CITY OF DETROIT
WATER FUND

Basic Financial Statements
and Required Supplementary Information

June 30, 2007 and 2006

(With Independent Auditors' Report Thereon)

CITY OF DETROIT
WATER FUND

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KPMG LLP
Suite 1200
150 West Jefferson
Detroit, MI 48226-4429

Independent Auditors' Report

The Board of Water Commissioners,
the Honorable Mayor, and
Members of the City Council
City of Detroit, Michigan:

We have audited the accompanying basic financial statements of the Water Fund (the Fund), an enterprise fund of the City of Detroit, Michigan (the City), as of and for the years ended June 30, 2007 and 2006, as listed in the table of contents. These basic financial statements are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting of the Fund. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in note 1 to the basic financial statements, the financial statements referred to above present only the Water Fund of the City and are not intended to present fairly the financial position of the City as of June 30, 2007 and 2006, the changes in its financial position, or, where applicable, its cash flows for the years then ended, in conformity with U.S. generally accepted accounting principles.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of the Water Fund of the City as of June 30, 2007 and 2006, and the changes in its financial position and its cash flows for the years then ended, in conformity with U.S. generally accepted accounting principles.

The Fund has not presented a management's discussion and analysis that U.S. generally accepted accounting principles require to supplement, although not to be part of, the basic financial statements.

The schedule of funding progress on page 35 is not a required part of the basic financial statements but is supplementary information required by U.S. generally accepted accounting principles. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

KPMG LLP

Detroit, Michigan
January 31, 2009

CITY OF DETROIT
WATER FUND

Statements of Net Assets

June 30, 2007 and 2006

	2007	2006
Current assets:		
Cash and cash equivalents	$ 19,675,064	3,997,111
Investments	22,472,406	22,345,923
Accounts receivable:		
Billed accounts receivable	72,716,984	73,102,657
Unbilled accounts receivable	33,717,508	28,558,437
Other accounts receivable	1,491,911	1,248,346
Allowance for doubtful accounts	(52,990,401)	(39,119,680)
Total accounts receivable, net	54,936,002	63,789,760
Due from other funds	15,150,119	9,556,071
Inventories	7,337,123	8,967,419
Prepaid expenses	2,547,137	5,930,718
Restricted:		
Cash and cash equivalents	24,803,709	25,921,923
Investments	83,076,131	90,975,533
Due from other funds	324,852	357,919
Total current assets	230,322,543	231,842,377
Noncurrent assets:		
Restricted:		
Cash and cash equivalents	644,226	8,543,680
Investments	633,044,251	282,347,070
Net pension asset	146,055,288	148,590,274
Bond and pension obligation certificate issuance cost	41,155,530	39,514,155
Capital assets:		
Land and land rights	7,394,093	6,529,308
Land improvements	14,524,191	13,891,697
Buildings and structures	964,720,948	903,467,379
Mains	784,309,484	763,588,390
Services and meters	92,431,511	92,193,615
Machinery, equipment, and fixtures	795,262,170	786,640,115
Construction in progress	152,863,477	140,815,156
Total capital assets	2,811,505,874	2,707,125,660
Less accumulated depreciation	(808,521,059)	(743,068,280)
Total capital assets, net	2,002,984,815	1,964,057,380
Total noncurrent assets	2,823,884,110	2,443,052,559
Total assets	$ 3,054,206,653	2,674,894,936

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CITY OF DETROIT
WATER FUND

Statements of Net Assets

June 30, 2007 and 2006

	2007	2006
Current liabilities:		
Current liabilities payable from unrestricted assets:		
Accounts and contracts payable	$ 19,985,607	18,576,677
Accrued salaries and wages	1,767,348	1,706,286
Due to other funds	7,966,651	6,544,753
Accrued interest payable	102,213	—
Other accrued liabilities	8,277,827	8,142,609
State revolving loans payable within one year	1,300,000	—
Accrued compensated absences	6,236,021	3,715,980
Accrued workers' compensation	2,637,576	2,913,177
Claims and judgments	539,619	2,190,462
Total current liabilities payable from unrestricted assets	48,812,862	43,789,944
Current liabilities payable from restricted assets:		
Revenue bonds payable within one year	30,660,000	25,535,000
Accrued interest payable	46,986,365	38,626,382
Accounts and contracts payable	20,049,114	20,501,071
Due to other funds	4,093,323	5,319,049
Other current accrued liabilities	459,722	459,722
Total current liabilities payable from restricted assets	102,248,524	90,441,224
Total current liabilities	151,061,386	134,231,168
Long-term liabilities:		
Revenue bonds and state revolving loans payable, net	2,312,295,325	1,916,616,216
Pension obligation certificates of participation payable, net	159,196,293	159,017,458
Accrued compensated absences	10,530,115	14,912,321
Accrued workers' compensation	14,991,884	15,198,239
Claims and judgments	5,179,000	1,951,000
Total long-term liabilities	2,502,192,617	2,107,695,234
Total liabilities	2,653,254,003	2,241,926,402
Net assets:		
Invested in capital assets, net of related debt	240,614,031	279,001,277
Restricted:		
Restricted for capital acquisitions	51,803,938	33,795,636
Restricted for debt service	69,881,425	86,666,216
Unrestricted	38,653,256	33,505,405
Total net assets	$ 400,952,650	432,968,534

See accompanying notes to basic financial statements.

CITY OF DETROIT
WATER FUND

Statements of Revenues, Expenses, and Changes in Fund Net Assets

Years ended June 30, 2007 and 2006

		2007	2006
Operating revenues:			
Water sales – Detroit	$	57,934,749	68,736,614
Water sales – suburban		208,028,964	205,581,302
Miscellaneous		2,322,380	1,912,850
Total operating revenues		268,286,093	276,230,766
Operating expenses:			
Source of supply		1,570,104	2,856,385
Low-lift pumping		6,188,810	8,258,270
High-lift pumping		20,455,735	15,306,817
Purification		15,484,072	18,441,764
Water quality operations		1,356,674	1,705,680
Transmission and distribution		33,005,947	35,101,901
Services and meters		5,158,781	5,939,668
Hydrant division		57,875	1,199,902
Commercial		5,573,150	5,084,493
Operations and maintenance		27,950,281	24,858,947
Central city staff services		9,430,546	7,618,501
Administrative and general		20,095,356	19,842,620
Total operating expenses before depreciation		146,327,331	146,214,948
Depreciation		66,004,310	54,628,100
Total operating expenses		212,331,641	200,843,048
Operating income		55,954,452	75,387,718
Nonoperating revenues (expenses):			
Investment earnings		34,065,168	18,843,877
Interest expense, net of capitalized interest		(122,668,547)	(83,963,811)
Total nonoperating revenues (expenses), net		(88,603,379)	(65,119,934)
Increase (decrease) in net assets before capital contributions		(32,648,927)	10,267,784
Capital contributions		633,043	2,278,249
Increase (decrease) in net assets		(32,015,884)	12,546,033
Net assets – beginning of year		432,968,534	420,422,501
Net assets – end of year	$	400,952,650	432,968,534

See accompanying notes to basic financial statements.

CITY OF DETROIT
WATER FUND

Statements of Cash Flows

Years ended June 30, 2007 and 2006

		2007	2006
Cash flows from operating activities:			
Receipts from customers	$	277,139,851	284,126,338
Loans to other funds		(4,172,150)	23,176,195
Payments to suppliers		(81,809,070)	(107,408,482)
Payments to employees		(55,000,869)	(57,564,022)
Net cash provided by operating activities		136,157,762	142,330,029
Cash flows from noncapital financing activities:			
Interest paid on pension obligation certificates of participation		(8,755,361)	(2,916,481)
Issuance costs – pension obligation certificates of participation		—	(2,286,429)
Net cash used in noncapital financing activities		(8,755,361)	(5,202,910)
Cash flows from capital and related financing activities:			
Acquisition and construction of capital assets		(100,055,303)	(85,292,631)
Contribution for capital acquisition		633,043	—
Proceeds from sale of capital assets		57,664	—
Principal paid on revenue bonds and state revolving loans		(407,976,407)	(24,595,000)
Interest paid on revenue bonds and state revolving loans		(108,973,810)	(92,350,495)
Payment to escrow agent for refunded bonds		(363,452,413)	—
Proceeds from issuance of revenue bonds and state revolving loans		1,167,884,204	4,723,954
Net cash provided by (used in) capital and related financing activities		188,116,978	(197,514,172)
Cash flows from investing activities:			
Proceeds from sales and maturities of investments		259,460,705	449,752,017
Purchase of investments		(595,881,462)	(395,668,526)
Interest received on investments		27,561,663	18,843,877
Net cash provided by (used in) investing activities		(308,859,094)	72,927,368
Net increase in cash and cash equivalents		6,660,285	12,540,315
Cash and cash equivalents at beginning of year		38,462,714	25,922,399
Cash and cash equivalents at end of year	$	45,122,999	38,462,714
Reconciliation of operating income to net cash provided by operating activities:			
Operating income	$	55,954,452	75,387,718
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation		66,004,310	54,628,100
Write-off of construction in progress		340,085	—
Loss on disposal of capital assets		790,198	—
Changes in assets and liabilities:			
Accounts receivable		8,853,758	5,181,641
Inventories		1,630,296	(2,637,254)
Prepaid expenses		3,383,581	(5,362,507)
Net pension asset		2,534,986	1,862,234
Accounts and contracts payable		1,408,930	(13,784,474)
Accrued salaries and wages		61,062	(465,438)
Other accrued liabilities, compensated absences, and workers' compensation		(2,208,903)	3,949,904
Claims and judgments payable		1,577,157	393,909
Net change in due to (from) other funds		(4,172,150)	23,176,196
Net cash provided by operating activities	$	136,157,762	142,330,029

Noncash capital financing activities:

Capital assets of $344,159 and $1,725,755 were acquired through contributions from developers for FY 2007 and FY 2006, respectively.

See accompanying notes to basic financial statements.

(1) Summary of Significant Accounting Policies

The City of Detroit (the City) Charter established the Water Department in the year 1836 to supply water within and outside the City under the administration of the Board of Water Commissioners. The Water Fund (the Fund), an Enterprise fund, separately accounts for the Water Supply System (the System), as is required by bond ordinances of the City. The following is a summary of the more significant accounting policies followed in the preparation of the Fund's financial statements. These policies conform to U.S. generally accepted accounting principles.

The financial statements of the Fund have been included in the City of Detroit's Comprehensive Annual Financial Report (CAFR) and reported as an Enterprise fund. Copies of these reports, along with other financial information, can be obtained at the Fund's administrative office, located at 735 Randolph, Detroit, Michigan, 48226.

(a) Basis of Accounting

The accounting policies of the Fund conform to U.S. generally accepted accounting principles (GAAP) as applicable to governmental entities. The accounts of the Fund, which are organized as an Enterprise fund, are used to account for the Fund's activities, which are financed and operated in a manner similar to a private business enterprise. Accordingly, the Fund maintains its records on the accrual basis of accounting. Revenues from operations, investments, and other sources are recorded when earned. Expenses (including depreciation and amortization) of providing services to the public are accrued when incurred.

Nonexchange transactions, in which the Fund receives value without directly giving equal value in return, include contributions and grants. On an accrual basis, revenue from contributions and grants is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements and expenditure requirements. Timing requirements specify the year when the resources are required to be used or the fiscal year when use is first permitted. Expenditure requirements specify the year in which the resources are provided to the Fund on a reimbursement basis.

In accordance with Governmental Accounting Standards Board (GASB) Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, the Fund applies all applicable GASB pronouncements, as well as all Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board (APB) Opinions, and Accounting Research Bulletins (ARBs) issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements. The Fund also has the option of following FASB guidance issued after November 30, 1989, but has elected not to do so.

(b) Cash and Cash Equivalents

Cash and cash equivalents include cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

(c) Investments

Investments are reported at fair value based on quoted market prices.

(d) Inventories

Inventories consist of operating and maintenance and repair parts for water lines and are valued at the lower of cost or market, with cost being determined on an average cost method.

(e) Capital Assets

Capital assets are recorded at historical cost, together with interest capitalized during construction. Depreciation is computed using the straight-line method over the estimated useful lives of the related assets as follows:

Land improvements	67 years
Building and structures	40 years
Mains	67 years
Services and meters	67 years
Machinery, equipment, and fixtures	3 – 20 years

The Fund capitalizes qualifying net interest costs of the System on bonds issued for capital construction in accordance with Statement of Financial Accounting Standards (SFAS) No. 34 *Capitalization of Interest Cost*, as amended. Accordingly, capitalized interest for the years ended June 30, 2007 and 2006 was $7,709,005 and $18,812,748, respectively.

(f) Taxes and City Services

The Fund pays no direct federal, state, or local taxes, except local taxes on excess property and federal social security taxes. The Fund reimburses the City for most of the direct services furnished by other City departments, including general staff services. Charges are billed for all water services provided to City departments.

(g) Shared Costs

Costs related to shared facilities and personnel are allocated to the Fund on a basis that relates costs incurred to the fund benefited.

(h) Compensated Absences

The liability for compensated absences reported in the financial statements consists of unpaid, accumulated vacation and sick leave balances. Unused vacation pay and banked overtime accumulate up to a maximum level until termination of employment, while there is no vesting of sick pay until an employee reaches age 60 or completes 25 years of service. The liability for compensated absences has been calculated using the vesting method, in which leave amounts for both employees who currently are eligible to receive termination payments and other employees who are expected to become eligible in the future to receive such payments upon termination are included. The liability

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has been calculated based on the employees' current salary level and includes salary-related costs (e.g., social security and Medicare tax).

(i) Bond Premiums, Discounts, Issuance Costs, and Deferred Amounts on Refundings

Bond premiums, discounts, issuance costs, and deferred amounts on refundings are deferred and amortized over the life of the bonds. Bond premiums and discounts are amortized using the effective-interest method, and bond issuance costs and deferred amounts on refunding are amortized using the straight-line method. Bonds payable are reported net of the applicable bond premium, discounts, and deferred amounts on refundings. Bond issuance costs are reported as deferred charges (other assets).

(j) Net Assets

Net assets are categorized as follows:

Invested in Capital Assets: This consists of capital assets, net of accumulated depreciation and related debt.

Restricted: This consists of net assets that are legally restricted by outside parties or by law through constitutional provisions or enabling legislation. When both restricted and unrestricted resources are available for use, generally it is the City's policy to use restricted resources first, and then unrestricted resources when they are needed.

Unrestricted: This consists of net assets that do not meet the definition of "restricted" or "invested in capital assets."

(k) Unbilled Revenue

The Fund records unbilled revenues for services provided prior to year-end by accruing actual revenues billed in the subsequent month.

(l) Classification of Revenues and Expenses

The Fund classifies its revenues and expenses as either operating or nonoperating.

Operating revenues include activities that have the characteristics of exchange transactions, such as revenue from charges for water service. Nonoperating revenue includes activities that have the characteristics of nonexchange transactions, such as contributions and investment income.

Operating expenses include the costs of operating the water utility, administrative expenses, and depreciation on capital assets. All expenses not meeting this definition, including interest expense, are reported as nonoperating expenses.

(m) Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts

(Continued)

of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

(n) Reclassifications

Certain amounts from the prior year have been reclassified to conform to the current year presentation.

(o) New Accounting Pronouncements

In July 2004, the GASB issued Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. This Statement establishes accounting and financial reporting standards for employers that participate in a defined-benefit "other postemployment benefit" (OPEB) plan. The City, including the Fund, will implement GASB Statement No. 45 beginning with the year ending June 30, 2008. The City is currently evaluating the impact of adopting GASB Statement No. 45.

In June 2005, GASB issued Statement No. 47, *Accounting for Termination Benefits by Employers*. This Statement establishes accounting standards for termination benefits. In financial statements prepared on the accrual basis of accounting, employers should recognize a liability and expense for voluntary termination benefits (e.g., early retirement incentives) when the offer is accepted and the amount can be estimated. A liability and expense for involuntary termination benefits (e.g., severance benefits) should be recognized when a plan of termination has been approved by those with the authority to commit the government to the plan, the plan has been communicated to the employees, and the amount can be estimated. As an exception to the general recognition and measurement requirements discussed above, the effect of a termination benefit on an employer's obligations for defined pension or other postemployment benefits in the case of the Fund will be accounted for and reported under the requirements of GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, as applicable. The City, including the Fund, will implement the provisions of this statement applicable to termination benefits provided through its defined OPEB plan in conjunction with GASB Statement No. 45 in fiscal 2008. For all other termination benefits, the City, including the Fund, implemented the provisions of this Statement during the year ended June 30, 2007. There was no impact to the financial statements of the Fund as a result of adopting these provisions.

In September 2006, GASB issued Statement No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues*. This Statement establishes criteria that governments will use to ascertain whether the proceeds received should be reported as revenue or as a liability. This Statement includes a provision that stipulates that governments should not revalue assets that are transferred between financial reporting entity components. This Statement also includes guidance to be used for recognizing other assets and liabilities arising from a sale of specific receivables or future revenues, including residual interests and recourse provisions. The City is currently evaluating the impact this standard will have on the financial statements when adopted. The City, including the Fund, will implement GASB Statement No. 48 beginning with the fiscal year ending June 30, 2008.

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In November 2006, GASB issued Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*. This Statement addresses accounting and financial reporting standards for pollution (including contamination) remediation obligations, which are obligations to address the current or potential detrimental effects of existing pollution by participating in pollution remediation activities such as site assessments and cleanups. The City is currently evaluating the impact this standard will have on the financial statements when adopted. The City, including the Fund, will implement GASB Statement No. 49 beginning with the fiscal year ending June 30, 2009.

In May 2007, GASB issued Statement No. 50, *Pension Disclosures – an amendment to GASB Statements No. 25 and No. 27*. This Statement more closely aligns the financial reporting requirements for pensions with those for other postemployment benefits (OPEB) and enhances information disclosed in the notes to financial statements or presented as required supplementary information (RSI) by pension plans and employers that provide pension benefits. The City, including the Fund, will implement GASB Statement No. 50 beginning with the fiscal year ending June 30, 2008.

In June 2007, GASB issued Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*. This Statement establishes accounting and financial reporting requirements for intangible assets. All intangible assets not specifically excluded by the scope of this Statement should be classified as capital assets. This Statement requires that an intangible asset be recognized in the statement of net assets only if it is considered identifiable. Additionally, this Statement establishes a specified-conditions approach to recognizing intangible assets that are internally generated. Effectively, outlays associated with the development of such assets should not begin to be capitalized until certain criteria are met. Outlays incurred prior to meeting these criteria should be expensed as incurred. This Statement also provides guidance on recognizing internally generated computer software as an intangible asset. The City is currently evaluating the impact this standard will have on the financial statements when adopted. The City, including the Fund, will implement GASB Statement No. 51 beginning with the fiscal year ending June 30, 2010.

In June 2008, GASB issued Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*. This Statement addresses the recognition, measurement, and disclosure of information regarding derivative instruments. Specifically, it requires that derivative instruments, with the exception of synthetic guaranteed investment contracts (SGICs) that are fully benefit-responsive, be reported at fair value. The changes in fair value of derivative instruments that are used for investment purposes or that are reported as investment derivative instruments because of ineffectiveness are reported within the investment revenue classification. Alternatively, the changes in fair value of derivative instruments that are classified as hedging derivative instruments are reported in the statement of net assets as deferrals. The City is currently evaluating the impact this standard will have on the financial statements when adopted. The City, including the Fund, will implement GASB Statement No. 53 beginning with the fiscal year ending June 30, 2010.

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(2) Deposits and Investments

Deposits and investments of the Fund at June 30, 2007 and 2006 are as follows:

		2007	2006
Deposits	$	59,142,112	21,098,457
Investments		724,573,675	413,032,783
Total deposits and investments	$	783,715,787	434,131,240

The deposits and investments of the Fund at June 30, 2007 and 2006 are reported in the financial statements as follows:

		2007	2006
Unrestricted:			
Cash and cash equivalents	$	19,675,064	3,997,111
Investments		22,472,406	22,345,923
Restricted:			
Cash and cash equivalents – current		24,803,709	25,921,923
Investments – current		83,076,131	90,975,533
Cash and cash equivalents – noncurrent		644,226	8,543,680
Investments – noncurrent		633,044,251	282,347,070
Total cash and investments	$	783,715,787	434,131,240

State law authorizes the Fund to make deposits in the accounts of federally insured financial institutions. Cash held by fiscal agents or by trustees is secured in accordance with the requirements of the agency or trust agreement.

The Fund is authorized to invest in obligations of the U.S. government or its agencies, certificates of deposit, savings and depository accounts of insured institutions, commercial paper of certain investment quality, repurchase agreements, banker's acceptances, mutual funds of certain investment quality, and investment pools as authorized by state law.

Custodial Credit Risk of Bank Deposits

Custodial credit risk is the risk that in the event of bank failure, the Fund's deposits may not be returned by the bank. The Fund does not have a deposit policy for custodial credit risk. At June 30, 2007 and 2006, the Fund had deposits of $35,652,016 and $15,585,069, respectively, which were exposed to custodial credit risk, as they were uninsured and uncollateralized.

Custodial Credit Risk of Investments

Custodial credit risk is the risk that in the event of failure of the counterparty, the Fund will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party.

The Fund does not have a policy for custodial credit risk. As of June 30, 2007 and 2006, the Fund had no investments subject to custodial credit risk.

Interest Rate Risk

Interest rate risk is the risk that, over time, the value of investments will decrease as a result of an increase in interest rates. The Fund's investment policy does not specifically restrict investment maturities other than commercial paper, which can only be purchased with a 270-day maturity. The Fund's policy minimizes interest rate risk by requiring that the Fund attempt to match its investments with anticipated cash flow requirements. Unless related to a specific cash flow, the Fund is generally not permitted to directly invest in securities maturing more than 10 years from the original date of purchase. As of June 30, 2007 and 2006, the maturities for the Fund's fixed-income investments are as follows:

	2007		
		Investment maturities in years	
	Fair value	Less than one year	One to five years
Investment:			
U.S. government agency securities	$ 421,726,144	374,885,406	46,840,738
Commercial paper	53,629,991	53,629,991	—
Money market	249,217,540	249,217,540	—
Total investments	$ 724,573,675	677,732,937	46,840,738

	2006		
		Investment maturities in years	
	Fair value	Less than one year	One to five years
Investment:			
U.S. government agency securities	$ 118,632,147	107,914,610	10,717,537
Commercial paper	52,283,902	52,283,902	—
Money market	242,116,734	242,116,734	—
Total investments	$ 413,032,783	402,315,246	10,717,537

Credit Risk

Credit Risk is the risk that the Fund will not recover its investments due to the inability of the counterparty to fulfill its obligation. The Fund limits its investments in commercial paper, mutual funds, and external investment pools that purchase commercial paper to the top two rating classifications issued by two nationally recognized statistical rating organizations (NRSROs).

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As of June 30, 2007 and 2006, the credit quality ratings for the Fund's fixed-income investments are as follows:

	2007		
		Ratings	
Investment	**Fair value**	**S & P**	**Moody's**
U.S. government agency securities	$ 367,517,769	AAA	Aaa
U.S. government agency securities	37,414,118	A-1+	Aaa
U.S. government agency securities	16,794,257	AAA	N/A
Commercial paper	53,629,991	A-1+	P-1
Money market	21,548,477	A-1+	P-1
Money market	32,385,186	A-1	P-1
Money market	108,121,689	AAAm	Aaa
Money market	48,028,803	Not rated	P-1
Money market	39,133,385	Not rated	Not rated
Total investments	$ 724,573,675		

	2006		
		Ratings	
Investment	**Fair value**	**S & P**	**Moody's**
U.S. government agency securities	$ 46,790,138	AAA	Aaa
U.S. government agency securities	61,124,472	A-1+	N/A
U.S. government agency securities	10,717,537	AAA	Aaa
Commercial paper	52,283,902	N/A	N/A
Money market	349,216	N/A	Aaa
Money market	97,792,233	AAAm	Aaa
Money market	13,708,939	Not rated	Aaa
Money market	130,266,346	Not rated	Not rated
Total investments	$ 413,032,783		

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of the Fund's investment in a single issuer. The Fund's policy specifies a number of limitations to minimize concentration of credit risk, including prohibiting investing more than 5% of the portfolio in securities (other than U.S. government, mutual funds, external investment pools, and other pooled investments) of any one issuer.

More than 5% of the Fund's investments are in Federal Home Loan Bank, Federal Home Loan Mortgage, and Federal National Mortgage Association securities. These investments are 22%, 12%, and 16%, respectively, of the Fund's total investments as of June 30, 2007, and 7%, 13%, and 7%, respectively, of the Fund's total investments as of June 30, 2006.

(3) Restricted Assets

Restricted assets, principally cash and investments, are available for debt service on revenue bonds and to provide funds for improvements, enlargements, extensions, and construction. In certain instances, minimum levels of assets are required by bond ordinance provisions or by Board of Water Commissioners' decree. These assets are maintained as follows: (1) With respect to the Bond and Interest Redemption Fund, after provision has been made for expenses of operation and maintenance of the System, a sum proportionately sufficient to provide for payment, when due, of the current principal and interest is set aside. The Bond Reserve Account is part of the Bond and Interest Redemption Fund, and the amounts credited to this account are to be used only to pay principal and interest on the bonds when current revenues are not sufficient. (2) With respect to the Extraordinary Repair and Replacement Reserve Fund, after meeting the requirements of the foregoing funds, monthly deposits in an amount equal to one-twelfth of 3% of the budgeted operation and maintenance expense of the System for the fiscal year must be set aside until the aggregate amount funded totals at least 15% of that year's budgeted operating and maintenance costs. These deposits are to be used for major unanticipated repairs and replacement to the System with actual or anticipated cost exceeding $1 million. Once this fund is fully funded, deposits required are amounts needed to maintain fully funded status. Borrowings of up to 50% of the balance in this fund on the first day of the related fiscal year are allowed for transfer to and use from the Improvement and Extension Fund. Any such borrowings must be repaid prior to any deposits being made to the Improvement and Extension Fund. (3) After the above deposits have been made, excess amounts may be deposited in the Improvement and Extension Fund, established for the payment of improvements, enlargements, repairs, extensions, or betterment to the System. (4) With respect to the Construction Fund, the portion of the proceeds of the sale of bonds for building or improving the System is deposited in this fund. A separate depository account is required for each series of bonds. Proceeds for construction purposes received from federal and state grants and other sources that restrict the use of such proceeds are also deposited into this account.

(Continued)

(4) Capital Assets

Capital asset activity for the year ended June 30, 2007 was as follows:

	Balance, June 30, 2006	Additions	Disposals	Balance, June 30, 2007
Nondepreciated capital assets:				
Land and land rights	$ 6,529,308	864,785	—	7,394,093
Construction in progress	140,815,156	70,649,720	(58,601,399)	152,863,477
Total nondepreciable assets	147,344,464	71,514,505	(58,601,399)	160,257,570
Depreciated capital assets:				
Land improvements	13,891,697	632,494	—	14,524,191
Buildings and structures	903,467,379	61,253,569	—	964,720,948
Mains	763,588,390	21,158,910	(437,816)	784,309,484
Services	48,646,079	—	(836,838)	47,809,241
Meters	43,547,536	1,074,734	—	44,622,270
Machinery, equipment, and fixtures	786,640,115	8,746,794	(124,739)	795,262,170
Total depreciable assets	2,559,781,196	92,866,501	(1,399,393)	2,651,248,304
Less accumulated depreciation:				
Land improvements	(6,230,928)	(172,653)	—	(6,403,581)
Buildings and structures	(195,827,891)	(20,373,489)	—	(216,201,380)
Mains	(264,619,307)	(10,948,471)	427,962	(275,139,816)
Services	(23,743,282)	(569,385)	—	(24,312,667)
Meters	(29,543,811)	(1,281,713)	—	(30,825,524)
Machinery, equipment, and fixtures	(223,103,061)	(32,658,599)	123,569	(255,638,091)
Total accumulated depreciation	(743,068,280)	(66,004,310)	551,531	(808,521,059)
Net capital assets	$ 1,964,057,380	98,376,696	(59,449,261)	2,002,984,815

Capital assets activity for the year ended June 30, 2006 was as follows:

	Balance, June 30, 2005	Additions	Disposals	Balance, June 30, 2006
Nondepreciated capital assets:				
Land and land rights	$ 6,527,438	1,870	—	6,529,308
Construction in progress	418,027,160	132,675,454	(409,887,458)	140,815,156
Total nondepreciable assets	424,554,598	132,677,324	(409,887,458)	147,344,464
Depreciated capital assets:				
Land improvements	12,957,797	933,900	—	13,891,697
Buildings and structures	707,846,651	195,620,728	—	903,467,379
Mains	714,856,603	49,242,477	(510,690)	763,588,390
Services	46,818,444	1,827,635	—	48,646,079
Meters	43,547,536	—	—	43,547,536
Machinery, equipment, and fixtures	630,635,010	156,058,426	(53,321)	786,640,115
Total depreciable assets	2,156,662,041	403,683,166	(564,011)	2,559,781,196
Less accumulated depreciation:				
Land improvements	(6,065,030)	(165,898)	—	(6,230,928)
Buildings and structures	(179,988,320)	(15,839,571)	—	(195,827,891)
Mains	(255,476,746)	(9,512,957)	370,396	(264,619,307)
Services	(23,118,916)	(624,366)	—	(23,743,282)
Meters	(28,325,524)	(1,218,287)	—	(29,543,811)
Machinery, equipment, and fixtures	(195,888,828)	(27,267,021)	52,788	(223,103,061)
Total accumulated depreciation	(688,863,364)	(54,628,100)	423,184	(743,068,280)
Net capital assets	$ 1,892,353,275	481,732,390	(410,028,285)	1,964,057,380

(Continued)

(5) Long-Term Obligations

Changes in long-term obligations for the year ended June 30, 2007 were as follows:

	Balance, June 30, 2006	Increase	Decrease	Balance, June 30, 2007	Amount due within one year
Revenue bonds payable	$ 1,967,020,000	1,136,585,000	(776,885,000)	2,326,720,000	30,660,000
State revolving loans	4,723,954	14,344,774	—	19,068,728	1,300,000
Total revenue bonds payable	1,971,743,954	1,150,929,774	(776,885,000)	2,345,788,728	31,960,000
Add unamortized premiums	16,898,612	30,394,510	(3,345,451)	43,947,671	—
Less:					
Unamortized discounts	(7,259,399)	—	4,303,331	(2,956,068)	—
Deferred amounts on refunding	(39,231,951)	(29,971,050)	26,677,995	(42,525,006)	—
Total revenue bonds payable, net	1,942,151,216	1,151,353,234	(749,249,125)	2,344,255,325	31,960,000
Pension obligation certificates payable 2005 series	58,635,556	—	—	58,635,556	—
Pension obligation certificates payable 2006 series	103,779,761	—	—	103,779,761	—
Less deferred amounts on refunding	(3,397,859)	—	178,835	(3,219,024)	—
Total pension obligation certificates payable, net	159,017,458	—	178,835	159,196,293	—
Other liabilities:					
Accrued compensated absences	18,628,301	3,474,788	(5,336,953)	16,766,136	6,236,021
Accrued workers' compensation	18,111,416	5,357,327	(5,839,283)	17,629,460	2,637,576
Claims and judgments	4,141,462	6,029,834	(4,452,677)	5,718,619	539,619
Total other liabilities	40,881,179	14,861,949	(15,628,913)	40,114,215	9,413,216
Total	$ 2,142,049,853	1,166,215,183	(764,699,203)	2,543,565,833	41,373,216

(Continued)

Changes in long-term obligations for the year ended June 30, 2006 were as follows:

	Balance, June 30, 2005	Increase	Decrease	Balance, June 30, 2006	Amount due within one year
Revenue bonds payable	$ 1,991,615,000	—	(24,595,000)	1,967,020,000	25,535,000
State revolving loans	—	4,723,954	—	4,723,954	—
Total revenue bonds payable	1,991,615,000	4,723,954	(24,595,000)	1,971,743,954	25,535,000
Add unamortized premiums	17,976,690	—	(1,078,078)	16,898,612	—
Less:					
Unamortized discounts	(20,478,334)	—	13,218,935	(7,259,399)	—
Deferred amounts on refunding	(32,426,182)	(6,221,498)	(584,271)	(39,231,951)	—
Total revenue bonds payable, net	1,956,687,174	(1,497,544)	(13,038,414)	1,942,151,216	25,535,000
Pension obligation certificates payable 2005 series	157,548,214	—	(98,912,658)	58,635,556	—
Pension obligation certificates payable 2006 series	—	103,779,761	—	103,779,761	—
Less deferred amounts on refunding	—	(3,397,859)	—	(3,397,859)	—
Total pension obligation certificates payable, net	157,548,214	100,381,902	(98,912,658)	159,017,458	—
Other liabilities:					
Accrued compensated absences	18,413,672	5,103,411	(4,888,782)	18,628,301	3,715,980
Accrued workers’ compensation	18,711,346	4,356,803	(4,956,733)	18,111,416	2,913,177
Claims and judgments	3,747,553	2,872,525	(2,478,616)	4,141,462	2,190,462
Total other liabilities	40,872,571	12,332,739	(12,324,131)	40,881,179	8,819,619
Total	$ 2,155,107,959	111,217,097	(124,275,203)	2,142,049,853	34,354,619

(6) Revenue Bonds Payable (Including State Revolving Loans)

Revenue bonds payable was $2,345,788,728 and $1,971,743,954 at June 30, 2007 and 2006, respectively. Net revenues of the Fund are pledged to repayment of bonds.

(Continued)

CITY OF DETROIT
WATER FUND

Notes to Basic Financial Statements

June 30, 2007 and 2006

The following is a schedule of the revenue bonds payable at June 30, 2007 and 2006:

Issue	Bond date	Amount issued	Range of interest rates (%)	Maturity date	Outstanding balance at June 30 2007	2006
Series 1993	10-15-93	$ 38,225,000	6.50	7/1/14-15	$ 24,725,000	24,725,000
Series 1995-A	10-15-95	102,100,000	5.10 to 5.55	7/1/07-12	19,410,000	22,115,000
Series 1995-B	10-15-95	60,485,000	5.00 to 5.55	7/1/07-12	54,085,000	54,450,000
Series 1997-A	8-1-97	29,080,000	5.75 to 6.00	7/1/07-15	42,360,000	46,795,000
Series 1997-A	8-1-97	186,220,000	4.80 to 5.25	7/1/08-27	74,575,000 c	74,575,000 c
Series 1997-B	8-1-97	30,555,000	5.25	7/1/2006	—	7,720,000
Series 1999-A	11-1-99	18,000,000	4.875 to 5.25	7/1/07-09	6,000,000	8,000,000
Series 1999-A	11-1-99	238,340,000	5.125	7/1/10	2,000,000 c	2,000,000 c
Series 2001	5-1-01	1,320,000	4.50	7-01-11	1,320,000	1,320,000
Series 2001-A	5-1-01	301,165,000	4.50 to 5.75	7/1/29-30	73,790,000 c	166,355,000 c
Series 2001-B	5-1-01	108,985,000	4.50 to 5.50	7/1/12-33	— c	108,985,000 c
Series 2001-C	6-7-01	192,290,000	Variable (*)	7/1/07-29	191,075,000 c	191,500,000 c
Series 2003-A	1-28-03	234,805,000	4.75 to 5.25	7/1/14-34	181,835,000 c	234,805,000 c
Series 2003-B	1-28-03	9,330,000	2.50 to 3.00	7/1/07-08	4,055,000	6,610,000
Series 2003-B	1-28-03	14,250,000	Variable (*)	7/1/09-15	14,250,000	14,250,000
Series 2003-B	1-28-03	172,945,000	5.00	7/1/2034	41,770,000 c	149,365,000 c
Series 2003-C	1-28-03	16,695,000	2.50 to 3.60	7/1/07-11	3,975,000	7,330,000
Series 2003-C	1-28-03	4,335,000	Variable (*)	7/1/13-14	4,335,000	4,335,000
Series 2003-C	1-28-03	25,325,000	4.25 to 5.25	7/1/15-22	25,325,000 c	25,325,000 c
Series 2003-D	1-28-03	145,540,000	Variable (*)	7/1/17-33	— c	150,545,000 c
Series 2004-A	5-04-04	59,410,000	Variable (*)	7/1/17-25	— c	77,010,000 c
Series 2004-B	5-04-04	110,750,000	Variable (*)	7/1/17-23	—	163,590,000
Series 2005-A	3-11-05	20,965,000	3.00 to 5.00	7/1/08-15	20,965,000	20,965,000
Series 2005-A	3-11-05	84,035,000	3.90 to 5.00	7/1/16-35	84,035,000 c	84,035,000 c
Series 2005-B	3-11-05	195,000,000	Variable (*)	7/1/10-35	195,000,000 c	195,000,000 c
Series 2005-C	3-11-05	26,670,000	3.00-5.00	7/1/07-15	35,050,000	35,115,000
Series 2005-C	3-11-05	126,605,000	5.00	7/1/16-22	90,200,000 c	90,200,000 c
Series 2006-A	8-14-06	42,795,000	5.000	7/01/11-27	42,795,000	—
Series 2006-A	8-14-06	237,205,000	5.000	07/1/17-34	237,205,000 c	— c
Series 2006-B	8-14-06	120,000,000	Variable (*)	7-01-36	120,000,000	—
Series 2006-C	8-14-06	12,585,000	4.00 to 5.00	7/1/07-16	12,585,000	—
Series 2006-C	8-14-06	208,060,000	5.000	07/1/19-33	208,060,000 c	— c
Series 2006-D	8-14-06	4,430,000	4.00 to 5.00	7/1/07-16	4,430,000	—
Series 2006-D	8-14-06	142,160,000	4.25 to 5.00	7/1/17-32	142,160,000 c	— c
Bonds remarketed in 2006:						
Series 2003-D	8-14-06	3,180,000	4.00 to 4.50	7/1/07-16	3,180,000	—
Series 2003-D	8-14-06	139,575,000	4.25 to 5.00	7/1/17-33	139,575,000 c	— c
Series 2004-A	8-14-06	17,600,000	3.75 to 5.25	7/1/07-16	17,600,000	—
Series 2004-A	8-14-06	55,165,000	4.50 to 5.25	7/1/17-24	55,165,000 c	— c
Series 2004-B	8-14-06	52,840,000	4.00 to 5.00	7/1/07-16	52,840,000	—
Series 2004-B	8-14-06	100,990,000	4.25 to 5.00	7/1/17-23	100,990,000 c	— c
Total revenue bonds payable					$ 2,326,720,000	1,967,020,000

* – Interest rates are reset periodically at the stated current market interest rate.
c – Indicates bonds are callable under terms specified in the indenture; all other bonds are noncallable.

The following is a schedule of the state revolving loans payable at June 30, 2007 and 2006:

Issue	Bond date		Amount issued	Range of interest rates (%)	Maturity date		Outstanding balance at June 30 2007		Outstanding balance at June 30 2006	
Series 2005 SRF-1	9-22-05	$	10,219,653	2.125	10/1/07-26	$	10,219,653	c	2,618,248	c
Series 2005 SRF-2	9-22-05		6,711,250	2.125	10/1/07-26		6,711,250	c	2,105,706	c
Series 2006 SRF-1	9-21-06		2,137,825	2.125	10/1/07-26		2,137,825	c	—	c
Total state revolving loans payable						$	19,068,728		4,723,954	

c – Indicates bonds are callable under terms specified in the indenture; all other bonds are noncallable.

Note A – Stated Principal amount of State Revolving Fund Bonds issued as part of the State of Michigan's Revolving Fund Loan Program. As the System draws additional amount from time to time hereafter, the outstanding principal amounts of such bonds will correspondingly increase.

Variable Rate Demand Bonds

Included in revenue bonds payable as of June 30, 2007 and 2006 are $506,075,000 and $777,645,000 of variable rate demand bonds. These bonds mature serially through July 2036. Generally, these bonds have variable interest rates that are adjusted weekly, with interest paid at the beginning of each month. The bonds are subject to purchase on the demand of the holder at a price equal to principal plus accrued interest on seven days' notice and delivery to the City's several remarketing agents. The City pays the remarketing agent fees in the range of 0.04% – 0.125% interest on the outstanding bond balance. If the remarketing agent is unable to resell any bonds that are "put" to the agent, the City has a standby bond purchase agreement with a liquidity facility entity. The City has several such agreements, with the fees ranging from 0.150% to 0.230% interest on the outstanding bonds. The City, in the event a liquidity facility is utilized, has reimbursement agreements with different financial entities. Generally, the payback period is five to seven years, at an interest rate initially set at slightly above prime or the federal funds rate.

Revenue bonds subject to these agreements as of June 30, 2007 and 2006 are as follows:

Issue	Date	Remarketing agent	Liquidity facility	Insurer		Outstanding balance at June 30 2007	Outstanding balance at June 30 2006
Series 2001-C	6-7-01	Goldman Sachs	FGIC Securities	FGIC	$	191,075,000	191,500,000
Series 2003-D	1-28-03	JPMorgan	JPMorgan	MBIA		—	150,545,000
Series 2004-A	5-04-04	Raymond James	Dexia	MBIA		—	77,010,000
Series 2004-B	5-04-04	Raymond James	Dexia	MBIA		—	163,590,000
Series 2005-B	3-11-05	Lehman	Dexia	FGIC		195,000,000	195,000,000
Series 2006-B	8-14-06	Lehman	DEPFA Bank	FSA		120,000,000	—
					$	506,075,000	777,645,000

Future debt service requirements as of June 30, 2007 are as follows:

	Principal	Bond interest	Swap interest	Total requirements
Year ending June 30:				
2008	$ 31,960,000	102,326,317	24,357,283	158,643,600
2009	33,355,000	88,735,175	25,084,584	147,174,759
2010	34,925,000	87,195,047	25,059,667	147,179,714
2011	36,570,000	85,638,299	24,992,252	147,200,551
2012	44,900,000	83,851,880	24,708,887	153,460,767
2013 – 2017	261,057,825	385,488,974	120,711,949	767,258,748
2018 – 2022	331,020,903	318,149,293	115,002,124	764,172,320
2023 – 2027	416,165,000	246,167,838	94,862,639	757,195,477
2028 – 2032	530,380,000	154,746,934	68,508,248	753,635,182
2033 – 2037	625,455,000	29,397,700	49,390,690	704,243,390
	$ 2,345,788,728	1,581,697,457	572,678,323	4,500,164,508

Issuance of Revenue Bonds and Advance Refunding of Debt

The City received loans from the State of Michigan Drinking Water Revolving Loan Fund totaling $14,344,744 and $4,723,954 during the years ended June 30, 2007 and 2006, respectively. The proceeds of the loans were used to pay costs of acquiring and constructing certain repairs, extensions, and improvements to the Water Supply System.

On August 14, 2006, the City issued revenue bonds totaling $767,235,000, which included: (i) $280,000,000 Revenue Senior Lien Bonds-Series 2006A; (ii) $120,000,000 System Revenue Second Lien Bonds (Variable Rate Demand), Series 2006B; (iii) $220,645,000 Revenue Refunding Second Lien Bonds, Series 2006C; and (iv) $146,590,000 Revenue Refunding Senior Lien Bonds, Series 2006D.

The proceeds of the Series 2006A Bonds and the 2006B Bonds will be used to: (i) fund capitalized interest on the 2006A Bonds and the 2006B Bonds through April 1, 2008, (ii) pay the premium for one or more debt service reserve sureties to satisfy the reserve requirements attributable to the 2006 bonds, (iii) pay the premium for the municipal bond insurance policies and costs of issuance of the 2006A Bonds and 2006B Bonds, and a portion of the fees for the initial liquidity facility, and (iv) pay costs of acquiring and constructing certain repairs, extensions, and improvements to the Water Supply System.

The proceeds of the Series 2006C Bonds and 2006D Bonds were used to: (i) advance refund $145,535,000 of a portion of maturities from the Series 2001A and 2003A Water Supply System Revenue Senior Lien Bonds, (ii) advance refund $216,580,000 of a portion of maturities from the Series 2001B and 2003B Water Supply System Revenue Second Lien Bonds, and (iii) pay certain costs of issuance. The Fund completed the advance refunding to reduce its total debt service payments over the next 20 years and to obtain an economic gain (difference between the present values of the old and new debt service payments) of $11,485,177. The advance refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of $17,136,214. This difference, reported in the financial statements as a deferred amount on refunding, is being amortized as an adjustment to interest expense through the year 2033 using the straight-line method.

On August 14, 2006, the City elected to change the interest rate mode for $369,350,000 of variable rate demand bonds from a variable rate “weekly mode” to a “fixed rate mode” for the following issues: (i) $142,755,000 of Water Revenue Supply System Revenue Senior Lien Bonds Series 2003D; (ii) $72,765,000 Water Revenue Supply System Revenue Second Lien Bonds Series 2004A; and (iii) $153,830,000 Water Revenue Supply System Revenue Senior Lien Bonds Series 2004B.

The bonds were initially issued by the City in a variable “weekly rate” mode. Pursuant to the original offering documents and bond indentures, the bonds could be outstanding in any one of six interest rate modes, including the daily mode, the weekly mode, the commercial paper rate mode, the auction rate mode, the term rate mode, and the fixed rate mode. After issuance of the bonds, the City could elect to change the mode of any of the bonds from the weekly mode to any other of the six modes. Upon election of a rate change, the bonds are subject to mandatory tender for purchase by the City and subsequent remarketing by the transfer agent. Additionally, if the mode of any of the bonds is changed to the fixed rate mode, such bonds will remain in the fixed rate mode until maturity and may not be changed subsequently to any other mode.

For financial reporting purposes, the subsequent remarketing/conversion of the Series 2003D, 2004A, and 2004B revenue bonds was accounted for as an advance refunding (extinguishment of the variable rate demand bonds and issuance of the fixed rate bonds). The Fund completed the advance refunding due to the increase in interest rates resulting from the downgrading of the bond insurer. The advance refunding resulted in an economic loss (difference between the present values of the old and new debt service payments) of $7,806,566. The advance refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of $12,834,836. This difference, reported in the financial statements as a deferred amount on refunding, is being amortized as an adjustment to interest expense through the year 2033 using the straight-line method.

In prior years, the Fund defeased certain revenue bonds by placing the proceeds of new revenue bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the Fund’s financial statements. At June 30, 2007, $801,905,000 of bonds outstanding is considered defeased, which includes revenue bonds defeased during this current year.

(7) Pension Obligation Certificates (POCs)

In June 2005, the Detroit Retirement Systems Funding Trust issued $1,440,000,000 ($640 million of fixed rate, Series A, and $800 million of floating rate, Series B) of taxable POCs. The Trust was created by the General Retirement System Service Corporation (GRSSC) and the Police and Fire Retirement System Service Corporation (PFRSSC), both blended component units of the City. The City entered into service contracts with the GRSSC and PFRSSC to facilitate the transaction.

The POC’s were issued for the purpose of funding certain unfunded accrued actuarial liabilities (UAAL) of the two retirement systems of the City, which include the General Retirement System (GRS) and the Police and Fire Retirement System (PFRS), and a portion of the then current year normal contribution. The GRS includes employees and retirees of certain governmental funds, proprietary funds (Transportation Fund, Sewage Disposal Fund, and Water Fund) and the Detroit Public Library, a discretely presented component unit.

The POCs were allocated to the governmental activities and the Transportation, Sewage Disposal, and Water Funds based on those funds portion of the overall UAAL liquidated by the use of the 2005 POCs net proceeds. Since the Detroit Public Library is a discretely presented component unit, its prorated portion of the POCs liability assumed was included in the balance of the POCs obligation recorded at the general government level.

On February 8, 2006, the governing board of the GRS extended the Amortization Period for GRS UAAL from 20 to 30 years. On March 30, 2006, the governing board of the PFRS UAAL extended the amortization period for PFRS UAAL from 13 to 30 years to enable the City to replace certain scheduled payment obligations that it incurred to provide funding for the 2005 Subject UAAL with new scheduled payment obligations payable over the extended 30-year periods under the 2006 Service Contracts. This will enable the City to achieve financial benefits from the lengthened payment periods compared with the payment period included within the 2005 Series A and B payment schedules. Accordingly, the Detroit Retirement Systems Funding Trust 2006 issued $948,540,000 ($148,540,000 of fixed rate Series A and $800 million of floating rate Series B) of taxable Series 2006 POCs. The City also terminated the swap agreements entered into in the 2005 transaction and received $48,932,455. In economic substance, the City paid off $904,055,000 of 2005 Series Certificates with the net proceeds from the $948,540,000 received from the issuance of the 2006 POCs. The net effect of this on the City's balance sheet is to add on additional $44,485,000 of POCs obligations to the government-wide statement of net assets.

The Fund's portion of future principal and interest amounts for the POCs as of June 30, 2007 is as follows:

	Principal	Interest	Total
2008	$ —	8,751,324	8,751,324
2009	—	9,255,591	9,255,591
2010	519,698	9,255,591	9,775,289
2011	1,198,587	9,233,171	10,431,758
2012	1,846,294	9,180,386	11,026,680
2013 – 2017	17,936,676	44,061,066	61,997,742
2018 – 2022	26,567,265	38,707,313	65,274,578
2022 – 2027	34,053,424	31,026,373	65,079,797
2028 – 2032	45,549,024	19,536,558	65,085,582
2033 – 2035	34,744,349	4,314,513	39,058,862
Total	$ 162,415,317	183,321,886	345,737,203

(8) Risk Management

The Fund is exposed to various types of risk of loss including torts; theft of, damage to, or destruction of assets; errors or omissions; job-related illnesses or injuries to employees; natural disasters; and environmental occurrences. The Fund is self-insured for losses such as workers' compensation, legal, disability benefits, and vehicular liabilities. Also included are risk of loss associated with providing health, dental, and life insurance benefits to employees and retirees.

The Fund provides health and dental insurance benefits to employees and retirees through self-insured health plans that are administered by third-party administrators. The Fund does not purchase excess or stop-loss insurance for its self-insured health plans.

The Fund purchases public official liability insurance, property insurance for certain properties, and general liability insurance for accidents occurring at certain properties. The Fund assumes a $250,000 self-insured retention for any one loss or occurrence under its self-insured public official liability program. The Fund purchases excess liability insurance for its general liability for certain properties that provides per occurrence and aggregate protection. The Fund is fully self-insured for environmental-related liabilities and purchases no excess environmental liability insurance.

There were no significant changes in the insurance coverage from coverage provided in the prior year for any of the above-described risks.

A liability for claims is reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred but not reported. Claim liabilities are calculated considering the effects of recent claim settlement trends including frequency and amount of payouts and other economic and social factors. The claim liabilities also include estimated costs for claim administration fees and outside legal and medical assistance costs.

Changes in the balance of claim liabilities for the years ended June 30, 2007 and 2006 are as follows:

		2007	2006
Balance at beginning of year	$	22,252,878	22,458,899
Current year claims and changes in estimates		11,387,161	7,229,328
Claims payments		(10,291,960)	(7,435,349)
Balance at end of year	$	23,348,079	22,252,878

(9) Derivatives Not Reported at Fair Value

Interest Rate Swaps

The Fund is party to interest rate swaps that are intended to effectively convert variable-rate financings to fixed-rate financings. These are not reported at fair value on the statement of net assets at June 30, 2007 and 2006.

Objective of the Swaps. In order to better manage its interest rate exposure and to reduce the overall costs of its financings, the Fund has entered into 16 separate pay-fixed, receive variable interest rate swaps. The Fund is also allocated a portion of the City’s four separate pay-fixed, receive variable interest rate swaps related to the POCs and the GRS.

Market Access Risk. The Fund is exposed to market access risk on its hedge swaps or forward starting swaps in the event that it will not be able to enter credit markets or in the event that credit will become more costly.

Terms, Fair Values, and Credit Risk. Certain key terms, fair values, and counterparty credit ratings relating to the outstanding swaps as of June 30, 2007 are presented below. The notional amounts of the swaps, except those with effective dates of March 1, 2010 and July 1, 2011, match the principal amounts of the outstanding financings. The swaps with effective dates of March 1, 2010 and July 1, 2011, were entered into to hedge future interest rate risk and will be associated with financings expected to be issued prior to the effective dates. Except as discussed under rollover risk, the Fund's swap agreements contain scheduled reductions to outstanding notional amounts that match scheduled or anticipated amortization of associated financings.

Associated financing issue	Notional amounts (1)	Effective date	Fixed rate paid	Variable rate received	Fair values	Swap termination date	Final maturity of bonds	Counterparty credit rating
Water 2001-C (3)	29,910,000	6/7/2001	4.70	SIFMA (2)	(1,273,181)	7/1/2011	7/1/2029	Aaa/AA+/AA-
Water 2001-C (3)	47,530,000	1/1/2006	5.42	SIFMA (2)	(3,325,040)	7/1/2011	7/1/2029	Aaa/AA+/AA-
Water 2001-C	113,635,000	6/7/2001	4.90	SIFMA (2)	(11,122,660)	7/1/2026	7/1/2026	Aa3/A+/AA-
Water 2003-B	1,980,000	1/30/2003	3.02	CPI + 1.01%	48,699	7/1/2009	7/1/2009	Aa3/A+/AA-
Water 2003-B	2,290,000	1/30/2003	3.31	CPI + 1.12%	56,701	7/1/2010	7/1/2010	Aa3/A+/AA-
Water 2003-B	2,500,000	1/30/2003	3.55	CPI + 1.25%	65,840	7/1/2011	7/1/2011	Aa3/A+/AA-
Water 2003-B	2,175,000	1/30/2003	3.74	CPI + 1.33%	58,664	7/1/2012	7/1/2012	Aa3/A+/AA-
Water 2003-B	2,800,000	1/30/2003	3.87	CPI + 1.34%	68,313	7/1/2013	7/1/2013	Aa3/A+/AA-
Water 2003-B	2,505,000	1/30/2003	4.00	CPI + 1.36%	52,725	7/1/2014	7/1/2014	Aa3/A+/AA-
Water 2003-C	2,005,000	1/30/2003	3.87	CPI + 1.34%	48,963	7/1/2013	7/1/2013	Aa3/A+/AA-
Water 2003-C	2,330,000	1/30/2003	4.00	CPI + 1.36%	49,042	7/1/2014	7/1/2014	Aa3/A+/AA-
Water 2005-B	195,000,000	4/1/2005	4.71	SIFMA (2)	(11,632,482)	7/2/2035	7/2/2035	Aa3/A+/A+
Water 2006-B	120,000,000	3/1/2007	5.00	SIFMA (2)	(12,230,957)	7/1/2036	7/1/2036	Aa3/AA-/AA-
Water Hedge Swap (4)	150,000,000	3/1/2010	4.93	SIFMA (2)	(9,005,991)	7/1/2039	N/A	Aa3/A+/AA-
Water Hedge Swap (4)	50,000,000	3/1/2010	4.93	SIFMA (2)	(3,215,250)	7/1/2039	N/A	Aa3/A+/AA-
Water Hedge Swap (4)	76,510,000	7/1/2011	4.87	SIFMA (2)	(2,463,364)	7/1/2029	N/A	Aa3/AA-/AA-
Pension Obligation Certificates – GRS (5)	35,339,015	6/12/2006	5.67	3 MTH LIBOR +.34%	(510,393)	6/15/2034	6/15/2034	Aa3/AA-/AA-
Pension Obligation Certificates – GRS (5)	16,550,865	6/12/2006	5.67	3 MTH LIBOR +.30%	(227,329)	6/15/2029	6/15/2029	Aa3/AA-/AA-
Pension Obligation Certificates – GRS (5)	35,339,015	6/12/2006	5.67	3 MTH LIBOR +.34%	(439,314)	6/15/2034	6/15/2034	Aa2/AA+/AA+
Pension Obligation Certificates – GRS (5)	16,550,865	6/12/2006	5.67	3 MTH LIBOR +.30%	(222,000)	6/15/2029	6/15/2029	Aa2/AA+/AA+

(1) Notional amount balance as of June 30, 2007.

(2) The Securities Industry and Financial Markets Association Municipal Swap Index™.

(3) Denotes the swap termination date does not match the final maturity of the financings.

(4) Denotes that the associated bond issue has not been issued as of the balance sheet date; these swaps are issued in anticipation of a future planned variable rate bond issue.

(5) Denotes the System's allocation of the associated financing. Also see note 16 for discussion of terminating events on POC Swaps.

Fair Value. Because interest rates have generally declined since the time the swaps were negotiated, most of the Fund's swaps have a negative fair value as of June 30, 2007. The negative fair values may be countered by lower total interest payments required under the variable-rate financings, creating lower synthetic interest rates. The fair value was estimated using the zero-coupon method. This method calculates the future net settlement payments required by the swap, assuming that the current forward rates implied by the yield curve correctly anticipate future spot interest rates. These payments are then discounted using the spot rates implied by the current yield curve for hypothetical zero-coupon bonds due on the date of each future net settlement on the swap.

Credit Risk. When the fair value of any swap has a positive value, then the Fund is exposed to the risk that the counterparty will not fulfill its obligations. As of June 30, 2007, the Fund was exposed to $448,947 of credit risk (without regard to collateral or other security arrangements). The table above shows the credit quality ratings of the counterparties to each swap. The Fund uses six different counterparties, as one way of diversifying its credit risk. In addition, the swap agreements contain varying collateral agreements with the counterparties. The swaps require full collateralization of the fair value of the swap should the counterparty's credit rating fall below certain rating levels by Fitch Ratings, Standard & Poor's, and/or Moody's Investors Service. Collateral on all swaps is to be in the form of U.S. government securities held by a third-party custodian.

Basis Risk. The Fund is exposed to basis risk when the variable interest received on a swap is based on a different index than the variable interest rate to be paid on the associated variable rate debt obligation. At June 30, 2007, the associated debt used the same index for all Securities Industry and Financial Markets Association Municipal Swap Index (SIFMA) and Consumer Price Index (CPI) referenced swaps, as well as the Pension obligation certificates (based on LIBOR) in the table above. As a result, there is no significant exposure to basis risk at June 30, 2007.

Termination Risk. The Fund or counterparty may terminate any of the swaps if the other party fails to perform under the terms of the contract. In such cases, the Fund may owe or be due a termination payment, depending on the value of the swap at that time. If any of these swaps were terminated, the associated variable-rate financings would no longer carry synthetic interest rates.

Rollover Risk. The Fund is exposed to rollover risk on swaps that mature or may be terminated prior to the maturity of the associated financings. When these swaps terminate or, in the case of the termination option, if the counterparty exercises its option, the Fund will not realize the synthetic rate offered by the swaps on the underlying issues. The Fund has this risk for two of the Water Series 2001-C interest rate swaps.

Swaptions

Objective of the Swaptions. In addition to the interest rate swaps described above, the Fund entered into three swaptions in conjunction with the termination of three previous interest rate swaps. Specifically, the Fund entered into one interest rate swap in February 2003 and two interest rate swaps in April 2004 related to the issuance of variable rate water bonds. Those interest rate swap agreements included provisions that allowed for the counterparty to put the Fund into a swaption arrangement upon termination. Upon the restructuring of those variable rate bonds in August 2006 to fixed-rate bonds, the interest rate swaps were terminated, and the counterparty executed the swaptions. The swaptions give the counterparty the option to make the Fund enter into a pay-variable, receive-fixed interest rate swap. If the option is exercised, the

Fund may consider the potential to issue variable rate refunding bonds and terminate the swaption, but it is not committed to doing so.

Terms, Fair Values, and Credit Risk. The counterparty may exercise its option to enter into the underlying interest rate swap agreements on any date in which the SIFMA index has averaged 7.00% or higher for a consecutive 180 day period. Certain other key terms, fair values, and counterparty credit ratings relating to the outstanding swaptions as of June 30, 2007 are presented below. If the options are exercised by the counterparty, the underlying swap agreements contain scheduled reductions to outstanding notional amounts that match scheduled or anticipated amortization of associated financings.

Associated financing issue	Notional amounts (1)	Option effective date	Variable rate paid	Fixed rate received	Fair values	Swaption termination date	Final maturity of bonds	Counterparty credit rating
Water 2003-D	150,110,000	7/1/2006	SIFMA (2)	4.06	(5,928,835)	7/1/2033	7/1/2033	A3/A+A+
Water 2004-A	77,010,000	7/1/2006	SIFMA (2)	3.94	(1,185,727)	7/1/2025	7/1/2025	Aa3/A+/A+
Water 2004-B	162,115,000	7/1/2006	SIFMA (2)	3.85	(1,724,869)	7/1/2023	7/1/2023	Aa3/A+/A+

(1) Notional amount balance as of June 30, 2007.

(2) The Securities Industry and Financial Markets Association Municipal Swap Index.

Fair Value. The fair value was estimated using the zero-coupon method. This method calculated the future net settlement payments required by the swap, assuming that the current forward rates implied by the yield curve correctly anticipate future spot interest rates. These payments were then discounted using the spot rates implied by the current yield curve for hypothetical zero-coupon bonds due on the date of each future net settlement on the swap.

Market-access risk. If the options to enter into interest rate swap agreements are exercised by the counterparty and variable rate refunding bonds are not issued by the City, the Fund would make net swap payments as required by the terms of the contracts—that is, making a variable payment of the SIFMA index rate (unadjusted) to the counterparty for the term of the respective swap and receiving a fixed payment.

(10) Employee Benefit Plan

Substantially all City employees, including the Fund employees, are covered by a single-employer plan composed of a defined benefit with an optional employee-contributed annuity through the General Retirement System (GRS). The GRS pays a monthly pension to qualified individuals upon retirement. The amount is based upon a combination of years of service and annual salary.

Plan Description

The GRS is administered in accordance with the City of Detroit Charter and union contracts, which assign the authority to establish and amend contributions and benefit provisions to the GRS board of trustees. The GRS issues separate, stand-alone financial statements annually. Copies of these financial statements can be obtained at the Coleman A. Young Municipal Center, 2 Woodward Ave., Rm. 908, Detroit, Michigan, 48226.

Funding Policy and Annual Pension Cost

The GRS funding policy provides for periodic employer contributions at actuarially determined rates that, expressed as percentages of annual covered payroll, are sufficient to accumulate sufficient assets to pay benefits when due. The contribution requirements are established and may be amended by the GRS' board of trustees based on information provided by the GRS' consulting actuary. The City's contribution is set by the City Council in conjunction with its approval of the City's annual budget based on information provided by the GRS' consulting actuary.

The recommended contribution rate is determined by the GRS' consulting actuary using the entry age normal actuarial cost funding method. Significant actuarial assumptions used to compute contribution requirements are the same as those used to compute the actuarial accrued liability.

Based upon the June 30, 2005 and 2004 actuarial valuations, the actuarial required contribution rate for the Fund was 20.05% and 20.84% of covered payroll for the years ended June 30, 2007 and 2006, respectively. Contributions for the Fund were $6,485,957 and $5,156,381 for the years ended June 30, 2007 and 2006, respectively.

Employees may also elect to contribute (a) 3% of annual compensation up to the Social Security wage base and 5% of any excess over that, (b) 5%, or (c) 7% toward annuity savings. Contributions received from Fund employees were $2,833,342 and $3,032,044 during the years ended June 30, 2007 and 2006, respectively.

The contribution requirements of plan members and the City are established and may be amended by the board of trustees in accordance with the City Charter, union contracts, and plan provisions. Members may retire with full benefits after attaining 30 years of service; age 55 with 30 years of service if hired after January 1, 1996; age 60 with 10 years of service; or age 65 with 8 years of service. Employees may retire after 25 years of service and collect an actuarially reduced retirement benefit. Monthly pension benefits, which are subject to certain minimum and maximum amounts, are determined according to fixed rates per year of credited service. Members of the GRS who separated prior to July 1, 1981, met the age and service requirements, and who did not withdraw their accumulated annuity contributions are generally eligible for a pension at the time they would have been eligible had they continued in City employment. Members who separate after July 1, 1981 are not required to leave their accumulated annuity contributions in the System. Pension benefits for all members of the GRS are increased annually by 2.25% of the original pension.

(Continued)

The annual pension cost and the changes in net pension asset allocated to the Fund for the years ended June 30, 2007 and 2006 are as follows:

	2007	2006
Annual required contributions	$ 12,417,474	10,457,713
Interest on net pension asset	(11,738,632)	(11,885,748)
Adjustment to annual required contribution	8,342,101	8,446,650
Annual pension cost	9,020,943	7,018,615
Contributions made (employer)	6,485,957	5,156,381
Changes in net pension asset	(2,534,986)	(1,862,234)
Net pension asset, beginning of year	148,590,274	150,452,508
Net pension asset, end of year	$ 146,055,288	148,590,274

The actuarial methods and significant assumptions used to determine the annual required contributions for June 30, 2007 and 2006 were as follows:

	2007	2006
Valuation date	June 30, 2005	June 30, 2004
Actuarial cost method	Entry age	Entry age
Amortization method	Level percent	Level percent
Remaining amortization period for unfunded accrued liabilities	30 years	20 years
Asset valuation method	3-year smoothed market	3-year smoothed market
Actuarial assumptions:		
Investment rate of return	7.9%	7.9%
Projected salary increases*	4% – 9.5%	4% – 9.5%
Cost-of-living adjustments	2.25%	2.25%

*Includes inflation rate of 4%.

Three-Year Trend Information

	Fiscal year ended	Annual pension cost (APC)	Percentage of APC contributed	Net pension asset
General Retirement System	June 30, 2005	$ 17,571,543	956%	$ 150,452,508
	June 30, 2006	7,018,615	73	148,590,274
	June 30, 2007	9,020,943	72	146,055,288

(Continued)

Administrative Expenses

Actuarial investment management and bank trustee fees and expenses are included in the GRS plan's administrative expenses when incurred. In addition, the GRS plan's administrative salary, rent, accounting services, duplicating, telecommunications, and travel expenses are included in the GRS plan's administrative expenses when incurred.

(11) Other Post-Employment Benefits

In addition to the pension benefits described above, the City provides other post retirement benefits to its retirees, which include hospitalization, dental care, eye care, and life insurance. The number of City retirees were 20,362 and 20,950 at June 30, 2007 and 2006, respectively. Costs are accounted for in accordance with GASB Statement No. 12, *Disclosure of Information on Postemployment Benefits Other Than Pension Benefits by State and Local Governmental Employers*. The benefits are provided in accordance with the City Charter and union contracts.

The costs of benefits, which were financed on a pay-as-you-go basis, for the years ended June 30, 2007 and 2006 were as follows:

	2007		
Benefits	**City cost**	**Retiree cost**	**Total cost**
Hospitalization	$ 137,293,239	14,997,334	152,290,573
Dental	6,245,188	1,327,505	7,572,693
Eye care	2,106,676	—	2,106,676
Life insurance	168,161	34,008	202,169
	$ 145,813,264	16,358,847	162,172,111

	2006		
Benefits	**City cost**	**Retiree cost**	**Total cost**
Hospitalization	$ 139,306,757	14,933,508	154,240,265
Dental	6,160,524	—	6,160,524
Eye care	1,969,690	—	1,969,690
Life insurance	143,579	26,740	170,319
	$ 147,580,550	14,960,248	162,540,798

The costs of benefits allocated to the Fund were $7,750,424 and $7,729,683 for the years ended June 30, 2007 and 2006, respectively.

(12) Due to (from) Other Funds

During the course of operations, numerous transactions occur between individual funds and other City funds for goods provided or services rendered. Related receivables and payables are classified as "due from other funds" or "due to other funds" on the balance sheets and are summarized as follows:

		2007	2006
Due from other funds (unrestricted):			
General Fund	$	424,605	804,919
Sewage Disposal Fund		14,714,993	8,751,152
Automobile Parking Fund		10,521	—
Total due from other funds	$	15,150,119	9,556,071
Due from other funds (restricted):			
General Fund	$	324,852	357,919
Due to other funds (unrestricted):			
General Fund	$	5,076,926	6,038,572
Nonmajor governmental funds		166,290	—
Fiduciary funds		2,723,435	506,181
Total due to other funds	$	7,966,651	6,544,753
Due to other funds (restricted):			
General Fund	$	40,004	33,963
Sewage Disposal Fund		4,053,319	5,285,086
Total due to other funds	$	4,093,323	5,319,049

(13) Capital Improvement Programs

The Fund is engaged in a variety of projects that are a part of its five-year Capital Improvement Program (the Program). The total cost of this program is anticipated to be approximately $1.97 billion through fiscal year 2012. The Program is being primarily financed from revenues of the Fund and proceeds from the issuance of revenue bonds.

The total amount of construction contract commitments outstanding at June 30, 2007 and June 30, 2006 was approximately $163 million and $156 million, respectively.

(14) Contingencies

The Fund is also a defendant in numerous alleged claims, lawsuits, billing disputes, and other stated and pending demands. The Fund and the City's Legal Department have estimated a reserve, which is included in the accompanying financial statements, for the potential outcome of such claims or the amount of potential damages in the event of an unfavorable outcome for each of the above contingencies. The Fund's management and the City's Legal Department believe that any differences in reserved amounts and final settlement, after consideration of claims covered by insurance, resulting from such litigation will not materially impact the Fund's financial position or results of operations.

The City holds various commercial insurance policies to cover potential loss exposures.

(15) Compliance with Finance-Related Legal and Contractual Provisions

The Fund has not implemented the necessary procedures to ensure compliance with the arbitrage rebate rules of Section 148(f) of the Internal Revenue Code of 1986 applicable to the City's outstanding tax-exempt obligations. The Fund is engaged in discussions with the Internal Revenue Service to establish such procedures. The potential impact to the Fund is indeterminable at this time.

The Treasurer of the State of Michigan requires that the financial statements of local governments must be submitted to the Treasurer no later than six months after year-end. The City (including the Fund) is in violation of this requirement. The Secretary of State of the State of Michigan has the authority to suspend the City's certificate of motor vehicle self-insurance when a financial statement with application is not submitted 30 days prior to the desired effective date of the certificate. Failure to adhere to the requirement may result in the cancellation of the certificate of motor vehicle self-insurance. The Fund's motor vehicles are covered under the City's certificate of motor vehicle self-insurance. However, the Secretary of State has extended the City's certificate of motor vehicle self-insurance.

(16) Subsequent Events

Legal Settlement

In September 2005, several customers of the Fund challenged the method of allocating costs associated with the 800 MHz project. In early 2007, the court issued a preliminary ruling acknowledging that the Fund had been overcharged by the City. On December 18, 2008, Detroit Water and Sewer Department and the City announced a tentative agreement in which the City would repay the Fund $13.5 million inclusive of estimated interest. The $13.5 million will be deposited into the construction bond fund to offset the cost of future capital improvement.

New Debt Issuances

In May 2008, portions of the outstanding Water Supply System Bonds, Series 2001-C and 2005-B were remarketed from variable rate to fixed rate bonds. Series 2001-C in the amount of $190,405,000 was remarketed; $225,000 of the 2001-C Predecessor Bonds not being converted were called for optional redemption and retired. The Series 2001-C bonds will begin to mature July 1, 2009 and will fully mature in the year 2029. Series 2005-B bonds were remarketed in the amount of $194,900,000 will begin to mature July 1, 2010 and will fully mature in the year 2035. $100,000 of the 2005-B Predecessor Bonds not being converted were called for optional redemption and retired.

Transfer of Accounts Receivable

In the month of August 2008, the Fund transferred $9,932,400 of delinquent retail accounts receivable to the City Treasurer as liens against properties located within the City, as allowed by Michigan the Municipal Water Lien Act. The age of the accounts receivable transferred to the City Treasurer ranged from 90 days to one year. The tax roll policy was adopted by the Fund as part of its efforts to increase collections on delinquent accounts.

Swap Agreement Termination

On January 6, 2009, Standard & Poor's Rating Services (S&P) downgraded the City's $530 million of outstanding unlimited tax general obligation bond rating from "BBB" to "BB" and its $355 million of outstanding limited tax general obligation bond rating from "BBB–" to "BB". On that date, S&P also downgraded to BB, the rating on the $536 million of outstanding Detroit Retirement Systems Funding Trust 2005 Taxable Certificates of Participation Series 2005 and the $948 million of Detroit Retirement Systems Funding Trust 2006 Taxable Certificates of Participation Series 2006 (collectively, the "Pension Obligation Certificates" or "POCs). On January 13, 2009, Moody's Investors Service (Moody's) downgraded the ratings on the City's unlimited-tax general obligation debt and on the POCs from "Baa3" to "Ba2" and its limited-tax general obligation debt rating from "Ba1" to "Ba3". At the same time, Moody's downgraded from "Aa3" to "Baa3" the Global Scale Rating assigned to the outstanding POCs.

The City has identified eight interest rate exchange agreements (swap agreements) that the swap counterparties could seek to terminate the contracts as a result of these rating changes. These eight swap agreements were executed in connection with the POCs listed on page 18 of these notes. The City received formal notice on January 8, 2009 from the swap counterparty to four of the eight swap agreements stating that an event had occurred which, if not cured by the City within 30 days from the date of the notice, will constitute an additional termination event, allowing such swap counterparty to designate an early termination date with respect to the applicable swap agreement. The City also received formal notice on January 14, 2009 from the swap counterparty to the four remaining swap agreements, stating that the applicable swap insurers had been downgraded below the thresholds set forth in the swap agreements. Under the swap agreements, such swap insurer downgrades, coupled with the downgrades of the POCs, will constitute an additional termination event unless, within 30 days of receiving such notice, the City has provided a credit support provider acceptable to the swap counterparty whose obligations are pursuant to a credit support document acceptable to the swap counterparty.

If the swap agreements are terminated, the amount of swap termination payments would be based on a variety of factors, such as the various swap counterparties financial pricing models; underlying variable debt, index or reference rates; and the point of pricing. The amount of swap agreement termination payments, if any, has been estimated to range up to approximately $400 million as determined by valuations provided by counterparties as of December 31, 2008. However, the City is exploring various options that would avoid agreements.

Of the eight swap agreements, four are related to POCs used to fund the General Retirement System (GRS Swaps) and the other four are related to POCs used to fund the Police and Fire Retirement System (PFRS Swaps). Employees of the Fund only participate in the General Retirement System. Accordingly, only the amount of swap agreement termination payments for the GRS Swaps would be allocated to the Fund. The amount of swap agreement termination payments discussed above, if any, applicable to the GRS Swaps has been estimated to range up to approximately $147 million. Any such termination payment(s) would be allocated to the Fund based on the notional allocation percentage of the GRS Swaps. The Fund's allocation percentage approximates 36.60% of the termination payments for the GRS Swaps.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF DETROIT
WATER FUND

Required Supplementary Information (Unaudited)

June 30, 2007

Schedule of Funding Progress (in millions) for the General Retirement System (unaudited) for the City taken as a whole:

Actuarial valuation date, June 30	Actuarial value of assets	Actuarial accrued liability (AAL)	Funded ratio	Unfunded AAL (UAAL)	Covered payroll	UAAL as a percentage of payroll
2004	$ 2,470.2	3,383.9	73.0	$ 913.7	444.6	205.5%
2005	3,222.4	3,347.4	96.3	125.0	390.6	32.0
2006	3,373.7	3,434.3	98.0	60.6	361.2	16.8

See accompanying independent auditors' report.