CITY OF DETROIT
WATER FUND

Basic Financial Statements
and Required Supplementary Information

June 30, 2008

(With Independent Auditors' Report Thereon)

CITY OF DETROIT
WATER FUND

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

Independent Auditors' Report

The Board of Water Commissioners,
The Honorable Mayor Dave Bing,
and the Honorable 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 year ended June 30, 2008, as listed in the table of contents. These basic financial statements are the responsibility of the Fund's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes 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 audit provides 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, 2008, the changes in its financial position, or, where applicable, its cash flows for the year 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 as of June 30, 2008, and the changes in its financial position and its cash flows for the year then ended in conformity with U.S. generally accepted accounting principles.

As discussed in note (1)(n) to the basic financial statements, the Fund adopted the provisions of Governmental Accounting Standards Board Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, during the year ended June 30, 2008.

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

KPMG LLP

Detroit, Michigan
January 21, 2010

CITY OF DETROIT
WATER FUND

Statement of Net Assets

June 30, 2008

		2008
Current assets:		
Cash and cash equivalents	$	48,660,120
Investments		49,496,338
Accounts receivable:		
Billed accounts receivable		62,904,132
Unbilled accounts receivable		23,088,374
Other accounts receivable		1,740,581
Allowance for doubtful accounts		(35,952,199)
Total accounts receivable, net		51,780,888
Due from other funds		21,334,188
Inventories		7,350,654
Prepaid expenses		1,498,226
Restricted:		
Cash and cash equivalents		23,731,177
Investments		106,114,606
Due from other funds		13,824,852
Total current assets		323,791,049
Noncurrent assets:		
Restricted:		
Cash and cash equivalents		11,884,886
Investments		435,763,345
Net pension asset		77,642,310
Bond and pension obligation certificate issuance cost		45,222,267
Capital assets:		
Land and land rights		7,394,093
Land improvements		15,086,454
Buildings and structures		949,361,500
Mains		798,741,741
Services and meters		95,055,216
Machinery, equipment, and fixtures		796,756,315
Construction in progress		255,431,184
Total capital assets		2,917,826,503
Less accumulated depreciation		(871,906,146)
Total capital assets, net		2,045,920,357
Total noncurrent assets		2,616,433,165
Total assets	$	2,940,224,214

See accompanying notes to basic financial statements.

(Continued)

CITY OF DETROIT
WATER FUND

Statement of Net Assets

June 30, 2008

		2008
Current liabilities:		
Current liabilities payable from unrestricted assets:		
Accounts and contracts payable	$	16,644,824
Accrued salaries and wages		3,114,934
Due to other funds		6,762,711
Due to fiduciary funds		1,788,861
Accrued interest payable		105,924
Other accrued liabilities		4,774,543
State revolving loans payable within one year		1,325,000
Capital leases payable within one year		863,422
Accrued compensated absences		7,288,290
Accrued workers' compensation		2,056,000
Claims and judgments		528,700
Total current liabilities payable from unrestricted assets		45,253,209
Current liabilities payable from restricted assets:		
Revenue bonds payable within one year		31,565,000
Accrued interest payable		49,583,832
Accounts and contracts payable		20,018,563
Due to other funds		8,630,015
Other current accrued liabilities		451,905
Total current liabilities payable from restricted assets		110,249,315
Total current liabilities		155,502,524
Long-term liabilities:		
Revenue bonds and state revolving loans payable, net		2,295,236,022
Pension obligation certificates of participation payable, net		81,333,125
Capital leases payable		1,503,991
Net OPEB obligation		7,614,170
Accrued compensated absences		8,620,754
Accrued workers' compensation		9,072,000
Claims and judgments		7,010,000
Total long-term liabilities		2,410,390,062
Total liabilities		2,565,892,586
Net assets:		
Invested in capital assets, net of related debt		131,959,821
Restricted:		
Restricted for capital acquisitions		57,338,174
Restricted for debt service		66,934,304
Unrestricted		118,099,329
Total net assets	$	374,331,628

See accompanying notes to basic financial statements.

CITY OF DETROIT
WATER FUND

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

Year ended June 30, 2008

		2008
Operating revenues:		
Water sales – Detroit	$	74,442,186
Water sales – suburban		216,867,005
Miscellaneous		1,674,029
Total operating revenues		292,983,220
Operating expenses:		
Source of supply		1,991,566
Low-lift pumping		5,070,132
High-lift pumping		21,329,905
Purification		17,077,316
Water quality operations		1,244,597
Transmission and distribution		26,448,973
Services and meters		5,977,508
Hydrant division		128,697
Commercial		6,112,874
Operations and maintenance		30,371,887
Central city staff services		7,994,520
Administrative and general		17,621,924
Nonrecurring capital asset adjustments		28,283,497
Total operating expenses before depreciation		169,653,396
Depreciation		67,504,841
Total operating expenses		237,158,237
Operating income		55,824,983
Nonoperating revenues (expenses):		
Investment earnings		29,312,849
Interest expense, net of capitalized interest		(123,619,840)
Miscellaneous revenue		1,679,909
Total nonoperating revenues (expenses), net		(92,627,082)
Decrease in net assets before capital contributions and transfers		(36,802,099)
Capital contributions		605,746
Transfers in		9,575,331
Decrease in net assets		(26,621,022)
Net assets – beginning of year		400,952,650
Net assets – end of year	$	374,331,628

See accompanying notes to basic financial statements.

CITY OF DETROIT
WATER FUND

Statement of Cash Flows

Year ended June 30, 2008

		2008
Cash flows from operating activities:		
Receipts from customers	$	296,138,334
Loans to other funds		(5,064,574)
Payments to suppliers		(65,722,592)
Payments to employees		(74,593,124)
Net cash provided by operating activities		150,758,044
Cash flows from noncapital financing activities:		
Interest paid on pension obligation certificates of participation		(2,591,607)
Miscellaneous nonoperating income		175,301
Net cash used in noncapital financing activities		(2,416,306)
Cash flows from capital and related financing activities:		
Acquisition and construction of capital assets		(133,762,629)
Contribution for capital acquisition		605,746
Proceeds from sale of capital assets		86,638
Principal paid on revenue bonds and state revolving loans		(32,498,981)
Interest paid on revenue bonds and state revolving loans		(124,860,901)
Payment to escrow agent for refunded bonds		(391,521,000)
Proceeds from issuance of revenue bonds and state revolving loans		396,231,225
Net cash provided by (used in) capital and related financing activities		(285,719,902)
Cash flows from investing activities:		
Proceeds from sales and maturities of investments		1,179,079,102
Purchase of investments		(1,031,860,603)
Interest received on investments		29,312,849
Net cash provided by (used in) investing activities		176,531,348
Net increase in cash and cash equivalents		39,153,184
Cash and cash equivalents at beginning of year		45,122,999
Cash and cash equivalents at end of year	$	84,276,183
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	$	55,824,983
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation		67,504,841
Write-off of construction in progress		239,518
Loss on disposal of capital assets		792,000
Nonrecurring capital asset adjustments		28,283,497
Changes in assets and liabilities:		
Accounts receivable		3,155,114
Due from other funds		(6,184,069)
Inventories		(13,531)
Prepaid expenses		1,048,911
Net pension asset		(2,226,448)
Accounts and contracts payable		(3,340,783)
Accrued salaries and wages		1,347,586
Due to other funds		1,119,495
Due to fiduciary funds		(534,574)
Other accrued liabilities, compensated absences, and workers' compensation		(5,692,747)
Net OPEB obligation		7,614,170
Claims and judgments payable		1,820,081
Net cash provided by operating activities	$	150,758,044

Noncash capital financing activities:
Capital assets of $605,746 were acquired through contributions from developers for the year ended June 30, 2008
Capital assets of $2,581,394 were acquired through capital lease financing for the year ended June 30, 2008
As a result of settling a legal matter, the Fund recorded an amount due from the City of $13,500,000, a reduction of capital assets of $10,483,973, and a nonoperating revenue of $3,016,027.

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 (GAAP).

The financial statements of the Fund have been included in the City of Detroit's Comprehensive Annual Financial Report 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 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 year ended June 30, 2008 was $9,256,508.

During the fiscal year ended June 30, 2008, the Fund identified $28.2 million in operating expenses that were improperly included in capital assets of the Fund in prior years. As a result, capital assets were reduced and a nonrecurring capital asset adjustment was recorded as an operating expense in the Fund's statement of revenues, expenses, and changes in fund net assets.

(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 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.

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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 GAAP requires management to make estimates and assumptions that affect the reported amounts 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) New Accounting Pronouncements

In July 2004, 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. Specifically, the City will be required to measure and disclose an amount for annual OPEB cost on the accrual basis for health and insurance benefits that will be provided to retired City employees in future years. The City is also required to record a net OPEB obligation, which is defined as the cumulative difference between annual OPEB cost and the employer’s contributions to a plan, including the OPEB liability or asset at transition, if any. The City, including the Fund, implemented this statement during the year ended June 30, 2008. As a result, the City has recorded a net OPEB liability of $146,489,116, of which $7,614,170 is recorded in the Fund. See note 11 for more information.

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 (for example, early retirement incentives) when the offer is accepted and the amount can be estimated. A liability and expense for involuntary termination benefits (for example, 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 effects of a termination benefit on an employer’s obligations for defined benefit pension or other postemployment benefits in the case of the City will be accounted for and reported under the requirements of Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, as applicable. The City implemented the provisions of the statement applicable to termination benefits provided through its defined OPEB plan in conjunction with Statement No. 45 during the year ended June 30, 2008. For all other termination benefits, the City implemented the provisions of this statement during the year ended June 30, 2007.

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, including the Fund, implemented this statement during the year ended June 30, 2008. There was no impact to the financial statements of the Fund as a result of implementing this statement.

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 ended June 30, 2009.

In May 2007, GASB issued Statement No. 50, *Pension Disclosures - an amendment of GASB Statements No. 25 and No. 27*. This statement more closely aligns the financial reporting requirements for pensions with those for OPEB and enhances information disclosed in notes to financial statements or presented as required supplementary information (RSI) by pension plans and by employers that provide pension benefits. The City, including the Fund, implemented Statement No. 50 beginning with the fiscal year ended June 30, 2008. As a result, additional disclosures are being provided within the notes to the financial statements in accordance with the pronouncement.

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 ended 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

(Continued)

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.

(2) Deposits and Investments

Deposits and investments of the Fund at June 30, 2008 are as follows:

Deposits	$	84,276,183
Investments		591,374,289
Total deposits and investments	$	675,650,472

The deposits and investments of the Fund at June 30, 2008 are reported in the financial statements as follows:

Unrestricted:		
Cash and cash equivalents	$	48,660,120
Investments		49,496,338
Restricted:		
Cash and cash equivalents – current		23,731,177
Investments – current		106,114,606
Cash and cash equivalents – noncurrent		11,884,886
Investments – noncurrent		435,763,345
Total cash and investments	$	675,650,472

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.

(a) 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, 2008, the Fund had deposits of $75,592,925, which were exposed to custodial credit risk, as they were uninsured and uncollateralized.

(b) 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, 2008, the Fund had no investments subject to custodial credit risk.

(c) 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, 2008, the maturities for the Fund's fixed income investments are as follows:

	Fair value	Investment maturities in years: Less than one year	Investment maturities in years: One to five years
Investment:			
U.S. government agency securities	$ 352,573,298	227,989,353	124,583,945
Commercial paper	52,120,000	52,120,000	—
Money market	186,680,991	186,680,991	—
Total investments	$ 591,374,289	466,790,344	124,583,945

(d) 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).

As of June 30, 2008, the credit quality ratings for the Fund's fixed income investments are as follows:

Investment		Fair value	Ratings S&P	Ratings Moody's
U.S. government agency securities	$	238,317,548	AAA	Aaa
U.S. government agency securities		921,009	AAA	WR
U.S. government agency securities		111,511,230	NR	WR
U.S. government agency securities		1,823,511	NR	NA
Commercial paper		52,120,000	P-1	A-1
Money market		165,459,367	AAAm	Aaa
Money market		21,221,624	Not rated	Not rated
Total investments	$	591,374,289		

(e) 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 29%, 10%, and 11%, respectively, of the Fund's total investments as of June 30, 2008.

(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.

(4) Capital Assets

Capital asset activity for the year ended June 30, 2008 was as follows:

	Balance, June 30, 2007	Additions	Disposals	Balance, June 30, 2008
Nondepreciated capital assets:				
Land and land rights	$ 7,394,093	—	—	7,394,093
Construction in progress	152,863,477	141,851,077	(39,283,370)	255,431,184
Total nondepreciable assets	160,257,570	141,851,077	(39,283,370)	262,825,277
Depreciated capital assets:				
Land improvements	15,690,475	—	(604,021)	15,086,454
Buildings and structures	958,889,529	4,126,862	(13,654,891)	949,361,500
Mains	784,309,484	17,024,672	(2,592,415)	798,741,741
Services	47,809,241	569,266	—	48,378,507
Meters	44,622,270	2,054,439	—	46,676,709
Machinery, equipment, and fixtures	799,927,305	20,421,689	(23,592,679)	796,756,315
Total depreciable assets	2,651,248,304	44,196,928	(40,444,006)	2,655,001,226
Less accumulated depreciation:				
Land improvements	(6,438,570)	(165,442)	27,280	(6,576,732)
Buildings and structures	(215,872,023)	(20,904,399)	923,116	(235,853,306)
Mains	(275,139,816)	(10,914,536)	402,091	(285,652,261)
Services	(24,312,667)	(594,886)	—	(24,907,553)
Meters	(30,825,524)	(1,261,576)	—	(32,087,100)
Machinery, equipment, and fixtures	(255,932,459)	(33,664,002)	2,767,267	(286,829,194)
Total accumulated depreciation	(808,521,059)	(67,504,841)	4,119,754	(871,906,146)
Net capital assets	$ 2,002,984,815	118,543,164	(75,607,622)	2,045,920,357

(Continued)

(5) Long-Term Obligations

Changes in long-term obligations for the year ended June 30, 2008 were as follows:

	June 30, 2007	Increase	Decrease	June 30, 2008	due within one year
Revenue bonds payable	$ 2,326,720,000	385,305,000	(416,290,000)	2,295,735,000	31,565,000
State revolving loans	19,068,728	2,177,608	(1,300,000)	19,946,336	1,325,000
Total revenue bonds payable	2,345,788,728	387,482,608	(417,590,000)	2,315,681,336	32,890,000
Add unamortized premiums	43,947,671	23,702,765	(3,180,037)	64,470,399	—
Less:					
Unamortized discounts	(2,956,068)	(1,733,787)	231,934	(4,457,921)	—
Deferred amounts on refunding	(42,525,006)	(22,091,381)	17,048,595	(47,567,792)	—
Total revenue bonds payable, net	2,344,255,325	387,360,205	(403,489,508)	2,328,126,022	32,890,000
Pension obligation certificates payable 2005 series	28,862,049	—	—	28,862,049	—
Pension obligation certificates payable 2006 series	51,506,122	—	—	51,506,122	—
Less deferred amounts on refunding	967,821		(2,867)	964,954	—
Total pension obligation certificates payable, net	81,335,992	—	(2,867)	81,333,125	—
Other liabilities:					
Capital lease payable	—	2,581,394	(213,981)	2,367,413	863,422
Net OPEB obligation	—	15,935,062	(8,320,892)	7,614,170	—
Accrued compensated absences	16,766,136	1,052,269	(1,909,361)	15,909,044	7,288,290
Accrued workers' compensation	17,629,460	—	(6,501,460)	11,128,000	2,056,000
Claims and judgments	5,718,619	2,290,812	(470,731)	7,538,700	528,700
Total other liabilities	40,114,215	21,859,537	(17,416,425)	44,557,327	10,736,412
Total	$ 2,465,705,532	409,219,742	(420,908,800)	2,454,016,474	43,626,412

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

Revenue bonds payable were $2,315,681,336 at June 30, 2008. Net revenues of the Fund are pledged to repayment of bonds. The following is a schedule of the revenue bonds payable at June 30, 2008:

Issue	Bond date	Amount issued	Range of interest rates (%)	Maturity date	Outstanding balance at June 30, 2008	
Series 1993	10/15/93	$ 38,225,000	6.50	7/1/14-15	$ 24,725,000	
Series 1995-A	10/15/95	102,100,000	5.20 to 5.55	7/1/08-12	16,570,000	
Series 1995-B	10/15/95	60,485,000	5.20 to 5.55	7/1/08-12	45,480,000	
Series 1997-A	8/1/97	29,080,000	5.75 to 6.00	7/1/11-15	37,695,000	
Series 1997-A	8/1/97	186,220,000	4.80 to 5.25	7/1/08-27	74,575,000	c
Series 1999-A	11/1/99	18,000,000	5.00 to 5.25	7/1/08-09	4,000,000	
Series 1999-A	11/1/99	238,340,000	5.125	7/1/10	2,000,000	c
Series 2001-A	5/1/01	1,320,000	4.50	7/1/11	1,320,000	
Series 2001-A	5/1/01	301,165,000	5.00	7/1/29-30	73,790,000	c
Series 2003-A	1/28/03	234,805,000	4.50 to 5.00	7/1/19-34	181,835,000	c
Series 2003-B	1/28/03	9,330,000	3.00	7/1/08	2,405,000	
Series 2003-B	1/28/03	14,250,000	Variable (*)	7/1/09-14	14,250,000	
Series 2003-B	1/28/03	172,945,000	5.00	7/1/34	41,770,000	c
Series 2003-C	1/28/03	16,695,000	2.50 to 5.00	7/1/09-11	355,000	
Series 2003-C	1/28/03	4,335,000	Variable (*)	7/1/13-14	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
Series 2003-D	8/14/06	3,180,000	4.00 to 4.20	7/1/08-16	2,725,000	
Series 2003-D	8/14/06	139,575,000	4.25 to 5.00	7/1/17-33	139,575,000	c
Series 2004-A	8/14/06	17,600,000	3.75 to 5.25	7/1/12-16	17,580,000	
Series 2004-A	8/14/06	55,165,000	4.50 to 5.25	7/1/17-25	55,165,000	c
Series 2004-B	8/14/06	52,840,000	4.00 to 5.00	7/1/08-16	48,855,000	
Series 2004-B	8/14/06	100,990,000	4.25 to 5.00	7/1/17-23	100,990,000	c
Series 2005-A	3/11/05	20,965,000	3.00 to 5.00	7/1/08-15	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
Series 2005-C	3/11/05	36,405,000	3.00 to 5.00	7/1/08-15	34,985,000	
Series 2005-C	3/11/05	90,200,000	5.00	7/1/16-22	90,200,000	c
Series 2006-A	8/14/06	42,795,000	5.00	7/1/11-16	42,795,000	
Series 2006-A	8/14/06	237,205,000	5.00	7/1/17-34	237,205,000	c
Series 2006-B	8/14/06	120,000,000	Variable (*)	7/1/11-36	120,000,000	c
Series 2006-C	8/14/06	12,585,000	4.00 to 5.00	7/1/08-19	11,160,000	
Series 2006-C	8/14/06	208,060,000	5.00	7/1/19-33	208,060,000	c
Series 2006-D	8/14/06	4,430,000	4.00 to 5.00	7/1/08-16	3,545,000	
Series 2006-D	8/14/06	142,160,000	4.25 to 5.00	7/1/17-32	142,160,000	c
Bonds remarketed in May 8,2008:						
Series 2001-C	5/8/08	4,055,000	3.00 to 4.25	7/1/09-18	4,055,000	
Series 2001-C	5/8/08	186,350,000	4.50 to 5.75	7/1/09-29	186,350,000	c
Series 2005-B	5/8/08	19,070,000	4.00 to 5.50	7/1/10-18	19,070,000	
Series 2005-B	5/8/08	175,830,000	4.75 to 5.50	7/1/19-35	175,830,000	c
Total revenue bonds payable					$ 2,295,735,000	

* 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, 2008:

Issue	Bond date		Amount issued	Range of interest rates (%)	Maturity date		Outstanding balance at 2008	
Series 2005 SRF-1	9/22/05	$	10,579,841	2.125	10/1/08-26	$	9,959,841	c
Series 2005 SRF-2	9/22/05		7,759,599	2.125	10/1/08-26		7,324,599	c
Series 2006 SRF-1	9/21/06		2,906,896	2.125	10/1/08-26		2,661,896	c
Total state revolving loans payable						$	19,946,336	

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.

(a) Variable Rate Demand Bonds

Included in revenue bonds payable as of June 30, 2008 are $120,000,000 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 0.115% to 0.230% interest on the outstanding bonds and an expiration date of 2016. 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, 2008 are as follows:

Issue	Date	Remarketing agent	Liquidity facility	Insurer		Outstanding balance at June 30, 2008
Series 2006-B	8/14/06	Barclay's Capital Inc.	DEPFA	FSA	$	120,000,000

Future debt service requirements as of June 30, 2008 are as follows:

	Principal	Bond interest	Swap interest	Total requirements
Year ending June 30:				
2009	$ 32,890,000	101,757,102	14,577,675	149,224,777
2010	34,915,000	107,820,047	9,655,373	152,390,420
2011	36,500,000	106,205,924	9,695,072	152,400,996
2012	44,825,000	104,322,504	9,665,192	158,812,696
2013	47,035,000	102,180,120	10,301,196	159,516,316
2014 – 2018	272,806,896	473,188,493	51,037,885	797,033,274
2019 – 2023	345,619,440	395,190,751	50,848,220	791,658,411
2024 – 2028	438,780,000	294,715,718	46,043,258	779,538,976
2029 – 2033	558,720,000	169,426,428	38,927,505	767,073,933
2034 – 2038	503,590,000	29,483,226	30,661,568	563,734,794
	$ 2,315,681,336	1,884,290,313	271,412,944	4,471,384,593

Bonds outstanding at June 30, 2008 include $1.96 billion of bonds and loans callable at various dates after June 30, 2008. These bonds are callable at varying premiums, depending on the issue and length of time to maturity.

(b) Issuance of Revenue Bonds and Advance Refunding of Debt

Fiscal Year 2008 Activity

The City received loans from the State of Michigan Drinking Water Revolving Loan Fund totaling $2,177,608 during the year ended June 30, 2008. The proceeds of the loan were used to pay costs of acquiring and constructing certain repairs, extensions, and improvements to the Water Supply System.

On May 14, 2008, the City elected to change the interest rate mode for $385,305,000 of variable rate demand bonds from a variable rate “weekly mode” to a “fixed rate mode” for the following issues: (i) $190,405,000 of Water Supply System Revenue Refunding Second Lien Bonds Series 2001-C; and (ii) $194,900,000 of Water Supply System Revenue Senior Lien Bonds Series 2005-B.

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 2001-C and 2005-B 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 a difference between the reacquisition price and the net carrying amount of the old debt of $22,091,381. 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 2035 using the straight-line method.

(c) Defeased Debt

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, 2008, $733,565,000 of bonds outstanding are considered defeased.

(d) Capital leases

The Fund has entered into a lease agreement as lessee for financing the purchase of certain computer equipment. This lease agreement qualifies as a capital lease for accounting purposes and, therefore, has been recorded at the present value of the future minimum lease payments as of the inception date. The future minimum lease obligations and the net present value are as follows:

Year ending June 30:		
2009	$	863,422
2010		894,020
2011		663,649
2012		30,598
Total minimum lease payments		2,451,689
Less amount representing interest		(84,276)
Present value of minimum lease payments	$	2,367,413

(7) Pension Obligation Certificates (POCs)

The Detroit Retirement Systems Funding Trust issued POCs 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). 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.

A 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 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 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.

The Fund’s portion of future principal and interest amounts for the POCs as of June 30, 2008 is as follows:

	Principal	Interest	Total
2009	$ —	4,579,802	4,579,802
2010	256,873	4,579,802	4,836,675
2011	593,078	4,568,708	5,161,786
2012	913,573	4,542,589	5,456,162
2013	1,250,851	4,501,907	5,752,758
2014 – 2018	10,075,292	21,386,384	31,461,676
2019 – 2023	13,728,284	18,473,952	32,202,236
2024 – 2028	17,795,539	14,407,016	32,202,555
2029 – 2033	23,947,961	8,258,917	32,206,878
2034 – 2035	11,806,720	1,081,001	12,887,721
Total	$ 80,368,171	86,380,078	166,748,249

Change in accounting estimate

During the year ended June 30, 2008, the City changed its estimate of the allocation of pension-related costs between the Water and Sewage Disposal enterprise funds. This impacts the allocation of the net pension asset, POCs payable, annual pension expense, and interest expense on the POCs. In prior years, the allocation of these amounts was based on the actuarial valuation's allocation of pension assets, actuarial accrued liabilities, and annual required contribution. Upon further evaluation, the City believes it would be more appropriate to allocate all related assets, liabilities, and expenses based on the current allocation of employee payroll costs between the two funds. The net impact of this change in estimate (allocation) to each fund as of July 1, 2007 was $8.1 million and was reported as an interfund transfer (transfer from the Sewage Disposal Fund to the Water Fund). The impact of this change in estimate to the POCs issuance costs, net pension asset, and pension obligation certificates payable was reported as a reclassification as of July 1, 2007 as follows:

Statement of net assets caption		Amounts previously reported at June 30, 2007	Reclassification	Amounts reported at July 1, 2007
Pension obligation certificates issuance costs	$	8,574,202	(4,326,052)	4,248,150
Net pension asset		146,055,290	(70,639,426)	75,415,864
Pension obligation certificates payable, net		164,365,382	(83,029,390)	81,335,992

(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 is the 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, 2008 and 2007 are as follows:

		2008	2007
Balance at beginning of year	$	23,348,079	22,252,878
Current year claims and changes in estimates		2,290,812	11,387,161
Claims payments		(6,972,191)	(10,291,960)
Balance at end of year	$	18,666,700	23,348,079

(9) Derivatives Not Reported at Fair Value

(a) Interest Rate Swaps

The Fund is party to derivative financial instruments consisting of 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, 2008.

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 14 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. During 2008, the Fund entered into three separate pay-variable, receive-fixed interest rate swaps in order to avoid termination on existing, related swaps.

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, 2008 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	Variable rate	Fair values	Swap termination date	Final maturity of bonds	Counterparty credit rating
Water 2001-C	$ 113,360,000	6/7/01	4.90	SIFMA (2) + 0.0%	$ (18,052,159)	7/1/26	N/A	Aa3/AA-/AA-
Water 2001-C Offsetting Swap (5)	113,360,000	5/14/08	SIFMA (2) + 0.0%	3.498%	(2,075,720)	7/1/26	N/A	Aa3/AA-/AA-
Water 2003-B	1,980,000	1/30/03	3.02	CPI + 1.01%	68,809	7/1/09	7/1/09	Aa3/AA-/AA-
Water 2003-B	2,290,000	1/30/03	3.31	CPI + 1.12%	90,297	7/1/10	7/1/10	Aa3/AA-/AA-
Water 2003-B	2,500,000	1/30/03	3.55	CPI + 1.25%	117,001	7/1/11	7/1/11	Aa3/AA-/AA-
Water 2003-B	2,175,000	1/30/03	3.74	CPI + 1.33%	107,715	7/1/12	7/1/12	Aa3/AA-/AA-
Water 2003-B	2,800,000	1/30/03	3.87	CPI + 1.34%	140,209	7/1/13	7/1/13	Aa3/AA-/AA-
Water 2003-B	2,505,000	1/30/03	4.00	CPI + 1.36%	113,800	7/1/14	7/1/14	Aa3/AA-/AA-
Water 2003-C	2,005,000	1/30/03	3.87	CPI + 1.34%	100,441	7/1/13	7/1/13	Aa3/AA-/AA-
Water 2003-C	2,330,000	1/30/03	4.00	CPI + 1.36%	105,849	7/1/14	7/1/14	Aa3/AA-/AA-
Water 2005-B	195,000,000	4/1/05	4.71	SIFMA (2) + 0.0%	(23,055,489)	7/1/35	N/A	Aa3/AA-/AA-
Water 2005-B Offsetting Swap (5)	195,000,000	5/6/08	SIFMA (2) + 0.0%	3.652%	(4,560,188)	7/1/35	N/A	Aa3/AA-/AA-
Water 2006-B	120,000,000	3/1/07	5.00	SIFMA (2) + 0.0%	(20,449,231)	7/1/36	7/1/36	Aa3/AA-/AA-
Water Hedge Swap (3)	150,000,000	3/1/2010	4.93	SIFMA (2) + 0.0%	(17,938,495)	7/1/39	N/A	Aa3/A+/AA-
Water Hedge Swap (3)	50,000,000	3/1/10	4.93	SIFMA (2) + 0.0%	(6,149,598)	7/1/39	N/A	A1/A+/A+
Water Hedge Swap	76,510,000	7/1/11	4.87	SIFMA (2) + 0.0%	(5,282,605)	7/1/29	N/A	A1/A+/A+
Water Hedge Swap Offsetting Swap (5)	76,510,000	7/1/11	SIFMA (2) + 0.0%	3.998%	(952,075)	7/1/29	N/A	A1/A+/A+
Pension Obligation Certificates – GRS (4)	17,538,831	6/12/06	6.26	3 MTH LIBOR +.34%	(2,520,290)	6/15/34	6/15/34	A1/A+/A+
Pension Obligation Certificates – GRS (4)	8,214,230	6/12/06	6.22	3 MTH LIBOR +.30%	(1,075,292)	6/15/29	6/15/29	A1/A+/A+
Pension Obligation Certificates – GRS (4)	17,538,831	6/12/06	6.26	3 MTH LIBOR +.34%	(2,450,178)	6/15/34	6/15/34	Aa2/AA-/AA-
Pension Obligation Certificates – GRS (4)	8,214,230	6/12/06	6.22	3 MTH LIBOR +.30%	(1,095,139)	6/15/29	6/15/29	Aa2/AA-/AA-

(1) Notional amount balance as of June 30, 2008.

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

(3) 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.

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

(5) Denotes bonds with pay-variable, receive-fixed variable terms. All others are pay-fixed, receive-variable terms.

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, 2008. 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, 2008, the Fund was exposed to $844,121 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 three different counterparties as a 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, 2008, 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 POCs (based on LIBOR) in the table above. As a result, there is no significant exposure to basis risk at June 30, 2008.

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. Additionally, for the swaps associated with the Water 2001-C, 2001-C Offsetting (mirror), and 2005-B Offsetting (mirror) issuances, the Fund pays a lower fixed rate in exchange for granting the counterparty a special termination option. Under this option, the counterparty can terminate the swap without payment if the SIFMA averages 7 percent or higher for a consecutive 180-day period. The termination provision for the swap associated with Water 2001-C is effective after January 1, 2010, while the others are currently effective. The termination of any of the above-mentioned swaps requires simultaneous termination of the related mirror or original swap.

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 is exposed to rollover risk on GRS swaps if they are terminated prior to the maturity of the associated financings (POCs). See note 16 for further discussion on terminating events of the GRS Swaps.

(b) 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 anytime 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, 2008 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	Rate paid	Rate received	Fair values	Swap termination date	Counterparty credit rating
Water 2003-D	$ 149,655,000	07/02/11	SIFMA (2) + 0.0%	4.06%	$ (8,010,829)	07/01/33	Aaa/AA/AA-
Water 2004-A	77,010,000	07/01/05	SIFMA (2) + 0.0%	3.94	(1,848,674)	07/01/25	Aaa/AA/AA-
Water 2004-B	158,490,000	07/01/05	SIFMA (2) + 0.0%	3.845	(2,809,665)	07/01/23	Aaa/AA/AA-

(1) Notional amount balance as of June 30, 2008.

(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 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.

(a) 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.

(b) 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 2006 actuarial valuation, the actuarial required contribution rate for the Fund was 11.68% of covered payroll for the year ended June 30, 2008. Contributions for the Fund were $6,558,539 for the year ended June 30, 2008.

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 $3,180,187 during the year ended June 30, 2008.

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.

The annual pension cost and the changes in net pension asset allocated to the Fund for the year ended June 30, 2008 are as follows:

Annual required contributions	$	6,055,976
Interest on net pension asset		(5,957,853)
Adjustment to annual required contribution		4,233,970
Annual pension cost		4,332,093
Contributions made (employer)		6,558,539
Changes in net pension asset		2,226,446
Net pension asset, beginning of year		75,415,864
Net pension asset, end of year	$	77,642,310

The actuarial methods and significant assumptions used to determine the annual required contributions for the year ended June 30, 2008 were as follows:

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

* Includes inflation rate of 4%.

(Continued)

(c) Three-Year Trend Information

	Fiscal year ended	Annual pension cost (APC)	Percentage of APC contributed	Net pension asset
General Retirement System	June 30, 2006	7,018,615	73	148,590,274
	June 30, 2007	9,020,943	72	146,055,288
	June 30, 2008	4,332,093	151	77,642,310

(d) 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.

(e) Funded Status and Funding Progress

As of June 30, 2007, the most recent actuarial valuation date, the plan was 98.9% funded. The actuarial accrued liability for benefits to all City employees participating in GRS was $3,629,217,059 and the actuarial value of assets was $3,586,550,485, resulting in an UAAL of $42,666,574. Of this amount, it was estimated that 12% is attributable to the Fund. The covered payroll (annual payroll of all City employees covered by the plan) was $361,701,481 and the ratio of the UAAL to covered payroll was 11.8%. The covered payroll for employees of the fund was $43,728,000.

A schedule of funding progress, which presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits, is included in the City's comprehensive annual financial report.

(11) Other Postemployment Benefits

(a) Plan Description

The employees of the Water Fund participate in the Employee Health Benefit Plan (Health Benefit Plan), which is a single-employer defined benefit plan administered by the City and GRS. The Health Benefit Plan provides hospitalization, dental care, eye care, and life insurance to those employees who were employed by the City on the effective date of the Health Benefit Plan and thereafter. The Health Benefit Plan also covers the employee's families.

The employees of the Water Fund also participate in the Employee Death Benefit Plan (Death Benefit Plan), which is a prefunded single-employer defined benefit plan administered by a Board of Trustees. The money is held in the City of Detroit Employee Benefit Trust, and the City uses the trust fund to account for the Death Benefit Plan on behalf of the Water Fund. The amount of the Death Benefit paid to employees of the City is based upon the retiree's years of service with the City and ranges from $1,860 to $3,720 (for thirty (30) years of service).

(Continued)

These benefits are provided in accordance with the City Charter and union contracts. These plans do not issue separate financial statements.

(b) Funding Policy

Health Benefit Plan – The contribution of plan members and the Fund are established and may be amended by the City. The cost of benefits paid by the City's Health Benefit Plan, which is financed on a pay-as-you-go basis for the Water Fund retiree's for the year ended June 30, 2008 is as follows:

Benefits		City cost	Retiree cost	Total cost
Hospitalization	$	7,997,368	1,744,748	9,742,116
Dental		219,358	—	219,358
Eye care		75,573	—	75,573
Life insurance		15,989	6,006	21,995
	$	8,308,288	1,750,754	10,059,042

Death Benefit Plan – The cost of death benefits paid by the City's Death Benefit Plan which is a prefunded plan and the funds are held in the City of Detroit Employee Benefit Trust, to retirees of the Water Fund for the year ended June 30, 2008 amounted to $12,604 and the death benefits paid to retirees of the Fund for the year ended June 30, 2008 amounted to $141,360.

(c) Annual OPEB Costs and Net OPEB Obligation

In fiscal year 2008, the City implemented GASB Statement No. 45, *"Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions."* This statement was implemented prospectively. The City's annual OPEB cost (expense) is calculated based on the *annual required contribution* (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal costs each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The following table shows the components of the City's annual OPEB cost for the year, the amount actually contributed to the plans (pay-as-you basis for the Benefit Plan), and the changes in the City's net OPEB obligation for the employees of the Water Fund.

		Health Benefit Plan	Death Benefit Plan	Total
Annual required contribution	$	15,920,197	14,865	15,935,062
Interest on net OPEB obligation		—	—	—
Adjustment to annual required contribution		—	—	—
Annual OPEB cost (expense)		15,920,197	14,865	15,935,062
Contributions made (employer)		(8,308,288)	(12,604)	(8,320,892)
Increase in net OPEB obligation		7,611,909	2,261	7,614,170
Net OPEB obligation, beginning of year		—	—	—
Net OPEB obligation, end of year	$	7,611,909	2,261	7,614,170

The City annual OPEB cost, the percentage of annual OPEB cost contributed to each plan, and the net OPEB obligation for employees of the Water Fund were as follows:

	Year ended		Annual OPEB cost	Percentage of annual OPEB cost contributed		Net OPEB obligation
Employees' Health Benefit Plan	June 30, 2008	$	15,920,197	52.2%	$	7,611,909
Employees' Death Benefit Plan	June 30, 2008	$	14,865	84.8%	$	2,261

(d) Funding Status and Funding Progress

Health and Life Insurance Benefit Plan – As of July 1, 2007, the most recent actuarial valuation date for the Health Benefit Plan, the actuarial accrued liability for benefits related to all City employees was $4,823,562,208, and the actuarial value of assets was zero, resulting in UAAL of $4,823,562,208. Of this amount, it was estimated that 8% is attributable to the Fund. The covered payroll (annual payroll of all active City employees covered by the plan) was $622,615,817 and the ratio of the UAAL to the covered payroll was 775%. The covered payroll for employees of the Fund was $47,879,585.

Supplemental Death Benefit Plan – As of July 1, 2007, the most recent actuarial valuation date for the Death Benefit Plan, the actuarial accrued liability for benefits related to all City employees was $29,395,670, and the actuarial value of assets was $27,367,300, resulting in UAAL of $2,038,370. Of this amount, it was estimated that 8% is attributable to the Fund. The covered payroll (annual payroll of all active City employees covered by the plan) was $622,615,814 and the ratio of the UAAL to the covered payroll was less than .3%. The covered payroll for employees of the Fund was $47,879,585.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplemental information following the notes to the financial statements in City's comprehensive annual financial report, presents information only for the fiscal year ended June 30, 2008. The prior year actuarial reports were not prepared using the parameters as specified by GASB Statement No. 45, and therefore, prior year trend information was not included in schedule of funding progress.

(e) Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and the plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations. The actuarial methods and significant assumptions used to determine the annual required contributions for the year ended June 30, 2008 were as follows:

	Health Benefit Plan	**Death Benefit Plan**
Valuation date	June 30, 2007	June 30, 2007
Actuarial cost method	Entry age	Entry age
Amortization method	Level percent	Level percent
Remaining amortization period for unfunded accrued liabilities	30 years	30 years
Asset valuation method	N/A	5-year smoothed market
Actuarial assumptions:		
Investment rate of return	4.0%	7.0%
Projected salary increases*	4.0%	N/A
Healthcare cost trend rate	9.0% for 2008, grading grading down to 4.0% in 2016 and beyond	N/A

* Includes inflation rate of 4%.

(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 statement of net assets and are summarized as follows as of June 30, 2008:

Due from other funds (unrestricted):		
General Fund	$	4,508,372
General Retirement System Service Corporation		241,682
Sewage Disposal Fund		16,584,134
Total due from other funds	$	21,334,188
Due from other funds (restricted):		
General Fund	$	13,824,852
Due to other funds (unrestricted):		
General Fund	$	6,762,711
Fiduciary funds		1,788,861
Total due to other funds	$	8,551,572
Due to other funds (restricted):		
General Fund	$	40,004
Sewage Disposal Fund		8,590,011
Total due to other funds	$	8,630,015

(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 $2.15 billion through fiscal year 2013. 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, 2008 was approximately $155 million.

(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.

Bond ordinances require amounts be held on deposit in a Bond and Interest Redemption Fund such that the aggregate balance is sufficient to provide for payment, when due, of the current principal and interest. During the fiscal year ended June 30, 2008, the balance in the Bond and Interest Redemption Fund was not in compliance with these ordinances. However, the Fund transferred the required amounts on July 1, 2008 and made the principal and interest payments on a timely basis.

During the fiscal year ended June 30, 2008, the Fund identified certain expenditures that potentially should not have been funded by bond proceeds. The Fund is currently unable to determine whether there were any legal violations or implications as to the tax-exempt nature of the bonds as a result of this potential noncompliance. The Fund does not believe the outcome of this matter will have a material impact on the accompanying financial statements.

(16) Subsequent Events

(a) Bond Redemption

In September 2008, the fund issued $6,500,000 SRF Junior Lien Revenue Bonds, which begin to mature October 1, 2009 and will be fully matured in the year 2028.

In April 2009, all of the outstanding Water Supply System Bonds, Series 2006-B was remarketed from variable rate to fixed rate bonds. The Series 2006-B bonds will begin to mature July 1, 2011 and will fully mature in the year 2036.

(b) Legal Settlement

In September 2005, several customers of both the Sewage Disposal Fund and the Water Fund challenged the method of allocating costs associated with the 800MHz project. In early 2007, the court issued a preliminary ruling acknowledging that the Funds were overcharged. On December 18, 2008, the Detroit Water and Sewer Department and the City announced a tentative agreement in which the City would repay each of the funds $13.5 million inclusive of estimated interest. $13.5 million would be deposited into each fund's construction bond fund to offset the cost of future capital improvements. In May 2009, an agreement was reached whereby the City's General Fund agreed to pay a total of $27 million to the Sewage Disposal Fund and the Water Fund, as tentatively agreed to in December 2008. Additionally, the settlement terms provided that the Detroit Water and Sewer Department would reduce the interest rate charged to Macomb County, resulting in a credit to Macomb County of $17 million, that Wayne, Oakland, and Macomb Counties would sign a new thirty-year sewer service contract with the Department, and that the Department would transfer ownership of the Oakland-Macomb Interceptor, to either Macomb County or an authority created by Oakland and Macomb Counties, subject to a six-month due diligence. In August 2009, the City Council and the Detroit Water and Sewer Department's Board of Water Commissioners approved the transfer of the Sewage Fund's Oakland-Macomb Interceptor to Macomb and Oakland counties for approximately $100 million. As a result, Macomb and Oakland Counties will assume responsibility for maintenance and upkeep of the interceptor upon transfer of ownership.

(c) Subsequent Economic Events

Subsequent to the fiscal year ended June 30, 2008, significant uncertain economic conditions continue to cast doubt on the City's future operations. Though limited signs of economic improvement can be seen on a national level, locally and throughout the State of Michigan the economic conditions remain recessionary. The City faces continued rising unemployment (27.8% in June 2009), potentially leading to more significant reductions in personal income tax revenue. Higher resident home foreclosures and delinquent property tax levels represent another sign of significant future financial concern. Distributable state aid (i.e., revenue sharing) for the year ended June 30, 2008, which represents another major source of City revenue, remained in line with the prior year's level but its future growth is in doubt.

Conditions in the municipal debt markets have improved since the general liquidity shortages experienced late in 2008. Notwithstanding this general improvement, imbalances in supply and demand and illiquidity problems remain in certain segments areas of the market in 2009. These issues are particularly applicable to lower rated debt issues.

Consistent with the aforementioned uncertainties, 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. On January 22, 2009, Fitch Ratings (Fitch) downgraded the ratings of the City's unlimited tax general obligation bonds and POCs from "BBB" to "BB," and its limited tax general obligation debt from "BBB" to "BB-."

In August 2009, Moody's downgraded Detroit's Unlimited Tax General Obligation Bonds rating from "Ba2" to "Ba3", Limited Tax General Obligation Bonds rating from "Ba3" to "B1" and Detroit Retirement Systems Funding Trust Series 2005-A, 2006-A, B from "Ba2" to "Ba3." Concurrently, Moody's downgraded the Global Scale Rating assigned to the outstanding POCs from "Baa3" to "Ba1."

The City's General Obligation, Water Supply System Revenue, and Sewage Disposal System Revenue Bonds are also insured with bond insurance coverage purchased to obtain a lower cost of borrowing through rated bond insurers. As the ratings of many of the bond insurers were downgraded in 2008, primarily as a result of their exposure to subprime mortgage products, certain City bonds have been affected. Such effects may include the triggering of technical defaults of those agreements.

(d) Swap Agreement Terminations

A high uncertainty risk of a Swap Agreement Termination continues in light of the preceding debt rating declines of the City, in concert with falling ratings of the City's Swap Agreement Insurers. As of June 30, 2008, the City had eight interest rate exchange agreements (the Swap Agreements) in effect. These Swap Agreements were issued in conjunction with the issuance of the General, Police and Fire Retirement Systems Trusts' POCs.

With the Swap Agreements, the City maintains a potential payable to the Swap Agreement's Counterparty should certain termination events occur. Potential termination events in the original Swap Agreements included cases where the POCs ratings were withdrawn, suspended, or downgraded below "Baa3" (or equivalent) or if the Swap Insurers' ratings fell below an "A3" (or equivalent) rating.

On January 8, 2009, the City received formal notice from the Swap Counterparty to four of the eight Swap Agreements stating that an event had occurred, which, if not cured by the City, would constitute an Additional Termination Event. On January 14, 2009, the City also received formal notice 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, if not cured by the City, will constitute an Additional Termination Event. In June 2009, the City secured an amendment to the Swap Agreements, and thereby mitigating risk of receiving an immediate demand for payment to the Swap Counterparties.

As part of the amended Swap Agreements, the Counterparties waived their right to termination payments. Additionally, the City now directs its Wagering Tax revenues to a Trust as collateral for the quarterly payment to the Counterparties, increased the Swap rate by 10 basis points, and agreed to other new termination events. The termination events under the amended Swap Agreement includes a provision for the Counterparties to terminate the amended Swap Agreement if certain coverage levels of the Wagering Taxes over the required quarterly payment are not met or if POCs ratings are withdrawn, suspended, or downgraded below “Ba3” (or equivalent). Should such Termination Events occur in connection with these Swap Agreements, and not be cured, there presently exists significant risk in connection with the City’s ability to meet the cash demands under the terms of the amended Swap Agreements.