

*City of Ann Arbor, Michigan*



*Comprehensive Annual Financial Report*



*Fiscal Year Ended June 30, 2005*

**CITY OF ANN ARBOR**  
**COMPREHENSIVE ANNUAL FINANCIAL REPORT**

County of Washtenaw  
State of Michigan

Fiscal Year Ended June 30, 2005



Issued by:

Finance Department  
100 N. Fifth Avenue  
Ann Arbor, Michigan 48107  
(734) 994-2730

CITY OF ANN ARBOR  
COMPREHENSIVE ANNUAL FINANCIAL REPORT

June 30, 2005

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

October 21, 2005

**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, 2005, is submitted. Staff in the Accounting Services Unit 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, 2005.

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 organizational 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/Council-Administrator 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 appoints a City Administrator to serve as the Chief Administrative Officer of the City responsible for daily operations. 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 some accounting and payroll 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: Community Services, Financial Services, Safety Services, and Public Services.



## 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. As an indication of economic strength, the assessed value of the taxable property (2004) increased by 5.2% over the 2003 valuation. The City receives a portion of the tax revenue generated to assist in funding its operations.

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. The citizens and transients of the City enjoy these services. 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 in Ann Arbor, representing 35% of the population base in Washtenaw County. The median household income of our citizens is \$71,293. 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, including Pfizer Pharmaceutical Company and Borders. In addition, Ann Arbor is home to one of the largest employers in the County, the University of Michigan, that employs 30,574 people. Ann Arbor is also known for its excellent technology infrastructure that has attracted several large technology firms to the area.

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 service area level for the General Fund. The City Administrator is authorized to transfer budgeted amounts within the General Fund service areas. Budgetary control for all other funds is maintained at the fund level. Revisions to a service area 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, in 2002, 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 822 FTE positions. Timely execution of current plans will have a new, centralized maintenance facility on-line in 2006 and a new Justice Annex to City Hall in place by 2008.



### 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 2005, 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 2.88%. The market rate of return (which reflects market adjustments) was 2.62%.

### Risk Management

As permitted by State law, the City is self-insured (up to certain limits) for employee medical expenses, 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 one provider to administer the medical program for its employees and retirees. In addition, the City contracts with one provider to administer the workers' compensation program.

### Pension and Other Post-employment Benefits

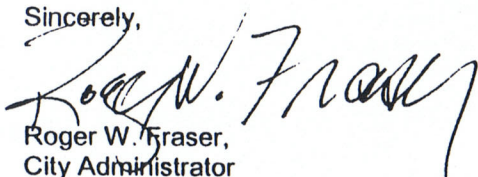
The City provides a defined benefit pension plan and post-employment healthcare benefit plan for all permanent employees. The pension system is administered by a seven member Trustee Board and an Executive Director. The net assets of the defined benefit pension plan on June 30, 2005 were \$-388,019,600, and the post-employment healthcare plan was \$44,963,340. The annual actuarial valuations, applicable to the defined benefit pension plan, continue to reflect the plan is adequately funded at 103.7%.

## 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, 2004. 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,



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, 2004

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.

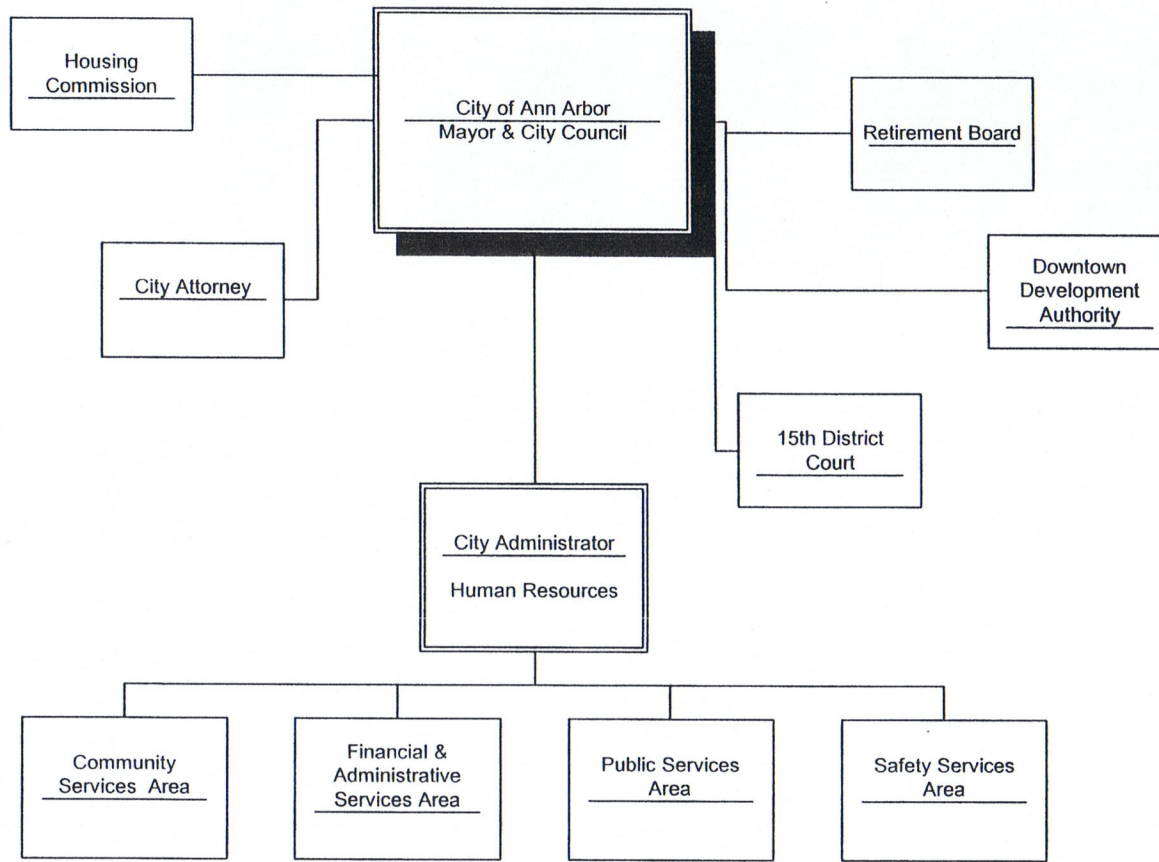


*Nancy L. Zjelle*

President

*Jeffrey R. Emer*

Executive Director



- Planning & Development Services
- Parks & Recreation Services
- Office of Community Development
- Communications Office
- Clerk Services

- Financial & Budget Planning Services
- Accounting Services
- Assessor Services
- Treasury Services
- Procurement
- Information Technology
- Risk Management

- Systems Planning
- Field Operation Services
- Wastewater Treatment Services
- Customer Services
- Project Management
- Water Treatment Services
- Fleet & Facilities

- Safety Services Administration
- 911 Communications Center
- Police Services
- Fire Services
- Emergency Management Services



# CITY OF ANN ARBOR, MICHIGAN

**John Hieftje, Mayor**

## **Council Members**

Jean Carlberg  
John Roberts  
Marcia Higgins  
Michael Reid  
Wendy A. Woods

Christopher S. Easthope  
Leigh Greden  
Robert M. Johnson  
Margie Teall  
Joan Lowenstein

## **CITY ADMINISTRATOR**

Roger W. Fraser

## **CHIEF FINANCIAL OFFICER**

Tom Crawford

## **ACCOUNTING SERVICES MANAGER**

Karen M. Lancaster

## **INTERIM CITY TREASURER**

Brenda L. Smith

## **CITY ATTORNEY**

Stephen K. Postema

## **CITY CLERK**

Jackie Beaudry



**REHMANN ROBSON**

*Certified Public Accountants*

*A member of THE REHMANN GROUP*



an independent member of  
**BAKER TILLY**  
**INTERNATIONAL**

**INDEPENDENT AUDITORS' REPORT**

October 21, 2005

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, 2005, 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 34% and 47%, 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, 2005, 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, 2005, on our consideration of the City of Ann Arbor, Michigan's internal controls over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters in a separately issued single audit report. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. 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, budget presentations for the major funds, 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 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 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, reading "Lehmann Johnson".

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, 2005 and June 30, 2004. 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 1-4 of this report.

## FINANCIAL HIGHLIGHTS

- The City's financial statements are prepared using two different accounting standards resulting in fund financial statements and government-wide statements.
- Government-wide financial statements are comprised of governmental activities and business-type activities. Governmental activities include General Fund activities such as Public Safety and Parks and Recreation. Business-type activities include proprietary funds such as Water, Sewer, and Solid Waste.
  - In total, the assets of the City exceed its liabilities by \$827,443,761 at the close of the most recent fiscal year.
    - \$693,541,055 is invested in Capital Assets, net of related debt ;
    - \$31,170,473 is restricted for specific purposes, such as capital projects;
    - \$102,732,233 is unrestricted and may be used to meet the government's ongoing obligations to citizens and creditors, subject to the purpose of the fund in which they are located. This balance is comprised of \$44,040,557 in governmental activities and \$58,691,676 in business-type activities.
  - The City's total net assets increased by \$19,574,282 during the year, primarily due to increased infrastructure.
  - The City's total bonded debt decreased by \$10,765,672, (new issues less retirements), during the current fiscal year.
- Fund financial statements are comprised of 37 governmental funds and 9 proprietary funds. Governmental funds include the General Fund, Street Repair Millage Fund, and other special revenue and debt service funds.
  - At the close of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$66,344,745. The increase in fund balance is primarily due to expenditures coming in under budget and deferral of capital projects.
  - Of the fund balance amount, \$58,013,879 is unreserved and may be used to meet the government's ongoing obligations to citizens and creditors, subject to the purpose of the fund in which they are located.
  - The City's major funds, the General Fund (\$9,740,289) and the Street Repair Millage Fund (\$10,100,883) account for 34% of this unreserved balance. The remaining amount is represented across the other 35 non-major funds.
  - The general fund recognized a gain of \$1,196,853. At the end of the current fiscal year, unreserved general fund balance was 12.7% of the total general fund expenditures.

## 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.



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, taxes 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, solid waste 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 responsible 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 21-23 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-seven 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-five 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 24-29 of this report.

### Proprietary funds

The City maintains thirteen 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, solid waste 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 30-34 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 combining statement information is contained in the combining section of the CAFR.

The basic fiduciary fund financial statements can be located on pages 35-36 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 37-62 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 63-72 of this report.

The combining statements referred to earlier in connection with non-major 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 73-99 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 \$827,443,761 at June 30, 2005 compared to \$807,869,479 at June 30, 2004.

**City of Ann Arbor  
Net Assets  
Comparative Schedule- June 30, 2005 and 2004**

	June 30, 2005	June 30, 2004 as restated	June 30, 2005	June 30, 2004 as restated	June 30, 2005	June 30, 2004 as restated
	Governmental Activities		Business-type Activities		Total	
<b>Current and other assets</b>	\$91,272,195	\$93,526,826	\$84,212,977	\$82,133,444	\$175,485,172	\$175,660,270
<b>Capital assets</b>	625,935,827	616,382,507	193,407,175	183,803,471	819,343,002	800,185,978
<b>Total assets</b>	717,208,022	709,909,333	277,620,152	265,936,915	994,828,174	975,846,248
<b>Long-term liabilities outstanding</b>	34,203,047	36,067,294	99,047,811	104,622,198	133,250,858	140,689,492
<b>Other liabilities</b>	20,954,392	15,625,948	13,179,163	11,661,329	34,133,555	27,287,277
<b>Total liabilities</b>	55,157,439	51,693,242	112,226,974	116,283,527	167,384,413	167,976,769
<b>Net assets:</b>						
<b>Invested in capital assets, net     of related debt</b>	603,474,157	591,407,720	90,066,898	74,829,283	693,541,055	666,237,003
<b>Restricted</b>	14,535,869	18,488,574	16,634,604	16,493,596	31,170,473	34,982,170
<b>Unrestricted</b>	44,040,557	43,067,813	58,691,676	63,582,493	102,732,233	106,650,306
 <b>Total net assets</b>	 <b>\$662,050,583</b>	 <b>\$652,964,107</b>	 <b>\$165,393,178</b>	 <b>\$154,905,372</b>	 <b>\$827,443,761</b>	 <b>\$807,869,479</b>

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, 2005 (\$31,170,473) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets of \$102,732,233 may be used to meet the government's ongoing obligations to citizens and creditors. The decrease in Restricted Net Assets from \$34,982,170 in 2004 to \$31,170,473 in 2005 is due to a decrease in Restricted for Capital Projects due to completion of several capital projects during 2004-2005. Certain items have been reclassified in the prior year. In addition, the balances as of June 30, 2004 have been restated as the solid waste activity has moved from a governmental activity to a business-type activity as of July 1, 2004.

Long-term liabilities have decreased from 2004 to 2005 mainly due to the decrease in bond indebtedness. In addition, other liabilities have increased from 2004 to 2005 due to an increase in Estimated Claims Payable for the City's self-insurance program. The City experienced a change in the program and became fully insured for workers' compensation claims during 2003-2004. Also, the City has accrued a liability of \$4.1 million for costs associated with the removal of dead and dying trees affected with Emerald Ash Borer.

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, 2005 and 2004

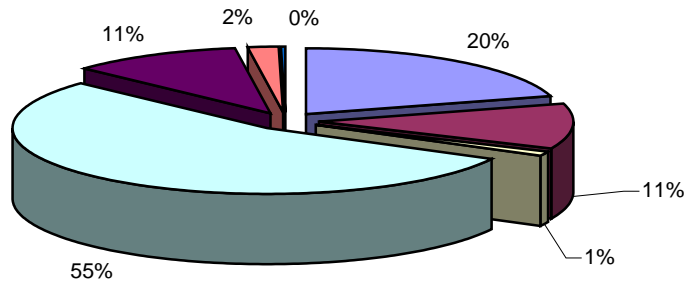
	2005	2004	2005	2004	2005	2004
	Governmental		Business-type		Total	
	Activities		Activities			
<b>Revenue:</b>						
<b>Program revenue:</b>						
Charges for services	\$22,466,820	\$30,498,519	\$45,891,536	\$40,702,661	\$68,358,356	\$71,201,180
Operating contributions and grants	12,245,420	10,608,459			12,245,420	10,608,459
Capital contributions and grants	1,213,663	1,806,735			1,213,663	1,806,735
<b>General revenue:</b>						
Property taxes	59,452,810	64,162,166	10,011,080		69,463,890	64,162,166
State shared revenues and grants	11,674,762	11,865,469			11,674,762	11,865,469
Investment income	2,181,348	907,722	1,651,492	304,132	3,832,840	1,211,854
Other	367,458	646,593			367,458	646,593
<b>Total revenue</b>	<b>109,602,281</b>	<b>120,495,663</b>	<b>57,554,108</b>	<b>41,006,793</b>	<b>167,156,389</b>	<b>161,502,456</b>
<b>Expenses:</b>						
<b>Governmental activities:</b>						
General government	12,025,660	20,832,703			12,025,660	20,832,703
Public safety	43,656,128	38,535,603			43,656,128	38,535,603
Highways and streets	15,086,160	9,788,021			15,086,160	9,788,021
Solid waste		6,940,330				6,940,330
Culture and recreation	7,697,210	9,190,992			7,697,210	9,190,992
Social services	2,431,754	2,026,806			2,431,754	2,026,806
Transportation (payment to AATA)	8,349,044	7,951,457			8,349,044	7,951,457
Community access television	1,080,660	1,029,326			1,080,660	1,029,326
Information services	626,090	377,976			626,090	377,976
Urban redevelopment and housing	2,993,631	1,882,128			2,993,631	1,882,128
Public Services	7,468,543				7,468,543	
Economic development		250,000				250,000
Unallocated depreciation	37,375	41,414			37,375	41,414
Interest on long-term debt	934,007	1,218,936			934,007	1,218,936
<b>Business-type activities:</b>						
Water			16,671,468	15,772,718	16,671,468	15,772,718
Sewer			14,019,208	14,102,932	14,019,208	14,102,932
Parking			2,368,344	2,478,172	2,368,344	2,478,172
Market			115,892	149,660	115,892	149,660
Golf courses			1,152,354	1,275,010	1,152,354	1,275,010
Airport			860,515	804,005	860,515	804,005
Stormwater			1,662,144	1,875,871	1,662,144	1,875,871
Hydropower			259,773	467,783	259,773	467,783
Solid waste			8,086,147		8,086,147	
<b>Total expenses</b>	<b>102,386,262</b>	<b>100,065,692</b>	<b>45,195,845</b>	<b>36,926,151</b>	<b>147,582,107</b>	<b>136,991,843</b>
<b>Increase in net assets before transfers</b>	<b>7,216,019</b>	<b>20,429,971</b>	<b>12,358,263</b>	<b>4,080,642</b>	<b>19,574,282</b>	<b>24,510,613</b>
<b>Transfers</b>	<b>1,870,457</b>	<b>(335,508)</b>	<b>(1,870,457)</b>	<b>335,508</b>		
<b>Increase in net assets</b>	<b>9,086,476</b>	<b>20,094,463</b>	<b>10,487,806</b>	<b>4,416,150</b>	<b>19,574,282</b>	<b>24,510,613</b>
<b>Net assets: beginning of year, as restated</b>	<b>652,964,107</b>	<b>632,869,644</b>	<b>154,905,372</b>	<b>150,489,222</b>	<b>807,869,479</b>	<b>783,358,866</b>
<b>Net assets: end of year</b>	<b>\$662,050,583</b>	<b>\$652,964,107</b>	<b>\$165,393,178</b>	<b>\$154,905,372</b>	<b>\$827,443,761</b>	<b>\$807,869,479</b>

The City's net assets increased by \$19,574,282 during the current fiscal year and \$24,510,613 in the prior fiscal year.

Governmental activities. Governmental activities for the City's net assets increased by \$9,086,476, accounting for 46% of the total growth in the net assets of the City. During 2003-04, governmental activities increased by \$20,094,463 which is 82% of 2003-04 of the total growth. Key elements are as follows:

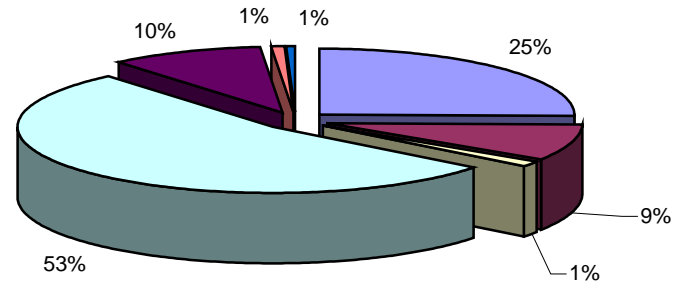
- Property taxes decreased by approximately 7.4% in 2004-05 in governmental activities and increased 4.7% in 2003-04. The decrease is attributable to moving solid waste activities to an enterprise fund for fiscal year 04-05. Most of this increase in the prior year is due to increased taxable values and residential growth.
- Intergovernmental revenue (which is a combination of operating contributions and grants and state-shared revenues and grants) increased 6.4% from 2003-2004. This increase is due to the receipt of a \$659,000 state grant in 2004-2005 for the improvements in Dolph Park in the City. State shared revenue, primarily sales and use tax and income tax, decreased 1.61% in 2004-05 due to reductions of revenue sharing at the State level. In 2003-04, these revenues decreased by approximately 10.3% for the same reasons.
- Charges for services decreased by 26% in 2004-2005 primarily due to an increase in project closures in the General Fund for the Engineering department in the prior fiscal year.
- Investment income increased approximately 140% in 2004-05, due to a more favorable interest rate environment for Federal securities. In 2003-04 investment income decreased 63%, due in part to a lower volume of invested funds and due to a lower interest rate environment.

Revenues by Source - Governmental Activities-2005



Charges for services	Operating contributions and grants
Capital contributions and grants	Property taxes
State shared revenues and grants	Investment income
Other	

Revenues by Source - Governmental Activities-2004



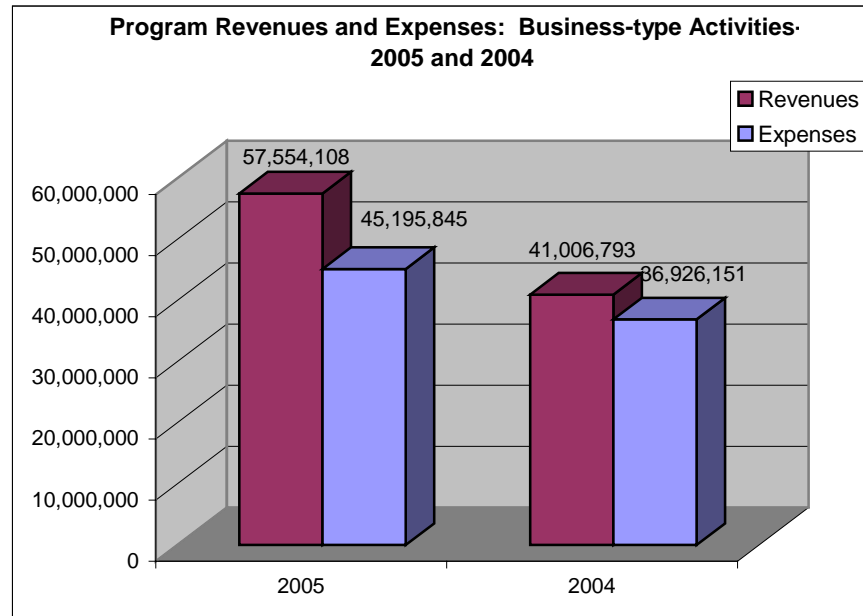
Charges for services	Operating contributions and grants
Capital contributions and grants	Property taxes
State shared revenues and grants	Investment income
Other	





Business-type activities. Business-type activities increased the City's net assets by \$10,487,806 for 2004-2005 and by \$4,416,150 for 2003-2004, accounting for 54% and 18% 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 increased by \$5,188,875, or 12.75%, in the current year, primarily due to increased water and sewer revenues. In 2003-04, charges for services decreased by \$736,282, or 1.8% compared to the prior year.
- Expenses increased \$8,269,694, or 22.4%, in 2004-2005 primarily due to the Solid Waste activity moving to a business-type activity. In 2003-2004, expenses increased \$1,385,324, or 3.9%, primarily due to increased salaries and health care costs.
- Investment income increased \$1,347,360 due to a more favorable interest rate environment and a larger invested balance. In 2003-04, investment income decreased by 72% 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 \$66,344,745 at June 30, 2005 versus \$62,240,055 at June 30, 2004, an increase of \$4,104,690 in 2004-2005 compared to a decrease of \$6,674,075 in 2003-2004. Of that amount, \$58,013,879 at June 30, 2005 and \$52,682,180 at June 30, 2004 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 \$9,740,289 at June 30, 2005 versus \$8,117,344 at June 30, 2004, while total fund balance was \$10,660,367 and \$9,463,514 at June 30, 2005 and 2004, respectively. 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 12.7 percent at June 30, 2005 and 10.64 percent at June 30, 2004 of total general fund expenditures. The fund balance of the City's general fund increased by \$1,196,853 during the current fiscal year in comparison to an increase of \$906,071 during the prior fiscal year. For 2004-05, this is attributable to both cost savings and higher than expected revenues for state-shared revenue and investment income, as well as Licenses, Permits and Registration. For 2003-04, this is primarily attributable to potential union contract settlement costs not spent during 2003-2004.

With respect to other governmental funds, the City added three new special revenue funds at the start of the fiscal year- the Construction Code fund, the Homeland Security Grant fund, and the Open Space and Parkland Preservation fund (formerly the Park Acquisition fund). The Construction Code fund was set up to account for the costs of planning and development activities related to construction. Revenues are derived mainly from licenses and permits. The Homeland Security Grant fund was set up to account for grant monies received from the Office of Homeland Security. In addition, the City levied a new millage for Open Space and Parkland Preservation. This tax revenue can be used for acquiring both parkland in the City and properties surrounding the City in order to preserve "green space".

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, solid waste and airport, at the end of the year amounted to \$58,691,676. The water, market, sanitary, solid waste and stormwater systems, and parking system had an increase in net assets for the year of \$11,269,227, whereas, the golf course, airport and hydroelectric funds had a decrease of \$781,421. 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 0.8% increase in 2004-05 compared to a 1.2% increase in 2003-04. The General Fund revenues exceeded its expenditures by \$1,196,853.

#### Capital Asset and Debt Administration

Capital assets. The City's investment in capital assets for its governmental/business-type activities as of June 30, 2005 was \$819,343,002 compared to \$800,185,978 at June 30, 2004 (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 2.39% compared to 2.34% in 2003-2004. Major capital asset events during the fiscal year 2005 included a variety of street construction projects costing \$10,676,216.

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

	2005	2004	2005	2004	2005	2004
	as restated		as restated			as restated
	Governmental		Business-type		Total	
	Activities		Activities			
Land	\$24,340,135	\$22,966,096	\$7,374,728	\$7,374,728	\$31,714,863	\$30,340,824
Construction in progress	4,147,559	2,176,623	28,960,164	47,010,481	33,107,723	49,187,104
Buildings	21,752,843	21,752,843	109,598,841	84,328,002	131,351,684	106,080,845
Leasehold improvements	8,646	8,646			8,646	8,646
Improvements other than buildings	3,199,721	2,993,001	137,399,177	131,145,372	140,598,898	134,138,373
Machinery and equipment	14,423,868	13,741,480	35,427,841	34,206,137	49,851,709	47,947,617
Vehicles	11,232,742	11,601,199	7,644,186	5,002,140	18,876,928	16,603,339
Infrastructure	660,414,878	650,091,504			660,414,878	650,091,504
Less: accumulated depreciation	(113,584,565)	(108,948,885)	(132,997,762)	(125,263,389)	(246,582,327)	(234,212,274)
<b>Total capital assets net of depreciation</b>	<b>\$625,935,827</b>	<b>\$616,382,507</b>	<b>\$193,407,175</b>	<b>\$183,803,471</b>	<b>\$819,343,002</b>	<b>\$800,185,978</b>

Additional information on the City's capital assets can be located in note 7 on pages 49-50 of this report

Long-term debt. At the end of the current fiscal year, the City had total bonded debt outstanding of \$126,455,000. Of that amount, \$55,050,000 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**

	2005	2004	2005	2004	2005	2004
	Governmental		Business-type		Total	
	Activities		Activities			
Capital Projects Bonds	\$12,760,000	\$14,515,000			\$12,760,000	\$14,515,000
General Obligation Portion of Special Assessment Bonds	895,000	1,025,000			895,000	1,025,000
General Obligation Portion of Special Revenue Bonds	3,790,000	3,925,000			3,790,000	3,925,000
General Obligation Portion of Special Revenue Bonds (DDA)	6,399,450	7,428,064			6,399,450	7,428,064
Special Assessment Bonds	1,530,000	1,930,000			1,530,000	1,930,000
Ann Arbor Building Authority Bonds			28,270,000	29,965,000	28,270,000	29,965,000
Other Bonds			1,405,550	2,586,936	1,405,550	2,586,936
Revenue Bonds			71,405,000	75,240,000	71,405,000	75,240,000
Lease Contracts Payable				400,000		400,000
Other Long-term Debt	3,548,050	3,644,150	672,680	782,252	4,220,730	4,426,402
<b>Total outstanding debt</b>	<b>\$28,922,500</b>	<b>\$32,467,214</b>	<b>\$101,753,230</b>	<b>\$108,974,188</b>	<b>\$130,675,730</b>	<b>\$141,441,402</b>



The City's total debt decreased by \$10,765,672 or 7.6 percent during the fiscal year. The City issued new debt in the following category:

New Bonds

- 2005-A Water Supply System Refunding \$ 6,795,000

The City has an AAA rating on these bonds from Standard & Poor's. Moody's rated these issues at an Aaa. This issuance was insured.

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 \$402,917,629, 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.

Economic Factors and Next Year's Budgets and Rates

The following factors were considered in preparing the City's budget for fiscal year 2005-06:

- The City eliminated 17 FTEs from the 2005-2006 budget.
- Property tax revenues are budgeted to increase 4 percent in fiscal year 2005-06.
- Average salary costs were projected to increase three percent in fiscal year 2005-06.
- Healthcare costs were projected to increase fourteen percent in fiscal year 2005-06.

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.

CITY OF ANN ARBOR  
STATEMENT OF NET ASSETS  
June 30, 2005

	Primary Government			Component Units -	
	Governmental Activities	Business-type Activities	Total	Ann Arbor Housing Commission	Downtown Development Authority
<b>ASSETS</b>					
Cash	\$4,179,158	\$10,713,679	\$14,892,837	\$724,125	\$155,267
Cash with fiscal agents		2,075,782	2,075,782		
Cash and cash equivalents, held at County of Washtenaw		4,081	4,081		
Equity in pooled cash and investments (Note 4)	67,820,413	51,591,934	119,412,347		87,740
Investments, at fair value (Note 4)	3,485,357	12,907,215	16,392,572	725,505	19,503,430
Receivables:					
Taxes	405,411		405,411		
Accounts	3,738,656	7,267,142	11,005,798	117,506	298,940
Special assessments	1,789,078		1,789,078		
Accrued interest and dividends	23,983	34,584	58,567		
Improvement charges	5,166	341,450	346,616		
Loans	938,787		938,787		
Unbilled district costs	343,732		343,732		
Less: Allowance for uncollectibles	(1,059,381)	(139,351)	(1,198,732)		
Internal balances	2,585,259	(2,585,259)			
Due from component units (Note 5)	196,389		196,389		
Due from primary government (Note 5)					2,900
Due from other governments	3,717,379		3,717,379		
Prepaid items	2,289,018	238,168	2,527,186		
Deferred charges		1,306,896	1,306,896	33,562	
Inventory, at cost	813,790	456,656	1,270,446	9,090	
Capital assets, at cost:					
Land	24,340,135	7,374,728	31,714,863	844,637	
Buildings	21,752,843	109,598,841	131,351,684	18,070,582	
Improvements other than buildings	3,199,721	137,399,177	140,598,898		
Leasehold improvements	8,646			162,871	
Machinery, equipment, and vehicles	14,423,868	35,427,841	49,851,709	393,991	
Vehicles	11,232,742	7,644,186	18,876,928		
Infrastructure	660,414,878		660,414,878		
Less: Accumulated depreciation	(113,584,565)	(132,997,762)	(246,582,327)	(10,696,658)	
Construction in progress	4,147,559	28,960,164	33,107,723		
<b>Total Assets</b>	<b>717,208,022</b>	<b>277,620,152</b>	<b>994,828,174</b>	<b>10,385,211</b>	<b>20,048,277</b>

(Continued)

CITY OF ANN ARBOR  
STATEMENT OF NET ASSETS  
June 30, 2005

	Primary Government			Component Units -	
	Governmental Activities	Business-type Activities	Total	Ann Arbor Housing Commission	Downtown Development Authority
<b>LIABILITIES</b>					
Liabilities:					
Accounts payable	\$3,196,463	\$2,859,399	\$6,055,862	\$82,647	\$934,221
Estimated claims payable (Note 11)	5,644,433		5,644,433		
Accrued liabilities	5,863,069	1,195,059	7,058,128	51,456	15,229
Accrued interest payable	312,857	1,621,184	1,934,041		103,777
Due to primary government (Note 5)				171,936	24,453
Due to component unit (Note 5)	2,900		2,900		
Due to other governments	907,602		907,602	128,906	
Deposits	1,470,131	265,153	1,735,284	116,030	
Unearned revenue				123,717	
Non-current liabilities:					
Due within one year:					
Accrued compensated absences	1,048,887	159,972	1,208,859		
Bonds payable	2,508,050	6,769,053	9,277,103		1,085,947
Other debt payable	48,050	309,343	357,393		
Due in more than one year:					
Accrued compensated absences	14,249,427	2,785,930	17,035,357		
Bonds payable	16,405,570	94,311,497	110,717,067		5,313,503
Other debt payable	3,500,000	1,950,384	5,450,384		
<b>Total Liabilities</b>	<b>55,157,439</b>	<b>112,226,974</b>	<b>167,384,413</b>	<b>674,692</b>	<b>7,477,130</b>
<b>NET ASSETS</b>					
Invested in Capital Assets, net of related debt	603,474,157	90,066,898	693,541,055	8,775,423	
Restricted for:					
Capital Projects	10,799,473	10,034,557	20,834,030		
Debt Service	1,621,672	6,442,504	8,064,176		
Endowment (non-expendable)	2,114,724		2,114,724		
Landfill		157,543	157,543		
Unrestricted	44,040,557	58,691,676	102,732,233	935,096	12,571,147
<b>Total Net Assets</b>	<b>\$662,050,583</b>	<b>\$165,393,178</b>	<b>\$827,443,761</b>	<b>\$9,710,519</b>	<b>\$12,571,147</b>

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

CITY OF ANN ARBOR  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2005

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	Governmental	Primary Government	Total	Ann Arbor Housing	Downtown Development
					Activities	Business-type Activities		Commission	Authority
Primary Government:									
Governmental activities:									
General government	\$ 12,025,661	\$ 4,138,144	\$ -	\$ -	(\$7,887,517)	\$ -	(\$7,887,517)	\$ -	\$ -
Public safety	43,656,127	11,539,080	623,366	-	(31,493,681)	-	(31,493,681)	-	-
Highways and streets	15,086,160	3,220,105	7,608,448	-	(4,257,607)	-	(4,257,607)	-	-
Culture and Recreation	7,697,210	2,280,083	727,077	-	(4,690,050)	-	(4,690,050)	-	-
Social services	2,431,754	(81,681)	3,286,529	-	773,094	-	773,094	-	-
Transportation (payment to AATA)	8,349,044	83,507	-	-	(8,265,537)	-	(8,265,537)	-	-
Community access television	1,080,660	1,287,582	-	-	206,922	-	206,922	-	-
Information services	626,090	-	-	-	(626,090)	-	(626,090)	-	-
Urban redevelopment and housing	2,993,631	-	-	-	(2,993,631)	-	(2,993,631)	-	-
Public services	7,468,543	-	-	-	(7,468,543)	-	(7,468,543)	-	-
Unallocated depreciation	37,375	-	-	-	(37,375)	-	(37,375)	-	-
Interest on long-term debt	934,007	-	-	1,213,663	279,656	-	279,656	-	-
Total governmental activities	102,386,262	22,466,820	12,245,420	1,213,663	(66,460,359)	-	(66,460,359)	-	-
Business-type activities:									
Water	16,671,468	18,085,363	-	-	-	1,413,895	1,413,895	-	-
Sewer	14,019,208	18,330,302	-	-	-	4,311,094	4,311,094	-	-
Parking	2,368,344	3,462,633	-	-	-	1,094,289	1,094,289	-	-
Market	115,892	131,348	-	-	-	15,456	15,456	-	-
Golf courses	1,152,354	1,042,785	-	-	-	(109,569)	(109,569)	-	-
Airport	860,515	830,657	-	-	-	(29,858)	(29,858)	-	-
Stormwater	1,662,144	3,529,955	-	-	-	1,867,811	1,867,811	-	-
Hydropower	259,773	-	-	-	-	(259,773)	(259,773)	-	-
Solid Waste	8,086,147	478,493	-	-	-	(7,607,654)	(7,607,654)	-	-
Total business-type activities	45,195,845	45,891,536	-	-	-	695,691	695,691	-	-
Total primary government	\$ 147,582,107	\$ 68,358,356	\$ 12,245,420	\$ 1,213,663	\$ (66,460,359)	\$ 695,691	\$ (65,764,668)	-	-
Component units:									
Housing Commission	\$13,954,355	\$728,888	\$12,832,501	-	-	-	-	(392,966)	-
Downtown Development Authority	13,388,689	11,638,329	-	-	-	-	-	-	(1,750,360)
Total component units	\$27,343,044	\$12,367,217	\$12,832,501	-	-	-	-	(392,966)	(1,750,360)
General revenues:									
Taxes:									
Property taxes, levied for general purpose	-	-	-	-	51,423,077	10,011,080	61,434,157	-	3,330,958
Property taxes, levied for debt service	-	-	-	-	8,029,733	-	8,029,733	-	-
State-shared revenues and grants (unrestricted)	-	-	-	-	11,674,762	-	11,674,762	-	-
Investment income	-	-	-	-	2,181,348	1,651,492	3,832,840	31,099	601,221
Other	-	-	-	-	367,458	-	367,458	-	17,244
Total general revenues	-	-	-	-	73,676,378	11,662,572	85,338,950	31,099	3,949,423
Transfers	-	-	-	-	1,870,457	(1,870,457)	-	-	-
Total general revenues and transfers	-	-	-	-	75,546,835	9,792,115	85,338,950	31,099	3,949,423
Change in net assets	-	-	-	-	9,086,476	10,487,806	19,574,282	(361,867)	2,199,063
Net assets at beginning of year, as restated (Note 19)	-	-	-	-	652,964,107	154,905,372	807,869,479	10,072,386	10,372,084
Net assets at end of year	-	-	-	-	\$ 662,050,583	\$ 165,393,178	\$ 827,443,761	\$9,710,519	\$12,571,147

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



CITY OF ANN ARBOR  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
June 30, 2005

	General	Street Repair Millage	Other Governmental Funds	Total Governmental Funds
<b>ASSETS</b>				
Cash	\$2,996,114	\$34,727	\$1,052,820	\$4,083,661
Equity in pooled cash and investments (Note 4)	5,599,036	13,581,077	36,643,619	55,823,732
Investments, at fair value (Note 4)			3,485,357	3,485,357
Receivables:				
Taxes	321,529.00	40,653.00	43,229.00	405,411.00
Accounts	2,505,064.00	207,798.00	1,021,405.00	3,734,267.00
Special assessments			1,789,078.00	1,789,078.00
Accrued interest and dividends			23,983.00	23,983.00
Improvement charges			5,166.00	5,166.00
Loans			938,787.00	938,787.00
Unbilled district costs			343,732.00	343,732.00
Less: Allowance for uncollectibles	(798,763.00)	(172,823.00)	(83,406.00)	(1,054,992.00)
Due from other funds (Note 5)	3,101,342.00	2,185,811.00	84,620.00	5,371,773.00
Due from component units (Note 5)	189,479.00		6,910.00	196,389.00
Due from other governments	1,589,878.00		2,127,501.00	3,717,379.00
Prepaid items	852,655.00		1,486.00	854,141.00
Inventory, at cost	14,886.00			14,886.00
<b>Total Assets</b>	<b>\$16,371,220</b>	<b>\$15,877,243</b>	<b>\$47,484,287</b>	<b>\$79,732,750</b>

(Continued)

CITY OF ANN ARBOR  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
June 30, 2005

	General	Street Repair Millage	Other Governmental Funds	Total Governmental Funds
<b>LIABILITIES, EQUITY AND OTHER CREDITS</b>				
Liabilities:				
Accounts payable	\$865,684	\$1,104,015	\$962,713	\$2,932,412
Accrued liabilities	1,392,389	41,304	291,085	1,724,778
Due to other funds (Note 5)	474,806	314,265	1,333,087	2,122,158
Due to component unit (Note 5)	2,900			2,900
Due to other governments	592,452		315,150	907,602
Deposits	1,445,942		24,189	1,470,131
Deferred revenue			3,202,903	3,202,903
Accrued compensated absences (Note 9)	936,680	1,996	86,445	1,025,121
<b>Total Liabilities</b>	<b>5,710,853</b>	<b>1,461,580</b>	<b>6,215,572</b>	<b>13,388,005</b>
Fund balances:				
Reserved for prepaid items	852,655		1,486	854,141
Reserved for encumbrances	52,537	4,314,780	979,798	5,347,115
Reserved for endowment			2,114,724	2,114,724
Reserved for inventories	14,886			14,886
Unreserved balances:				
Designated for subsequent year's expenditures	105,904			105,904
Undesignated	9,634,385	10,100,883		19,735,268
Undesignated, nonmajor capital projects funds			10,799,473	10,799,473
Undesignated, nonmajor debt service funds			1,621,672	1,621,672
Undesignated, nonmajor special revenue funds			25,751,562	25,751,562
<b>Total Fund Balances</b>	<b>10,660,367</b>	<b>14,415,663</b>	<b>41,268,715</b>	<b>66,344,745</b>
<b>Total Liabilities and Fund Balance:</b>	<b>\$16,371,220</b>	<b>\$15,877,243</b>	<b>\$47,484,287</b>	<b>\$79,732,750</b>

*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, 2005

Fund balances of governmental funds	\$ 66,344,745
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.	728,913,943
Depreciation of capital assets.	(105,909,243)
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	(22,461,670)
Compensated absences	(13,963,207)
Contingency for Emerald Ash Borer- liability was not due and payable in the current period and therefore have not been included in the governmental funds.	(4,100,000)
Accrued interest payable for the current portion of interest due on bonds has not been reported in the governmental funds.	(312,857)
Deferred revenue in governmental funds is susceptible to full accrual on the entity-wide statements.	3,202,903
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.	<u>10,335,969</u>
Net assets of governmental activities	<u>\$ 662,050,583</u>

*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, 2005

	General	Street Repair Millage Fund	Other Governmental Funds	Total Governmental Funds
Revenues:				
Taxes	\$43,580,128	\$7,842,949	\$8,029,733	\$59,452,810
Special assessments/improvement charges			130,872	130,872
Licenses, permits and registrations	1,536,586		2,178,826	3,715,412
Federal grants	82,595		3,760,102	3,842,697
State shared revenues and grants	11,567,921	99,922	8,409,642	20,077,485
Charges for services	6,970,007	388,399	1,985,080	9,343,486
Fines and forfeits	5,545,011		242,201	5,787,212
Interest and penalties			50,227	50,227
Investment income	573,943	363,785	892,287	1,830,015
Rentals	27,482		31,000	58,482
Contributions and donations			232,206	232,206
Sale of property and equipment	12,759		5,611	18,370
Intra-governmental sales			57,020	57,020
Miscellaneous	174,819	515	192,124	367,458
<b>Total Revenues</b>	<b>70,071,251</b>	<b>8,695,570</b>	<b>26,196,931</b>	<b>104,963,752</b>
Expenditures:				
Current:				
Mayor and Council	276,448			276,448
Administration	452,527		1,662,316	2,114,843
Clerk/Elections	715,356			715,356
Planning	411,954			411,954
Law enforcement	23,077,350		374,875	23,452,225
Fire department	11,107,162			11,107,162
District court	3,315,382			3,315,382
Building department	1,735,850		1,678,350	3,414,200
Highways and streets		10,676,216	5,361,595	16,037,811
Social services	1,788,500			1,788,500
Parks and recreation	3,216,877		4,950,090	8,166,967
Park operations and forestry	3,229,995			3,229,995
Historic district commission	38,149			38,149
Public transportation	8,349,044			8,349,044
General government	10,239,215			10,239,215
Community access television			1,058,726	1,058,726
Urban redevelopment and housing			2,993,631	2,993,631
Information services			430,282	430,282
Capital outlay			2,438,127	2,438,127
Debt service:				
Principal retirement			2,516,100	2,516,100
Interest and fiscal charges			971,713	971,713
<b>Total Expenditures</b>	<b>67,953,809</b>	<b>10,676,216</b>	<b>24,435,805</b>	<b>103,065,830</b>
<b>Excess of Revenues over (under) Expenditures</b>	<b>2,117,442</b>	<b>(1,980,646)</b>	<b>1,761,126</b>	<b>1,897,922</b>

(Continued)



CITY OF ANN ARBOR  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
For the Year Ended June 30, 2005

	<u>General</u>	<u>Street Repair Millage Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Other Financing Sources (Uses):				
Transfers in	3,530,495	3,914,206	4,339,782	11,784,483
Transfers out	<u>(4,451,084)</u>	<u>(344,912)</u>	<u>(4,781,719)</u>	<u>(9,577,715)</u>
Total Other Financing Sources (Uses)	<u>(920,589)</u>	<u>3,569,294</u>	<u>(441,937)</u>	<u>2,206,768</u>
Net change in fund balances	1,196,853	1,588,648	1,319,189	4,104,690
Fund Balances - July 1, 2004, as restated	<u>9,463,514</u>	<u>12,827,015</u>	<u>39,949,526</u>	<u>62,240,055</u>
Fund Balances - June 30, 2005	<u>\$10,660,367</u>	<u>\$14,415,663</u>	<u>\$41,268,715</u>	<u>\$66,344,745</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  
 FOR THE YEAR ENDED JUNE 30, 2005

Net change in fund balances - total governmental funds	\$ 4,104,690
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	
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.	17,000,436
Depreciation in the current period.	(6,642,988)
Governmental funds report revenue from sale of assets. However, an adjustment is needed to reflect loss on sale of capital assets	(569,289)
Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.	2,516,100
Accrued Interest for Debt. This is the net change in accrued interest for the current period.	40,690
Amortization of bond discount is an expense on statement of activities	(2,984)
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.	(629,854)
Accrual for Emerald Ash Borer liability in the governmental funds	(4,100,000)
Deferred revenue in governmental funds is susceptible to full accrual on the entity-wide statements.	1,001,110
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>(3,631,435)</u>
Change in net assets of governmental activities	<u>\$ 9,086,476</u>

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

CITY OF ANN ARBOR  
STATEMENT OF NET ASSETS  
PROPRIETARY FUNDS  
June 30, 2005

	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	Solid Waste		Total
<b>ASSETS</b>											
<b>Current Assets:</b>											
Cash	\$4,773,255	\$4,718,837	\$627,152	\$3,225		\$23,079	\$391,215	\$1,213	\$175,703	\$10,713,679	\$95,497
Cash with fiscal agents		2,075,782								2,075,782	
Cash and cash equivalents, held at County of Washtenaw		4,081								4,081	
Equity in pooled cash and investments	7,577,836	34,170,078	1,025,094	494,369	30,592	208,519	2,448,242	313,029	5,324,175	51,591,934	11,996,681
Investments	3,177,711	8,401,810	1,297,000						30,694	12,907,215	
<b>Receivables:</b>											
Accounts	3,150,086	3,266,540	16,125	450	11,189	78,521	716,084		28,147	7,267,142	4,389
Improvement charges	117,681	193,304					16,350		14,115	341,450	
Interest receivable	3,701	28,453	2,430							34,584	
Less: Allowance for uncollectibles	(52,374)	(6,840)	(16,125)	(450)	(2,463)	(29,112)	(17,884)		(14,103)	(139,351)	(4,389)
Due from other funds	153,552	1,218,259		800			43,124		45,864	1,461,599	272,280
Due from component units											-
Prepaid items	99,635	64,529	104	665	8,282	6,267	23,253		35,433	238,168	1,434,877
Deferred charges	482,122	458,486	343,431		16,050		6,807			1,306,896	
Inventory, at cost	370,573	60,387			25,696					456,656	798,904
<b>Total Current Assets</b>	<b>19,853,778</b>	<b>54,653,706</b>	<b>3,295,211</b>	<b>499,059</b>	<b>89,346</b>	<b>287,274</b>	<b>3,627,191</b>	<b>314,242</b>	<b>5,640,028</b>	<b>88,259,835</b>	<b>14,598,239</b>
<b>Capital assets, at cost:</b>											
Land	412,830	339,582	4,522,293	84,120	693,739	708,927	15,000		598,237	7,374,728	194,707
Buildings	8,538,769	31,500,770	60,678,849	332,206	506,024	1,871,570		546,207	5,624,446	109,598,841	500,665
Improvements other than buildings	73,914,421	51,293,768	523,891		2,305,074	143,404	4,312,319	4,861,847	44,453	137,399,177	62,407
Machinery and equipment	9,369,750	22,371,584	172,578		789,302	261,306	213,995		2,249,326	35,427,841	2,578,861
Vehicles	641,055	983,983			20,694	56,041	373,348		5,569,065	7,644,186	7,269,809
Less: Accumulated depreciation	(33,752,392)	(72,088,548)	(14,440,606)	(136,190)	(1,358,582)	(2,033,993)	(730,656)	(4,153,392)	(4,303,403)	(132,997,762)	(7,675,322)
Construction in progress	7,505,792	20,036,832		19,700			64,038		1,333,802	28,960,164	
<b>Net Capital Assets</b>	<b>66,630,225</b>	<b>54,437,971</b>	<b>51,457,005</b>	<b>299,836</b>	<b>2,956,251</b>	<b>1,007,255</b>	<b>4,248,044</b>	<b>1,254,662</b>	<b>11,115,926</b>	<b>193,407,175</b>	<b>2,931,127</b>
<b>Total Assets</b>	<b>86,484,003</b>	<b>109,091,677</b>	<b>54,752,216</b>	<b>798,895</b>	<b>3,045,597</b>	<b>1,294,529</b>	<b>7,875,235</b>	<b>1,568,904</b>	<b>16,755,954</b>	<b>281,667,010</b>	<b>17,529,366</b>

(Continued)

CITY OF ANN ARBOR  
STATEMENT OF NET ASSETS  
PROPRIETARY FUNDS  
June 30, 2005

Business-Type Activities  
Enterprise Funds

	Water Supply System	Sewage Disposal System	Parking System	Market	Golf Courses	Airport	Stormwater Sewer System	Hydroelectric Power System	Solid Waste	Total	Governmental Activities Internal Service Funds
<b>LIABILITIES</b>											
Current Liabilities (payable from current assets):											
Accounts payable	\$630,213	\$1,508,447		\$1,768	\$8,354	\$13,089	\$6,910		\$690,618	\$2,859,399	\$264,051
Estimated claims payable											5,644,433
Accrued liabilities	899,616	129,257	737	1,541	36,388	13,505	29,649		84,366	1,195,059	38,291
Accrued interest payable	500,618	639,378	468,473		10,207		2,508			1,621,184	-
Due to other funds	1,423,934	725,757		2,000	1,031,948	7,997	688,856		166,366	4,046,858	936,636
Deposits	263,566	987				600				265,153	
Revenue bonds payable - current portion	3,090,000	1,440,000					125,000			4,655,000	
Ann Arbor Building Authority bonds payable - current portion			1,675,000		95,000					1,770,000	
Other bonds payable - current portion			344,053							344,053	
Other debt-current portion	35,000	75,000			39,790		159,553			309,343	-
Accrued compensated absences	75,995	66,200		889		6,912	9,976			159,972	23,766
<b>Total Current Liabilities (payable from current assets)</b>	<b>6,918,942</b>	<b>4,585,026</b>	<b>2,488,263</b>	<b>6,198</b>	<b>1,221,687</b>	<b>42,103</b>	<b>1,022,452</b>		<b>941,350</b>	<b>17,226,021</b>	<b>6,907,177</b>
Long-Term Liabilities:											
Revenue bonds - non-current portion	34,175,000	32,160,000					415,000			66,750,000	
Ann Arbor Building Authority bonds payable - non-current portion			25,525,000		975,000					26,500,000	
Other bonds payable - non-current portion			1,061,497							1,061,497	
Other long-term debt - non-current portion	347,500	964,572			145,410		492,902			1,950,384	
Accrued compensated absences - non-current portion	1,176,949	767,359		884	77,812	115,161	280,209		367,556	2,785,930	286,220
<b>Total Long-Term Liabilities</b>	<b>35,699,449</b>	<b>33,891,931</b>	<b>26,586,497</b>	<b>884</b>	<b>1,198,222</b>	<b>115,161</b>	<b>1,188,111</b>		<b>367,556</b>	<b>99,047,811</b>	<b>286,220</b>
<b>Total Liabilities</b>	<b>42,618,391</b>	<b>38,476,957</b>	<b>29,074,760</b>	<b>7,082</b>	<b>2,419,909</b>	<b>157,264</b>	<b>2,210,563</b>		<b>1,308,906</b>	<b>116,273,832</b>	<b>7,193,397</b>
<b>NET ASSETS</b>											
Invested in Capital Assets, net of related debt	28,982,725	19,798,399	22,851,455	299,836	1,701,051	1,007,255	3,055,589	1,254,662	11,115,926	90,066,898	2,931,127
Restricted for debt service	3,726,500	2,662,004					54,000			6,442,504	
Restricted for equipment replacement	2,203,129	6,545,232					530,523	501,208	254,465	10,034,557	
Reserved for landfill									157,543	157,543	
Unrestricted (deficit)	8,953,258	41,609,085	2,826,001	491,977	(1,075,363)	130,010	2,024,560	(186,966)	3,919,114	58,691,676	7,404,842
<b>TOTAL NET ASSETS</b>	<b>\$43,865,612</b>	<b>\$70,614,720</b>	<b>\$25,677,456</b>	<b>\$791,813</b>	<b>\$625,688</b>	<b>\$1,137,265</b>	<b>\$5,664,672</b>	<b>\$1,568,904</b>	<b>\$15,447,048</b>	<b>\$165,393,178</b>	<b>\$10,335,969</b>

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, 2005

	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	Solid Waste		Total
Operating Revenues:											
Charges for services	\$18,073,071	\$18,316,507	\$3,462,633	\$131,348	\$1,042,785	\$830,657	\$3,529,955		\$478,493	\$45,865,449	\$20,492,189
Miscellaneous revenue											93
<b>Total Operating Revenues</b>	<b>18,073,071</b>	<b>18,316,507</b>	<b>3,462,633</b>	<b>131,348</b>	<b>1,042,785</b>	<b>830,657</b>	<b>3,529,955</b>		<b>478,493</b>	<b>45,865,449</b>	<b>20,492,282</b>
Operating Expenses:											
Personal services	5,705,743	3,623,241		49,622	554,469	400,774	862,843		2,923,011	14,119,703	1,967,242
Municipal service charge	789,924	623,616	22,752	18,108	185,148	96,084	62,916		514,908	2,313,456	576,588
Overhead charges from Water Supply System		122,316					99,996			222,312	
Materials and supplies	1,725,103	746,930		13,361	135,195	35,717	45,143		91,543	2,792,992	59,328
Utilities	1,286,381	1,100,084		6,345	29,215	60,572	9,477		239,297	2,731,371	62,812
Insurance	172,248	1,041,516		72	3,108	77,748	2,088		75,432	1,372,212	18,272,024
Contractual services	732,998	1,182,972			4,361	45,204	201,230		2,101,520	4,268,285	106,931
Maintenance	304,628	122,728		2,242	26,556	14,838	12,827		225,687	709,506	44,443
Professional fees	1,171,102	334,610		7,573	350	25,012	131,139	238	106,371	1,776,395	205,002
Rent	279,925	405,887		4	3,042	58,205	628		718,365	1,466,056	
Miscellaneous	61,090	363,752		10,267	11,115	4,224	21,257		99,960	571,665	14,746
Cost of goods sold											1,864,690
Depreciation and amortization	2,748,942	2,639,675	888,733	8,298	128,160	42,137	144,729	245,712	988,835	7,835,221	1,007,347
<b>Total Operating Expenses</b>	<b>14,978,084</b>	<b>12,307,327</b>	<b>911,485</b>	<b>115,892</b>	<b>1,080,719</b>	<b>860,515</b>	<b>1,594,273</b>	<b>245,950</b>	<b>8,084,929</b>	<b>40,179,174</b>	<b>24,181,153</b>
<b>Operating Income (Loss)</b>	<b>3,094,987</b>	<b>6,009,180</b>	<b>2,551,148</b>	<b>15,456</b>	<b>(37,934)</b>	<b>(29,858)</b>	<b>1,935,682</b>	<b>(245,950)</b>	<b>(7,606,436)</b>	<b>5,686,275</b>	<b>(3,688,871)</b>
Nonoperating Revenues (Expenses):											
Interest income	292,555	1,034,949	48,574	9,066		5,846	48,641	14,818	197,043	1,651,492	301,106
Net gain on retirement of capital assets	12,292	13,795								26,087	92,639
Interest expense and fiscal charges	(1,693,384)	(1,704,352)	(1,456,859)		(71,635)		(67,871)	(13,823)	(1,218)	(5,009,142)	
Lease charges in lieu of interest		(7,529)								(7,529)	
Net loss on bond redemption											
Property taxes									10,011,080	10,011,080	
<b>Total Nonoperating Revenues (Expenses)</b>	<b>(1,388,537)</b>	<b>(663,137)</b>	<b>(1,408,285)</b>	<b>9,066</b>	<b>(71,635)</b>	<b>5,846</b>	<b>(19,230)</b>	<b>995</b>	<b>10,206,905</b>	<b>6,671,988</b>	<b>393,745</b>
<b>Income (Loss) Before Transfers</b>	<b>1,706,450</b>	<b>5,346,043</b>	<b>1,142,863</b>	<b>24,522</b>	<b>(109,569)</b>	<b>(24,012)</b>	<b>1,916,452</b>	<b>(244,955)</b>	<b>2,600,469</b>	<b>12,358,263</b>	<b>(3,295,126)</b>
Transfers in	1,713,985	230,000					108,064		1,415,802	3,467,851	2,114,031
Transfers out	(1,274,183)	(1,427,498)				(2,885)	(1,135,215)	(400,000)	(1,098,527)	(5,338,308)	(2,450,342)
<b>Net Transfers In (Out)</b>	<b>439,802</b>	<b>(1,197,498)</b>				<b>(2,885)</b>	<b>(1,027,151)</b>	<b>(400,000)</b>	<b>317,275</b>	<b>(1,870,457)</b>	<b>(336,311)</b>
<b>Changes in Net Assets</b>	<b>2,146,252</b>	<b>4,148,545</b>	<b>1,142,863</b>	<b>24,522</b>	<b>(109,569)</b>	<b>(26,897)</b>	<b>889,301</b>	<b>(644,955)</b>	<b>2,917,744</b>	<b>10,487,806</b>	<b>(3,631,437)</b>
Net Assets - July 1, 2004, as restated	41,719,360	66,466,175	24,534,593	767,291	735,257	1,164,162	4,775,371	2,213,859	12,529,304	154,905,372	13,967,406
<b>Net Assets - June 30, 2005</b>	<b>\$43,865,612</b>	<b>\$70,614,720</b>	<b>\$25,677,456</b>	<b>\$791,813</b>	<b>\$625,688</b>	<b>\$1,137,265</b>	<b>\$5,664,672</b>	<b>\$1,568,904</b>	<b>\$15,447,048</b>	<b>\$165,393,178</b>	<b>\$10,335,969</b>

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, 2005

	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	Solid Waste		Total
Cash flow from operations:											
Receipts from customers	\$17,989,935	\$18,219,755	\$3,463,370	\$132,303	\$1,039,883	\$832,322	\$3,362,618	\$8,093	\$450,334	\$45,498,613	\$20,511,975
Receipts from interfund services provided	1,277,935	588,695	362	10,096	9,804	9,428	597,186		130,458	2,623,964	830,603
Payments to suppliers	(7,081,837)	(5,591,205)	(37,711)	(63,222)	(407,330)	(427,582)	(604,197)	(67,264)	(3,517,898)	(17,798,246)	(18,811,441)
Payments to employees	(5,813,049)	(3,707,279)		(52,613)	(560,101)	(397,321)	(662,803)	(1,094)	(2,471,089)	(13,665,349)	(2,005,330)
Payments for interfund services used		(1,069,097)	(139,830)		(78,384)			(1,812)	(29,887)	(1,319,010)	181,679
Net cash provided by (used in) operating activities	6,372,984	8,440,869	3,286,191	26,564	3,872	16,847	2,692,804	(62,077)	(5,438,082)	15,339,972	707,486
Cash flows from noncapital financing activities:											
Transfers in	1,713,985	230,000					108,064		1,415,802	3,467,851	2,114,031
Transfers out	(1,274,183)	(1,427,498)				(2,885)	(1,135,215)	(400,000)	(1,098,527)	(5,338,308)	(2,450,342)
Property taxes									10,011,080	10,011,080	
Net cash provided by (used in) noncapital financing activities	439,802	(1,197,498)				(2,885)	(1,027,151)	(400,000)	10,328,355	8,140,623	(336,311)
Cash flows from capital and related financial activities:											
Proceeds from sales of bonds and notes	7,207,500	1,074,572								8,282,072	
Acquisition and construction of capital assets	(2,582,946)	(9,444,488)	(36,381)			(5,000)	(499,637)	(44,747)	(4,827,441)	(17,440,640)	(811,866)
Principal paid on revenue bonds, maturities, capital leases and notes	(9,420,000)	(1,560,000)	(1,946,386)		(133,684)		(15,913)	(840,000)		(13,915,983)	-
Interest paid on bonds, notes, and capital leases	(1,857,721)	(1,228,387)	(1,465,413)		(70,885)		(66,925)	(28,471)	(1,218)	(4,719,020)	(275)
Proceeds from sale of equipment	14,007	13,795								27,802	131,998
Net cash provided by (used in) investing activities	(6,639,160)	(11,144,508)	(3,448,180)		(204,569)	(5,000)	(582,475)	(913,218)	(4,828,659)	(27,765,769)	(680,143)
Cash flows from investing activities:											
Purchase of investment securities	(6,576,080)	(10,148,207)							(1,564)	(16,725,851)	
Sale of investment securities	9,923,450	21,248,066	122,329							31,293,845	
Interest and dividends on investments	292,855	1,047,795	47,290	9,066		5,846	48,641	14,818	197,043	1,663,354	301,106
Net cash provided by (used in) investing activities	3,640,225	12,147,654	169,619	9,066		5,846	48,641	14,818	195,479	16,231,348	301,106
Net increase (decrease) in cash and cash equivalents	3,813,851	8,246,517	7,630	35,630	(200,697)	14,808	1,131,819	(1,360,477)	257,093	11,946,174	(7,862)
Cash and cash equivalents at beginning of the year	8,537,240	32,722,261	1,644,616	461,964	231,289	216,790	1,707,638	1,674,719	5,242,785	52,439,302	12,100,040
Cash and cash equivalents at end of the year	\$ 12,351,091	\$ 40,968,778	\$ 1,652,246	\$ 497,594	\$ 30,592	\$ 231,598	\$ 2,839,457	\$ 314,242	\$ 5,499,878	\$ 64,385,476	\$ 12,092,178

(Continued)



CITY OF ANN ARBOR  
STATEMENT OF CASH FLOWS  
PROPRIETARY FUNDS  
For the Year Ended June 30, 2005

	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	Solid Waste		Total
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:											
Net operating income (loss)	\$ 3,094,987	\$ 6,009,180	\$ 2,551,148	\$ 15,456	\$ (37,934)	\$ (29,858)	\$ 1,935,682	\$ (245,950)	\$ (7,606,436)	\$ 5,686,275	(\$3,688,871)
Adjustments not affecting cash:											
Depreciation and amortization	2,748,942	2,639,675	888,733	8,298	128,160	42,137	144,729	245,712	988,835	7,835,221	1,007,347
Allowance for uncollectible accounts	26,839	1,629	(2,390)	(65)	582	1,107	11,293		14,103	53,098	(26,528)
(Increase) decrease in assets and increase (decrease) in liabilities											
Accounts receivable	(109,975)	(98,381)	2,390	1,020	(3,484)	558	(178,630)	8,093	(42,262)	(420,671)	46,221
Due from other funds	96,142	(1,069,097)	362	8,160	9,804	1,643	19,641		(29,887)	(963,232)	183,184
Inventory	(67,303)	4,444			(1,104)					(63,963)	2,185
Prepaid items	(99,635)	(64,529)	(104)	(665)	(8,282)	(6,267)	(13,644)		(35,433)	(228,559)	(89,142)
Accounts payable	(419,018)	512,304	(14,855)	(4,540)	1,230	(3,707)	(3,676)	(67,026)	690,618	691,330	(364,611)
Accrued compensated absences	(120,426)	(51,926)		(1,673)	3,962	7,571	200,652		367,556	405,716	8,598
Estimated claims payable											2,846,691
Accrued liabilities	13,120	(32,112)	737	(1,318)	(9,594)	(4,118)	(612)	(1,094)	84,366	49,375	(46,686)
Due to other governments											-
Due to other funds	1,181,793	588,695	(139,830)	1,936	(78,384)	7,785	577,545	(1,812)	130,458	2,268,186	829,098
Due from component units											-
Due to component unit											-
Due to other governments				(45)	(1,084)	(4)				(1,133)	-
Deposits	27,518	987					(176)			28,329	-
Net cash provided by (used in) operating activities	\$ 6,372,984	\$ 8,440,869	\$ 3,286,191	\$ 26,564	\$ 3,872	\$ 16,847	\$ 2,692,804	\$ (62,077)	\$ (5,438,082)	\$ 15,339,972	\$ 707,486

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, 2005

	Employees' Benefit Trust Funds	Agency Funds
<b>ASSETS</b>		
Cash	\$3,842,722	\$1,308,496
Equity in pooled cash and investments	1,426,088	
Investments, at fair value		
Short term investments	7,914,011	
U.S. Government obligations	51,470,904	
Municipal bonds	337,586	
Collateralized Mortgage Obligations	8,792,471	
Domestic corporate bonds	45,197,817	
Domestic stocks	277,279,857	
Real Estate-Direct & funds	39,328,300	
Accrued interest and dividends	1,104,747	
Due from other governments	40,737	5,133
Property, plant & equipment (net of depreciation of \$23,463)	4,934	
<b>Total Assets</b>	<b>\$436,740,174</b>	<b>\$1,313,629</b>
<b>LIABILITIES</b>		
Liabilities:		
Accounts payable	\$3,645,148	\$324,621
Accrued liabilities	8,789	
Accrued compensated absences	103,297	
Due to other governments		904,908
Deposits		84,100
<b>Total Liabilities</b>	<b>3,757,234</b>	<b>\$1,313,629</b>
Net Assets:		
Held in Trust for Pension Benefits and Other Purposes	<b>\$432,982,940</b>	

*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, 2005

ADDITIONS	Employees' Benefit Trust Funds
Investment income:	
Net realized and unrealized appreciation in fair value of investments	\$31,234,112
Interest	5,444,232
Dividends	1,954,119
	38,632,463
Total investment income	
Less investment expense	1,833,598
	36,798,865
Net investment earnings	
Contributions:	
Employer	5,143,684
Plan member	2,779,966
	7,923,650
Total contributions	
Total additions	44,722,515
DEDUCTIONS	
Benefits	21,510,124
Refund of contributions	515,496
Administrative expense	3,490,717
	25,516,337
Total deductions	
Change in net assets	19,206,178
Net assets held in trust for benefits at beginning of year	413,776,762
Net assets held in trust for benefits at end of year	\$432,982,940

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

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 FINANCIAL STATEMENTS  
For the Year Ended June 30, 2005

## 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. Through part of the fiscal year, the City maintained 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.

## NOTES TO FINANCIAL STATEMENTS (Continued)

## 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, 2005, assets and a fund balance of \$97,132.

## 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.  
Solid Waste - To account for the collection and disposal of the City's solid waste and recycling.  
Hydroelectric Power System - To account for sale of power from two City power generation dams.



## NOTES TO FINANCIAL STATEMENTS (Continued)

## 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 service areas 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 funds 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.

## NOTES TO FINANCIAL STATEMENTS (Continued)

## 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.

## NOTES TO FINANCIAL STATEMENTS (Continued)

## 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.

## NOTES TO FINANCIAL STATEMENTS (Continued)

## 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. Two Special Revenue Funds do not have a legally adopted budget – Parks Maintenance and Repair Millage, as it was expected to have expended the remaining fund balance during the prior year, and Leslie Homestead as it was closed at the beginning of the fiscal year.

**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

## NOTES TO FINANCIAL STATEMENTS (Continued)

## 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. Paid time off that is expected to be liquidated with expendable available financial resources is reported as an expenditure and a fund liability of the governmental fund that will pay it. Paid time off is accrued when incurred in proprietary funds and reported as a liability. 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 transfers. Internal Service Funds are used to record charges for services to all City service areas 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.

## NOTES TO FINANCIAL STATEMENTS (Continued)

## 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. The following is a reconciliation of deposit and investment balances (including both pooled cash and investments as well as pension trust fund balances) as of June 30, 2005:

	Cash	Investments	
		Equity in pooled cash and investments	Investments
Governmental activities	\$4,179,158	\$67,820,413	\$3,485,357
Business-type activities	12,793,542	51,591,934	12,907,215
Component units	879,392	87,740	20,228,935
Fiduciary funds	5,151,218	1,426,088	430,320,946
Totals	<u>\$23,003,310</u>	<u>\$120,926,175</u>	<u>\$466,942,453</u>
Total Equity in Pooled Cash and Investments and Investments		<u>\$587,868,628</u>	



## NOTES TO FINANCIAL STATEMENTS (Continued)

## 4. EQUITY IN POOLED CASH AND INVESTMENTS (continued)

U. S. Government Agencies	\$76,309,158
U. S. Treasury Bonds & Notes	111,688,063
Corporate Bonds and Notes	33,333,897
Commercial Paper	4,994,477
Municipal Bonds	337,586
Repurchase Agreements	7,672,549
Stocks - Common	277,279,857
Partnerships and Joint Ventures	15,471,241
Guaranteed Investment Contracts	11,863,920
Real Estate Participation Interest	23,857,059
Collateralized Mortgage Obligations	<u>8,792,471</u>
Total	<u>\$571,600,278</u>
Mutual Funds - unclassified as to risk	<u>16,268,350</u>
Total Investments	<u><u>\$587,868,628</u></u>

**Custodial Credit Risk for Deposits.** For deposits, custodial credit risk is the risk that in the event of a bank failure, the City's deposits may not be returned to the government. At year end, the carrying amount of the City's deposits, including component units was \$23,003,310 and the bank balance was \$24,010,093. Of the bank balance, \$302,095 was covered by federal depository insurance. The remaining \$23,707,998 was exposed to custodial credit risk as it was uninsured and uncollateralized.

The City's investment policy does not specifically address this risk, although the City believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all bank deposits. As a result, the City evaluates each financial institution with which it deposits City funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

**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.

**Custodial Credit Risk for Investments.** For investments, custodial credit risk is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The City's investment policy requires that investment securities be held in third-party safekeeping by a designated institution and that the safekeeping agent follow the procedure of delivery vs. payment. As of June 30, 2005, none of the City's investments, excluding the mutual funds which are not subject to custodial credit risk, were exposed to risk since the securities are held in the City's name by the counterparty.

## NOTES TO FINANCIAL STATEMENTS (Continued)

## 4. EQUITY IN POOLED CASH AND INVESTMENTS (continued)

**Credit Risk.** As of June 30, 2005, all of the City's investments in securities of U.S. agencies were rated AAA by Standard & Poor's and Aaa by Moody's. Investments in commercial paper were rated A-1+ by Standard & Poor's and P1 by Moody's. The City also held investments in U.S. treasuries and money market mutual funds, which are not rated. All of the City's investments comply with its policy regarding the types of investments it may hold.

**Concentration of Credit Risk.** At June 30, 2005, the investment portfolio was concentrated as follows:

<u>Investment Type</u>	<u>Issuer</u>	<u>% Of Portfolio</u>
U.S. Treasuries		54.82%
U.S. Agencies	Federal National Mortgage Association	15.90%
	Federal Home Loan Bank	8.24%
	Federal Home Loan Mortgage Corporation	6.63%
	Federal Farm Credit Bank	4.02%
Commercial Paper	Barton Capital	2.33%
Repurchase Agreements	Morgan Stanley	3.37%
Cash and Cash Equivalents		4.61%
Certificates of Deposit	Bank of Ann Arbor	0.08%

The City's investment policy states that the amount of investments in Repurchase Agreements and U.S. Treasury securities shall at no time be less than 50% of the total portfolio and there shall be no maximum limits on these investments. The balance will not exceed the following maximum limits in each of the categories listed below as a percentage of the total portfolio.

35% in Instrumentality Securities
50% in Commercial Paper
30% in Bankers Acceptances
20% in FDIC insured Certificates of Deposit
30% in Money Market Mutual Funds
10% in Investment Pools
10% in Joint Interlocal Investment Ventures

No more than 5% of the total portfolio shall be invested in any one issuer of commercial paper or bankers' acceptances.

**Interest Rate Risk.** As of June 30, 2005, maturities of the City's debt securities were as follows:

	<u>City Investments</u>	
	<u>Fair Value</u>	<u>Weighted Average Maturity</u>
U. S. Government Agencies	\$45,822,378	.90-4.50 years
U. S. Treasury Bonds & Notes	75,934,825	1.08 years
Commercial Paper	4,495,680	0.02 years
Repurchase Agreements	<u>7,672,549</u>	
Total	<u>\$133,925,432</u>	

## NOTES TO FINANCIAL STATEMENTS (Continued)

## 4. EQUITY IN POOLED CASH AND INVESTMENTS (Continued)

Of the above balances, \$35,405,440 of U.S. agencies securities were callable.

To the extent possible, the Treasurer shall match investments with anticipated cash flow requirements. Unless matched to a specific cash flow liability and approved by the Finance Director in writing the City will not invest in securities maturing more than seven years from the date of purchase, and the weighted average maturity of the portfolio shall not exceed 3.5 years. The City shall maintain at least 10% of its total portfolio in instruments maturing in 90 days or less.

**PENSION TRUST FUNDS**

The City of Ann Arbor's Employees' Retirement System trust funds (the "trust funds" or the "System") deposits and investments are maintained separately from the City's pooled cash and investments, and are subject to separate investment policies and state statutes. Accordingly, the required disclosures for the System's deposits and investments are presented separately.

**Deposits** - The System does not maintain any checking or other demand/time deposit accounts. Amounts reported as cash and cash equivalents in the statement of plan net assets are composed entirely of short-term investments in money market accounts.

**Investments** - The Michigan Public Employees Retirement Systems' Investment Act, Public Act 314 of 1965, as amended, authorizes the System to invest in stocks, government and corporate securities, mortgages, real estate, and various other investment instruments, subject to certain limitations. The Retirement Board has the responsibility and authority to oversee the investment portfolio. Various professional investment managers are contracted to assist in managing the System's assets. All investment decisions are subject to Michigan law and the investment policy established by the Retirement Board.

The System's investments are held in a bank-administered trust fund. Following is a summary of the System's investments as of June 30, 2005:

U. S. Government Agencies	\$15,717,666
U. S. Treasury Bonds & Notes	35,753,238
Corporate Bonds and Notes	33,333,897
Municipal Bonds	337,586
Stocks - Common	277,279,857
Partnerships and Joint Ventures	15,471,241
Guaranteed Investment Contracts	11,863,920
Real Estate Participation Interest	23,857,059
Collateralized Mortgage Obligations	8,792,471
	<hr/>
Total	\$422,406,935
	<hr/>
Mutual Funds - unclassified as to risk	7,914,011
	<hr/>
Total Investments	\$430,320,946
	<hr/> <hr/>

## NOTES TO FINANCIAL STATEMENTS (Continued)

## 4. EQUITY IN POOLED CASH AND INVESTMENTS (Continued)

*Credit Risk.* The System's investment policy provides that its investments in fixed income securities be limited to those rated investment grade by a nationally recognized statistical rating organization. As of June 30, 2005, the System's investments in securities of U.S. agencies were all rated AAA by Standard & Poor's. The System's investments in corporate securities were rated by Standard & Poor's as follows:

**Pension Investments**

AAA	8,805,518
AA	269,915
A	12,762,199
BBB	6,976,964
BB	2,679,618
B	1,619,853
not rated	219,830
	<b>\$33,333,897</b>

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

*Concentration of Credit Risk.* The System's investment policy requires that the securities of any one company or government agency should not exceed 5% of the total fund and no more than 30% of the total fund should be invested in any one industry. At June 30, 2005, more than 5% of the System's investments were in corporate bonds which 9.39% of the investment portfolio.

*Interest Rate Risk.* As of June 30, 2005, maturities of the System's debt securities were as follows:

	Fair Value	Weighted Average Maturity (in years)
U.S. treasuries	\$35,753,238	4.81
U.S. agencies	15,717,666	5.80
Municipal bonds	337,586	7.93
Corporate bonds	33,333,897	3.55
Domestic corporate securities	8,792,471	16.57
<b>Total debt securities</b>	<b>\$93,934,858</b>	
<b>Portfolio weighted average maturity</b>		5.64

## NOTES TO FINANCIAL STATEMENTS (Continued)

## 4. EQUITY IN POOLED CASH AND INVESTMENTS (Continued)

**COMPONENT UNITS**

## Deposits and investments

*Custodial Credit Risk – Deposits.* Custodial credit risk is the risk that in the event of a bank failure, the DDA's deposits may not be returned. State law does not require and the DDA does not have a policy for deposit custodial credit risk. As of year end, \$292,965 of the DDA's bank balance of \$392,965 was exposed to custodial credit risk because it was uninsured and uncollateralized. For the deposits held at the City of Ann Arbor, it is impossible to determine custodial credit risk since the DDA's deposits are pooled with other City deposits.

*Custodial Credit Risk – Investment.* Following is a summary of the DDA's investments as of June 30, 2005:

U.S. Government Agencies	\$ 14,043,609
Money Market Fund	1,041,063
GE Commercial Paper	498,797
Govt Select Investment Pool	<u>3,919,961</u>
Total	<u>\$ 19,503,430</u>

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the DDA will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. State law does not require and the DDA does not have a policy for investment custodial credit risk. \$3,919,961 of the investments listed above are unclassified as to custodial credit risk as the invested amount is part of an investment pool. \$15,583,469 of the investments above are uninsured and unregistered, with securities held by the agent in the Authority's name.

*Interest Rate Risk.* State law limits the allowable investments and the maturities of some of the allowable investments as identified in the list of investments above. The DDA does not have an investment policy that sets specific limits in excess of state law on investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. For the U.S. Government Agencies investments, \$493,594 mature within one year, \$3,700,558 have a maturity of one to five years, and \$9,849,457 have a maturity of six to ten years. None of the other investments are subject to investment rate risk.

*Credit Risk.* State law limits investments to specific government securities, certificates of deposits and bank accounts with qualified financial institutions, commercial paper with specific maximum maturities and ratings when purchased, bankers acceptances of specific financial institutions, qualified mutual funds and qualified external investment pools as identified in the list of authorized investments above. The DDA does not have an investment policy that sets specific limits in excess of state law on investment credit risk. As of June 30, 2005, all of the investments in U.S. Government Agencies were rated AAA by Standard & Poor's. Also, the GE Commercial Paper was rated SP-1 by Standard & Poor's.

*Concentration of Credit Risk.* State law limits allowable investments but does not limit concentration of credit risk as identified in the list of authorized investments above. The DDA does not have an investment policy that limits concentration of credit risk. All investments held at year- end are reported above. At June 30, 2005, 72% of the DDA's investments were concentrated in U.S. Government Agencies.

## 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	\$3,101,342	\$474,806	\$189,479	\$2,900
Special Revenue Funds:				
Street Repair Millage	2,185,811	314,265		
Nonmajor funds	83,095	1,219,096		
Total Special Revenue Funds	2,268,906	1,533,361		
Debt Service Funds:				
Nonmajor Debt Service Funds	947	44,704	6,910	
Capital Projects Funds:				
Nonmajor Capital Projects Funds	578	69,287		
Enterprise Funds				
Water Supply System	\$153,552	\$1,423,934		
Sewage Disposal System	1,218,259	725,757		
Market	800	2,000		
Golf Courses		1,031,948		
Airport		7,997		
Stormwater Sewer System	43,124	688,856		
Solid Waste	45,864	166,366		
Total Enterprise Funds	1,461,599	4,046,858		
Internal Service Funds	272,280	936,636		
Total Primary Government	7,105,652	7,105,652	196,389	2,900
Component Units				
Downtown Development Authority			2,900	171,936
Ann Arbor Housing Commission				24,453
Total Component Units			2,900	196,389
Total All Funds and Component Units	\$7,105,652	\$7,105,652	\$199,289	\$199,289

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.



## NOTES TO FINANCIAL STATEMENTS (Continued)

## 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, 2004, as controlled by the Headlee Amendment, Act 415 and City Charter, is 6.2125 mills. Real and personal property located in the City as of December 31, 2003 were assessed and equalized at \$5,222,389,700, 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 2004 taxable value on March 1, 2005 was \$4,029,176,288. 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, 2005 was as follows:

	Beginning Balance July 1, 2004, as restated	Additions	Retirements	Ending Balance June 30, 2005
<b>Governmental Activities</b>				
Non-Depreciable Assets:				
Land	\$22,966,096	1,374,039		\$24,340,135
Construction in progress	2,176,623	2,404,321	(433,385)	4,147,559
Depreciable Assets:				
Buildings	21,752,843			21,752,843
Leasehold improvements	8,646			8,646
Improvements other than buildings	2,993,001	206,720		3,199,721
Machinery and equipment	13,741,480	884,913	(202,525)	14,423,868
Vehicles	11,601,199	899,181	(1,267,638)	11,232,742
Infrastructure	650,091,504	12,043,128	(1,719,754)	660,414,878
<b>Total at historical cost</b>	<b>725,331,392</b>	<b>17,812,302</b>	<b>(3,623,302)</b>	<b>739,520,392</b>
Less accumulated depreciation for:				
Buildings	(8,872,419)	(553,342)		(9,425,761)
Improvements other than buildings	(310,876)	(70,115)		(380,991)
Equipment and vehicles	(18,512,677)	(2,047,099)	1,427,363	(19,132,413)
Infrastructure	(81,252,913)	(4,979,778)	1,587,291	(84,645,400)
<b>Total accumulated depreciation</b>	<b>(108,948,885)</b>	<b>(7,650,334)</b>	<b>3,014,654</b>	<b>(113,584,565)</b>
<b>Governmental activities capital assets, net</b>	<b>\$616,382,507</b>	<b>\$10,161,968</b>	<b>(\$608,648)</b>	<b>\$625,935,827</b>

## NOTES TO FINANCIAL STATEMENTS (Continued)

## 7. CHANGES IN CAPITAL ASSETS (Concluded)

	<b>Beginning Balance July 1, 2004, as restated</b>	<b>Additions</b>	<b>Retirements</b>	<b>Ending Balance June 30, 2005</b>
<b>Business-type Activities</b>				
Non-Depreciable Assets:				
Land	\$7,374,728			\$7,374,728
Construction in progress	47,010,481	14,349,558	(32,399,875)	28,960,164
Depreciable Assets:				
Buildings	84,328,002	25,270,839		109,598,841
Improvements other than buildings	131,145,372	6,253,805		137,399,177
Machinery and equipment	34,206,137	1,226,245	(4,541)	35,427,841
Vehicles	5,002,140	2,740,068	(98,022)	7,644,186
<b>Total at historical cost</b>	<b>309,066,860</b>	<b>49,840,515</b>	<b>(32,502,438)</b>	<b>326,404,937</b>
Less accumulated depreciation for:				
Buildings	(39,359,876)	(1,977,925)		(\$41,337,801)
Improvements other than buildings	(58,434,762)	(2,514,912)		(60,949,674)
Equipment and vehicles	(27,468,751)	(3,342,384)	100,848	(30,710,287)
<b>Total accumulated depreciation</b>	<b>(125,263,389)</b>	<b>(7,835,221)</b>	<b>100,848</b>	<b>(132,997,762)</b>
<b>Business-type activities capital assets, net</b>	<b>\$183,803,471</b>	<b>\$42,005,294</b>	<b>(\$32,401,590)</b>	<b>\$193,407,175</b>
<b>Depreciation expense was charged to governmental functions as follows:</b>				
General government				\$345,593
Public safety				883,538
Public services				574,286
Highways and streets				4,979,778
Culture and Recreation				539,685
Social services				122,788
Information services				167,292
Unallocated depreciation				37,374
				<u>\$7,650,334</u>

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

## NOTES TO FINANCIAL STATEMENTS (Continued)

## 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, Special Revenue and Pension Trust Funds. The total rent expense for fiscal year 2005 was \$779,848. The following is a table of future minimum noncancellable lease payments by the City:

2006	827,296
2007	552,885
2008	331,002
2009	<u>192,894</u>
Total	<u>\$1,904,077</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 2019. Revenues and the related expenses for these leases are recorded in the Enterprise Funds. The total rent revenue for fiscal year 2005 was \$300,130. The following is a table of future minimum noncancellable lease payments to the City:

2006	196,685
2007	196,685
2008	196,685
2009	185,627
2010	212,547
2011-2015	716,121
2016-2019	<u>378,432</u>
Total	<u>\$2,082,782</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.

## NOTES TO FINANCIAL STATEMENTS (Continued)

## 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, 2005:

<u>Asset Type</u>	<u>Enterprise Fund</u>
Equipment	\$ 275,483
Drains	<u>1,304,801</u>
	1,580,284
Less: accumulated depreciation	<u>330,860</u>
Net book value	<u>\$1,249,424</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, 2005:

<u>Year Ending June 30</u>	<u>Enterprise Fund</u>
2006	237,049
2007	187,622
2008	195,330
2009	102,079
2010	98,757
2011	<u>95,380</u>
Total minimum lease payments	916,217
Less: amount representing interest	<u>80,070</u>
Present value of future minimum lease payments	<u>\$ 836,147</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, 2005:

	Governmental Activities					Total Principal	Governmental 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				Downtown Development Authority Bonds
Bonds and other debt payable at July 1, 2004	\$14,515,000	\$1,020,902	\$3,870,919	\$1,923,816	\$3,644,150	\$24,974,787	\$14,652,022	\$39,626,809	\$7,428,064
Debt issued and other increases:									
Debt issued/accrued							5,774,169	5,774,169	
Amortization of bond discounts		303	1,860	820		2,983		2,983	
Debt retired and other decreases:									
Decrease in accrued compensated absences							5,127,877	5,127,877	
Debt retired	1,755,000	130,000	135,000	400,000	96,100	2,516,100		2,516,100	1,028,614
Bonds and other debt payable at June 30, 2005	\$12,760,000	\$891,205	\$3,737,779	\$1,524,636	\$3,548,050	\$22,461,670	\$15,298,314	\$37,759,984	\$6,399,450
Balance due within one year	\$1,820,000	\$135,000	\$140,000	\$365,000	\$48,050	\$2,508,050	\$1,048,887	\$3,556,937	\$1,085,947

(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, 2005:

	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, 2004	\$29,965,000	\$400,000	\$75,240,000	\$782,252	\$2,586,936	\$2,540,186	\$111,514,374
Debt issued and other increases:							
Debt issued/accrued			6,795,000	1,708,763		1,394,698	9,898,461
Debt retired and other decreases:							
Decrease in accrued compensated absences						988,982	988,982
Debt refunded			6,725,000				6,725,000
Debt retired	1,695,000	400,000	3,905,000	231,288	1,181,386		7,412,674
Bonds and other debt payable at June 30, 2005	\$28,270,000		\$71,405,000	\$2,259,727	\$1,405,550	\$2,945,902	\$106,286,179
Balance due within one year	\$1,770,000		\$4,655,000	\$309,043	\$344,053	\$159,972	\$7,238,368

## NOTES TO FINANCIAL STATEMENTS (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 (\$37,265,000) in bond principal at June 30, 2005; Sewage Disposal System (\$33,600,000) and Stormwater Disposal System (\$540,000). Other Long-Term Debt includes various long-term obligations (notes and contracts) paid from general operations and other sources. In addition, the City received \$412,500 from the Michigan Municipal Bond Authority (MMBA) from the Drinking Water Revolving Fund during fiscal year 2005. At June 30, 2005, the outstanding balance was \$382,500. The City also received \$1,074,572 from the MMBA from the Strategic Water Quality Initiatives Fund during fiscal year 2005. At June 30, 2005, the outstanding balance was \$1,039,572.

Other Bonds will be serviced from the revenues of the Downtown Development Authority for the Parking System (\$1,405,550). Various limitations and restrictions are contained in the various bond indentures. The City is in compliance with all significant limitations and restrictions.

Additionally, during the fiscal year, the City issued \$6,795,000 in refunding bonds to partially advance refund \$3,025,000 of the 1995 Water Supply System Bonds and \$3,700,000 of the 1996 Water Supply System Bonds. The net proceeds were used to purchase U.S. Government securities, which were deposited in an irrevocable trust with an escrow agent to provide for future debt service payments. As a result, the bonds are considered defeased and the liability for the bonds has been removed from the balance sheet. The City advance refunded the bonds to reduce its total debt service payments by \$346,546 over the next ten years and to obtain an economic gain (difference between the present value for the debt service payments on the old and new debt) of \$292,837. In accordance with GASB #23, *Accounting and Financial Reporting for Refunding of Debt Reported by Proprietary Activities*, the loss on bond refunding has been amortized over the life of the old debt or the new debt, whichever is shorter. As the old and new debt was still outstanding at the end of the fiscal year, the City has deferred the entire loss of \$144,667 in the Water Supply System Enterprise Fund.

## 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, 2005:

## 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
2006	\$1,820,000	\$135,000	\$140,000	\$365,000	\$48,050	\$2,508,050	\$922,877	\$3,430,927	\$1,085,947	\$241,554
2007	1,885,000	140,000	145,000	360,000		2,530,000	809,440	3,339,440	1,120,613	199,327
2008	1,925,000	75,000	155,000	125,000		2,280,000	702,716	2,982,716	1,157,946	154,672
2009	1,955,000	75,000	160,000	125,000	3,500,000	5,815,000	534,139	6,349,139	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		
	\$12,760,000	\$895,000	\$3,790,000	\$1,530,000	\$3,548,050	\$22,523,050	\$4,578,736	\$27,101,786	\$6,399,450	\$851,990
Interest Ranges	3.80 - 5.50%	3.000- 6.25%	2.50- 4.50%	3.20- 6.40%	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, 2005:

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			
2006	\$1,770,000		\$4,655,000	\$199,343	\$344,053	\$6,968,396	\$4,175,927	\$11,144,323
2007	1,845,000		4,710,000	160,011	349,387	7,064,398	3,810,969	10,875,367
2008	1,810,000		4,805,000	121,105	352,054	7,088,159	3,559,050	10,647,209
2009	1,710,000		4,905,000	173,300	360,056	7,148,356	3,267,957	10,416,313
2010	1,790,000		4,940,000	91,948		6,821,948	2,980,915	9,802,863
2011	1,875,000		5,150,000	91,948		7,116,948	2,698,773	9,815,721
2012	1,940,000		5,110,000			7,050,000	2,418,444	9,468,444
2013	2,010,000		5,250,000			7,260,000	2,132,280	9,392,280
2014	2,075,000		3,310,000			5,385,000	1,862,008	7,247,008
2015	2,145,000		2,750,000			4,895,000	1,648,236	6,543,236
2016	2,120,000		2,820,000			4,940,000	1,436,142	6,376,142
2017	2,190,000		2,915,000			5,105,000	1,214,743	6,319,743
2018	1,665,000		2,290,000			3,955,000	1,019,078	4,974,078
2019	1,720,000		2,365,000			4,085,000	838,646	4,923,646
2020	1,070,000		2,465,000			3,535,000	661,197	4,196,197
2021	260,000		2,570,000			2,830,000	516,123	3,346,123
2022	275,000		2,665,000			2,940,000	395,741	3,335,741
2023			2,760,000			2,760,000	272,567	3,032,567
2024			2,845,000			2,845,000	153,496	2,998,496
2025			2,125,000			2,125,000	45,156	2,170,156
	\$28,270,000	\$0	\$71,405,000	\$837,655	\$1,405,550	\$101,918,205	\$35,107,448	\$137,025,653
Interest Ranges	2.00- 5.75%		2.00- 7.30%	3.50- 6.80%	3.60- 4.05%			

## NOTES TO FINANCIAL STATEMENTS (Continued)

## 10. TRANSFERS

A reconciliation of the interfund transfers is as follows:

	Transfers In	Transfers Out
	<u>          </u>	<u>          </u>
General Fund	\$3,530,495	\$4,451,084
Street Repair Millage	3,914,206	344,912
Water Supply System	1,713,985	1,274,183
Sewage Disposal System	230,000	1,427,498
Solid Waste	1,415,802	1,098,527
Hydroelectric Power System		400,000
Airport		2,885
Stormwater System	108,064	1,135,215
Nonmajor governmental funds	4,339,782	4,781,719
Internal Service Funds	<u>2,114,031</u>	<u>2,450,342</u>
 Total Transfers	 \$17,366,365	 \$17,366,365

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.

## NOTES TO FINANCIAL STATEMENTS (Continued)

## 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 \$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 as well as full coverage for workers' compensation claims. 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 \$3,947,675 at June 30, 2005 and is included in Estimated Claims Payable. The total Estimated Claims Payable of \$5,644,433 is reflected in the Insurance fund at June 30, 2005. 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 2003, 2004, and 2005 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>
2003	\$5,202,689	\$4,375,811	\$(5,529,844)	\$4,048,656
2004	4,048,656	5,569,474	(6,820,388)	2,797,742
2005	2,797,742	14,794,093	(11,947,402)	5,644,433

## 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*.

## NOTES TO FINANCIAL STATEMENTS (Continued)

## 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 770 retirees for the year ending June 30, 2005 was estimated at \$6,522,226.

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 2004-2005 retirees health care costs of \$2,974,644. 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 service areas 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, 2005, was 2.09% of annual covered payroll. Administrative costs of CAAERS are financed through investment earnings.

## NOTES TO FINANCIAL STATEMENTS (Continued)

## 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 June 30	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
2005	\$1,045	100.0%	-
2004	-	100.0%	-
2003	-	100.0%	-

The annual required contribution for the current year was determined as part of the June 30, 2003, 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 .04% to 6.3% per year. Both (a) and (b) included an inflation component of 3.5%. 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 twenty-eight 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 restricted for endowment on the Statement of Net Assets.

## 16. SIGNIFICANT COMMITMENTS

As of June 30, 2005, the City had \$6,775,035 in construction commitments for various projects including resurfacing of streets, bridge reconstruction and other road improvements.

## 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, 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.

## NOTES TO FINANCIAL STATEMENTS (Continued)

## 17. CONTINGENT LIABILITIES (continued)

The City owns and maintains a closed landfill in full compliance with Michigan Department of Environmental Quality (MDEQ) requirements. The City had received approval for an onsite and (interim) offsite Remedial Action Plan (RAP) that has been implemented. This implementation included a slurry wall almost two miles in length enclosing most of the landfill. As part of these requirements, the City has posted a \$1,000,000 letter of credit to ensure compliance with the landfill cleanup regulations. 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 funded out of the annual solid waste budget.

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.

**Other.** The City, along with many southeast Michigan communities, has been infected with an outbreak of Emerald Ash Borer that invades and destroys ash trees. The Emerald Ash Borer epidemic is expected to cause ash tree mortality on a widespread scale. Fifteen percent of the City's street tree population is comprised of ash trees. At this time, there is no known prevention to stop this infestation. Costs associated with removal and replanting are estimated to be \$4.1 million at this time and are included in the government-wide statements as a liability and an expense of the Park Operations and Forestry activity.

## 18. SUBSEQUENT EVENTS

Subsequent to year-end, the City sold two bond issues. The first issue was the 2005 Ann Arbor Building Authority Refunding Bonds in the amount of \$13,305,000 to partially defease outstanding Building Authority bonds. The second issue was the 2005 Open Space Preservation Limited Tax General Obligation Bonds in the amount of \$20,250,000.

## 19. RESTATEMENT OF FUND BALANCE/NET ASSETS

As of July 1, 2004, the solid waste activities moved from the General Fund to the Solid Waste Enterprise Fund. As a result, certain restatements were necessary. The following is an explanation of the adjustments to the beginning balance as of July 1, 2004, for the governmental funds fund balance, the enterprise funds net assets and the government-wide statement of net assets.

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total Governmental Funds</u>
Net Assets/Fund Balance at July 1, 2004	\$ 665,493,411	\$ 142,376,068	\$ 67,492,039
Fund Type Changed to Enterprise	(5,251,984)	5,251,984	(5,251,984)
Capital Assets Moved to Enterprise Fund	<u>(7,277,320)</u>	<u>7,277,320</u>	
Restated Net Assets/Fund Balance at July 1, 2004	<u>\$ 652,964,107</u>	<u>\$ 154,905,372</u>	<u>\$ 62,240,055</u>

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 \$480,481 was made in fiscal 2005 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

Expenditures exceeded appropriations in the following categories:

	Budget	Actual	Negative Variance
General Fund:			
Clerk/Elections	\$631,030	\$715,356	\$(84,326)
Environmental coordination services	209,796	214,010	(4,214)
Information technology services	2,089,534	2,114,955	(25,421)
Pension and social security	857,711	1,146,208	(288,497)
Police department	23,004,377	23,077,350	(72,973)
Building department	1,610,569	1,735,850	(125,281)
Parks operations & forestry	2,992,741	3,229,995	(237,254)

General Fund:

    Clerk/Elections                                 \$84,326

This deficit was primarily attributable to higher than anticipated salary costs for elections.

    Environmental coordination services         \$4,214

This deficit was primarily attributable to higher than anticipated salary costs.

    Information technology services             \$25,421

This deficit was primarily attributable to higher than anticipated severance costs.

    Pension and Social Security                 \$288,497

Actual social security budgeted within departments was under budget. The deficit of the VEBA Trust transfer is offset by this surplus in the departmental social security accounts. This surplus is required by agreement to distribute back in full to the VEBA Trust.

    Police Department                             \$72,973

This deficit was attributable to higher than anticipated severance costs.



CITY OF ANN ARBOR  
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

2. EXPENDITURES IN EXCESS OF APPROPRIATIONS (Concluded)

Building Department	\$125,281
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This deficit was attributable to higher than anticipated personnel costs due to increased activity for building inspections.

Parks Operations & Forestry	\$237,254
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This deficit was attributable to a write-off of obsolete inventory as well as higher than anticipated salary costs and vehicle charges.

CITY OF ANN ARBOR  
 BUDGETARY COMPARISON SCHEDULE  
 GENERAL FUND  
 For the Year Ended June 30, 2005

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (negative)
Revenues:				
Taxes:				
General operations	\$24,765,472	\$24,765,472	\$24,741,949	(\$23,523)
Transportation (AATA)	8,350,725	8,350,725	8,342,766	(7,959)
Employee benefits	8,350,725	8,350,725	8,342,766	(7,959)
Interest, penalties, payments in lieu of taxes and excess of roll	2,017,714	2,017,714	2,152,647	134,933
Total taxes	43,484,636	43,484,636	43,580,128	95,492
Licenses, permits and registrations	1,136,093	1,136,093	1,536,586	400,493
Federal grants	75,000	75,000	82,595	7,595
State shared revenues and grants	11,401,818	11,401,818	11,567,921	166,103
Charges for services:				
Police department	1,511,458	1,546,458	1,600,090	53,632
Fire department	533,653	533,653	436,366	(97,287)
Ann Arbor Transportation Authority	83,130	83,130	83,507	377
Construction overhead	1,853,491	1,853,491	2,077,188	223,697
Central services	57,000	57,000	99,871	42,871
Recreation facilities	2,190,575	2,190,575	1,989,395	(201,180)
Cemetery	7,900	7,900	4,480	(3,420)
Public services			79,386	79,386
Miscellaneous	600,500	600,500	599,724	(776)
Total charges for services	6,837,707	6,872,707	6,970,007	97,300

(Continued)

CITY OF ANN ARBOR  
BUDGETARY COMPARISON SCHEDULE  
GENERAL FUND  
For the Year Ended June 30, 2005

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (negative)
Revenues (Concluded):				
Fines and forfeits:				
Standing violations	\$2,975,624	\$2,975,624	\$2,800,348	(\$175,276)
District court	2,648,400	2,648,400	2,744,663	96,263
Total fines and forfeits	5,624,024	5,624,024	5,545,011	(79,013)
Investment income	269,000	269,000	573,943	304,943
Rentals	14,625	24,625	27,482	2,857
Miscellaneous revenue:				
Sale of property and equipment	750	750	12,759	12,009
Other	342,646	365,479	174,819	(190,660)
Total miscellaneous revenue	343,396	366,229	187,578	(178,651)
Total Revenues	69,186,299	69,254,132	70,071,251	817,119
Expenditures:				
General government:				
Mayor and Council	317,469	317,469	276,448	41,021
Administration	581,429	581,429	452,527	128,902
Human resources	1,191,242	1,191,242	1,128,690	62,552
Administrative services	948,700	948,700	897,632	51,068
Attorney	1,583,595	1,583,595	1,558,402	25,193
Clerk/Elections	631,030	631,030	715,356	(84,326)
Finance	2,573,160	2,573,160	2,558,966	14,194
Environmental Coordinaton Services	219,796	209,796	214,010	(4,214)
Public services	4,385,404	4,385,404	4,370,805	14,599
Planning	469,830	469,830	411,954	57,876
Information technology services	2,089,534	2,089,534	2,114,955	(25,421)
Pension and social security	857,711	857,711	1,146,208	(288,497)
Insurance				
Contingencies	2,748,560	132,803		132,803
Miscellaneous	535,325	535,325	352,959	182,366
Municipal service charge	(4,103,412)	(4,103,412)	(4,103,412)	
Total general government expenditures	15,029,373	12,403,616	12,095,500	308,116

(Continued)

CITY OF ANN ARBOR  
 BUDGETARY COMPARISON SCHEDULE  
 GENERAL FUND  
 For the Year Ended June 30, 2005

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (negative)
Expenditures (Concluded):				
Public safety and justice:				
Police department	\$21,129,937	\$23,004,377	\$23,077,350	(\$72,973)
Fire department	9,544,049	11,480,518	11,107,162	373,356
District court	3,491,798	3,491,798	3,315,382	176,416
Building department	2,251,078	1,610,569	1,735,850	(125,281)
Total public safety and justice expenditures	<u>36,416,862</u>	<u>39,587,262</u>	<u>39,235,744</u>	<u>351,518</u>
Social services:				
Transfers to other agencies	1,601,906	1,701,379	1,644,856	56,523
Other	134,355	159,355	143,644	15,711
Total social services expenditures	<u>1,736,261</u>	<u>1,860,734</u>	<u>1,788,500</u>	<u>72,234</u>
Culture and recreation:				
Parks and recreation	3,280,211	3,282,371	3,216,877	65,494
Parks operation & forestry	2,992,741	2,992,741	3,229,995	(237,254)
Historic district commission	57,372	55,721	38,149	17,572
Total culture and recreation expenditures	<u>6,330,324</u>	<u>6,330,833</u>	<u>6,485,021</u>	<u>(154,188)</u>
Other:				
Public transportation	8,350,725	8,350,725	8,349,044	1,681
Total other expenditures	<u>8,350,725</u>	<u>8,350,725</u>	<u>8,349,044</u>	<u>1,681</u>
Total Expenditures	<u>67,863,545</u>	<u>68,533,170</u>	<u>67,953,809</u>	<u>579,361</u>
Excess of Revenues over Expenditures	<u>1,322,754</u>	<u>720,962</u>	<u>2,117,442</u>	<u>1,396,480</u>
Other Financing Sources (Uses):				
Transfers in	3,656,392	3,656,392	3,530,495	(125,897)
Transfers out	(4,834,252)	(4,712,941)	(4,451,084)	261,857
Total Other Financing Sources (Uses)	<u>(1,177,860)</u>	<u>(1,056,549)</u>	<u>(920,589)</u>	<u>135,960</u>
Net change in fund balances	144,894	(335,587)	1,196,853	1,532,440
Fund Balance - July 1, 2004	<u>38,355</u>	<u>518,836</u>	<u>9,463,514</u>	<u>8,944,678</u>
Fund Balance - June 30, 2005	<u>\$183,249</u>	<u>\$183,249</u>	<u>\$10,660,367</u>	<u>\$10,477,118</u>

CITY OF ANN ARBOR  
 BUDGETARY COMPARISON SCHEDULE  
 STREET REPAIR MILLAGE FUND  
 For the Year Ended June 30, 2005

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (negative)
Revenues:				
Taxes	\$7,850,466	\$7,850,466	\$7,842,949	(\$7,517)
State shared revenues and grants			99,922	99,922
Charges for services			388,399	388,399
Investment income	450,000	450,000	363,785	(86,215)
Miscellaneous			515	515
<b>Total Revenues</b>	<b>8,300,466</b>	<b>8,300,466</b>	<b>8,695,570</b>	<b>395,104</b>
Expenditures:				
Current:				
Street repair and maintenance	8,224,150	14,329,934	10,676,216	3,653,718
<b>Total Expenditures</b>	<b>8,224,150</b>	<b>14,329,934</b>	<b>10,676,216</b>	<b>3,653,718</b>
<b>Excess of Revenues over (under) Expenditures</b>	<b>76,316</b>	<b>(6,029,468)</b>	<b>(1,980,646)</b>	<b>4,048,822</b>
Other Financing Sources (Uses):				
Transfers in		2,766,800	3,914,206	1,147,406
Transfers out		(344,912)	(344,912)	
<b>Total Other Financing Sources (Uses)</b>		<b>2,421,888</b>	<b>3,569,294</b>	<b>1,147,406</b>
<b>Net change in fund balances</b>	<b>76,316</b>	<b>(3,607,580)</b>	<b>1,588,648</b>	<b>5,196,228</b>
<b>Fund Balances - July 1, 2004</b>		<b>3,607,580</b>	<b>12,827,015</b>	<b>9,219,435</b>
<b>Fund Balances - June 30, 2005</b>	<b>\$76,316</b>		<b>\$14,415,663</b>	<b>\$14,415,663</b>

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]
6/30/2005	\$398,690	\$384,369	(\$14,321)	103.7%	\$47,225	-30.3%
6/30/2004	409,324	370,409	(38,915)	110.5%	47,109	-82.6%
6/30/2003	417,623	353,620	(64,003)	118.1%	46,213	-138.5%
6/30/2002	426,440	336,340	(90,100)	126.8%	46,744	-192.8%
6/30/2001	425,538	304,349	(121,189)	139.8%	47,449	-255.4%
6/30/2000	407,468	258,286	(149,182)	157.8%	44,092	-338.3%

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>
2005	\$1,045	100%
2004	0	100%
2003	0	100%
2002	0	100%
2001	0	100%
2000	1,316	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 program.

HOME Program- to account for funds received from the federal government for the City's Community Development HOME grant program.

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.

Homeland Security - to account for federal Office of Homeland Security grant money.

Construction Code – to account for the costs of planning and development activities related to construction. Revenues are derived primarily from licenses and permits.

Alternative Transportation- to account for funding set aside for the City's alternative transportation program.

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 Maintenance and Repair Millage - to account for funds derived from property tax millage earmarked for parks maintenance.

Parks Repair and Restoration Millage - to account for funds derived from property tax millage earmarked for parks' repair and restoration.

Parks Rehabilitation and Development Millage - to account for funds derived from property tax millage earmarked for parks' improvements.

Open Space and Parkland Preservation Millage - to account for funds derived from property tax millage earmarked for parks acquisition.



## 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.

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

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

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.

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

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.

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

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.

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

#### NONMAJOR DEBT SERVICE FUNDS

General Debt Service - to accumulate tax revenues and 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.

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, 2005

Special Revenue

	Major Streets	Local Streets	Community Development	Home Program	Leslie Homestead	Affordable Housing	Community Television Network	Homeland Security Fund	Construction Code	Alternative Transportation	Drug Enforcement	Michigan Justice Training	Parks & Repair Maintenance Millage	Parks Repair & Restoration Millage	Parks Rehab & Development Millage
<b>ASSETS</b>															
Cash	\$108,024	\$19,503	\$381,110	\$284,132			\$26,270		\$28,270				\$43,438		\$18,574
Equity in pooled cash and investments	7,381,539	1,847,431				581,433	1,727,535	672	1,130,889	392,206	9,283	79,063	22,965	842,787	2,905,735
Investments, at fair value															
Receivables:															
Taxes															
Accounts	81,072		88	315,150			340,515	18,230	26,656				2,751	6,879	9,497
Special assessments															
Accrued interest and dividends															
Improvement charges															
Loans			141,318	797,469											
Unbilled district costs															
Less: Allowance for uncollectibles	(31,444)								(6,078)				(2,741)	(6,725)	(9,337)
Due from other funds	5,773	5	13,784	5,299			137	265	20,050	154			18	1,553	678
Due from component units															
Due from other governments	919,852	262,333	235,885	50,094											
Prepaid items															
<b>Total Assets</b>	<b>\$8,464,816</b>	<b>\$2,129,272</b>	<b>\$772,185</b>	<b>\$1,452,144</b>		<b>\$581,433</b>	<b>\$2,094,457</b>	<b>\$19,167</b>	<b>\$1,199,787</b>	<b>\$392,360</b>	<b>\$9,283</b>	<b>\$79,063</b>	<b>\$66,431</b>	<b>\$844,494</b>	<b>\$2,925,147</b>
<b>LIABILITIES AND FUND BALANCES</b>															
<b>Liabilities:</b>															
Accounts payable	\$152,232	\$8,607	\$11,317	\$31,278			\$55,339	\$4,078				\$20	\$1,914	\$80,107	\$140,410
Accrued liabilities	102,070	17,916	8,054	2,795			68,901	1,330	42,017	749				32,276	7,405
Due to other funds	96,697	55,193	607,813	304,455			951	13,462	2,937	703		1,375		29,831	17,277
Due to other governments				315,150											
Deposits	10,000						10,000				4,189				
Deferred revenue			141,318	797,469				297							
Accrued compensated absences	46,350	212	3,683	997			6,599							21,968	3,008
<b>Total Liabilities</b>	<b>407,349</b>	<b>81,928</b>	<b>772,185</b>	<b>1,452,144</b>			<b>141,790</b>	<b>19,167</b>	<b>44,954</b>	<b>1,452</b>	<b>4,189</b>	<b>1,395</b>	<b>1,914</b>	<b>164,182</b>	<b>168,100</b>
<b>Fund Balances:</b>															
Reserved for encumbrances	10,472	13,248								5,583				14,750	530,801
Reserved for prepaid items/deferred charges															
Reserved for endowment															
Unreserved balances:															
Undesignated, nonmajor debt service funds															
Undesignated, nonmajor capital projects funds															
Undesignated, nonmajor special revenue funds	8,046,995	2,034,096				581,433	1,952,667		1,154,833	385,325	5,094	77,668	64,517	665,562	2,226,246
<b>Total Fund Balances</b>	<b>8,057,467</b>	<b>2,047,344</b>				<b>581,433</b>	<b>1,952,667</b>		<b>1,154,833</b>	<b>390,908</b>	<b>5,094</b>	<b>77,668</b>	<b>64,517</b>	<b>680,312</b>	<b>2,757,047</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$8,464,816</b>	<b>\$2,129,272</b>	<b>\$772,185</b>	<b>\$1,452,144</b>		<b>\$581,433</b>	<b>\$2,094,457</b>	<b>\$19,167</b>	<b>\$1,199,787</b>	<b>\$392,360</b>	<b>\$9,283</b>	<b>\$79,063</b>	<b>\$66,431</b>	<b>\$844,494</b>	<b>\$2,925,147</b>

(continued)

CITY OF ANN ARBOR  
NONMAJOR GOVERNMENTAL FUNDS  
COMBINING BALANCE SHEET  
June 30, 2005  
(continued)

	Special Revenue											
	Open Space & Parkland Preservation	Special Assistance	Special Projects	Court Facilities	Local Law Enforcement Block Grant	Major Grants	Federal Equitable Sharing Forfeiture	Bandemer	Cemetery Perpetual Care	Energy Projects	Police and Fire Relief	Michigan Economic Development Smart Zone Grant
<b>ASSETS</b>												
Cash	\$453	\$210	\$9,250	\$5,756	\$12,462	\$15,283						
Equity in pooled cash and investments	4,849,887	4,006	1,076,997	948,113	560		39,855	272,335	52,870	478,522	547,876	16,032
Investments, at fair value											102,386	
Receivables:												
Taxes	10,052											
Accounts					8,157	209,295		500				
Special assessments												
Accrued interest and dividends												
Improvement charges												
Loans												
Unbilled district costs												
Less: Allowance for uncollectibles	(9,882)					(3,375)						
Due from other funds	718					34,661						
Due from component units												
Due from other governments	659,337											
Prepaid items				1,486								
<b>Total Assets</b>	<b>\$5,510,565</b>	<b>\$4,216</b>	<b>\$1,086,247</b>	<b>\$955,355</b>	<b>\$21,179</b>	<b>\$255,864</b>	<b>\$39,855</b>	<b>\$272,835</b>	<b>\$52,870</b>	<b>\$478,522</b>	<b>\$650,262</b>	<b>\$16,032</b>
<b>LIABILITIES AND FUND BALANCES</b>												
<b>Liabilities:</b>												
Accounts payable	\$38,796		\$63,585		\$20,879	\$364		\$4,273				
Accrued liabilities	573					5,422						
Due to other funds	1,569		1,335			85,498						
Due to other governments												
Deposits												
Deferred revenue					300	157,652						
Accrued compensated absences												
<b>Total Liabilities</b>	<b>40,938</b>		<b>64,920</b>		<b>21,179</b>	<b>248,936</b>		<b>4,273</b>				
<b>Fund Balances:</b>												
Reserved for encumbrances	306,278		73,924	24,742								
Reserved for prepaid items/deferred charges				1,486								
Reserved for endowment												
Unreserved balances:												
Undesignated, nonmajor debt service funds												
Undesignated, nonmajor capital projects funds												
Undesignated, nonmajor special revenue funds	5,163,349	4,216	947,403	929,127		6,928	39,855	268,562	52,870	478,522	650,262	16,032
<b>Total Fund Balances</b>	<b>5,469,627</b>	<b>4,216</b>	<b>1,021,327</b>	<b>955,355</b>		<b>6,928</b>	<b>39,855</b>	<b>268,562</b>	<b>52,870</b>	<b>478,522</b>	<b>650,262</b>	<b>16,032</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$5,510,565</b>	<b>\$4,216</b>	<b>\$1,086,247</b>	<b>\$955,355</b>	<b>\$21,179</b>	<b>\$255,864</b>	<b>\$39,855</b>	<b>\$272,835</b>	<b>\$52,870</b>	<b>\$478,522</b>	<b>\$650,262</b>	<b>\$16,032</b>

(continued)

CITY OF ANN ARBOR  
NONMAJOR GOVERNMENTAL FUNDS  
COMBINING BALANCE SHEET  
June 30, 2005  
(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	Special Assessments	2003 Michigan Transportation Bonds	
<b>ASSETS</b>								
Cash		\$16,857		\$2,643		\$75,990	\$4,595	\$1,052,820
Equity in pooled cash and investments	95,599	204,973	3,653,491	424,531	7,038,293		18,141	36,643,619
Investments, at fair value		1,312,502					2,070,469	3,485,357
Receivables:								
Taxes	14,050							43,229
Accounts				21,742				1,021,405
Special assessments		1,789,078						1,789,078
Accrued interest and dividends							23,983	23,983
Improvement charges		5,166						5,166
Loans								938,787
Unbilled district costs		342,028		1,704				343,732
Less: Allowance for uncollectibles	(13,824)							(83,406)
Due from other funds	947			102	476			84,620
Due from component units	6,910							6,910
Due from other governments								2,127,501
Prepaid items								1,486
<b>Total Assets</b>	<b>\$103,682</b>	<b>\$3,670,604</b>	<b>\$3,653,491</b>	<b>\$450,722</b>	<b>\$7,038,769</b>	<b>\$75,990</b>	<b>\$2,117,188</b>	<b>\$47,484,287</b>
<b>LIABILITIES AND FUND BALANCES</b>								
Liabilities:								
Accounts payable		\$2,043	\$20,436	\$25,436	\$301,599			\$962,713
Accrued liabilities			117		484		976	291,085
Due to other funds	3,570	41,134	24,198	4,125	1,997	38,967		1,333,087
Due to other governments								315,150
Deposits								24,189
Deferred revenue		2,105,867						3,202,903
Accrued compensated absences					1,981	159	1,488	86,445
<b>Total Liabilities</b>	<b>3,570</b>	<b>2,149,044</b>	<b>44,751</b>	<b>29,561</b>	<b>306,061</b>	<b>39,126</b>	<b>2,464</b>	<b>6,215,572</b>
Fund Balances:								
Reserved for encumbrances								979,798
Reserved for prepaid items/deferred charges								1,486
Reserved for endowment							2,114,724	2,114,724
Unreserved balances:								
Undesignated, nonmajor debt service funds	100,112	1,521,560						1,621,672
Undesignated, nonmajor capital projects funds			3,608,740	421,161	6,732,708	36,864		10,799,473
Undesignated, nonmajor special revenue funds								25,751,562
<b>Total Fund Balances</b>	<b>100,112</b>	<b>1,521,560</b>	<b>3,608,740</b>	<b>421,161</b>	<b>6,732,708</b>	<b>36,864</b>	<b>2,114,724</b>	<b>41,268,715</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$103,682</b>	<b>\$3,670,604</b>	<b>\$3,653,491</b>	<b>\$450,722</b>	<b>\$7,038,769</b>	<b>\$75,990</b>	<b>\$2,117,188</b>	<b>\$47,484,287</b>

CITY OF ANN ARBOR  
NONMAJOR GOVERNMENTAL FUNDS  
COMBINING STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCES  
For the Year Ended June 30, 2005

	Special Revenue Funds													
	Major Streets	Local Streets	Community Development	Home Program	Leslie Homestead	Affordable Housing	Community Television Network	Homeland Security Grant	Construction Code	Alternative Transportation	Drug Enforcement	Michigan Justice Training	Parks Maintenance & Repair Millage	Parks Repair & Restoration Millage
Revenues:														
Taxes														\$1,868,241
Special assessments/improvement charges														
Licenses, permits and registration									2,178,826					
Federal grants			1,250,663	2,035,866				149,350						
State shared revenues and grants	5,886,810	1,621,716										53,234		
Charges for services	541,362	156,136				1,287,582								
Fines and forfeits										7,768				
Interest and penalties														
Investment income	150,947	36,402				13,349	48,879		4,357		250	1,754	1,043	28,987
Rentals														
Contributions and donations						115,074				10,000				
Sale of property and equipment							137							1,339
Intra-governmental sales	57,020													
Miscellaneous	50,702		50,345	4,866			1,347							
<b>Total Revenues</b>	<b>6,686,841</b>	<b>1,814,254</b>	<b>1,301,008</b>	<b>2,040,732</b>		<b>128,423</b>	<b>1,337,945</b>	<b>149,350</b>	<b>2,183,183</b>	<b>10,000</b>	<b>8,018</b>	<b>54,988</b>	<b>1,043</b>	<b>1,898,567</b>
Expenditures:														
Current:														
Administration	956,713		399,442	97,166						78,765				
Police								110,307			9,255	29,735		
Street repair and maintenance	4,043,556	1,318,039												
Parks and recreation													1,250	1,571,892
Planning and development									1,678,350					
Community access television							1,058,726							
Urban redevelopment and housing			906,677	1,945,816		140,530								
Information services														
Capital outlay	3,785						112,934	39,043						4,876
Debt Service:														
Principal retirement														
Interest and fiscal charges														
<b>Total Expenditures</b>	<b>5,004,054</b>	<b>1,318,039</b>	<b>1,306,119</b>	<b>2,042,982</b>		<b>140,530</b>	<b>1,171,660</b>	<b>149,350</b>	<b>1,678,350</b>	<b>78,765</b>	<b>9,255</b>	<b>29,735</b>	<b>1,250</b>	<b>1,576,768</b>
Excess of Revenues over (under) Expenditures	1,682,787	496,215	(5,111)	(2,250)		(12,107)	166,285		504,833	(68,765)	(1,237)	25,253	(207)	321,799
Other Financing Sources (Uses):														
Transfers in	27,200					100,000			650,000	364,721				
Transfers out	(786,994)	(124,433)			(1,503)	(68,075)	(60,000)							(18,200)
<b>Total Other Financing Sources (Uses)</b>	<b>(759,794)</b>	<b>(124,433)</b>			<b>(1,503)</b>	<b>31,925</b>	<b>(60,000)</b>		<b>650,000</b>	<b>364,721</b>				<b>(18,200)</b>
<b>Net change in fund balances</b>	<b>922,993</b>	<b>371,782</b>	<b>(5,111)</b>	<b>(2,250)</b>	<b>(1,503)</b>	<b>19,818</b>	<b>106,285</b>		<b>1,154,833</b>	<b>295,956</b>	<b>(1,237)</b>	<b>25,253</b>	<b>(207)</b>	<b>303,599</b>
Fund Balances - July 1, 2004	7,134,474	1,675,562	5,111	2,250	1,503	561,615	1,846,382			94,952	6,331	52,415	64,724	376,713
Fund Balances - June 30, 2005	\$8,057,467	\$2,047,344				\$581,433	\$1,952,667		\$1,154,833	\$390,908	\$5,094	\$77,668	\$64,517	\$680,312

CITY OF ANN ARBOR  
NONMAJOR GOVERNMENTAL FUNDS  
COMBINING STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCES  
For the Year Ended June 30, 2005  
(continued)

	Special Revenue Funds												
	Parks Rehab & Development Millage	Open Space & Parkland Preservation	Special Assistance	Special Projects	Court Facilities	Local Law Enforcement Block Grant	Major Grants	Federal Equitable Sharing Forfeiture	Bandemer	Cemetery Perpetual Care	Energy Projects	Police and Fire Relief	Michigan Economic Development Smart Zone Grant
Revenues:													
Taxes	\$1,832,398	\$1,939,530											
Special assessments/improvement charges													
Licenses, permits and registration													
Federal grants						84,282	239,941						
State shared revenues and grants	67,740	659,337					13,964						
Charges for services													
Fines and forfeits					234,433								
Interest and penalties													
Investment income	74,898	116,040	51	6,182	17,593	383		2,609	5,228	1,273	8,874	13,188	3,486
Rentals									31,000				
Contributions and donations	52,211	50,000	4,245				676						
Sale of property and equipment										4,135			
Intra-governmental sales													
Miscellaneous	31,177												
<b>Total Revenues</b>	<b>2,058,424</b>	<b>2,764,907</b>	<b>4,296</b>	<b>6,182</b>	<b>252,026</b>	<b>84,665</b>	<b>254,581</b>	<b>2,609</b>	<b>36,228</b>	<b>5,408</b>	<b>8,874</b>	<b>13,188</b>	<b>3,486</b>
Expenditures:													
Current:													
Administration					57,368		63,335					5,184	
Police						48,690	159,924	16,964					
Street repair and maintenance													
Parks and recreation	1,771,462	1,555,566							9,232				
Planning and development													
Community access television													
Urban redevelopment and housing			608										
Information services				430,282									
Capital outlay	96,677			148,348		35,975	97,175	88,998					
Debt Service:													
Principal retirement													
Interest and fiscal charges													
<b>Total Expenditures</b>	<b>1,868,139</b>	<b>1,555,566</b>	<b>608</b>	<b>578,630</b>	<b>57,368</b>	<b>84,665</b>	<b>320,434</b>	<b>105,962</b>	<b>9,232</b>		<b>5,184</b>		
Excess of Revenues over (under) Expenditures	190,285	1,209,341	3,688	(572,448)	194,658		(65,853)	(103,353)	26,996	5,408	3,690	13,188	3,486
Other Financing Sources (Uses):													
Transfers in				950,000			64,139				156,259		12,199
Transfers out										(10,000)			
<b>Total Other Financing Sources (Uses)</b>				<b>950,000</b>			<b>64,139</b>				<b>146,259</b>		<b>12,199</b>
Net change in fund balances	190,285	1,209,341	3,688	377,552	194,658		(1,714)	(103,353)	26,996	5,408	149,949	13,188	15,685
Fund Balances - July 1, 2004	2,566,762	4,260,286	528	643,775	760,697		8,642	143,208	241,566	47,462	328,573	637,074	347
Fund Balances - June 30, 2005	\$2,757,047	\$5,469,627	\$4,216	\$1,021,327	\$955,355		\$6,928	\$39,855	\$268,562	\$52,870	\$478,522	\$650,262	\$16,032

CITY OF ANN ARBOR  
NONMAJOR GOVERNMENTAL FUNDS  
COMBINING STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCES  
For the Year Ended June 30, 2005  
(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	Special Assessments	2003 Michigan Transportation Bonds	Elizabeth R. Dean Trust	
Revenues:									
Taxes	\$2,389,564								\$8,029,733
Special assessments/improvement charges		130,872							130,872
Licenses, permits and registration									2,178,826
Federal grants									3,760,102
State shared revenues and grants				106,841					8,409,642
Charges for services									1,985,080
Fines and forfeits									242,201
Interest and penalties		50,227							50,227
Investment income	8,268	26,686	92,196	30,374	150,088	126	3,946	44,830	892,287
Rentals									31,000
Contributions and donations									232,206
Sale of property and equipment									5,611
Intra-governmental sales									57,020
Miscellaneous	(3,079)	50,766			6,000				192,124
<b>Total Revenues</b>	<b>2,394,753</b>	<b>258,551</b>	<b>92,196</b>	<b>137,215</b>	<b>156,088</b>	<b>126</b>	<b>3,946</b>	<b>44,830</b>	<b>26,196,931</b>
Expenditures:									
Current:									
Administration	4,343								1,662,316
Police									374,875
Street repair and maintenance									5,361,595
Parks and recreation								40,688	4,950,090
Planning and development									1,678,350
Community access television									1,058,726
Urban redevelopment and housing									2,993,631
Information services									430,282
Capital outlay			11,292	854,826	1,006,718	(62,520)			2,438,127
Debt Service:									
Principal retirement	2,116,100	400,000							2,516,100
Interest and fiscal charges	876,745	94,968							971,713
<b>Total Expenditures</b>	<b>2,997,188</b>	<b>494,968</b>	<b>11,292</b>	<b>854,826</b>	<b>1,006,718</b>	<b>(62,520)</b>		<b>40,688</b>	<b>24,435,805</b>
Excess of Revenues over (under) Expenditures	(602,435)	(236,417)	80,904	(717,611)	(850,630)	62,646	3,946	4,142	1,761,126
Other Financing Sources (Uses):									
Transfers in	632,271		820,725	25,000	533,442	3,826			4,339,782
Transfers out			(1,333,802)	(533,442)		(108,064)	(1,737,206)		(4,781,719)
<b>Total Other Financing Sources (Uses)</b>	<b>632,271</b>		<b>(513,077)</b>	<b>(508,442)</b>	<b>533,442</b>	<b>(104,238)</b>	<b>(1,737,206)</b>		<b>(441,937)</b>
Net change in fund balances	29,836	(236,417)	(432,173)	(1,226,053)	(317,188)	(41,592)	(1,733,260)	4,142	1,319,189
Fund Balances - July 1, 2004	70,276	1,757,977	4,040,913	1,647,214	7,049,896	78,456	1,733,260	2,110,582	39,949,526
Fund Balances - June 30, 2005	\$100,112	\$1,521,560	\$3,608,740	\$421,161	\$6,732,708	\$36,864		\$2,114,724	\$41,268,715



CITY OF ANN ARBOR  
 SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN  
 FUND BALANCES - BUDGETARY COMPARISONS  
 For the Year Ended June 30, 2005

	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	\$ 200		(\$200)	\$ -	\$ -		\$ -	\$ -	
Special assessments/improvement charges									
Federal grants							2,217,311	1,250,663	(966,648)
State shared revenues and grants	5,819,008	5,886,810	67,802	1,620,910	1,621,716	806			
Licenses, permits and registration									
Charges for services	522,000	541,362	19,362	150,000	156,136	6,136			
Fines and forfeits									
Interest and penalties									
Investment income	160,000	150,947	(9,053)	49,000	36,402	(12,598)			
Rentals									
Contributions and donations									
Sale of property and equipment									
Intra-governmental sales	6,000	57,020	51,020						
Miscellaneous	24,500	50,702	26,202				5,000	50,345	45,345
<b>Total Revenues</b>	<b>6,531,708</b>	<b>6,686,841</b>	<b>155,133</b>	<b>1,819,910</b>	<b>1,814,254</b>	<b>(5,656)</b>	<b>2,222,311</b>	<b>1,301,008</b>	<b>(921,303)</b>
Expenditures:									
Current:									
Administration	1,502,523	956,713	545,810				699,150	399,442	299,708
Police									
Street repair and maintenance	4,373,625	4,043,556	330,069	1,672,754	1,318,039	354,715			
Planning and development									
Parks and recreation									
Solid waste									
Community access television									
Urban redevelopment and housing							1,520,161	906,677	613,484
Information Services									
Capital outlay		3,785	(3,785)						
Debt service:									
Principal retirement									
Interest and fiscal charges									
<b>Total Expenditures</b>	<b>5,876,148</b>	<b>5,004,054</b>	<b>872,094</b>	<b>1,672,754</b>	<b>1,318,039</b>	<b>354,715</b>	<b>2,219,311</b>	<b>1,306,119</b>	<b>913,192</b>
Excess of Revenues over (under) Expenditures	655,560	1,682,787	1,027,227	147,156	496,215	349,059	3,000	(5,111)	(8,111)
Other Financing Sources (Uses):									
Transfers in	27,200	27,200							
Transfers out	(787,245)	(786,994)	251	(124,433)	(124,433)		(3,000)		(3,000)
<b>Total Other Financing Sources (Uses)</b>	<b>(760,045)</b>	<b>(759,794)</b>	<b>251</b>	<b>(124,433)</b>	<b>(124,433)</b>		<b>(3,000)</b>		<b>(3,000)</b>
Net changes in fund balances	(104,485)	922,993	1,027,478	22,723	371,782	349,059		(5,111)	(5,111)
Fund Balances - July 1, 2004	104,485	7,134,474	7,029,989		1,675,562	1,675,562		5,111	5,111
Fund Balances - June 30, 2005		\$8,057,467	\$8,057,467	22,723	2,047,344	2,024,621			

CITY OF ANN ARBOR  
 SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN  
 FUND BALANCES - BUDGETARY COMPARISONS  
 For the Year Ended June 30, 2005

	Home Program			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	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Special assessments/improvement charges									
Federal grants	3,914,794	2,035,866	(1,878,928)						
State shared revenues and grants									
Licenses, permits and registration									
Charges for services							1,209,600	1,287,582	77,982
Fines and forfeits									
Interest and penalties									
Investment income				5,000	13,349	8,349	45,000	48,879	3,879
Rentals									
Contributions and donations				8,900	115,074	106,174			
Sale of property and equipment								137	137
Intra-governmental sales									
Miscellaneous		4,866	4,866					1,347	1,347
<b>Total Revenues</b>	<b>3,914,794</b>	<b>2,040,732</b>	<b>(1,874,062)</b>	<b>13,900</b>	<b>128,423</b>	<b>114,523</b>	<b>1,254,600</b>	<b>1,337,945</b>	<b>83,345</b>
Expenditures:									
Current:									
Administration	134,425	97,166	37,259						
Police									
Street repair and maintenance									
Planning and development									
Parks and recreation									
Solid waste									
Community access television							1,149,917	1,058,726	91,191
Urban redevelopment and housing	3,779,869	1,945,816	1,834,053	559,769	140,530	419,239			
Information Services									
Capital outlay	500		500				214,825	112,934	101,891
Debt service:									
Principal retirement									
Interest and fiscal charges									
<b>Total Expenditures</b>	<b>3,914,794</b>	<b>2,042,982</b>	<b>1,871,812</b>	<b>559,769</b>	<b>140,530</b>	<b>419,239</b>	<b>1,364,742</b>	<b>1,171,660</b>	<b>193,082</b>
Excess of Revenues over (under) Expenditures		(2,250)	(2,250)	(545,869)	(12,107)	533,762	(110,142)	166,285	276,427
Other Financing Sources (Uses):									
Transfers in				100,000	100,000				
Transfers out				(68,075)	(68,075)		(69,100)	(60,000)	9,100
<b>Total Other Financing Sources (Uses)</b>				<b>31,925</b>	<b>31,925</b>		<b>(69,100)</b>	<b>(60,000)</b>	<b>9,100</b>
Net changes in fund balances		(2,250)	(2,250)	(513,944)	19,818	533,762	(179,242)	106,285	285,527
Fund Balances - July 1, 2004		2,250	2,250	513,944	561,615	47,671	179,242	1,846,382	1,667,140
Fund Balances - June 30, 2005					581,433	581,433		1,952,667	1,952,667

CITY OF ANN ARBOR  
 SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN  
 FUND BALANCES - BUDGETARY COMPARISONS  
 For the Year Ended June 30, 2005

	Homeland Security Grant			Construction Code			Alternative Transportation		
	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	\$ -		\$	\$ -		\$	\$ -		\$
Special assessments/improvement charges									
Federal grants	673,969	149,350	524,619						
State shared revenues and grants									
Licenses, permits and registration				1,893,400	2,178,826	285,426			
Charges for services									
Fines and forfeits									
Interest and penalties					4,357	4,357			
Investment income									
Rentals									
Contributions and donations								10,000	10,000
Sale of property and equipment									
Intra-governmental sales									
Miscellaneous									
<b>Total Revenues</b>	<b>673,969</b>	<b>149,350</b>	<b>524,619</b>	<b>1,893,400</b>	<b>2,183,183</b>	<b>289,783</b>	<b>10,000</b>	<b>10,000</b>	
Expenditures:									
Current:									
Administration							364,721	78,765	285,956
Police	221,815	110,307	111,508						
Street repair and maintenance									
Planning and development				1,765,242	1,678,350	86,892			
Parks and recreation									
Solid waste									
Community access television									
Urban redevelopment and housing									
Information Services									
Capital outlay	352,154	39,043	313,111						
Debt service:									
Principal retirement									
Interest and fiscal charges									
<b>Total Expenditures</b>	<b>573,969</b>	<b>149,350</b>	<b>424,619</b>	<b>1,765,242</b>	<b>1,678,350</b>	<b>86,892</b>	<b>364,721</b>	<b>78,765</b>	<b>285,956</b>
Excess of Revenues over (under) Expenditures	100,000		949,238	128,158	504,833	376,675	(364,721)	(68,765)	295,956
Other Financing Sources (Uses):									
Transfers in					650,000	650,000	364,721	364,721	
Transfers out	(100,000)		100,000						
<b>Total Other Financing Sources (Uses)</b>	<b>(100,000)</b>		<b>100,000</b>		<b>650,000</b>	<b>650,000</b>	<b>364,721</b>	<b>364,721</b>	
Net changes in fund balances				128,158	1,154,833	1,026,675		295,956	295,956
Fund Balances - July 1, 2004								94,952	94,952
Fund Balances - June 30, 2005				128,158	1,154,833	1,026,675		390,908	390,908

CITY OF ANN ARBOR  
 SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN  
 FUND BALANCES - BUDGETARY COMPARISONS  
 For the Year Ended June 30, 2005

	Drug Enforcement			Michigan Justice Training			Parks Repair & Restoration Millage		
	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	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,870,328	\$ 1,868,241	\$ (2,087)
Special assessments/improvement charges									
Federal grants									
State shared revenues and grants				30,000	53,234	23,234			
Licenses, permits and registration									
Charges for services							3,700		(3,700)
Fines and forfeits	7,000	7,768	768						
Interest and penalties									
Investment income		250	250	2,000	1,754	(246)		28,987	28,987
Rentals									
Contributions and donations									
Sale of property and equipment								1,339	1,339
Intra-governmental sales									
Miscellaneous									
<b>Total Revenues</b>	<b>7,000</b>	<b>8,018</b>	<b>1,018</b>	<b>32,000</b>	<b>54,988</b>	<b>22,988</b>	<b>1,874,028</b>	<b>1,898,567</b>	<b>24,539</b>
Expenditures:									
Current:									
Administration									
Police	12,000	9,255	2,745	47,000	29,735	17,265			
Street repair and maintenance									
Planning and development									
Parks and recreation							1,820,790	1,571,892	248,898
Solid waste									
Community access television									
Urban redevelopment and housing									
Information Services									
Capital outlay							10,000	4,876	5,124
Debt service:									
Principal retirement									
Interest and fiscal charges									
<b>Total Expenditures</b>	<b>12,000</b>	<b>9,255</b>	<b>2,745</b>	<b>47,000</b>	<b>29,735</b>	<b>17,265</b>	<b>1,830,790</b>	<b>1,576,768</b>	<b>254,022</b>
Excess of Revenues over (under) Expenditures	(5,000)	(1,237)	3,763	(15,000)	25,253	40,253	43,238	321,799	278,561
Other Financing Sources (Uses):									
Transfers in									
Transfers out							(2,000)	(18,200)	(16,200)
<b>Total Other Financing Sources (Uses)</b>							<b>(2,000)</b>	<b>(18,200)</b>	<b>(16,200)</b>
<b>Net changes in fund balances</b>	<b>(5,000)</b>	<b>(1,237)</b>	<b>3,763</b>	<b>(15,000)</b>	<b>25,253</b>	<b>40,253</b>	<b>41,238</b>	<b>303,599</b>	<b>262,361</b>
Fund Balances - July 1, 2004	5,000	6,331	1,331	15,000	52,415	37,415		376,713	376,713
Fund Balances - June 30, 2005		5,094	5,094		77,668	77,668	41,238	680,312	639,074

CITY OF ANN ARBOR  
 SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN  
 FUND BALANCES - BUDGETARY COMPARISONS  
 For the Year Ended June 30, 2005

	Parks Rehab & Development Millage			Open Space & Parkland Preservation			Special Assistance		
	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	\$ 1,834,284	\$ 1,832,398	\$ (1,886)	\$ 1,941,624	\$ 1,939,530	\$ (2,094)	\$ -	\$ -	\$ -
Special assessments/improvement charges									
Federal grants									
State shared revenues and grants	117,970	67,740	(50,230)		659,337	659,337			
Licenses, permits and registration									
Charges for services									
Fines and forfeits									
Interest and penalties									
Investment income	53,450	74,898	21,448		116,040	116,040	50	51	1
Rentals									
Contributions and donations	45,000	52,211	7,211		50,000	50,000	6,000	4,245	(1,755)
Sale of property and equipment									
Intra-governmental sales									
Miscellaneous		31,177	31,177						
<b>Total Revenues</b>	<b>2,050,704</b>	<b>2,058,424</b>	<b>7,720</b>	<b>1,941,624</b>	<b>2,764,907</b>	<b>823,283</b>	<b>6,050</b>	<b>4,296</b>	<b>(1,754)</b>
Expenditures:									
Current:									
Administration									
Police									
Street repair and maintenance									
Planning and development									
Parks and recreation	3,825,035	1,771,462	2,053,573	5,718,160	1,555,566	4,162,594			
Solid waste									
Community access television									
Urban redevelopment and housing							6,050	608	5,442
Information Services									
Capital outlay	158,429	96,677	61,752						
Debt service:									
Principal retirement									
Interest and fiscal charges									
<b>Total Expenditures</b>	<b>3,983,464</b>	<b>1,868,139</b>	<b>2,115,325</b>	<b>5,718,160</b>	<b>1,555,566</b>	<b>4,162,594</b>	<b>6,050</b>	<b>608</b>	<b>5,442</b>
Excess of Revenues over (under) Expenditures	(1,932,760)	190,285	2,123,045	(3,776,536)	1,209,341	4,985,877		3,688	3,688
Other Financing Sources (Uses):									
Transfers in									
Transfers out									
<b>Total Other Financing Sources (Uses)</b>									
<b>Net changes in fund balances</b>	<b>(1,932,760)</b>	<b>190,285</b>	<b>2,123,045</b>	<b>(3,776,536)</b>	<b>1,209,341</b>	<b>4,985,877</b>		<b>3,688</b>	<b>3,688</b>
Fund Balances - July 1, 2004	1,932,760	2,566,762	634,002	3,785,313	4,260,286	474,973		528	528
Fund Balances - June 30, 2005		2,757,047	2,757,047	8,777	5,469,627	5,460,850		4,216	4,216

CITY OF ANN ARBOR  
 SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN  
 FUND BALANCES - BUDGETARY COMPARISONS  
 For the Year Ended June 30, 2005

	Special Projects			Court Facilities			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	\$ -	\$	\$	\$ -	\$	\$	\$ -	\$	\$
Special assessments/improvement charges									
Federal grants							26,849	84,282	57,433
State shared revenues and grants									
Licenses, permits and registration									
Charges for services									
Fines and forfeits				220,000	234,433	14,433			
Interest and penalties									
Investment income					17,593	17,593		383	383
Rentals									
Contributions and donations									
Sale of property and equipment		6,182	6,182						
Intra-governmental sales									
Miscellaneous									
<b>Total Revenues</b>	<b>6,182</b>	<b>6,182</b>	<b>6,182</b>	<b>220,000</b>	<b>252,026</b>	<b>32,026</b>	<b>26,849</b>	<b>84,665</b>	<b>57,816</b>
Expenditures:									
Current:									
Administration				119,500	57,368	62,132			
Police							29,832	48,690	(18,858)
Street repair and maintenance									
Planning and development									
Parks and recreation									
Solid waste									
Community access television									
Urban redevelopment and housing									
Information Services	950,000	430,282	519,718						
Capital outlay		148,348	(148,348)	90,000		90,000		35,975	(35,975)
Debt service:									
Principal retirement									
Interest and fiscal charges									
<b>Total Expenditures</b>	<b>950,000</b>	<b>578,630</b>	<b>371,370</b>	<b>209,500</b>	<b>57,368</b>	<b>152,132</b>	<b>29,832</b>	<b>84,665</b>	<b>(54,833)</b>
Excess of Revenues over (under) Expenditures	(950,000)	(572,448)	377,552	10,500	194,658	184,158	(2,983)		2,983
Other Financing Sources (Uses):									
Transfers in	950,000	950,000					2,983		2,983
Transfers out									
<b>Total Other Financing Sources (Uses)</b>	<b>950,000</b>	<b>950,000</b>					<b>2,983</b>		<b>2,983</b>
Net changes in fund balances		377,552	377,552	10,500	194,658	184,158			
Fund Balances - July 1, 2004		643,775	643,775		760,697	760,697			
Fund Balances - June 30, 2005		1,021,327	1,021,327	10,500	955,355	944,855			

CITY OF ANN ARBOR  
 SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN  
 FUND BALANCES - BUDGETARY COMPARISONS  
 For the Year Ended June 30, 2005

	Major Grants			Federal Equitable Sharing Forfeiture			Bandemer		
	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	\$ -	\$	\$	\$ -	\$	\$	\$ -	\$	\$
Special assessments/improvement charges									
Federal grants	613,692	239,941	(373,751)						
State shared revenues and grants	104,603	13,964	(90,639)						
Licenses, permits and registration									
Charges for services									
Fines and forfeits				5,000		(5,000)	3,600		(3,600)
Interest and penalties									
Investment income				5,000	2,609	(2,391)	4,180	5,228	1,048
Rentals							30,000	31,000	1,000
Contributions and donations	5,117	676	(4,441)						
Sale of property and equipment									
Intra-governmental sales									
Miscellaneous									
Total Revenues	723,412	254,581	(468,831)	10,000	2,609	(7,391)	37,780	36,228	(1,552)
Expenditures:									
Current:									
Administration	240,546	63,335	177,211						
Police	519,740	159,924	359,816	17,002	16,964	38			
Street repair and maintenance									
Planning and development									
Parks and recreation							37,596	9,232	28,364
Solid waste									
Community access television									
Urban redevelopment and housing									
Information Services									
Capital outlay		97,175	(97,175)	88,998	88,998				
Debt service:									
Principal retirement									
Interest and fiscal charges									
Total Expenditures	760,286	320,434	439,852	106,000	105,962	38	37,596	9,232	28,364
Excess of Revenues over (under) Expenditures	(36,874)	(65,853)	(28,979)	(96,000)	(103,353)	(7,353)	184	26,996	26,812
Other Financing Sources (Uses):									
Transfers in	64,139	64,139							
Transfers out									
Total Other Financing Sources (Uses)	64,139	64,139							
Net changes in fund balances	27,265	(1,714)	(28,979)	(96,000)	(103,353)	(7,353)	184	26,996	26,812
Fund Balances - July 1, 2004		8,642	8,642	96,000	143,208	47,208		241,566	241,566
Fund Balances - June 30, 2005	27,265	6,928	(20,337)		39,855	39,855	184	268,562	268,378

CITY OF ANN ARBOR  
 SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN  
 FUND BALANCES - BUDGETARY COMPARISONS  
 For the Year Ended June 30, 2005

	Cemetery Perpetual Care			Energy Projects			Police and Fire Relief		
	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	\$ -	\$	\$	\$ -	\$	\$	\$ -	\$	\$
Special assessments/improvement charges									
Federal grants									
State shared revenues and grants									
Licenses, permits and registration									
Charges for services	3,200	4,135	935						
Fines and forfeits									
Interest and penalties									
Investment income		1,273	1,273	3,000	8,874	5,874	12,000	13,188	1,188
Rentals									
Contributions and donations				9,632		(9,632)			
Sale of property and equipment									
Intra-governmental sales									
Miscellaneous									
<b>Total Revenues</b>	<b>3,200</b>	<b>5,408</b>	<b>2,208</b>	<b>12,632</b>	<b>8,874</b>	<b>(3,758)</b>	<b>12,000</b>	<b>13,188</b>	<b>1,188</b>
Expenditures:									
Current:									
Administration				13,762	5,184	8,578			
Police									
Street repair and maintenance									
Planning and development									
Parks and recreation									
Solid waste									
Community access television									
Urban redevelopment and housing									
Information Services									
Capital outlay				140,000		140,000			
Debt service:									
Principal retirement									
Interest and fiscal charges									
<b>Total Expenditures</b>				<b>153,762</b>	<b>5,184</b>	<b>148,578</b>			
Excess of Revenues over (under) Expenditures	3,200	5,408	2,208	(141,130)	3,690	144,820	12,000	13,188	1,188
Other Financing Sources (Uses):									
Transfers in				156,259	156,259				
Transfers out				(10,000)	(10,000)				
<b>Total Other Financing Sources (Uses)</b>				<b>146,259</b>	<b>146,259</b>				
Net changes in fund balances	3,200	5,408	2,208	5,129	149,949	144,820	12,000	13,188	1,188
Fund Balances - July 1, 2004		47,462	47,462		328,573	328,573		637,074	637,074
Fund Balances - June 30, 2005	3,200	52,870	49,670	5,129	478,522	473,393	12,000	650,262	638,262



CITY OF ANN ARBOR  
 SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN  
 FUND BALANCES - BUDGETARY COMPARISONS  
 For the Year Ended June 30, 2005

	MI EDC Smart Zone			General Debt Service			Special Assessments-Debt Service		
	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	\$ 320,000		(\$320,000)	\$ 2,391,836	\$2,389,564	(\$2,272)			
Special assessments/improvement charges								130,872	130,872
Federal grants									
State shared revenues and grants									
Licenses, permits and registration									
Charges for services									
Fines and forfeits									
Interest and penalties		3,486	3,486	2,000	8,268	6,268	100,000	50,227	(49,773)
Investment income							9,000	26,686	17,686
Rentals									
Contributions and donations									
Sale of property and equipment									
Intra-governmental sales									
Miscellaneous					(3,079)	(3,079)		50,766	50,766
<b>Total Revenues</b>	<b>320,000</b>	<b>3,486</b>	<b>(316,514)</b>	<b>2,393,836</b>	<b>2,394,753</b>	<b>917</b>	<b>109,000</b>	<b>258,551</b>	<b>149,551</b>
Expenditures:									
Current:									
Administration	320,000		320,000	17,000	4,343	12,657			
Police									
Street repair and maintenance									
Planning and development									
Parks and recreation									
Solid waste									
Community access television									
Urban redevelopment and housing									
Information Services									
Capital outlay									
Debt service:									
Principal retirement				3,144,714	2,116,100	1,028,614	400,000	400,000	
Interest and fiscal charges				1,229,843	876,745	353,098	95,337	94,968	369
<b>Total Expenditures</b>	<b>320,000</b>		<b>320,000</b>	<b>4,391,557</b>	<b>2,997,188</b>	<b>1,394,369</b>	<b>495,337</b>	<b>494,968</b>	<b>369</b>
Excess of Revenues over (under) Expenditures		3,486	3,486	(1,997,721)	(602,435)	1,395,286	(386,337)	(236,417)	149,920
Other Financing Sources (Uses):									
Transfers in		12,199	12,199	2,013,382	632,271	(1,381,111)			
Transfers out									
<b>Total Other Financing Sources (Uses)</b>		<b>12,199</b>	<b>12,199</b>	<b>2,013,382</b>	<b>632,271</b>	<b>(1,381,111)</b>			
Net changes in fund balances		15,685	15,685	15,661	29,836	14,175	(386,337)	(236,417)	149,920
Fund Balances - July 1, 2004		347	347		70,276	70,276	386,337	1,757,977	1,371,640
Fund Balances - June 30, 2005		16,032	16,032	15,661	100,112	84,451		1,521,560	1,521,560

CITY OF ANN ARBOR  
ALL INTERNAL SERVICE FUNDS  
COMBINING STATEMENT OF NET ASSETS  
June 30, 2005

ASSETS	Central Stores	Park Service Headquarters	Fleet Services	Insurance	Total
Current Assets:					
Cash	\$14,759	\$3,185	\$66,794	\$10,759	\$95,497
Equity in pooled cash and investments	594,739		2,470,381	8,931,561	11,996,681
Accounts receivable			133	4,256	4,389
Less: allowance for uncollectibles			(133)	(4,256)	(4,389)
Due from other funds	83,839		167,616	20,825	272,280
Prepaid items				1,434,877	1,434,877
Inventory, at cost	475,454		323,450		798,904
<b>Total Current Assets</b>	<b>1,168,791</b>	<b>3,185</b>	<b>3,028,241</b>	<b>10,398,022</b>	<b>14,598,239</b>
Property, Plant and Equipment, at cost:					
Land		98,440	96,267		194,707
Buildings	90,663	152,159	257,843		500,665
Improvements other than buildings			62,407		62,407
Vehicles			7,269,809		7,269,809
Machinery and equipment	75,733		2,503,128		2,578,861
Less: Accumulated depreciation	(118,404)	(147,206)	(7,409,712)		(7,675,322)
<b>Net Property, Plant and Equipment</b>	<b>47,992</b>	<b>103,393</b>	<b>2,779,742</b>		<b>2,931,127</b>
<b>Total Assets</b>	<b>1,216,783</b>	<b>106,578</b>	<b>5,807,983</b>	<b>10,398,022</b>	<b>17,529,366</b>
LIABILITIES					
Current Liabilities:					
Accounts payable	\$28,379	\$1,782	\$183,571	\$50,319	\$264,051
Estimated claims payable				5,644,433	5,644,433
Accrued liabilities	3,197	88	33,153	1,853	38,291
Due to other funds	1,415	18,344	71,553	845,324	936,636
Accrued compensated absences - short term	4,047	566	17,006	2,147	23,766
<b>Total Current Liabilities</b>	<b>37,038</b>	<b>20,780</b>	<b>305,283</b>	<b>6,544,076</b>	<b>6,907,177</b>
Long Term Liabilities:					
Accrued compensated absences	23,015	-	250,565	12,640	286,220
<b>Total Long-Term Liabilities</b>	<b>23,015</b>		<b>250,565</b>	<b>12,640</b>	<b>286,220</b>
<b>TOTAL LIABILITIES</b>	<b>60,053</b>	<b>20,780</b>	<b>555,848</b>	<b>6,556,716</b>	<b>7,193,397</b>
Net Assets:					
Invested in Capital Assets	47,992	103,393	2,779,742		2,931,127
Unrestricted (deficit)	1,108,738	(17,595)	2,472,393	3,841,306	7,404,842
<b>TOTAL NET ASSETS</b>	<b>\$1,156,730</b>	<b>\$85,798</b>	<b>\$5,252,135</b>	<b>\$3,841,306</b>	<b>\$10,335,969</b>

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, 2005

	Central Stores	Park Service Headquarters	Fleet Services	Insurance	Total
Operating Revenues:					
Charges for services	\$1,123,433	\$101,373	\$2,464,308	\$16,803,075	\$20,492,189
Miscellaneous revenues			93		93
<b>Total Operating Revenues</b>	<b>1,123,433</b>	<b>101,373</b>	<b>2,464,401</b>	<b>16,803,075</b>	<b>20,492,282</b>
Operating Expenses:					
Personal services	220,549	31,882	1,297,285	417,526	1,967,242
Municipal service charge	46,260	12,552	226,308	291,468	576,588
Materials and supplies	16,399	6,148	28,001	8,780	59,328
Utilities	2,404	54,260	5,669	479	62,812
Insurance	15,913	5,628	39,084	18,211,399	18,272,024
Contractual services	97,793	2,002	6,548	588	106,931
Maintenance		3,891	40,552		44,443
Professional fees	517		3,174	201,311	205,002
Miscellaneous	4,336	594	8,374	1,442	14,746
Cost of goods sold	574,394		1,290,296		1,864,690
Depreciation and amortization	4,996	3,287	999,064		1,007,347
<b>Total Operating Expenses</b>	<b>983,561</b>	<b>120,244</b>	<b>3,944,355</b>	<b>19,132,993</b>	<b>24,181,153</b>
<b>Operating Income (Loss)</b>	<b>139,872</b>	<b>(18,871)</b>	<b>(1,479,954)</b>	<b>(2,329,918)</b>	<b>(3,688,871)</b>
Nonoperating Revenues (Expenses):					
Investment income	12,721	26	29,391	258,968	301,106
Net gain on retirement of capital assets			92,639		92,639
<b>Total Nonoperating Revenues (Expenses)</b>	<b>12,721</b>	<b>26</b>	<b>122,030</b>	<b>258,968</b>	<b>393,745</b>
<b>Income (Loss) Before Transfers</b>	<b>152,593</b>	<b>(18,845)</b>	<b>(1,357,924)</b>	<b>(2,070,950)</b>	<b>(3,295,126)</b>
Transfers In			2,114,031		2,114,031
Transfers Out	(8,661)		(516,681)	(1,925,000)	(2,450,342)
<b>Net Transfers In (Out)</b>	<b>(8,661)</b>		<b>1,597,350</b>	<b>(1,925,000)</b>	<b>(336,311)</b>
<b>Change in Net Assets</b>	<b>143,932</b>	<b>(18,845)</b>	<b>239,426</b>	<b>(3,995,950)</b>	<b>(3,631,437)</b>
<b>Net Assets - July 1, 2004</b>	<b>1,012,798</b>	<b>104,643</b>	<b>5,012,709</b>	<b>7,837,256</b>	<b>13,967,406</b>
<b>Net Assets - June 30, 2005</b>	<b>\$1,156,730</b>	<b>\$85,798</b>	<b>\$5,252,135</b>	<b>\$3,841,306</b>	<b>\$10,335,969</b>

CITY OF ANN ARBOR  
ALL INTERNAL SERVICE FUNDS  
COMBINING STATEMENT OF CASH FLOWS  
For the Fiscal Year Ended June 30, 2005

	Central Stores	Park Service Headquarters	Fleet Services	Insurance	Total
Cash Flows from Operations:					
Receipts from customers	\$1,127,897	\$101,373	\$2,479,270	\$16,803,435	\$20,511,975
Receipts from interfund services provided		15,308	(29,987)	845,282	830,603
Payments to suppliers	(879,878)	(84,946)	(1,518,093)	(16,328,524)	(18,811,441)
Payments to employees	(237,347)	(32,126)	(1,283,811)	(452,046)	(2,005,330)
Payments for interfund services used	(85,344)		279,845	(12,822)	181,679
Net cash provided by (used in) operating activities	(74,672)	(391)	(72,776)	855,325	707,486
Cash flows from noncapital financing activities:					
Transfers in			2,114,031		2,114,031
Transfers out	(8,661)		(516,681)	(1,925,000)	(2,450,342)
Net cash flows provided by (used in) noncapital financing activities	(8,661)		1,597,350	(1,925,000)	(336,311)
Cash flows from capital and related financing activities:					
Principal paid on capital leases and notes					-
Interest paid on capital leases and notes			(275)		(275)
Proceeds from sale of equipment			131,998		131,998
Acquisition of capital assets			(811,866)		(811,866)
Net cash flows used in capital and related financing activities			(680,143)		(680,143)
Cash flows from investing activities:					
Interest and dividends on investments	12,721	26	29,391	258,968	301,106
Net cash flows provided by investing activities	12,721	26	29,391	258,968	301,106
Net increase (decrease) in cash and cash equivalents	(70,612)	(365)	873,822	(810,707)	(7,862)
Cash and cash equivalents - July 1, 2004	680,110	3,550	1,663,353	9,753,027	12,100,040
Cash and cash equivalents - June 30, 2005	\$609,498	\$3,185	\$2,537,175	\$8,942,320	\$12,092,178

(Continued)

CITY OF ANN ARBOR  
ALL INTERNAL SERVICE FUNDS  
COMBINING STATEMENT OF CASH FLOWS  
For the Fiscal Year Ended June 30, 2005

	Central Stores	Park Service Headquarters	Fleet Services	Insurance	Total
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:					
Net operating income (loss)	\$139,872	(\$18,871)	(\$1,479,954)	(\$2,329,918)	(\$3,688,871)
Adjustments not affecting cash:					
Depreciation and amortization	4,996	3,287	999,064		1,007,347
Allowance for uncollectible accounts	(2,403)		(24,125)		(26,528)
(Increase) decrease in assets and increase (decrease) in liabilities:					
Accounts receivable	6,867		38,994	360	46,221
Inventory	(89,850)		92,035		2,185
Prepaid items				(89,142)	(89,142)
Accounts payable	(32,012)	129	37,878	(370,606)	(364,611)
Accrued compensated absences	(8,688)	99	38,041	(20,854)	8,598
Estimated claims payable				2,846,691	2,846,691
Accrued liabilities	(8,110)	(343)	(24,567)	(13,666)	(46,686)
Due to other governments					-
Due to other funds	(1,505)	15,308	(29,987)	845,282	829,098
Due from other funds	(83,839)		279,845	(12,822)	183,184
Net cash provided by (used in) operating activities	(\$74,672)	(\$391)	(\$72,776)	\$855,325	\$707,486

CITY OF ANN ARBOR  
ALL FIDUCIARY FUNDS  
COMBINING STATEMENT OF FIDUCIARY NET ASSETS  
June 30, 2005

	Employee Retirement Funds		Total Pension Funds
	Employees' Retirement System	VEBA Trust Fund	
<b>ASSETS</b>			
Cash	\$2,725,757	\$1,116,965	\$3,842,722
Equity in pooled cash and investments		1,426,088	1,426,088
Investments, at fair value:			
Short term investments	7,421,807	492,204	7,914,011
U.S. Government obligations	51,470,904		51,470,904
Municipal bonds	337,586		337,586
Collateralized Mortgage Obligations	8,792,471		8,792,471
Domestic corporate bonds	33,143,140	12,054,677	45,197,817
Domestic stocks	249,678,132	27,601,725	277,279,857
Real Estate-Direct & funds	36,999,618	2,328,682	39,328,300
Accrued interest and dividends	980,953	123,794	1,104,747
Due from other governments	27,428	13,309	40,737
Property, plant & equipment (net of depreciation of \$23,463)	4,934		4,934
<b>Total Assets</b>	<b>391,582,730</b>	<b>45,157,444</b>	<b>436,740,174</b>
<b>LIABILITIES</b>			
Liabilities:			
Accounts payable	3,451,044	194,104	3,645,148
Accrued liabilities	8,789		8,789
Accrued compensated absences	103,297		103,297
<b>Total Liabilities</b>	<b>3,563,130</b>	<b>194,104</b>	<b>3,757,234</b>
<b>Net Assets:</b>			
Held in Trust for Pension Benefits and Other Purposes	<b>\$388,019,600</b>	<b>\$44,963,340</b>	<b>\$432,982,940</b>

CITY OF ANN ARBOR  
ALL FIDUCIARY FUNDS  
COMBINING STATEMENT OF FIDUCIARY NET ASSETS  
June 30, 2005

	Agency Funds			Total Agency Funds
	Treasurer's Current Tax	Contractors' Retainage	Fifteenth District Court	
<b>ASSETS</b>				
Cash	\$813,609	\$275,830	\$219,057	\$1,308,496
Due from other governments		5,133		5,133
<b>Total Assets</b>	<b>\$813,609</b>	<b>\$280,963</b>	<b>\$219,057</b>	<b>\$1,313,629</b>
<b>LIABILITIES</b>				
Liabilities:				
Accounts payable	\$43,658	\$280,963		\$324,621
Due to other governments	769,951		134,957	904,908
Deposits			84,100	84,100
<b>Total Liabilities</b>	<b>\$813,609</b>	<b>\$280,963</b>	<b>\$219,057</b>	<b>\$1,313,629</b>

CITY OF ANN ARBOR  
FIDUCIARY FUNDS  
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS  
For the Year Ended June 30, 2005

	Employee Retirement Funds		Total
	Employees' Retirement System	VEBA Trust Fund	
ADDITIONS			
Investment income:			
Net realized and unrealized appreciation in fair value of investments	\$28,985,167	\$2,248,945	\$31,234,112
Interest	4,695,985	748,247	5,444,232
Dividends	1,502,583	451,536	1,954,119
Total investment income	35,183,735	3,448,728	38,632,463
Less investment expense	1,657,944	175,654	1,833,598
Net investment earnings	33,525,791	3,273,074	36,798,865
Contributions:			
Employer	1,044,659	4,099,025	5,143,684
Plan member	2,779,966		2,779,966
Total contributions	3,824,625	4,099,025	7,923,650
Total additions	37,350,416	7,372,099	44,722,515
DEDUCTIONS			
Benefits	21,510,124		21,510,124
Refund of contributions	515,496		515,496
Administrative expense	3,471,369	19,348	3,490,717
Total deductions	25,496,989	19,348	25,516,337
Change in net assets	11,853,427	7,352,751	19,206,178
Net assets held in trust for benefits at beginning of year	376,166,173	37,610,589	413,776,762
Net assets held in trust for benefits at end of year	\$388,019,600	\$44,963,340	\$432,982,940



CITY OF ANN ARBOR  
ALL AGENCY FUNDS

COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES  
For the Year Ended June 30, 2005

	Balance July 1, 2004	Additions	Retirements	Balance June 30, 2005
TREASURER'S CURRENT TAX FUND				
ASSETS				
Cash	\$37,508	\$603,577,593	\$602,801,492	\$813,609
Equity in pooled cash and investments		295,163,030	295,163,030	
Due from other funds		201,092	201,092	
		<hr/>	<hr/>	
Total Assets	<hr/> <u>\$37,508</u>	<hr/> <u>\$898,941,715</u>	<hr/> <u>\$898,165,614</u>	<hr/> <u>\$813,609</u>
LIABILITIES				
Accounts payable	\$37,508	\$1,942,645	\$1,936,495	\$43,658
Due to other funds		735,824	735,824	
Due to other governments		214,677,066	213,907,115	769,951
		<hr/>	<hr/>	
Total Liabilities	<hr/> <u>\$37,508</u>	<hr/> <u>\$217,355,535</u>	<hr/> <u>\$216,579,434</u>	<hr/> <u>\$813,609</u>

CITY OF ANN ARBOR  
ALL AGENCY FUNDS

COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES  
For the Year Ended June 30, 2005

	Balance July 1, 2004	Additions	Retirements	Balance June 30, 2005
<b>TREASURER'S DELINQUENT TAX FUND</b>				
<b>ASSETS</b>				
Cash	\$204,412	\$1,039,849	\$1,244,261	
Equity in pooled cash and investments		758,125	758,125	
<b>Total Assets</b>	<b>\$204,412</b>	<b>\$1,797,974</b>	<b>\$2,002,386</b>	
<b>LIABILITIES</b>				
Accounts payable		\$3,777	\$3,777	
Due to other funds		530,832	530,832	
Due to other governments	204,412	506,317	710,729	
<b>Total Liabilities</b>	<b>\$204,412</b>	<b>\$1,040,926</b>	<b>\$1,245,338</b>	
<b>CONTRACTORS' RETAINAGES FUND</b>				
<b>ASSETS</b>				
Cash	\$678,902	\$1,842,998	\$2,246,070	\$275,830
Due from other government		5,133		5,133
Equity in pooled cash and investments		692,054	692,054	
Due from other funds		20,594	20,594	
<b>Total Assets</b>	<b>\$678,902</b>	<b>\$2,560,779</b>	<b>\$2,958,718</b>	<b>\$280,963</b>
<b>LIABILITIES</b>				
Accounts payable	\$678,902	\$869,472	\$1,267,411	\$280,963
Due to other funds		264,700	264,700	
<b>Total Liabilities</b>	<b>\$678,902</b>	<b>\$1,134,172</b>	<b>\$1,532,111</b>	<b>\$280,963</b>

CITY OF ANN ARBOR  
ALL AGENCY FUNDS

COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES  
For the Year Ended June 30, 2005

	Balance July 1, 2004	Additions	Retirements	Balance June 30, 2005
FIFTEENTH DISTRICT COURT				
ASSETS				
Cash	\$204,432	\$283,654	\$269,029	\$219,057
LIABILITIES				
Due to other funds		\$269,029	\$269,029	
Due to other governments	\$124,825	10,132		134,957
Deposits	79,607	4,493		84,100
Total Liabilities	\$204,432	\$283,654	\$269,029	\$219,057
TOTAL - ALL AGENCY FUNDS				
ASSETS				
Cash	\$1,125,254	\$606,744,094	\$606,560,852	\$1,308,496
Equity in pooled cash and investments		296,613,209	296,613,209	
Due from other funds		221,686	221,686	
Due from other governments		5,133		5,133
Total Assets	\$1,125,254	\$903,584,122	\$903,395,747	\$1,313,629
LIABILITIES				
Accounts payable	\$716,410	\$2,815,894	\$3,207,683	\$324,621
Due to other funds		1,800,385	1,800,385	
Due to other governments	329,237	215,193,515	214,617,844	904,908
Deposits	79,607	4,493		84,100
Total Liabilities	\$1,125,254	\$219,814,287	\$219,625,912	\$1,313,629

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	(2) Solid Waste	Health/Social Services	Culture and Recreation	Debt Service	Transfers to Ann Arbor Transportation Authority	Other	Total
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
2003-04	18,075,817	39,261,897	18,064,660		6,363,071	3,518,856	11,935,954	3,743,483	7,951,457	250,000	109,165,195
2004-05	16,925,174	39,610,619	16,037,811			4,782,131	11,435,111	3,487,813	8,349,044		100,627,703

## 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.

(2) The operations of Solid Waste were established as an Enterprise Fund effective July 1, 2004.

Source: City of Ann Arbor - Financial Services

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
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
2003-04	64,162,166	3,145,919	22,473,928	109,655	13,268,471	5,479,578	786,244	2,429,785	111,855,746
2004-05	59,452,810	3,715,412	23,813,341	58,482	9,343,486	5,787,212	1,508,455	844,153	104,523,351

Note:

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

Source: City of Ann Arbor - Financial Services

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
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
2003-04	64,736,506	63,519,485	98.1	64,535,327	99.7
2004-05	68,096,928	66,903,671	98.2	67,954,005	99.8

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 - Financial Services, Treasury

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 Assessed Value	True Cash Value	Industrial Facilities Tax Roll
	Real Property	Personal Property	Total Valuation			
1995-96	\$ 2,403,581,095	\$ 224,140,700	\$ 2,627,721,795	\$ 2,633,642,600	\$ 5,267,285,200	\$ 17,551,500
1996-97	2,487,377,168	233,044,900	2,720,422,068	2,722,634,200	5,445,268,400	17,080,600
1997-98	2,561,309,025	242,149,600	2,803,458,625	2,867,066,700	5,734,133,400	15,895,500
1998-99	2,696,959,403	260,367,000	2,957,326,403	3,049,361,700	6,098,723,400	2,001,000
1999-00	2,812,309,779	280,181,600	3,092,491,379	3,274,785,900	6,549,571,800	1,999,100
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	-
2003-04	3,554,607,491	274,842,600	3,829,450,091	4,835,407,200	9,670,814,400	31,030,900
2004-05	3,755,255,488	273,920,800	4,029,176,288	5,222,389,700	10,444,779,400	60,772,600

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) 2004/05 Per Capita Taxable Value                      \$35,242  
 2004/05 Per Capita True Cash Value                      \$91,358
- (4) A breakdown of the City's 2004 Taxable Value by use and class is as follows:

By Use		By Class	
Residential	60.35%	Real Property	93.16%
Commercial	32.55%	Personal Property	6.84%
Industrial	6.17%	Total	100.00%
Utility	0.93%		
Total	100.00%		

- (5) For the Industrial Facilities tax roll, the millage rate is 50% of the normal millage rate.

Source: City of Ann Arbor - Financial Services, Assessing

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	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	58.8566
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
Homestead	2003-04	6.0315	2.5264	2.1054	2.1054	0.7300	1.4236	1.9792	16.9015	17.1741	1.9500	5.5819	3.8343	45.4418
Non-Homestead	2003-04	6.0315	2.5264	2.1054	2.1054	0.7300	1.4236	1.9792	16.9015	29.5202	1.9500	5.5819	3.8343	57.7879
Principle Residence Exemption (PRE)	2004-05	6.2125	2.5137	2.0948	2.0948	0.6000	1.4162	1.9693	16.9013	19.1890	1.9476	5.5493	3.7748	47.3620
Non-PRE	2004-05	6.2125	2.5137	2.0948	2.0948	0.6000	1.4162	1.9693	16.9013	31.5090	1.9476	5.5493	3.7748	59.6820

\* Represents millage collected for Ann Arbor Transportation Authority.

\*\* Includes Washtenaw Intermediate School Ann Arbor District millage of 4.035 mills and State Education Tax of 6.0 mills on both Principle Residence and Non-Principle Residence properties. On Non-Principal Residence properties, an additional 12.3461 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 - Financial Services, Assessing



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
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-
2003-04	227,687	227,687	100	-0-
2004-05	303,800	303,800	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 - Financial Services, Treasury

TABLE VII

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

Fiscal Year	Population	Taxable Value	Gross Bonded Debt (1)	Debt Service Monies Available (2)	Net Bonded Debt	Ratio of Net Bonded Debt to Taxable Value	Net Bonded Debt Per Capita
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
2003-04	114,061	3,829,450,091	15,540,000	70,276	15,469,724	0.0040	135.63
2004-05	114,328	4,029,176,288	16,365,000	100,112	16,264,888	0.0040	142.27

## 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 - Financial Services

TABLE VIII

CITY OF ANN ARBOR  
COMPUTATION OF LEGAL DEBT MARGIN  
June 30, 2005  
(Unaudited)

Taxable value of real and personal property	<u>\$ 4,029,176,288</u>
Legal debt limit (10% of taxable value)	<u>402,917,629</u>
Debt subject to limit:	
Net direct debt	45,469,255
Less: Special Assessment bonds (general obligation portion)	(1,524,636)
Indirect debt	<u>43,944,619</u>
Legal debt margin	<u><u>\$ 358,973,010</u></u>

Source: City of Ann Arbor - Financial Services

TABLE IX

CITY OF ANN ARBOR  
COMPUTATION OF NET DIRECT, INDIRECT AND OVERLAPPING DEBT  
June 30, 2005  
(Unaudited)

	Gross Amount Outstanding	Self-Supporting Or Paid By Benefited Entity	Net Amount Outstanding
<b>DIRECT AND INDIRECT DEBT</b>			
General Obligation Bonds	\$23,788,434	\$10,137,229	\$13,651,205
Special Assessment Bonds	1,524,636	1,524,636	
Ann Arbor Building Authority Bonds	28,270,000		28,270,000
Revenue Bonds	71,405,000	71,405,000	
Other Long-Term Debt	5,807,777	2,259,727	3,548,050
Other Bonds	1,405,550	1,405,550	
	<u>\$132,201,397</u>	<u>\$86,732,142</u>	<u>45,469,255</u>
<b>OVERLAPPING DEBT</b>			
61.56% Ann Arbor School District	146,535,000	56,328,054	90,206,946
32.23% Washtenaw Community College	54,640,000	37,029,528	17,610,472
31.46% Washtenaw County at Large	38,815,236	26,603,963	12,211,273
	<u>\$239,990,236</u>	<u>\$119,961,545</u>	<u>120,028,691</u>
<b>NET DIRECT, INDIRECT AND OVERLAPPING DEBT</b>			<u><u>\$165,497,946</u></u>
<b>PER CAPITA (114,328)</b>			
Net Direct and Indirect Debt			\$397.71
Net Direct, Indirect and Overlapping Debt			\$1,447.57
<b>RATIO TO 2004/2005 TAXABLE VALUE (\$4,029,176,288)</b>			
Net Direct and Indirect Debt			1.13%
Net Direct, Indirect and Overlapping Debt			4.11%

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
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%
2003-04	3,389,076	1,429,218	4,818,294	109,165,195	4.4%
2004-05	3,544,714	1,322,509	4,867,223	100,627,703	4.8%

(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 - Financial Services

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:							
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
2003-04	16,105,264	11,065,321	5,039,943	2,470,000	1,580,236	4,050,236	1.2
2004-05	18,365,626	12,229,142	6,136,484	2,665,000	1,753,678	4,418,678	1.4
Sewage Disposal System:							
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
2003-04	15,938,987	10,904,443	5,034,544	1,115,000	322,820	1,437,820	3.5
2004-05	19,351,456	9,667,652	9,683,804	1,125,000	1,694,292	2,819,292	3.4
Stormwater Sewer System:							
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
2003-04	2,859,418	1,691,556	1,167,862	110,000	41,366	151,366	7.7
2004-05	3,578,596	1,449,544	2,129,052	115,000	36,243	151,243	14.1

## Notes:

- (1) Includes interest income.  
(2) Excludes depreciation expense.

Source: City of Ann Arbor - Financial Services

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 (1)	School Enrollment (2)	Unemployment Rate % (3)
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
2003-04	114,061	28.1	16.5	16,724	4.4
2004-05	114,328	28.1	16.5	16,980	4.7

## 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>
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 *
2003-04	9,670,814,400	267,378,600	160,395,306,000 *
2004-05	10,444,779,400	157,859,588	31,889,426,000 *

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

\* Includes deposits other than Michigan



TABLE XIV

CITY OF ANN ARBOR  
PRINCIPAL TAXPAYERS  
(Unaudited)

The twenty largest taxpayers for the 2004-05 fiscal year and their 2004 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	\$200,365,900	4.97%
Briarwood Shopping Complex	Shopping Center	35,975,316	0.89%
Detroit Edison	Utility	27,022,655	0.67%
Arborland	Shopping Center	19,733,504	0.49%
Geddes Lakes Cooperative	Co-op Housing	15,862,230	0.39%
McKinley Associates	Apartments	15,354,353	0.38%
Windemere Park Apt.	Apartments	14,001,751	0.35%
Village Co-op	Co-op Housing	13,153,339	0.33%
Michigan Consolidated Gas Co.	Utility	12,437,000	0.31%
Glacier Hills	Elderly Housing	12,414,549	0.31%
Phoenix Drive LLC	Corporate Headquarters	11,782,197	0.29%
Botanical Gardens Assoc.	Apartments	11,392,048	0.28%
Burlington Property, LLC	Office Building	10,797,200	0.27%
EQR-Fancap	Apartments	10,766,019	0.27%
Great Lakes Real Estate Investment Trust	Office Building	10,279,998	0.26%
Signature Villas	Apartments	10,120,971	0.25%
Arbor Landings	Apartments	10,110,965	0.25%
Arbor Lake Village Apt.	Apartments	9,841,803	0.24%
Comcast	Cable Television	9,746,542	0.24%
Bella Costa	Apartments	8,034,620	0.20%
Total		<u>\$ 469,192,960</u>	<u>11.64%</u>

These taxpayers represent 12.25% of the City's 2004 valuation.

Source: City of Ann Arbor - Financial Services, Assessing

TABLE XV

CITY OF ANN ARBOR  
 MISCELLANEOUS STATISTICS  
 June 30, 2005  
 (Unaudited)

Date of incorporation	1851	Sewers:	
Form of government	Council-Administrator	Miles of sanitary sewers	395
Miles of streets	295.13	Miles of storm sewers	341
Number of street lights	8,858		
Fire protection:		Culture and recreation:	
Number of stations	5	Number of parks	153 with 2,055 acres
Number of firefighters and officers	100		2 18-hole golf courses
Number of fire hydrants	3428		2 enclosed ice arena, 1 with roof
Water Utilities Department:			3 outdoor pools, 1 indoor pool
Number of connections	27,478		3 historic sites
Average daily consumption	14.5 MGD		1 art center, 1 senior center
Miles of water mains	478*	Permanent employees:	2 canoe liveries
(*University of Michigan, maintained and owned 14.8 miles)			
			840

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
2003	114,024	28.6
2004	114,024	28.6
2005	114,328	28.6

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

CITY OF ANN ARBOR  
COMMUNITY PROFILE/INFORMATION  
June 30, 2005  
(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 23,044 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 2,055 acres, which includes 153 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. Forty-two 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 reputation for academic excellence and is one of Ann Arbor's greatest assets. Rated among the top ten universities by the American Council of Education, the University enrolls over 34,000 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 six 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, Ave Maria College, Ave Maria School of Law 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.

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**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:

	<u>1980</u> <u>U. S. Census</u>	<u>1990</u> <u>U. S. Census</u>	<u>2000</u> <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 Motor coach 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 and Conrail.

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.

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**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

\* 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.

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During the 2003-2004 fiscal year, several residential projects were approved, including Arbor Ridge on the west side of Pontiac Trail just south of Dhu Varren Road for 178 units/attached condominiums; 3083 Platt Road for 16 attached units; Balmoral Condominiums at the northwest corner of South Main Street and Oakbrook for 60 attached townhouse units and several other residential projects. Non-residential projects approved were Georgetown Country Club at 1365 King George Boulevard for an addition to the clubhouse/locker room; Howard Cooper Honda at 2575 State Street for a new car wash and a new dealership building; Greater Faith Christian Church at 3100 Platt Road for a new church building; Kingsley Lane at Kingsley and Ashley streets for a seven story mixed use building for retail/office; Fifth Third bank at 3315 Washtenaw Avenue to construct a one-story bank building; Huronview Offices at 121 Huronview for a three-story office building; Ann Arbor Assembly of God at 2455 Washtenaw Avenue for an addition to the existing building. One public project was reviewed: non-motorized path along west side of South Main Street at Oakwood and a bridge crossing Miller's Creek.

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