CITY OF DETROIT
SEWAGE DISPOSAL FUND

Basic Financial Statements

June 30, 2009

(With Independent Auditors' Report Thereon)

CITY OF DETROIT
SEWAGE DISPOSAL 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 Dave Bing,
and the Honorable Members of the City Council
City of Detroit, Michigan:

We have audited the accompanying basic financial statements of the Sewage Disposal Fund (the Fund), an enterprise fund of the City of Detroit, Michigan (the City), as of and for the year ended June 30, 2009, 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 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 Fund's internal control over financial reporting. 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 Sewage Disposal Fund of the City and are not intended to present fairly the financial position of the City as of June 30, 2009, 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 Sewage Disposal Fund as of June 30, 2009, 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)(o) to the basic financial statements, the Fund adopted the provisions of Governmental Accounting Standards Board Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*, as of July 1, 2008.

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

KPMG LLP

Detroit, Michigan
May 28, 2010

CITY OF DETROIT
SEWAGE DISPOSAL FUND

Statement of Fund Net Assets

June 30, 2009

Current assets:		
Cash and cash equivalents	$	6,913,527
Investments		36,722,118
Accounts receivable:		
Billed accounts receivable		130,776,339
Unbilled accounts receivable		55,982,465
Other accounts receivable		168,267
Allowance for doubtful accounts		(81,078,369)
Total accounts receivable, net		105,848,702
Due from other funds		67,772,718
Inventories		7,823,491
Prepaid expenses		1,851,410
Restricted:		
Cash and cash equivalents		35,118,436
Investments		109,529,976
Due from other funds		2,537,711
Total current assets		374,118,089
Noncurrent assets:		
Restricted:		
Cash and cash equivalents		5,491,507
Investments		290,953,454
Net pension asset		87,286,336
Deferred charges		47,480,761
Capital assets:		
Land and land rights		31,556,557
Land improvements		64,333,208
Buildings and structures		2,272,454,484
Interceptors and regulators		482,662,072
Machinery, equipment, and fixtures		941,266,265
Construction in progress		316,084,538
Total capital assets		4,108,357,124
Less accumulated depreciation		(1,013,695,884)
Total capital assets, net		3,094,661,240
Total noncurrent assets		3,525,873,298
Total assets		3,899,991,387

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CITY OF DETROIT
SEWAGE DISPOSAL FUND

Statement of Fund Net Assets

June 30, 2009

Current liabilities:	
Current liabilities payable from unrestricted assets:	
Accounts and contracts payable	$ 9,036,917
Accrued salaries and wages	1,579,810
Due to other funds	62,214,482
Due to fiduciary funds	16,970,730
State revolving loans	7,763,750
Pension obligation certificates of participation	290,746
Other accrued liabilities	9,316,193
Capital leases	894,020
Accrued compensated absences	4,577,518
Accrued workers' compensation	784,000
Claims and judgments	625,500
Pollution remediation obligations	890,000
Total current liabilities payable from unrestricted assets	114,943,666
Current liabilities payable from restricted assets:	
Revenue bonds and state revolving loans	52,866,250
Accrued interest	52,830,943
Accounts and contracts payable	24,399,930
Due to other funds	10,229,600
Total current liabilities payable from restricted assets	140,326,723
Total current liabilities	255,270,389
Long-term liabilities:	
Revenue bonds and state revolving loans, net	2,920,111,415
Pension obligation certificates of participation, net	91,871,829
Capital leases	657,430
OPEB obligation	17,924,439
Accrued compensated absences	8,277,527
Accrued workers' compensation	2,883,000
Claims and judgments	261,494
Pollution remediation obligations	857,500
Total long-term liabilities	3,042,844,634
Total liabilities	3,298,115,023
Fund net assets:	
Invested in capital assets, net of related debt	397,705,998
Restricted:	
Restricted for capital acquisitions	36,232,528
Restricted for debt service	142,214,512
Unrestricted	25,723,326
Total fund net assets	$ 601,876,364

See accompanying notes to basic financial statements.

CITY OF DETROIT
SEWAGE DISPOSAL FUND

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

Year ended June 30, 2009

Operating revenues:		
General customers	$	162,813,091
Suburban customers		219,638,029
City departments		642,654
Sewage surcharge		2,957,031
Miscellaneous		4,075,593
Total operating revenues		390,126,398
Operating expenses:		
Sewage treatment plant		129,314,215
Interceptors and regulators		6,363,301
Sewer pumping stations		7,362,432
Sewer maintenance and engineering		19,710,820
Combined sewage overflow control basins		569,971
Commercial		8,107,329
Operations and maintenance		16,626,233
Central services and General Fund reimbursements		7,778,365
Administrative and general		24,906,841
Total operating expenses before depreciation		220,739,507
Depreciation		96,509,481
Total operating expenses		317,248,988
Operating income		72,877,410
Nonoperating revenues (expenses):		
Investment earnings		11,501,806
Interest expense, net of capitalized interest		(133,029,160)
Miscellaneous revenue		9,331,912
Total nonoperating expenses, net		(112,195,442)
Decrease in fund net assets before capital contributions and special item		(39,318,032)
Capital contributions		2,322,233
Special item (note 4)		(36,900,173)
Decrease in fund net assets		(73,895,972)
Fund net assets – beginning of year		675,772,336
Fund net assets – end of year	$	601,876,364

See accompanying notes to basic financial statements.

CITY OF DETROIT
SEWAGE DISPOSAL FUND

Statement of Cash Flows

Year ended June 30, 2009

Cash flows from operating activities:	
Receipts from customers	$ 372,796,614
Internal activity – payments from other funds	9,643,347
Payments to suppliers	(106,492,480)
Payments to employees	(77,190,383)
Net cash provided by operating activities	198,757,098
Cash flows from noncapital financing activities:	
Interest paid on pension obligation certificates of participation	(5,019,115)
Miscellaneous nonoperating revenue	150,605
Net cash used in noncapital financing activities	(4,868,510)
Cash flow from capital and related financing activities:	
Acquisition and construction of capital assets	(205,170,790)
Contribution for capital acquisition	2,322,233
Insurance proceeds	10,000,000
Principal paid on revenue bonds and state revolving loans	(79,626,994)
Interest paid on revenue bonds and state revolving loans	(136,239,621)
Payment to agent for remarketed bonds	(304,870,000)
Proceeds from issuance of revenue bonds and state revolving loans	354,157,232
Net cash used in capital and related financing activities	(359,427,940)
Cash flows from investing activities:	
Proceeds from sales and maturities of investments	851,279,806
Purchase of investments	(701,038,770)
Interest received on investments	355,916
Net cash provided by investing activities	150,596,952
Net decrease in cash and cash equivalents	(14,942,400)
Cash and cash equivalents at beginning of year	62,465,870
Cash and cash equivalents at end of year	$ 47,523,470
Reconciliation of operating income to net cash provided by operating activities:	
Operating income	$ 72,877,410
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	96,509,481
Write-off of construction in progress	10,126,412
Loss on disposal of capital assets	15,237,639
Changes in assets and liabilities:	
Accounts receivable	(17,329,784)
Due from other funds	74,208,660
Inventories	149,017
Prepaid expenses	18,817
Net pension asset	(2,820,479)
Accounts and contracts payable	(6,794,278)
Accrued salaries and wages	85,661
Due to other funds	(64,565,313)
Due to fiduciary funds	8,937,686
Other accrued liabilities and accrued compensated absences and accrued workers’ compensation	3,912,430
OPEB obligation	9,056,245
Claims and judgments payable	(2,600,006)
Pollution remediation obligations	1,747,500
Net cash provided by operating activities	$ 198,757,098

Noncash capital financing activities:

Capital assets of $340,076 were acquired through contributions from developers for the year ended June 30, 2009.

See accompanying notes to basic financial statements.

(1) Summary of Significant Accounting Policies

The City of Detroit (the City) Charter established the Water and Sewerage Department in the year 1836 to supply water, drainage, and sewage service within and outside the City under the administration of the Board of Water Commissioners. The Sewage Disposal Fund (the Fund), an enterprise fund, separately accounts for the Sewage Disposal 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 basic financial statements. These policies conform to U.S. generally accepted accounting principles (GAAP).

The basic financial statements of the Fund have been included in the City'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, MI 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 is 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 sewage 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
Interceptors and regulators	100 years
Machinery, equipment, and fixtures	3 – 20 years

The Fund capitalizes qualifying net interest cost of the System on bonds issued for capital construction in accordance with Statement of Financial Accounting Standards No. 34 *Capitalization of Interest Cost*, as amended. Accordingly, capitalized interest for the year ended June 30, 2009 was $18,480,518.

(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 sewage 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.

(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 Fund'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) Interest Expense

Interest expense in the statement of revenues, expenses, and changes in fund net assets includes amounts related to the accretion of capital appreciation bonds, amounts paid on interest rate swaps, as well as the amortization of premiums, discounts, issuance costs, and deferred amounts on refunding. Interest expense is reported net of capitalized interest of $18,480,553 for the year ended June 30, 2009.

(m) 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 services. 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 sewer utility, administrative expenses, and depreciation on capital assets. All expenses not meeting this definition, including interest expense, are reported as nonoperating expenses.

(n) 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.

(o) New Accounting Pronouncements

In November 2006, GASB issued Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations* (Statement No. 49). This statement establishes 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 standard excludes pollution prevention or control obligations with respect to current operations, and future pollution remediation activities that are required upon retirement of an asset, such as landfill closure and postclosure care. The Fund implemented Statement No. 49 as of July 1, 2008. As a result, the Fund recorded an estimated pollution remediation obligation of $1,747,500 as a current year expense in the statement of revenues, expenses, and changes in fund net assets.

The Fund’s pollution remediation obligation is the result of projects that have been budgeted to improve the City’s sewer system infrastructure. These projects include cleanup of contaminated soil and removal of other environmental pollution (e.g., lead paint and asbestos) identified at the individual sites. The estimated liability is calculated using the expected cash flow technique. The pollution remediation obligation is an estimate and subject to changes resulting from price increases or reductions, technology, or changes in applicable laws and regulations.

The provisions of Statement No. 49 require the measurement of pollution remediation liabilities at July 1, 2008. As of July 1, 2008, the Fund had no material pollution remediation liabilities and therefore beginning fund net assets have not been restated. The adoption of Statement No. 49 is now reflected in the Fund’s long-term obligations, which can be seen in note 5.

In June 2007, GASB issued GASB 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 fund 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 Fund is currently evaluating the impact this standard

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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 GASB 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 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 fund net assets as deferrals. The Fund 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.

(2) Deposits and Investments

The deposits and investments of the Fund at June 30, 2009 are reported in the financial statements as follows:

		Cash and cash equivalents	Investments
Current unrestricted assets	$	6,913,527	36,722,118
Current restricted assets		35,118,436	109,529,976
Noncurrent restricted assets		5,491,507	290,953,454
Total cash and investments	$	47,523,470	437,205,548

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, 2009, the Fund had deposits of $16,807,668 that 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, 2009, 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, 2009, the maturities for the Fund's fixed-income investments are as follows:

		Investment maturities in years	
	Fair value	**Less than one year**	**One to five years**
Investment:			
U.S. government agency securities	$ 136,041,708	24,500,254	111,541,454
Commercial paper	35,160,000	35,160,000	—
Money market	266,003,840	266,003,840	—
Total investments	$ 437,205,548	325,664,094	111,541,454

(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, 2009, 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	$	99,778,551	AAA	Aaa
U.S. government agency securities		36,263,157	AAAe	Aaa
Commercial paper		25,344,000	AA+	Aa2
Commercial paper		9,816,000	NR	NR
Money market		208,694,596	AAAm	Aaa
Money market		52,039,932	AAAm	AAAm
Money market		5,269,312	NR	NR
Total investments	$	437,205,548		

(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 Mortgage Corporation, Federal Home Loan Bank, Federal National Mortgage Association securities, and GE Capital Commercial Paper. These investments represent 15%, 7%, 7%, and 6% respectively, of the Fund's total investments as of June 30, 2009.

(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, 2009 was as follows:

	Balance, June 30, 2008	Additions	Disposals	Balance, June 30, 2009
Nondepreciable assets:				
Land and land rights	$ 13,835,431	17,721,126	—	31,556,557
Construction in progress	296,954,660	161,047,817	(141,917,939)	316,084,538
Total nondepreciable assets	310,790,091	178,768,943	(141,917,939)	347,641,095
Depreciable assets:				
Land improvements	62,682,075	1,651,133	—	64,333,208
Buildings and structures	2,205,630,025	83,547,858	(16,723,399)	2,272,454,484
Interceptors and regulators	482,437,015	225,057	—	482,662,072
Machinery, equipment, and fixtures	890,750,601	62,141,009	(11,625,345)	941,266,265
Total depreciable assets	3,641,499,716	147,565,057	(28,348,744)	3,760,716,029
Less accumulated depreciation:				
Land improvements	(16,860,656)	(896,840)	—	(17,757,496)
Buildings and structures	(399,818,556)	(53,754,255)	1,312,043	(452,260,768)
Interceptors and regulators	(99,558,879)	(5,434,445)	—	(104,993,324)
Machinery, equipment, and fixtures	(413,240,724)	(36,423,941)	10,980,369	(438,684,296)
Total accumulated depreciation	(929,478,815)	(96,509,481)	12,292,412	(1,013,695,884)
Net capital assets	$ 3,022,810,992	229,824,519	(157,974,271)	3,094,661,240

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A special item (loss) of $36,900,173 was recorded during the year ended June 30, 2009 to recognize impairment losses on two construction projects. The Upper Rouge Combined Sewer Overflow Tunnel and Detroit River Outfall projects, which were being undertaken to comply with Federal Clean Water Act, were terminated for financial reasons. The decline in the economic climate significantly impacted the credit market and the Fund was forced to convert approximately $700 million of variable rate debt to fixed rate bonds over the past two years, resulting in a significant increase in costs to the Fund. The impact on user rates due to increased debt service expenses combined with the construction costs of these projects were considered to be unacceptably high. The Fund concluded to stop work on the existing projects and complete as analysis of alternative options to satisfy the same requirements of the Federal Clean Water Act.

Land purchased during the year was acquired from the General Fund of the City for $17,715,708. The land is a 3.27-acre parcel, which was purchased for the future construction of a combined sewer overflow facility. The price represents a pro rata share of the City’s acquisition cost.

(5) Long-Term Obligations

Changes in long-term obligations for the year ended June 30, 2009 were as follows:

	Balance June 30, 2008	Increase	Decrease	Balance June 30, 2009	Amount due within one year
Revenue bonds	$ 2,454,745,000	305,305,000	(358,055,000)	2,401,995,000	34,790,000
Capital appreciation bonds	90,545,000	—	—	90,545,000	—
Discount on capital appreciation bonds	(35,253,563)	3,343,932	—	(31,909,631)	—
State revolving loans	487,815,541	48,312,271	(26,061,031)	510,066,781	25,840,000
Total revenue bonds	2,997,851,978	356,961,203	(384,116,031)	2,970,697,150	60,630,000
Add unamortized premiums	101,187,240	38,825,044	(6,198,857)	133,813,427	—
Less:					
Unamortized discounts on revenue bonds	(689)	—	689	—	—
Deferred amounts on refunding	(92,262,786)	(53,651,493)	22,145,117	(123,769,162)	—
Total revenue bonds, net	3,006,775,743	342,134,754	(368,169,082)	2,980,741,415	60,630,000
Pension obligation certificates 2005 series	33,037,665	—	—	33,037,665	290,746
Pension obligation certificates 2006 series	58,040,761	—	—	58,040,761	—
Less deferred amounts on refunding	1,087,380	—	(3,231)	1,084,149	—
Total pension obligation certificates, net	92,165,806	—	(3,231)	92,162,575	290,746
Other long-term liabilities:					
Capital lease	2,367,413	—	(815,963)	1,551,450	894,020
Accrued compensated absences	10,892,135	2,401,317	(438,407)	12,855,045	4,577,518
Accrued workers' compensation	3,982,000	578,091	(893,091)	3,667,000	784,000
Claims and judgments	3,487,000	479,994	(3,080,000)	886,994	625,500
Pollution remediation obligation	—	1,747,500	—	1,747,500	890,000
Accrued other postemployment benefits:					
OPEB obligation	8,868,194	17,011,470	(7,955,225)	17,924,439	—
Total other long-term liabilities	29,596,742	22,218,372	(13,182,686)	38,632,428	7,771,038
Total	$ 3,128,538,291	364,353,126	(381,354,999)	3,111,536,418	68,691,784

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

Revenue bonds payable were $2,970,697,150 at June 30, 2009. Net revenues of the Fund are pledged to repayment of bonds. The following is a schedule of the revenue bonds payable at June 30, 2009:

Issue	Bond date	Amount issued	Range of interest rates (%)	Maturity date	Outstanding balance at June 30, 2009	
Series 1995-B	11/01/95	$ 63,725,000	6.00%	7/1/09-10	$ 14,375,000	
Series 1998-A	12/14/06	18,540,000	3.50% – 5.50%	7/1/09-17	16,795,000	
Series 1998-A	12/14/06	49,075,000	5.25%	7/1/18-23	49,075,000	c
Series 1998-B	12/14/06	18,750,000	3.50% – 5.50%	7/1/09-17	17,090,000	
Series 1998-B	12/14/06	48,770,000	5.25%	7/1/18-23	48,770,000	c
Series 1999-A	12/01/99	5,254,000	5.00%	7/1/2009	40,000	
Series 1999-A	12/01/99	264,231,060	5.125%	7/1/2010	570,000	c
Series 1999-A(**)	12/01/99	33,510,000	0.00%	7/1/12-21	58,635,369	
Series 2001-B	9/15/01	110,550,000	5.50%	7/1/23-29	110,550,000	
Series 2001-C-2	5/08/08	3,275,000	3.50% – 4.00%	7/1/09-18	3,080,000	
Series 2001-C-2	5/08/08	119,630,000	4.50% – 5.25%	7/1/09-29	119,630,000	c
Series 2001-D	9/23/01	92,450,000	Variable (*)	7/1/32	72,450,000	c
Series 2001-E	5/08/08	136,150,000	5.75%	7/1/24-31	136,150,000	
Series 2003-A	5/22/03	158,000,000	5.00%	7/1/09-13	92,100,000	
Series 2003-A	5/22/03	441,380,000	5.00%	7/1/14-32	221,155,000	c
Series 2004-A	1/09/04	101,435,000	5.00% – 5.25%	7/1/09-24	92,435,000	
Series 2005-A	3/17/05	3,765,000	2.75% – 3.70%	7/1/09-15	3,745,000	
Series 2005-A	3/17/05	269,590,000	3.75% – 5.125%	7/1/16-35	236,770,000	c
Series 2005-B	3/17/05	40,215,000	3.40% – 5.50%	7/1/12-22	40,215,000	
Series 2005-C	3/17/05	22,065,000	5.00%	7/1/09-25	19,505,000	
Series 2005-C	3/17/05	41,095,000	5.00%	7/1/16-25	41,095,000	c
Series 2006-A	5/08/08	123,655,000	5.50%	7/1/34-36	123,655,000	
Series 2006-B	8/10/06	11,850,000	4.00% – 5.00%	7/01/09-16	11,850,000	
Series 2006-B	8/10/06	238,150,000	4.25% – 5.00%	7/1/17-36	238,150,000	c
Series 2006-C	8/10/06	8,495,000	5.25%	7/1/2016	8,495,000	
Series 2006-C	8/10/06	18,065,000	5.00%	7/1/17-18	18,065,000	c
Series 2006-D	12/14/06	370,000,000	Variable (*)	7/1/09-32	361,315,000	c
Bonds remarketed on June 5, 2009:						
Series 2001-C-1	6/05/09	6,360,000	5.25%	7/01/09-19	6,360,000	
Series 2001-C-1	6/05/09	148,510,000	6.50% – 7.00%	7/1/24-27	148,510,000	c
Series 2003-B	6/05/09	150,000,000	7.50%	7/1/2033	150,000,000	c
Total revenue bonds payable					$ 2,460,630,369	

* Interest rates are reset periodically at the stated current market interest rate.

** Bonds are capital appreciation bonds. The outstanding balance represents the discounted present value.

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, 2009:

Issue	Bond date	Amount issued	Range of interest rates (%)	Maturity date	Outstanding balance at June 30, 2009
Series 1992-A-SRF	6/25/92	$ 4,360,000	2.000%	4/1/10-13	$ 1,015,000
Series 1992-B-SRF	9/10/92	1,915,000	2.000	10/1/09-13	550,000
Series 1993-B-SRF	9/30/93	6,603,996	2.000	10/1/09-14	2,235,000
Series 1997-B-SRF	9/30/97	5,430,174	2.250	10/1/09-18	2,985,000
Series 1999-SRF-1	6/24/99	21,475,000	2.500	4/1/10-20	13,110,000
Series 1999-SRF-2	9/30/99	46,000,000	2.500	10/1/09-22	34,525,000
Series 1999-SRF-3	9/30/99	31,030,000	2.500	10/1/09-20	20,440,000
Series 1999-SRF-4	9/30/99	40,655,000	2.350	10/1/09-20	26,775,000
Series 2000-SRF-1	3/30/00	53,475,000	2.500	10/1/09-22	40,135,000
Series 2000-SRF-2	9/28/00	62,344,748	2.500	10/1/09-22	46,129,748
Series 2001-SRF-1	6/28/01	82,200,000	2.500	10/1/09-24	68,870,000
Series 2001-SRF-2	12/20/01	59,850,000	2.500	10/1/09-24	50,150,000
Series 2002 SRF-1	6/27/02	18,985,000	2.350	4/1/10-23	14,240,000
Series 2002-SRF-2	6/27/02	1,545,369	2.500	4/1/10-23	1,135,369
Series 2002-SRF-3	12/19/02	31,549,466	2.500	10/1/10-24	24,459,466
Series 2003-SRF-1	6/26/03	48,520,000	2.500	10/1/10-25	42,695,000
Series 2003-SRF-2	9/25/03	25,055,370	2.500	4/1/10-25	20,860,370
Series 2004 SRF-1	6/24/04	2,910,000	2.125	10/1/08-24	2,420,000
Series 2004 SRF-2	6/24/04	18,353,459	2.125	7/1/08-25	15,228,459
Series 2004 SRF-3	6/24/04	12,722,575	2.125	7/1/08-25	10,552,575
Series 2007 SRF-1	9/20/07	28,617,999	1.625	10/1/10-29	71,555,794
Total state revolving loans payable					$ 510,066,781

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. All loans are callable under the terms specified in the loan agreements.

Future debt service requirements as of June 30, 2009 are as follows:

	Principal*	Bond interest	Swap interest	Total requirements
Year ending June 30:				
2010	$ 60,630,000	97,111,032	34,869,410	192,610,442
2011	70,380,000	94,603,794	34,906,196	199,889,990
2012	72,665,000	91,938,924	34,772,596	199,376,520
2013	76,340,000	89,433,092	33,853,442	199,626,534
2014	78,870,000	86,964,984	33,723,186	199,558,170
2015 – 2019	434,580,000	393,743,232	168,798,895	997,122,127
2020 – 2024	455,030,911	315,598,949	165,453,889	936,083,749
2025 – 2029	556,765,870	245,554,569	128,101,373	930,421,812
2030 – 2034	691,145,000	156,050,158	58,094,615	905,289,773
2035 – 2039	506,200,000	39,896,788	2,477,463	548,574,251
	$ 3,002,606,781	1,610,895,522	695,051,065	5,308,553,368

* The future principal payments exceed the bonds payable balance by $31,909,631 at June 30, 2009 because the future principal payments on capital appreciation bonds are greater than the carrying value of those bonds. The balance of the capital appreciation bonds will increase each year, until maturity, through accretion.

(a) Issuance of Revenue Bonds and Current Refunding of Debt

Fiscal Year 2009 Activity

The City received loans from the State of Michigan Revolving Loan Fund totaling $48,312,271 during the year ended June 30, 2009. The proceeds of the loans were used to pay costs of acquiring, constructing extensions, and making certain repairs and improvements to the Sewage Disposal System.

On June 17, 2009, the Fund elected to change the interest rate mode for $304,870,000 of variable rate demand bonds from variable rate mode to a fixed rate mode for the following issues: (i) $154,870,000 of Sewage Disposal System Revenue Refunding Senior Lien Bonds Series 2001-C1; and (ii) $150,000,000 of Sewage Disposal System Revenue Senior Lien Revenue Bonds Series 2003-B.

The original 2001-C1 Bonds were issued in the weekly mode and the original 2003-B bonds were issued in the daily mode and both series bore interest at the weekly rate. 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 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 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-C1 and 2003-B revenue bonds was accounted for as a current refunding (extinguishment of the variable rate demand bonds and issuance of the fixed rate bonds). The Fund completed the current refunding due to the increase in interest rates resulting from the downgrading of the bond insurer. The current refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of $53,651,493. 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.

(b) 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, 2009, $591,110,000 of bonds outstanding are considered defeased.

(c) 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 as of June 30, 2009 are as follows:

Year ending June 30:		
2010	$	894,020
2011		663,649
2012		30,598
Total minimum lease payments		1,588,267
Less amount representing interest		(36,817)
Present value of minimum lease payments	$	1,551,450

(d) Pledges of Future Revenue

The Fund has pledged substantially all revenue of the sewage disposal fund, net of operating expenses, to repay the above sewer revenue bonds and state revolving loans. Proceeds from the bonds provided financing for the construction and maintenance of the sewage disposal system. The bonds are payable solely from the net revenues of the sewer system. The remaining principal and interest to be paid on the bonds is $5,308,553,368. During the current year, net revenues of the system were $192,542,842 compared to the amount pledged for annual debt requirements of

$192,610,442. In addition, the Fund has approximately $106 million in bond and interest reserves on hand at June 30, 2009.

(7) Pension Obligation Certificates (POCs)

The Detroit Retirement Systems Funding Trust issued POCs 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 of the City.

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 in the governmental activities.

The Fund's portion of future principal and interest amounts for the POCs as of June 30, 2009 is as follows:

	Principal	Bond interest	Swap interest	Total
2010	$ 291,413	2,126,299	3,063,756	5,481,468
2011	672,089	2,113,728	3,110,532	5,896,349
2012	1,035,281	2,084,129	3,112,713	6,232,123
2013	1,417,492	2,038,028	3,112,713	6,568,233
2014	1,818,721	1,974,198	3,112,713	6,905,632
2015 – 2019	12,400,308	8,376,457	15,563,566	36,340,331
2020 – 2024	16,371,370	5,570,111	14,783,950	36,725,431
2025 – 2029	21,339,984	2,893,927	12,455,189	36,689,100
2030 – 2034	28,837,812	2,728,866	5,012,290	36,578,968
2035	6,893,956	412,563	—	7,306,519
Total	$ 91,078,426	30,318,306	63,327,422	184,724,154

(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, through the City, 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, 2009 and 2008 are as follows:

		2009	2008
Balance at beginning of year	$	7,469,000	7,818,639
Current year claims and changes in estimates		1,058,085	1,233,284
Claims payments		(3,973,091)	(1,582,923)
Balance at end of year	$	4,553,994	7,469,000

(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 fund net assets at June 30, 2009.

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 six 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. The Fund also has two 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, 2009 are presented below. The notional amounts of the swaps, except those with an effective date of March 1, 2010, match the principal amounts of the outstanding financings. The swaps with an effective date of March 1, 2010 were entered into 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	Rate paid	Rate received	Fair values	Swap termination date	Final maturity of bonds	Counterparty credit rating
Sewage 2001 C-2	$ 123,340,000	10/23/2001	4.47	SIFMA (2)	(23,100,295)	7/1/2029	7/1/2029	Aa2/A+/A+
Sewage 2001 C-2 offsetting swap (5)	123,340,000	05/08/2008	SIFMA (2) + 0.0%	3.578%	734,157	7/1/2029	7/1/2029	Aa2/A+/A+
Sewage 2001 D-2	72,450,000	7/1/2012	4.83	SIFMA (2)	(6,880,445)	7/1/2032	7/1/2032	Aa1/A+/AA-
Sewage 2006-A	125,000,000	8/10/2006	4.55	SIFMA (2)	(19,662,070)	7/1/2036	7/1/2036	Aa1/A+/AA-
Sewage 2006-A offsetting swap (5)	125,000,000	05/07/2008	SIFMA (2) + 0.0%	3.6908%	(1,909,613)	7/1/2036	7/1/2036	Aa1/A+/AA-
Sewage 2006-D	361,315,000	12/14/2006	4.11	67% of LIBOR + 0.60%	(39,427,379)	7/1/2032	7/1/2032	Aa2/A+/A+
Sewage hedge swap (3)	56,250,000	3/1/2010	4.93	SIFMA (2)	(10,574,130)	7/1/2039	N/A	A1/A+/A+
Sewage hedge swap (3)	168,750,000	3/1/2010	4.93	SIFMA (2)	(30,360,728)	7/1/2039	N/A	A2/A/A
Pension obligation certificates – GRS (4)	16,668,987	6/12/2006	6.26	3 MTH LIBOR +0.34%	(4,826,264)	6/15/2034	6/15/2034	A1/A+/A+
Pension obligation certificates – GRS (4)	7,806,843	6/12/2006	6.22	3 MTH LIBOR +0.30%	(2,105,870)	6/15/2029	6/15/2029	A1/A+/A+
Pension obligation certificates – GRS (4)	16,668,987	6/12/2006	6.26	3 MTH LIBOR +0.34%	(4,746,611)	6/15/2034	6/15/2034	Aa2/A+/A+
Pension obligation certificates – GRS (4)	7,806,843	6/12/2006	6.22	3 MTH LIBOR +0.30%	(2,006,442)	6/15/2029	6/15/2029	Aa2/A+/A+

(1) Notional amount balance as of June 30, 2009.
(2) The Securities Industry and Financial Markets Association Municipal Swap Index™.
(3) Denotes that the associated bond issue has not been included 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 notional amount.
(5) Denotes bonds with pay-variable, receive-fixed 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, 2009. 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, 2009, the Fund was exposed to $734,157 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 four 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, 2009, the associated debt used the same index for all Securities Industry and Financial Markets Association Municipal Swap Index (SIFMA) and LIBOR 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, 2009.

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 fair 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 Sewage 2001-C2 and Sewage 2001-C2 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 SIFMA averages 7.00% or higher for a consecutive 180-day period. The termination provision for both swaps is effective after January 1, 2010.

In light recent debt rating declines of the City, in concert with falling ratings of the City's Swap Agreement Insurers, a risk of a Swap Agreement Termination exists related to the Swap Agreements issued in conjunction with the issuance of the General, Police, and Fire Retirement Systems Trusts' POCs. As of June 30, 2009, the City had eight such interest rate exchange agreements (the Swap Agreements) in effect.

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, constitute an Additional Termination Event. In

June 2009, the City and the Counterparties agreed to an amendment to the Swap Agreements, and thereby eliminating the Additional Termination Event and the potential for 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 effective July 1, 2010, 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, the City’s obligations to the Counterparties could increase significantly and there is some risk that the City may not be able to meet the cash demands under the terms of the amended Swap Agreements.

Rollover Risk. The Fund is exposed to rollover risk on swaps that mature or may be terminated prior to 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).

(b) Swaptions

Object of the Swaptions. In addition to the interest rate swaps described above, the Fund entered into two swaptions in conjunction with the termination of two previous interest rate swaps. Specifically, the Fund entered into two interest rate swaps in November 1998 and one interest rate swap in May 2003 related to the issuance of variable-rate sewage bonds. Those interest rate swap agreements included provisions that allowed for the counterparty to put the Fund into a swaption arrangement upon termination. When the sewer variable-rate bonds were restructured (two in December 2006 and one in June 2009) 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 swaptions, but it is not committed to doing so.

Terms, Fair Values, and Credit Risk. For the two interest rate swaps entered into in November 1998, 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 90-day period. For the interest rate swap entered into in May 2003, the counterparty may exercise its option to enter into the underlying interest rate swap agreements anytime after July 1, 2013 if 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, 2009 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
Sewage 1998-A	$ 67,500,000	7/01/2008	SIFMA (2) + 0.0%	4.512%	$ (2,587,539)	7/1/2023	Aa1/AA-/AA-
Sewage 1998-B	67,400,000	7/01/2008	SIFMA (2) + 0.0%	4.512%	(2,566,306)	7/1/2023	Aa1/AA-/AA-
Sewage 2003-B	150,000,000	5/22/2003	SIFMA (2) - 0.10%	3.842%	(13,240,874)	7/1/2033	Aa2/A+/AA-

(1) Notional amount balance as of June 30, 2009.
(2) The Securities Industry and Financial Markets Association Municipal Swap Index.

Fair Value. The fair value was estimated using an option pricing model that considers the likelihood of exercise, interest rate volatility and other risks and market factors.

Market-Access Risk. If the options are exercised and variable-rate-refunding bonds are not issued, the Fund would make net swap payments as required by the terms of the contracts – that is, making a fixed payment to the counterparty for the term of the respective swap and receiving a variable payment of the SIFMA Index Rate (unadjusted).

(10) Employee Benefit Plan

Substantially, all City employees, including 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.

(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 Avenue, Room 908, Detroit, MI 48226.

(b) Funding Policy

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's consulting actuary.

The recommended contribution rate is determined by the GRS's 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, 2007 actuarial valuation, the actuarial required contribution rate for the Fund was 10.71% of covered payroll for the year ended June 30, 2009. Contributions for the Fund were $5,147,752 for the year ended June 30, 2009.

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 $3,022,845 during the year ended June 30, 2009.

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, 2009 are as follows:

Annual required contributions	$	4,258,026
Interest on net pension asset		(6,672,803)
Adjustment to annual required contribution		4,742,051
Annual pension cost		2,327,274
Contributions made (employer)		5,147,752
Changes in net pension asset		2,820,478
Net pension asset, beginning of year		84,465,858
Net pension asset, end of year	$	87,286,336

(Continued)

The actuarial methods and significant assumptions used to determine the annual required contributions (ARCs) for the year ended June 30, 2009 were as follows:

Valuation date	June 30, 2007
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	7.90%
Projected salary increases*	4.00% – 9.50%
Cost-of-living adjustments	2.25%

* Includes inflation rate of 4%.

(c) *Three-Year Trend Information*

	Fiscal year ended	Annual pension cost (APC)	Percentage of APC contributed	Net pension asset
General Retirement System	June 30, 2007	$ 788,780	487%	$ 11,424,380
	June 30, 2008	4,465,033	154	84,465,858
	June 30, 2009	2,327,274	222	87,286,336

(d) *Funding Status and Funding Progress*

As of June 30, 2008, the most recent actuarial valuation date, the GRS plan was 101% funded. The actuarial accrued liability for benefits to all City employees participating in GRS was $3,609,558,628 and the actuarial value of assets was $3,641,197,523, resulting in an UAAL of $(31,638,895). Of this amount, it was estimated that 13% is attributable to the Fund. The covered payroll (annual payroll of all City employees covered by the plan) was $368,470,990 and the ratio of the UAAL to covered payroll was 20.5%. The covered payroll for employees of the Fund was $47,017,000.

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

(e) *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,

(Continued)

accounting services, duplicating, telecommunications, and travel expenses are included in the GRS plan's administrative expenses when incurred.

(11) Other Postemployment Benefits

(a) Plan Description

The employees of the Fund participate in the Employee Health and Life Insurance Benefit Plan (Benefit Plan), which is a single-employer defined benefit plan administered by the City and the City's retirement systems. The Benefit Plan provides hospitalization, dental care, eye care, and life insurance to all officers and employees of the City who were employed on the day preceding the effective date of the Benefit Plan and who continue in the employ of the City on and after the effective date of the Benefit Plan. Retirees are allowed to enroll in any of the group plans offered by the City to active employees. The City provides healthcare coverage for substantially all retirees in accordance with terms set forth in union contracts or provisions found in Section 13, Article 8 of the Code of Ordinances.

The healthcare benefit eligibility conditions for Fund employees hired before 1995 are 30 years of creditable service or age 60 and 10 years of creditable service or age 65 and 8 years of creditable service. The healthcare benefit eligibility conditions for Fund employees hired after 1995 are age 55 and 30 years of creditable services, or age 60 and 10 years of creditable service, or age 65 and 8 years of creditable service. The City provides full healthcare coverage to Fund employees who retired prior to January 1, 1984, except for the Master Medical benefit that was added on to the coverage after that date. The Fund pays up to 90% of healthcare coverage if retired after January 1, 1984; however, for Fund employees who retired between January 1, 1984 and June 30, 1994, the retiree share has been reduced by 50% by appropriations from City Council. The Fund also pays health coverage for the spouse, under the same formulas noted above, as long as the spouse continues to receive a pension. The Fund does not pay health coverage for a new non-City retiree spouse. Dental and vision coverage is provided for the retiree and the spouse.

The City does provide healthcare coverage to Fund employees that opt for early retirement. For employees hired before 1995, the healthcare benefit eligibility conditions are 25 years of creditable service and employees hired after 1995 is age 55 and 25 years of creditable service. The coverage begins when the retiree would have been eligible for normal retirement. The City pays up to 90% of healthcare coverage for the retiree and the spouse. Dental and vision coverage is provided for the retiree and the spouse.

The City also provides healthcare coverage to Fund employees who meet certain healthcare benefit eligibility conditions at reduced rates for those that retire under the Deferred Retirement Benefits (Vested), the Death-in-Service Retirement Benefits Duty and Non-Duty Related, and the Disability Retirement Benefits Duty and Non-Duty Related. Complementary healthcare coverage is provided by the City for those Fund retirees that are Medicare-Eligible. For those Fund retirees who opt out of the retiree healthcare coverage may obtain coverage at a later date.

In addition to healthcare coverage, the City allows Fund retirees to continue life insurance coverage under the Group Insurance Protection Plan offered to active employees in accordance with

Section 13, Article 9 of the Code of Ordinances. The basic life insurance coverage for Fund employees is based on the employee's basic annual earnings to the next higher thousand dollars. The life insurance benefit amounts range from $3,750 to $12,500.

The Employee Supplemental Death Benefit Plan (Supplemental Plan) is prefunded single-employer defined benefit plan administered by the Employee Benefits 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 Supplemental Plan. In accordance with Section 13, Article 8 of the Code of Ordinances, effective July 1, 1999 and prior to the member's retirement from the City, a death benefit of $10,000 will be paid. After retirement of the member from the City, the amount of death benefits paid is based upon the retiree's years of City service ranging from $1,860 (for ten (10) or less years of service) to $3,720 (for thirty (30) years of service). For years of service beyond (30) years, ninety-three dollars ($93.00) will be added per year for each additional year of service.

There were 595 retirees eligible for benefits, as of June 30, 2007, the date of the most recent actuarial valuation. These plans do not issue separate financial statements.

(b) Funding Policy

Health and Life Insurance Benefit Plan – The cost of benefits for the Benefit Plan, which are financed on a pay-as-you-go basis for the year ended June 30, 2009, for the Fund retiree's are as follows:

Benefits		**Fund cost**	**Fund retiree cost**	**Total cost**
Hospitalization	$	7,538,317	880,988	8,419,305
Dental		331,130	—	331,130
Eye care		66,584	—	66,584
Life insurance		5,262	1,930	7,192
	$	7,941,293	882,918	8,824,211

Supplemental Death Benefit Plan – The cost of benefits for the Supplemental Plan, which are a prefunded plan and the funds are held in the City of Detroit Employee Benefit Trust, for the year ended June 30, 2009 for the Fund retirees are as follows:

Benefit		**Fund cost**	**Fund retiree cost**	**Total cost**
Supplemental Death Benefit Plan	$	13,932	1,388	15,320
Total	$	13,932	1,388	15,320

The City of Detroit Employee Benefit Trust paid death benefits in the amount of $37,014 for Fund retirees for the year ended June 30, 2009.

(c) Annual OPEB Costs and Net OPEB Obligation

The Fund's annual other postemployment benefit (OPEB) cost (expense) is calculated based on the annual required contribution (ARC) an amount actuarially determined in accordance with the parameters of GASB Statement No. 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 30 years.

The following table shows the components of the Fund's annual OPEB cost for the year ended June 30, 2009, the amount actually contributed to the plans, and changes in the City's net OPEB obligation for the retirees of the Fund:

	Health and Life Insurance Benefit Plan	Supplemental Death Benefit Plan	Total
Annual required contribution (ARC)	$ 16,645,369	11,479	16,656,848
Interest on net OPEB obligation	354,622	—	354,622
Annual OPEB cost (expense)	16,999,991	11,479	17,011,470
Contributions made (employer)	(7,941,293)	(13,932)	(7,955,225)
Changes in OPEB obligation	9,058,698	(2,453)	9,056,245
OPEB obligation, beginning of year	8,865,561	2,633	8,868,194
OPEB obligation, end of year	$ 17,924,259	180	17,924,439

The City annual OPEB cost, the percentage of annual OPEB cost contributed to each plan, and the OPEB obligation for the years ended June 30, 2009 and 2008 for the retirees' employees of the Fund were as follows:

	Year ended 30-Jun	Annual OPEB cost	Actual contributions	Percentage of annual OPEB cost contributed	Net OPEB obligation
Health and Life Ins.	2009	$ 16,999,991	7,941,293	46.7%	$ 17,924,259
Benefit Plan	2008	18,542,098	9,676,537	52.2	8,865,561
Supplemental Death	2009	$ 11,479	13,932	121.4%	$ 180
Benefit Plan	2008	17,313	14,680	84.8	2,633

(d) Funding Status and Funding Progress

Health and Life Insurance Benefit Plan (Benefit Plan) – As of June 30, 2007, the most recent actuarial valuation date for the 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 $0, resulting in an unfunded actuarial accrued liability (UAAL) of $4,823,562,208. The covered payroll (annual payroll of all active City employees covered by the plan) was $608,689,066 and the ratio of the UAAL to the covered payroll was 792%. The funded status related to the retirees of the Fund was not available.

Supplemental Death Benefit Plan (Supplemental Plan) – As of June 30, 2007, the most recent actuarial valuation date for the Supplemental Plan, the actuarial accrued liability for benefits related to all City employees was $29,050,860 and the actuarial value of assets was $27,457,460, resulting in an unfunded actuarial accrued liability (UAAL) of $1,593,400. The covered payroll (annual payroll of all active City employees covered by the plan) was $608,689,066 and the ratio of the UAAL to the covered payroll was less than 0.3%. The funded status related to the retirees of the Fund was not available.

Actuarial valuations of the ongoing plans 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.

(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, 2009 were as follows:

	Health and Life Insurance Benefit Plan	**Supplemental Death Benefit Plan**
Valuation date	June 30, 2007	June 30, 2007
Actuarial cost method	Individual Entry-Age	Individual 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 down to 4.0% in 2016 and beyond	N/A

* Includes inflation rate of 4%.

In the June 30, 2007, actuarial valuation for the Supplemental Death Benefit Plan, the City’s plan used the 1983 Group Annuity Mortality Table in evaluating death benefits to be paid. The City’s plan used an annual rate of retirement for males and females of 25% and 30%, initially, reduced to an ultimate rate of 25% for males and 20% for females after age 67.

(12) Due from (to) 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 fund net assets and are summarized as follows as of June 30, 2009:

Due from other funds (unrestricted):		
General Fund	$	19,941,206
General Retirement System Service Corporation		41,353
Water Fund		47,790,159
Total due from other funds (unrestricted)	$	67,772,718
Due from other funds (restricted):		
Water Fund	$	2,537,711
Due to other funds (unrestricted):		
General Fund	$	5,359,398
Other Governmental Funds		1,376,951
Fiduciary funds		16,970,730
Water Fund		55,478,144
Total due to other funds (unrestricted)	$	79,185,223
Due to other funds (restricted):		
General Fund	$	36,087
Water Fund		10,193,513
Total due to other funds (restricted)	$	10,229,600

(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 billion through fiscal year 2014. The Program is being financed primarily from revenues of the Fund and proceeds from the issuance of revenue bonds.

The total amount of construction contract commitments outstanding at June 30, 2009 was approximately $196 million.

(14) Rate Adjustments

The U.S. Environmental Protection Agency (EPA), in attempting to ensure that user charges are proportional in effect as well as in their design, requires grantees to compare actual wastewater contributions, revenues from users, and user classes to actual costs of operation and maintenance and make appropriate rate adjustments. Additionally, there are contracts governing service between the Fund and its customer communities that incorporate, either directly or by reference, various rate settlement agreements that have been negotiated by the parties to resolve several disputes over the years. These rate agreements,

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among other things, establish a definition of revenue requirements that can be included in rates to customer communities, establish the basis by which costs shall be allocated to customer classes, and provide for "look-back adjustments" at least every two years to review costs attributable to user classes for purposes of determining and applying revenue surpluses or deficits to the extent required by EPA User Charge Requirements. The Fund calculates a look-back adjustment each year for revenue surpluses and deficits as a result of operations for the year through an adjustment to subsequent rates established for the second following year.

(15) Contingencies

The operation of the Fund's Waste Water Treatment Plant (WWTP) is subject to extensive regulation pursuant to the Federal Water Pollution Control Act, as amended by the Clean Water Act of 1977 and the Water Quality Act of 1987 (collectively, the Clean Water Act). Included in the regulatory framework established by the Clean Water Act is the National Pollutant Discharge Elimination System (NPDES) permit program, which requires operation of wastewater treatment facilities according to discharge limitations and other requirements as set forth in permits issued to each facility. The U.S. EPA has authorized the State of Michigan Department of Environmental Quality (MDEQ) to implement and enforce the federal NPDES permit program.

The Fund and the City's Legal Department operate the WWTP pursuant to an NPDES permit that was effective January 1, 2004 through October 1, 2007. The permit was subsequently renewed through October 1, 2012.

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

(16) 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 of Michigan has extended the City's certificate of motor vehicle self-insurance.

During the fiscal year ended June 30, 2009, the Fund identified certain expenditures that potentially should not have been funded by bond proceeds. The City 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 City does not believe the outcome of this matter will have a material impact on the accompanying financial statements.

(17) Subsequent Events

(a) Legal Settlements

On December 18, 2008, the Fund announced a tentative settlement of a lawsuit related to the Oakland-Macomb Interceptor. The settlement terms provided that the Fund 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 Fund, and that the Fund 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 October 2009, the Fund transferred ownership of the first segment of the Oakland-Macomb Interceptor to the newly created Oakland-Macomb Interceptor Drain Drainage District, a public corporation. Ownership transfer of the second segment of the interceptor to Macomb County is scheduled for July 14, 2010. Macomb County is expected to complete a bond sale to finance the July 14 purchase, which is currently estimated at $95 million. Macomb County has agreed to sign a new thirty-year sewer service contract in conjunction with the closing on July 14. The Fund is also continuing its negotiations of new thirty-year sewer service contracts with Wayne and Oakland Counties.

(b) Subsequent Economic Events

Subsequent to the fiscal year ended June 30, 2009, there has been some improvement in the local economy, but the economic conditions remain recessionary. The City's unemployment rate of 25.3% for March 2010 (27.2% in June 2009) continues to be higher than the rest of the State and Nation, which if not lowered will result in little improvement in collection of personal income taxes. The large number of resident home foreclosures, delinquent property tax levels, and declining home taxable values will contribute to decreasing property tax revenues. The State cut distributable state aid (i.e., revenue sharing) to the City for the City's fiscal year 2009–2010 by $33.6 million.

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.

The federal government to date, through the American Reinvestment and Recovery Act (ARRA), has allocated stimulus funds totaling $249.6 million to the City to spur economic recovery. ARRA funding includes $33.6 million for Weatherization of City homes, $40.8 million for Neighborhood stabilization programs, $11.1 million for Cops Hiring, $23.5 million for road improvements, and $37.6 million for new buses. The stimulus funding is expected to increase local employment and creation of new small businesses and result in higher income and property tax collections.

The City and local private and public leaders are working together to build a light rail system in the City on Woodward Avenue from downtown to the Michigan State Fairgrounds near Eight Mile. The estimated cost to build 9.3 miles of the Light Rail system is $394 million. Funding for the system will come from private and public sources. The system is expected to significantly improve the local economy with new construction and transit jobs. Also, studies have shown that new rail systems generate economic development in the surrounding area. Based on Michigan Department of Transportation studies, the Woodward Light Rail System would generate an estimated $933 million in economic development after opening. In February 2010, the federal government announced that the Woodward Light Rail System would receive a $25 million Transportation Investment Generating Economic Recovery (TIGER) grant.

As a result of the current economic conditions and other factors, including the reported accumulated deficit in the accompanying General Fund financial statements, the City's financial challenges are expected to remain in the near term. However, the City is cautiously optimistic that the ARRA funded projects and proposed Woodward Light Rail System will spur economic recovery and development in the City and contribute to the improvement of the City's financial condition.

(c) Debt Ratings

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. The ratings of several of the City's bonds that are insured by the downgraded bond insurers have been affected.

(d) Debt Issuance

In January 2010, the Fund issued $8,165,000 in SRF Junior Lien Revenue Bonds. The bond terms include principal forgiveness of $3,266,000 through the American Recovery and Reinvestment Act of 2009, leaving an effective indebtedness of $4,899,000. The bonds begin to mature April 1, 2012 and will be fully matured in the year 2031.