974,899)			
Net Direct and Indirect Debt			1.33%
Net Direct, Indirect and Overlapping Debt			2.87%

Source: Municipal Advisory Council

TABLE X

CITY OF ANN ARBOR
 RATIO OF ANNUAL DEBT SERVICE EXPENDITURES FOR
 GENERAL BONDED DEBT TO TOTAL GENERAL GOVERNMENTAL EXPENDITURES
 LAST TEN FISCAL YEARS
 (Unaudited)

Fiscal Year	Principal Retirement	Interest and Fiscal Charges	Total Debt Service	Total General Governmental Expenditures (1)	Percent of Debt Service to Total General Governmental Expenditures
1993-94	\$2,527,437	\$2,912,211	\$5,439,648	\$73,615,388	7.4%
1994-95	2,915,951	2,820,664	5,736,615	78,682,682	7.3%
1995-96	2,850,604	2,686,435	5,537,039	83,282,220	6.6%
1996-97	2,923,417	2,534,916	5,458,333	86,474,761	6.3%
1997-98	3,309,691	2,361,936	5,671,627	85,852,405	6.6%
1998-99	2,940,190	2,147,998	5,088,188	91,337,982	5.6%
1999-00	3,449,129	1,656,535	5,105,664	99,865,250	5.1%
2000-01	3,330,792	1,472,433	4,803,225	107,178,711	4.5%
2001-02	2,544,562	1,066,153	3,610,715	100,322,564	3.6%
2002-03	3,305,970	1,292,084	4,598,054	111,629,092	4.1%

(1) Includes General, Special Revenue, Expendable Trust (prior to 2001-2002) and Debt Service Funds (except capital outlay in Special Revenue Funds).

Source: City of Ann Arbor-Finance Department

TABLE XI

CITY OF ANN ARBOR
REVENUE BOND COVERAGE ENTERPRISE FUNDS
LAST TEN FISCAL YEARS
(Unaudited)

Fiscal Year	Operating Revenue (1)	Operating Expenses (2)	Net Revenue Available For Debt Service	Principal	Interest	Total	Coverage
Water Supply System:							
1993-94	\$10,751,887	\$8,200,100	\$2,551,787	\$1,205,000	\$877,971	\$2,082,971	1.2
1994-95	12,897,687	8,229,509	4,668,178	1,355,000	1,598,366	2,953,366	1.6
1995-96	13,439,193	8,857,326	4,581,867	1,500,000	1,838,626	3,338,626	1.4
1996-97	13,386,972	9,739,310	3,647,662	1,655,000	2,038,256	3,693,256	1.0
1997-98	14,385,459	10,208,257	4,177,202	1,520,000	1,963,116	3,483,116	1.2
1998-99	13,491,641	10,398,392	3,093,249	1,525,000	1,862,659	3,387,659	0.9
1999-00	15,347,694	10,323,987	5,023,707	1,880,000	2,000,997	3,880,997	1.3
2000-01	15,324,166	9,654,378	5,669,788	1,985,000	1,775,399	3,760,399	1.5
2001-02	17,772,569	9,955,579	7,816,990	2,235,000	1,653,572	3,888,572	2.0
2002-03	16,510,943	10,629,592	5,881,351	2,240,000	1,779,305	4,019,305	1.5
Sewage Disposal System:							
1993-94	\$12,893,367	\$9,477,939	\$3,415,428	\$955,000	\$812,169	\$1,767,169	1.9
1994-95	13,488,740	9,251,316	4,237,424	1,060,000	719,454	1,779,454	2.4
1995-96	14,393,362	9,557,620	4,835,742	1,120,000	705,720	1,825,720	2.6
1996-97	13,735,303	9,223,847	4,511,456	1,245,000	721,655	1,966,655	2.3
1997-98	14,896,297	9,650,824	5,245,473	1,040,000	653,672	1,693,672	3.1
1998-99	12,610,932	9,673,398	2,937,534	1,095,000	575,047	1,670,047	1.8
1999-00	14,181,088	11,236,645	2,944,443	1,200,000	528,680	1,728,680	1.7
2000-01	15,140,567	12,526,551	2,614,016	1,250,000	478,705	1,728,705	1.5
2001-02	16,870,157	10,147,750	6,722,407	1,305,000	411,860	1,716,860	3.9
2002-03	16,555,436	9,578,002	6,977,434	1,300,000	367,060	1,667,060	4.2
Stormwater Sewer System (3):							
1994-95	\$1,785,286	\$1,288,774	\$496,512	\$70,000	\$68,487	\$138,487	3.6
1995-96	1,930,998	1,395,255	535,743	70,000	79,624	149,624	3.6
1996-97	2,042,180	1,598,145	444,035	75,000	74,647	149,647	3.0
1997-98	2,054,249	1,533,796	520,453	80,000	69,204	149,204	3.5
1998-99	2,137,340	1,713,109	424,231	80,000	64,506	144,506	2.9
1999-00	1,999,327	1,721,429	277,898	85,000	61,750	146,750	1.9
2000-01	2,129,529	1,666,023	463,506	95,000	56,508	151,508	3.1
2001-02	2,487,424	1,581,689	905,735	100,000	51,781	151,781	6.0
2002-03	2,688,709	1,681,136	1,007,573	105,000	45,270	150,270	6.7

Notes:

(1) Includes interest income.

(2) Excludes depreciation expense.

(3) There were no Stormwater Sewer System revenue bond issues prior to fiscal year 1994-95.

Source: City of Ann Arbor - Finance Department

TABLE XII

CITY OF ANN ARBOR
DEMOGRAPHIC STATISTICS
LAST TEN FISCAL YEARS
(Unaudited)

Fiscal Year	Population (1)	Median age (1)	Education Level in Years of Formal Schooling (2)	School Enrollment (2)	Unemployment Rate % (3)
1993-94	109,440	27.9	16.5	14,722	3.3
1994-95	109,440	27.9	16.5	15,094	2.9
1995-96	109,440	27.9	16.5	15,368	2.5
1996-97	109,440	27.9	16.5	15,560	2.5
1997-98	109,440	27.9	16.5	16,800	2.0
1998-99	109,440	27.9	16.5	16,330	1.8
1999-00	109,472	27.9	16.5	16,530	1.5
2000-01	113,992	27.9	16.5	16,589	2.9
2001-02	114,024	28.1	16.5	16,768	2.9
2002-03	114,061	28.1	16.5	16,664	4.1

Sources:

- (1) U. S. Census Bureau 2002
- (2) Ann Arbor Public School's Child Accounting Office.
- (3) Michigan Employment Security Commission statistics for Washtenaw County.

TABLE XIII

CITY OF ANN ARBOR
PROPERTY VALUE, CONSTRUCTION, AND BANK DEPOSITS
LAST TEN FISCAL YEARS
(Unaudited)

<u>Fiscal Year</u>	<u>Property Value</u>	<u>New Construction</u>	<u>Bank Deposits</u>
1993-94	\$4,992,923,200	\$71,938,670	\$73,438,460,000
1994-95	5,124,750,200	95,660,170	67,737,581,000
1995-96	5,267,285,200	79,791,127	115,465,544,000
1996-97	5,445,268,400	95,138,092	106,423,322,000
1997-98	5,734,133,400	135,196,054	64,514,625,000
1998-99	6,098,723,400	155,306,060	52,890,434,000
1999-00	6,549,571,800	322,464,582	75,400,277,000
2000-01	7,080,522,000	204,325,294	57,717,028,000 *
2001-02	7,903,015,300	133,835,686	42,911,831,000
2002-03	8,741,025,200	218,171,600	48,041,005,985

Sources: City of Ann Arbor - Building Department and Finance Department, Assessing Division
Local Financial Institutions

* Includes deposits other than Michigan

TABLE XIV

CITY OF ANN ARBOR
PRINCIPAL TAXPAYERS
(Unaudited)

The twenty largest taxpayers for the 2002-03 fiscal year and their 2002 Taxable Values are as follows:

<u>Taxpayer</u>	<u>Type of Business</u>	<u>Taxable Valuation</u>	<u>Percentage of Total Taxable Value</u>
Pfizer	Pharmaceuticals	\$177,130,700	4.82%
Briarwood Shopping Complex	Shopping Center	35,443,662	0.96%
Detroit Edison	Utility	26,696,715	0.73%
Great Lakes Real Estate Investment Trust	Office Building	19,943,677	0.54%
Arborland	Shopping Center	19,441,876	0.53%
Geddes Lakes Cooperative	Co-op Housing	15,123,322	0.41%
McKinley Associates	Apartments	15,120,844	0.41%
Windemere Park Apt.	Apartments	13,794,829	0.38%
Michigan Consolidated Gas Co.	Utility	13,143,800	0.36%
Village Co-op	Co-op Housing	12,532,840	0.34%
Phoenix Drive LLC	Corporate Headquarters	11,608,077	0.32%
Botanical Gardens Assoc.	Apartments	11,223,695	0.31%
Comcast	Cable Television	10,653,488	0.29%
EQR-Fancap	Apartments	10,606,917	0.29%
3300 Plymouth Rd. Corp.	Office Building	10,348,730	0.28%
Signature Villas	Apartments	9,971,400	0.27%
Arbor Landings	Apartments	9,961,542	0.27%
Arbor Lake Village Apt.	Apartments	9,696,358	0.26%
Bella Costa	Apartments	7,915,883	0.22%
Great Lakes Bancorp	Office Building	7,887,726	0.21%
Total		<u>\$ 448,246,081</u>	<u>12.20%</u>

These taxpayers represent 12.2% of the City's 2002 valuation.

Source: City of Ann Arbor - Finance Department, Assessing Division

TABLE XV

CITY OF ANN ARBOR
 MISCELLANEOUS STATISTICS
 June 30, 2003
 (Unaudited)

Date of incorporation	1851	Sewers:	
Form of government	Council-Administrator	Miles of sanitary sewers	364
Miles of streets	289.74	Miles of storm sewers	271
Number of street lights	8701		
Fire protection:		Culture and recreation:	
Number of stations	6	Number of parks	147 with 2,027 acres
Number of firefighters and officers	107		2 18-hole golf courses
Number of fire hydrants	3294		1 enclosed ice arena, 1 with roof
			3 outdoor pools, 1 indoor pool
			3 historic sites
Water Utilities Department:			1 art center, 1 senior center
Number of connections	26,743		2 canoe liveries
Average daily consumption	17.21 MGD		
Miles of water mains	440	Permanent employees:	861

Area and Population Data:

<u>Year</u>	<u>Population</u>	<u>Area in Square Miles</u>
1950	48,251	7.3
1960	67,340	15.0
1970	100,035	23.3
1980	107,969	23.5
1990	109,592	27.0
2000	109,472	28.5
2001	113,992	28.6
2002	114,024	28.6

Source: Various City of Ann Arbor Departments
 U.S. Census Bureau

CITY OF ANN ARBOR
COMMUNITY PROFILE/INFORMATION
June 30, 2003
(Unaudited)

The City of Ann Arbor is located in the approximate center of Washtenaw County in the southeastern section of Michigan's lower peninsula. The City is approximately 28 square miles in area and serves as the County Seat. It is known nationally as the home of the University of Michigan, which currently employs approximately 16,800 people.

Ann Arbor offers a unique blend of business, education, and recreational opportunities. Through the efforts of local builders, contractors and retailers, the City has not only grown at its outer boundaries, but the central City remains a vibrant retail, service and entertainment location. The area is serviced by prominent legal counsel, excellent account and brokerage houses, several advertising agencies, employment services, insurance companies, realtors, data processing centers, travel agencies and testing facilities, as well as consultants and engineering firms for all needs. Additionally, the City has attracted high technology research industries in the computer, engineering, and energy fields, which are expected to aid in the future economic growth of the area.

Among the cultural and recreational attractions available to Ann Arbor residents are the Professional Theater Program at the University of Michigan, Ann Arbor Civic Theater, Ann Arbor Symphony Orchestra, University Musical Society presentations, and a number of museums and galleries. There are several public and private golf courses, and the City park system encompasses 2,027 acres, which includes 147 park sites. The collegiate sports spectator can see first-class sporting events throughout the year at the University, including football, basketball, baseball, and hockey.

EMPLOYMENT

Residents of the City are characterized as being well educated. According to the 2000 U. S. Census, over 69 percent of its residents over 25 years of age had completed four or more years of college. Sixty-one percent of the total work force is engaged in managerial and professional occupations, with the largest portions in the health service, education and research, retail and manufacturing industries.

HIGHER EDUCATION

The University of Michigan has a national reputation for academic excellence and is one of Ann Arbor's greatest assets. Rated among the top ten universities by the latest survey of the American Council of Education, the University enrolls over 38,000 students in 19 schools and colleges. The school is well equipped to provide instruction and research opportunities in a wide variety of fields.

There are four other institutions of higher learning located within a ten-mile radius of downtown Ann Arbor, they are: Washtenaw Community College, Cleary University, Eastern Michigan University, and Concordia University.

MEDICAL FACILITIES

Students and residents of Ann Arbor are served by the nationally acclaimed University of Michigan Medical Center, which houses seven hospitals and an eight-story patient tower with more than 800 beds and outpatient clinics in 15 major clinical areas. Ann Arbor resident are also served by these area medical institutions: Veterans Administration Hospital, and St. Joseph Mercy Health System.

COMMUNITY PROFILE/INFORMATION
June 30, 2003

HOUSING

A varied housing supply exists in Ann Arbor to meet the wide range of needs of local residents. The housing stock includes single-family homes, duplexes, condominiums, multiple family apartments, and rooms in houses and dormitories. The housing market generally follows the University of Michigan's schedule (more housing is available in the spring and less at the start of each semester). In addition to several newer subdivisions in and around the City, Ann Arbor's older housing is generally in excellent condition and in considerable demand. The City's west side and downtown have been designated historical districts, where the homes retain the charm, character, and unique architecture of days past.

Rental housing is available throughout the City in a wide range of styles, sizes, and price, furnished and unfurnished. The following statistics further identify Ann Arbor's housing characteristics:

	1980 <u>U. S. Census</u>	1990 <u>U. S. Census</u>	2000 <u>U. S. Census</u>
Total year round housing units	40,139	44,010	47,218
Total occupied housing units	38,945	41,657	45,693
Median value owner occupied, single-family housing unit	\$69,600	\$116,400	\$181,400

TRANSPORTATION

A major expressway network surrounds Ann Arbor including Interstate 94, the major east-west artery across Michigan connecting Detroit and Chicago, and U. S. 23, which links Ann Arbor to northern Michigan and to Ohio to the south. M-14 is a major eastbound connector to I-275 and I-96, which supplies access to the northern metropolitan areas of Wayne, Oakland, and Macomb Counties.

The Ann Arbor Transportation Authority provides a variety of local transportation services. Greyhound Bus Lines, Overland Travel, and Indian Trails Motorcoach provide bus service to and from Ann Arbor. In addition, four local taxicab companies operate in the City; they are: Ann Arbor Taxi, Blue Cab Co., Veterans Cab Co., and Yellow Cab Co.

Passenger rail service is available to the east via Detroit and to the west via Chicago from the Amtrak Passenger Station in Ann Arbor. Rail freight service is provided by Norfolk & Western Rail Road Company of Milan, Michigan and Conrail of Ypsilanti, Michigan.

Corporate and flight training service is provided by the Ann Arbor Municipal Airport, located on the south side of Ann Arbor. Willow Run Airport, 11 miles from Ann Arbor, is a cargo transportation center; and passenger airline service is available on major commercial carriers from Detroit Wayne County Metropolitan Airport, 23 miles east of the City.

COMMUNITY PROFILE/INFORMATION
June 30, 2003

POPULATION CHARACTERISTICS

The residents of the City are generally homeowners, have an above average education and enjoy a stable, fairly high income. The following comparative statistics were taken from 1980, 1990, and 2000 U.S. Census reports.

	1980 <u>U. S. Census</u>	1990 <u>U. S. Census</u>	2000 <u>U. S. Census</u>
Age Distribution			
Percent of persons 17 years and under	19.1%	17.3%	25.2%*
Percent of persons 18-64 years old	75.0	75.5	67.0%**
Percent of persons 65 years and over	5.9	7.2	7.9
Education Levels (25 yrs. & over)			
Percent of persons who completed 4 years of high school or more	90.6%	93.9%	95.7%
Percent of persons who completed 4 years of college or more	50.2%	64.2%	69.3%
Median Family Income	\$25,202	\$50,192	\$71,293 (Yr. 1999)

* Persons 19 yrs. and under

**Persons 20-64 yrs. old

UTILITIES

Ann Arbor residents are supplied with electric power and natural gas by DTE Energy Company. SBC provides local telephone service. The City of Ann Arbor Water Utilities Department provides water and sewage disposal.

COMMUNITY PROFILE/INFORMATION
June 30, 2003**DEVELOPMENT**

During the 2002-2003 fiscal year, several residential projects were approved, including Kessler Commons at 936 Wall Street for six attached condominium units; Stone School Townhomes, 55 attached residential dwelling units on Stone School Road; a 60-unit attached residential project called Balmoral Condominiums, located at the northwest corner of Oakbrook and South Main Street; Cloverly Village, consisting of 76 townhouse condominiums at 3985 Stone School Road; and Evans Scholarship House at 1800 Washtenaw Avenue, consisting of demolishing the existing building and constructing a new building to house 54 students. Non-residential projects approved were Food Gatherers warehouse building at 1731 Dhu Varren Road; an addition to the Amerinet building at 1241 South Maple Road; an addition to the Discovery Center at 775 South Maple Road; Ann Arbor Medical/Dental Office Building on the north side of Eisenhower Parkway between Ann Arbor-Saline Road and South Main Street; an addition to buildings at Arborland Shopping Center; South State Commons, consisting of a four-story office building on the east side of South State Street, north of Eisenhower Parkway; State Street Self-Storage, consisting of a two-story storage building, two one-story storage buildings and a manager's residence at 2333 South State Street; a dental office at 2715 Packard Road, consisting of three attached office buildings; a dental office at 2881 Platt Road; an addition to the Ann Arbor Church of Christ at 2500 South Main Street; Wingate Inn & Suites at 3155 and 3175 Boardwalk Drive; additions to the Church of the Good Shepherd at 2145 Independence Boulevard; and construction of a mechanical building and an addition to the child care facility at the Pfizer complex at 2800 Plymouth Road. One public project was reviewed: Bandemer Park bicycle pathway.

Source: Various City of Ann Arbor Departments and U.S. Census Bureau