CITY OF DETROIT
WATER FUND

Basic Financial Statements

June 30, 2014

(With Independent Auditors' Report Thereon)

CITY OF DETROIT
WATER FUND

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KPMG LLP
Suite 1900
150 West Jefferson
Detroit, MI 48226

Independent Auditors' Report

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

We have audited the accompanying 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, 2014, and the related notes to the financial statements, which collectively comprise the Fund's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Water Fund as of June 30, 2014, and the changes in its financial position, and its cash flows for the year then ended in accordance with U.S. generally accepted accounting principles.

Emphasis of Matter

Emphasis of Matter Regarding Bankruptcy Filing

As discussed in note 17 to the financial statements, on July 18, 2013 the City filed a voluntary petition under Chapter 9 of the Bankruptcy Code. On November 12, 2014, the Bankruptcy Court entered an order confirming the City's Eighth Amended Plan of Adjustment (Plan). The Plan became effective in accordance with its terms on December 10, 2014, and the City exited bankruptcy. Our opinion is not modified with respect to this matter.

Emphasis of Matter Regarding Adoption of New Accounting Pronouncement

As discussed in note 2(q) to the financial statements, in 2014, the Fund adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 65, *Items Previously Reported as Assets and Liabilities*. As a result, beginning net position was restated as bond issuance costs, except any portion related to prepaid insurance costs, are now recognized as an expense in the period incurred. Bond issuance costs were previously reported as an asset and recognized as an expense in a systematic and rational manner over the duration of the related debt. Our opinion is not modified with respect to this matter.

Emphasis of Matter Regarding Fund Financial Statements

As discussed in note 1, the basic financial statements present only the Water Fund and do not purport to, and do not, present fairly the financial position of the City of Detroit, Michigan, as of June 30, 2014, the changes in its financial position, or, where applicable, its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Management has omitted management's discussion and analysis, schedules of employer contributions, and schedules of funding progress that U.S. generally accepted accounting principles require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

KPMG LLP

Detroit, Michigan
May 29, 2015

CITY OF DETROIT
WATER FUND

Statement of Fund Net Position

June 30, 2014

Current assets:	
Cash and cash equivalents	$ 98,870,737
Investments	14,030,467
Accounts receivable:	
Billed accounts receivable	71,695,599
Unbilled accounts receivable	30,791,978
Other accounts receivable	4,684,435
Allowance for doubtful accounts	(34,349,502)
Total accounts receivable, net	72,822,510
Restricted:	
Cash and cash equivalents	132,458,480
Due from other funds	23,674,834
Due from fiduciary funds	1,576,152
Inventories	5,469,730
Total current assets	348,902,910
Noncurrent assets:	
Restricted:	
Cash and cash equivalents	16,481,360
Investments	161,891,288
Other receivables	2,045,715
Net pension asset	98,970,822
Prepaid insurance on debt	18,050,572
Capital assets:	
Assets not subject to depreciation	131,287,469
Assets subject to depreciation, net	1,880,356,521
Total capital assets, net	2,011,643,990
Total noncurrent assets	2,309,083,747
Total assets	$ 2,657,986,657
Deferred outflows of resources	$ 115,748,493

See accompanying notes to basic financial statements.

CITY OF DETROIT
WATER FUND

Statement of Fund Net Position

June 30, 2014

Current liabilities:		
Accounts and contracts payable	$	41,763,877
Accrued salaries and wages		1,080,879
Due to fiduciary funds		1,919,469
Other accrued liabilities		9,820,504
Revenue bonds and state revolving loans		53,140,000
Pension obligation certificates of participation		1,801,509
Debt due to insurer subrogee		3,420,710
Accrued interest		66,954,931
Accrued other postemployment benefits		1,782,195
Accrued compensated absences		1,965,415
Accrued workers' compensation		1,358,000
Claims and judgments		1,129,823
Total current liabilities		186,137,312
Long-term liabilities:		
Revenue bonds and state revolving loans, net		2,500,192,940
Pension obligation certificates of participation, net		73,946,895
Accrued other postemployment benefits		258,787
Accrued compensated absences		3,991,449
Accrued workers' compensation		9,338,000
Other accrued liabilities		6,521,791
Claims and judgments		855,000
Derivative instruments – swap liability		16,925,983
Total long-term liabilities		2,612,030,845
Total liabilities	$	2,798,168,157
Deferred inflows of resources	$	13,463,426
Fund net position:		
Net investment in capital assets	$	(209,212,631)
Restricted:		
Restricted for capital acquisitions		120,420,900
Restricted for donations		1,135,691
Restricted for debt service		122,319,606
Unrestricted deficit		(72,559,999)
Total fund net position	$	(37,896,433)

See accompanying notes to basic financial statements.

CITY OF DETROIT
WATER FUND

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

Year ended June 30, 2014

Operating revenues:		
Water sales – Detroit	$	72,420,199
Water sales – suburban		272,458,933
Miscellaneous		4,490,230
Total operating revenues		349,369,362
Operating expenses:		
Source of supply		3,236,897
Low-lift pumping		9,356,977
High-lift pumping		24,983,742
Purification		17,822,115
Water quality operations		898,326
Pumping stations		18,773,779
Transmission		15,867,544
Distribution		10,407,071
Services		7,205,207
Hydrant division		215,881
Meters		5,612,401
Commercial		8,129,233
Administrative and general		22,759,072
Other items:		
Net OPEB obligation		1,313,688
Nonrecurring capital asset adjustment		27,680,423
Total operating expenses before depreciation		174,262,356
Depreciation		85,026,008
Total operating expenses		259,288,364
Operating income		90,080,998
Nonoperating revenues (expenses):		
Investment earnings (losses):		
Earnings on investment activity		4,276,702
Change in fair value of derivatives		(436,518)
Interest expense, net of capitalized interest		(133,632,561)
Amortization of bond issuance costs and deferrals		(7,293,692)
Miscellaneous expenses		(2,383,151)
Total nonoperating expenses, net		(139,469,220)
Decrease in fund net position before special item		(49,388,222)
Special item – OPEB plan termination		70,306,819
Increase in fund net position		20,918,597
Fund net position – beginning of year, restated (See note 2(q))		(58,815,030)
Fund net position – end of year	$	(37,896,433)

See accompanying notes to basic financial statements.

CITY OF DETROIT
WATER FUND

Statement of Cash Flows

Year ended June 30, 2014

Cash flows from operating activities:	
Receipts from customers	$ 363,525,264
Internal activity – payments to other funds	18,306,856
Payments to suppliers	(53,738,131)
Payments to employees	(66,989,564)
Net cash provided by operating activities	261,104,425
Cash flows from noncapital financing activities:	
Interest paid on pension obligation certificates of participation	(2,826,869)
Miscellaneous nonoperating expenses	(2,383,151)
Net cash used in noncapital financing activities	(5,210,020)
Cash flows from capital and related financing activities:	
Acquisition and construction of capital assets	(39,864,058)
Proceeds from sale of capital assets	434,765
Principal paid on revenue bonds and state revolving loans	(41,180,000)
Interest paid on revenue bonds and state revolving loans	(137,864,072)
Net cash used in capital and related financing activities	(218,473,365)
Cash flows from investing activities:	
Proceeds from sales and maturities of investments	55,072,264
Purchase of investments	(20,000,000)
Interest received from investment	1,465,972
Net cash provided by investing activities	36,538,236
Net increase in cash and cash equivalents	73,959,276
Cash and cash equivalents at beginning of year, as adjusted	173,851,301
Cash and cash equivalents at end of year	$ 247,810,577
Reconciliation of operating income to net cash provided by operating activities:	
Operating income	$ 90,080,998
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	85,026,008
Nonrecurring capital asset adjustment	27,680,423
Loss on disposal of capital assets	2,629,607
Changes in assets and liabilities:	
Accounts receivable	14,155,902
Inventories	791,994
Prepaid expenses	3,819,180
Net pension asset	(2,708,997)
Accounts and contracts payable	17,816,401
Accrued salaries and wages	110,914
Due to other funds	18,306,855
Due to fiduciary funds	104,162
Other accrued liabilities, compensated absences, and workers' compensation	(245,585)
Other postemployment benefits	1,795,726
Claims and judgments payable	1,740,837
Net cash provided by operating activities	$ 261,104,425
Noncash activities:	
Fair value of derivatives	$ 436,518
Prior period adjustment	17,232,024
Special item – OPEB plan termination	(70,306,819)

See accompanying notes to basic financial statements.

(1) Reporting

The City of Detroit (the City) Charter established the Detroit Water and Sewerage Department (the DWSD) in the year 1836 to supply water, drainage, and sewage service within and outside the City. 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 DWSD is governed by a seven member Board of Water Commissioners (the Board). Pursuant to federal court order issued in February 2011, the Board includes four members appointed by the Mayor of the City of Detroit, and one each nominated by the Wayne County Executive, the Oakland County Water Resources Commissioner, and the Macomb Public Works Commissioner with confirmation by the Mayor of Detroit. All members must have at least seven years of experience in a regulated industry. The Board's governance structure, authority, and level of operational autonomy is established by four standing federal court orders dated September 9, 2011 (Creation of the Root Cause Committee); November 4, 2011 (Adoption of the Root Cause Committee Plan of Action); October 5, 2012 (Clarification of the November 4, 2011 Order), and December 14, 2012 (Adoption of Root Cause Committee's Plan of Action Clarification).

These court orders were the result of federal court oversight of DWSD for most of the time from May 6, 1977 through March 27, 2013. The nature of this case was alleged violations of the Clean Water Act involving the DWSD's wastewater treatment plant (WWTP) and its National Pollutant Discharge Elimination System (NPDES) permit. On March 15, 2013, DWSD's Director was required to submit the Final Director's report of compliance for federal court review. The report summarized progress made in implementing the changes granted by the four court orders noted above. On March 27, 2013, the federal court judge entered a final order closing the case based upon "tremendous progress" by the empowered Board of Water Commissioners, implementation of human resource functions, and improved procurement policy, the court found that DWSD's compliance record vastly improved. The resulting order was "that the existing ACO [Administrative Consent Order] is a sufficient mechanism to ensure sustained compliance with the DWSD's NPDES permit and the Clean Water Act and this Court shall, therefore, close this case." The final court order reiterated that it retains limited jurisdiction for the purpose of enforcement of its orders issued on September 9, 2011, November 4, 2011, October 5, 2012, and December 14, 2012.

Authority granted by the federal court to the DWSD includes operational independence in the areas of law, finance, human resources, and procurement. Specifically, these orders enjoin the City from applying any existing or future Charter provisions, ordinances, resolutions, executive orders, city policies, regulations, procedures, or similar rules or practices that are inconsistent with the express terms of this court's orders. Further, the orders grant DWSD the authority to purchase its own information technology systems; establish its own subunits and programs within its Finance Division including debt management, accounts payable, accounts receivable, accounting, budget, cash management, asset management, and deferred compensation; independence from City Finance Policies; be exempt from the application of City ordinances, the City's human resources policies and regulations, Civil Service Commission Rules, and City resolutions and orders, pertaining to payroll, employee benefits, and employee and labor relations; establish bank accounts in its own name; establish its own self-insurance fund; and approve the issuance of debt and to refinance debt upon the sole approval of the Board of Water Commissioners (unless the debt contains a full or partial general obligation pledge of the City of Detroit, in which case City Council approval would be required prior to issuance).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, Michigan 48226 and on its website at *www.dwsd.org*.

(2) Summary of Significant Accounting Policies

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).

(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) 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.

(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 and Prepaid Items

Inventories consist of operating and maintenance and repair parts for water assets and are valued at the lower of cost or market, with cost being determined on an average cost method. Inventory is recorded as expenditures when consumed rather than when purchased. Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items.

(e) Capital Assets

Capital assets are recorded at historical cost, together with interest capitalized during construction. The Fund's capitalization levels are $5,000 on tangible personal property and for improvements other than buildings, and $50,000 on infrastructure, including water mains. All acquisitions of land and land improvements are capitalized regardless of cost. 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	20–67 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 GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. Accordingly, capitalized interest for the year ended June 30, 2014 was $3,918,354.

Construction in progress is related to buildings, improvements, or infrastructure that has not yet been placed in service for the intended use. These costs include contract costs (materials, labor, and overhead) as well as professional fees and interest incurred during the construction period. Upon completion, construction-in-progress costs are transferred to the appropriate capital asset classification. A periodic review of projects included in construction in progress identified projects as suspended or cancelled during the period and resulted in project-related operations and maintenance costs being recorded as a nonrecurring capital asset adjustment expense.

(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 basic 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).

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(i) Bond Premiums, Discounts, and Deferred Amounts on Refunding

Bond premiums, discounts, and deferred amounts on refunding are deferred and amortized over the life of the bonds. Bond premiums and discounts are amortized using the effective interest method, and deferred amounts on refunding are amortized using the straight-line method. Bonds payable are reported net of the applicable bond premium and discounts. Deferred amounts on refunding are reported as deferred outflows and deferred inflows of resources.

(j) Deferred Outflows/Inflows of Resources

In addition to assets, the statement of net position reports a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense) until then. The Fund has included the deferred charge on refunding in this reporting category. A deferred charge on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt.

In addition to liabilities, the statement of net position reports a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The Fund has included the deferred amounts on swap termination in this reporting category. The deferred amount results from amounts transferred plus tender and redemption premiums paid upon debt refunding. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt.

(k) Net Position

Fund net position is categorized as follows:

Net Investment in Capital Assets – This consists of capital assets, net of accumulated depreciation, and related debt.

Restricted – The net position has been 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 assets that do not meet the definition of “restricted” or “net investment in capital assets.”

(l) Unbilled Revenue

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

(m) Interest Expense

Interest expense in the statement of revenues, expenses, and changes in fund net position includes amounts paid on interest rate swaps, as well as the amortization of premiums, discounts, and deferred amounts on refunding. Interest expense is reported net of capitalized interest.

(n) 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. Such revenue has been shown net of allowances of $18,928,803.

Nonoperating revenue includes activities that have the characteristics of nonexchange transactions, such as contributions and investment income.

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

(o) Use of Estimates

The preparation of basic 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 basic financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

(p) Upcoming Accounting Pronouncements

In December 2009, the GASB issued Statement No. 58, *Financial Reporting for Chapter 9 Bankruptcies*. This statement provides accounting and financial reporting guidance for governments that have petitioned for protection from creditors by filing for bankruptcy under Chapter 9 of the United States Bankruptcy Code. It requires governments to remeasure liabilities that are adjusted in bankruptcy when the bankruptcy court confirms a new payment plan. The Fund is currently evaluating the impact this standard will have on the financial statements when adopted during the Fund’s fiscal year ending June 30, 2015.

In June 2012, the GASB issued GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*. Statement No. 68 requires governments providing defined benefit pensions to recognize their unfunded pension benefit obligation as a liability for the first time, and to more comprehensively and comparably measure the annual costs of pension benefits. This net pension liability that will be recorded on the government-wide, proprietary, and discretely presented component unit statements will be computed differently than the current unfunded actuarial accrued liability, using specific parameters set forth by the GASB. The statement also enhances accountability and transparency through revised and new note disclosures and required supplemental information (RSI). The Fund is

(Continued)

currently evaluating the impact this standard will have on the financial statements when adopted during the Fund's fiscal year ending June 30, 2015.

In January 2013, the GASB issued GASB Statement No. 69, *Government Combinations and Disposals of Government Operations*. Statement No. 69 establishes accounting and financial reporting standards related to government combinations and disposals of government operations. As used in the Statement, the term government combinations includes a variety of transactions referred to as mergers, acquisitions, and transfers of operations. The Statement requires disclosures to be made about government combinations and disposals of government operations to enable financial statement users to evaluate the nature and financial effects of those transactions. The Fund is currently evaluating the impact this standard will have on the financial statements when adopted during the Fund's fiscal year ending June 30, 2015.

In November 2013, the GASB issued GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*. The objective of the Statement is to address an issue regarding application of the transition provisions of Statement No. 68, *Accounting and Financial Reporting for Pensions* (see above). The Statement amends paragraph 137 of Statement No. 68 to require that, at transition, a government recognize a beginning deferred outflow of resources for its pension contributions, if any, made subsequent to the measurement date of the beginning net pension liability. The provisions of this Statement are required to be applied simultaneously with the provisions of Statement No. 68. The Fund is currently evaluating the impact this standard will have on the financial statements when adopted during the Fund's fiscal year ending June 30, 2015.

In February 2015, the GASB issued Statement No. 72, *Fair Value Measurement and Application*. This statement prescribes how state and local governments should define and measure fair value. It also prescribes which assets and liabilities should be measured at fair value, and expands disclosures related to fair value measurements. The Fund is currently evaluating the impact this standard will have on the financial statements when adopted during the Fund's fiscal year ended June 30, 2016.

(q) New Accounting Pronouncements

During the year, the Fund adopted GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities – an Amendment of GASB Statement No. 25*. The statement establishes accounting and financial reporting standards that reclassify, as deferred outflows and inflows of resources, certain items that were previously reported as assets and liabilities. The statement also provides other financial reporting guidance related to the impact of the financial statement elements deferred outflows of resources and deferred inflows of resources. Implementation resulted in an adjustment to beginning of year net position of the Fund. Beginning of year net position was restated from a deficit of $41,583,006 to a deficit of $58,815,030.

As a result of implementing this statement, the following assets and liabilities have been reclassified, as indicated:

Item	Amount	Prior reporting classification/ treatment	New classification after adoption of GASB Statement No. 65
Bond issuance costs	$ 17,232,024	Asset	Outflow of resources (restatement of prior year net position)
Deferred amounts on debt refundings	115,748,493	Adjustment to the bonds payable	Deferred outflow of resources
Deferred amounts on swap termination	13,463,426	Liability	Deferred inflow of resources

During the fiscal year ended June 30, 2014, the City adopted GASB Statement No. 67, *Financial Reporting for Pension Plans*. This statement required changes to the actuarial valuations resulting in a different measurement of the liability of the employer to plan members for benefits provided through the pension plan. As a result, the disclosures within the pension footnote have changed considerably.

(3) Deposits and Investments

The deposits and investments of the Fund at June 30, 2014 are reported in the basic financial statements as follows:

	Cash and cash equivalents	Investments
Current unrestricted assets	$ 98,870,737	14,030,467
Current restricted assets	132,458,480	—
Noncurrent restricted assets	16,481,360	161,891,288
Total cash and investments	$ 247,810,577	175,921,755

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, 2014, the Fund had $247,810,577 of bank deposits (certificates of deposit, checking, and savings accounts) that were uninsured and uncollateralized. The Fund believes that due to the dollar amount of cash deposits, and the limits of Federal Deposit Insurance Corporation (FDIC) insurance, it is impractical to insure all deposits. As a result, the Fund evaluates each financial institution it deposits funds with and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

(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, 2014, 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, 2014, the maturities for the Fund's fixed income investments were as follows:

		Investment maturities in years		
	Fair value	**Less than one year**	**One to five years**	**Six to ten years**
Investment:				
U.S. government agency securities	$ 175,921,755	—	175,921,755	—

(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, 2014, the credit quality ratings for the Fund's fixed income investments were as follows:

Investment	Fair value	Ratings S&P	Ratings Moody's
U.S. government agency securities	$ 175,921,755	AA+	Aaa

(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 agencies, mutual funds, external investment pools, and other pooled investments) of any one issuer. As of June 30, 2014, the Fund had no investments subject to concentration of credit risk.

(4) 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.

As previously discussed, City of Detroit bond ordinance requires minimum levels of assets held in reserve for debt service on revenue bonds and to provide funds for improvements, enlargements, extensions, and construction. The Water Fund's reserves consist of the following cash and investments classified on the statement of net position as either restricted or unrestricted as follows:

	Funded from revenues		Funded from debt issuance	
	Unrestricted	**Restricted**	**restricted**	**Total**
Flow of funds (per ordinance):				
Receiving fund	$ —	—	—	—
Operations and maintenance	12,593,000	—	—	12,593,000
Senior lien debt service	—	93,121,100	—	93,121,100
Senior lien bond reserve	—	—	146,897,434	146,897,434
Second lien debt service	—	24,249,517	—	24,249,517
Second lien bond reserve	—	—	64,475,419	64,475,419
Extraordinary repair and replacement	22,667,000	—	—	22,667,000
Improvement and extension	—	—	—	—
Subtotal – reserves defined by ordinance	35,260,000	117,370,617	211,372,853	364,003,470
Less funded by surety (noncash)	—	—	(139,468,933)	(139,468,933)
Total – reserves defined by ordinance (net of surety coverage)	35,260,000	117,370,617	71,903,920	224,534,537
Unspent construction bond proceeds	—	—	120,420,900	120,420,900
Other restricted proceeds – donations	—	1,135,691	—	1,135,691
Variance from ordinance requirement	77,641,204	—	—	77,641,204
Total cash, cash equivalents and investments	$ 112,901,204	118,506,308	192,324,820	423,732,332

Summary by statement classification		Unrestricted	Restricted current	Restricted noncurrent	Total
Cash and cash equivalents	$	98,870,737	132,458,480	16,481,360	247,810,577
Investments		14,030,467	—	161,891,288	175,921,755
Total	$	112,901,204	132,458,480	178,372,648	423,732,332

Surety coverage includes series specific policies, therefore, represents the lesser of the maximum amount of the policy, or amount of reserve requirement allocated to the specific series covered by such policy.

The “variance from ordinance requirement” amount represents (in part) amounts expended subsequent to year-end for fees related to the City’s bankruptcy Plan of Adjustment, and other operation and maintenance costs. Additional amounts reflect funds assigned to the Improvement and Extension Funds and available for capital improvements.

The “summary by statement classification” is intended to reconcile the cash and investment balances in this supplemental schedule with the “Statement of Net Position.” The allocation of restricted balances to current and noncurrent categories is not intended to directly align with the funding source allocation included in the schedule.

(Continued)

(5) Capital Assets

Capital asset activity for the year ended June 30, 2014 was as follows:

	Balance June 30, 2013	Additions	Disposals	Balance June 30, 2014
Nondepreciated capital assets:				
Land and land rights	$ 6,466,486	2,405,879	—	8,872,365
Construction in progress	159,078,519	40,039,627	(76,703,042)	122,415,104
Total nondepreciable assets	165,545,005	42,445,506	(76,703,042)	131,287,469
Depreciated capital assets:				
Land improvements	101,297,526	—	—	101,297,526
Buildings and structures	806,692,081	7,808,775	(2,522,818)	811,978,038
Mains	1,007,719,701	25,630,524	—	1,033,350,225
Services	51,838,576	—	—	51,838,576
Meters	123,838,698	975,650	—	124,814,348
Machinery, equipment, and fixtures	1,060,563,086	15,521,549	(3,625,242)	1,072,459,393
Total depreciable assets	3,151,949,668	49,936,498	(6,148,060)	3,195,738,106
Less accumulated depreciation:				
Land improvements	(18,078,621)	(1,449,486)	—	(19,528,107)
Buildings and structures	(301,810,957)	(17,466,071)	—	(319,277,028)
Mains	(351,717,401)	(14,366,119)	—	(366,083,520)
Services	(27,478,328)	(625,924)	—	(28,104,252)
Meters	(49,809,346)	(5,042,224)	—	(54,851,570)
Machinery, equipment, and fixtures	(484,967,639)	(46,076,184)	3,506,715	(527,537,108)
Total accumulated depreciation	(1,233,862,292)	(85,026,008)	3,506,715	(1,315,381,585)
Net capital assets	$ 2,083,632,381	7,355,996	(79,344,387)	2,011,643,990

See note 14 for discussion of commitments related to construction activities.

(6) Long-Term Obligations

Changes in long-term obligations for the year ended June 30, 2014 were as follows:

	Balance, June 30, 2013	Increase	Decrease	Balance, June 30, 2014	Amount due within one year
Revenue bonds	$ 2,524,775,000	—	(39,850,000)	2,484,925,000	51,785,000
State revolving loans	21,453,761	—	(1,330,000)	20,123,761	1,355,000
Total revenue bonds	2,546,228,761	—	(41,180,000)	2,505,048,761	53,140,000
Add unamortized premiums	55,083,232	—	(3,375,733)	51,707,499	—
Less unamortized discounts	(3,632,420)	—	209,100	(3,423,320)	—
Total revenue bonds, net	2,597,679,573	—	(44,346,633)	2,553,332,940	53,140,000
Pension obligation certificates 2005 series	25,847,262	—	(1,604,980)	24,242,282	1,801,509
Pension obligation certificates 2006 series	51,506,122	—	—	51,506,122	—
Total pension obligation certificates	77,353,384	—	(1,604,980)	75,748,404	1,801,509
Other long-term liabilities:					
Accrued compensated absences	10,622,865	1,315,988	(5,981,989)	5,956,864	1,965,415
Accrued workers’ compensation	9,590,000	2,867,141	(1,761,141)	10,696,000	1,358,000
Other accrued liabilities	8,175,986	8,166,309	—	16,342,295	9,820,504
Claims and judgments	243,986	1,749,573	(8,736)	1,984,823	1,129,823
Accrued other postemployment benefits	70,552,075	25,524	(68,536,617)	2,040,982	1,782,195
Total other long-term liabilities	99,184,912	14,124,535	(76,288,483)	37,020,964	16,055,937
Total	$ 2,774,217,869	14,124,535	(122,240,096)	2,666,102,308	70,997,446

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

Revenue bonds payable and state revolving loans amounted to $2,505,048,761 at June 30, 2014. Net revenues of the Fund are pledged to repayment of bonds. The following is a schedule of the revenue bonds payable at June 30, 2014:

Issue	Bond date	Amount issued	Range of interest rates	Maturity date	Outstanding balance at June 30, 2014
Series 1993	10/15/93	$ 38,225,000	6.50%	7/01/14-15	$ 24,725,000
Series 1997-A	8/01/97	215,300,000	6.00	7/01/14-15	13,430,000
Series 2001-A	5/01/01	301,165,000	5.00	7/1/29-30	73,790,000 c
Series 2001-C	5/14/08	4,055,000	3.50 to 4.25	7/01/14-18	1,900,000
Series 2001-C	5/14/08	186,350,000	4.50 to 5.75	7/01/19-29	186,350,000 c
Series 2003-A	1/30/03	234,805,000	4.50 to 5.00	7/01/19-34	178,785,000 c
Series 2003-B	1/30/03	41,770,000	5.00	7/01/34	41,770,000 c
Series 2003-C	1/30/03	4,335,000	Variable (*)	7/01/14	2,330,000
Series 2003-C	1/30/03	25,325,000	4.25 to 5.25	7/01/15-22	25,325,000 c
Series 2003-D	9/01/06	3,180,000	4.00 to 4.20	7/01/14-16	1,010,000
Series 2003-D	9/01/06	139,575,000	4.25 to 5.00	7/01/17-33	139,575,000 c
Series 2004-A	8/16/06	17,600,000	4.125 to 5.25	7/01/14-16	13,435,000
Series 2004-A	8/16/06	55,165,000	4.50 to 5.25	7/01/17-25	55,165,000 c
Series 2004-B	8/16/06	52,840,000	4.00 to 5.00	7/01/14-16	13,720,000
Series 2004-B	8/16/06	100,990,000	4.25 to 5.00	7/01/17-23	100,990,000 c
Series 2005-A	3/23/05	20,965,000	3.60 to 5.00	7/01/14-15	4,350,000
Series 2005-A	3/23/05	84,035,000	3.90 to 5.00	7/01/16-35	84,035,000 c
Series 2005-B	5/14/08	19,070,000	4.00 to 5.50	7/01/14-18	11,505,000
Series 2005-B	5/14/08	175,830,000	4.75 to 5.50	7/01/19-35	175,830,000 c
Series 2005-C	3/23/05	36,405,000	5.00	7/01/14-15	19,005,000
Series 2005-C	3/23/05	90,200,000	5.00	7/01/16-22	90,200,000 c
Series 2006-A	8/16/06	42,795,000	5.00	7/01/14-16	22,965,000
Series 2006-A	8/16/06	237,205,000	5.00	7/01/17-34	237,205,000 c
Series 2006-B	4/01/09	900,000	3.30 to 5.00	7/01/14-19	600,000
Series 2006-B	4/01/09	119,100,000	5.50 to 7.00	7/01/20-36	119,100,000 c
Series 2006-C	8/16/06	12,585,000	4.00 to 5.00	7/01/14-16	8,620,000
Series 2006-C	8/16/06	208,060,000	5.00	7/01/17-33	208,060,000 c
Series 2006-D	8/16/06	4,430,000	4.00 to 4.20	7/01/14-16	45,000
Series 2006-D	8/16/06	142,160,000	4.25 to 5.00	7/01/17-32	142,160,000 c
Series 2011-A	12/22/11	37,880,000	5.00	7/01/14-21	29,100,000
Series 2011-A	12/22/11	341,710,000	5.00 to 5.75	7/01/22-41	341,710,000 c
Series 2011-B	12/22/11	7,455,000	2.496 to 5.00	7/01/14-21	5,730,000
Series 2011-B	12/22/11	9,740,000	6.00	7/01/22-33	9,740,000 c
Series 2011-C	12/22/11	3,925,000	5.00	7/01/21	2,700,000
Series 2011-C	12/22/11	99,965,000	4.50 to 5.25	7/01/23-41	99,965,000 c
Total revenue bonds payable					$ 2,484,925,000

* 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 at June 30, 2014:

Issue	Bond date	Amount issued	Range of interest rates	Maturity date	Outstanding balance at June 30, 2014
Series 2005 SRF-1	9/22/05	$ 13,805,164	2.125%	10/01/14-26	$ 9,335,164
Series 2005 SRF-2	9/22/05	8,891,730	2.125%	10/01/14-26	5,851,730
Series 2006 SRF-1	9/21/06	5,180,926	2.125%	10/01/14-26	3,480,926
Series 2008 SRF-1	9/29/08	2,590,941	2.500%	10/01/14-28	1,455,941
Total state revolving loans payable					$ 20,123,761

The state revolving loans are 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 terms specified in the loan agreements.

As of June 30, 2014, aggregate debt service requirements of the Fund's debt (fixed-rate and variable-rate) instruments were as follows, to the extent not otherwise adjusted and/or discharged pursuant to the plan of adjustment confirmed in the Bankruptcy Case. These amounts assume that current interest rates on variable rate bonds will remain the same for their term. As these rates vary, interest payments on variable-rate bonds will vary:

	Principal	Interest	Total requirements
Year(s) ending June 30:			
2015	$ 53,140,000	129,324,867	182,464,867
2016	58,450,000	126,508,048	184,958,048
2017	61,505,000	123,406,562	184,911,562
2018	64,460,000	120,418,686	184,878,686
2019	67,585,000	117,251,087	184,836,087
2020–2024	388,280,000	531,700,016	919,980,016
2025–2029	489,018,761	421,780,373	910,799,134
2030–2034	608,075,000	287,744,642	895,819,642
2035–2039	514,310,000	126,622,290	640,932,290
2040–2042	200,225,000	21,171,026	221,396,026
	$ 2,505,048,761	2,005,927,597	4,510,976,358

Bonds outstanding at June 30, 2014 include approximately $2.3 billion of bonds and loans callable at various dates after June 30, 2014. These bonds are callable at varying premiums, depending on the issue and length of time to maturity.

(a) Issuance of State Revolving Loans

No new loans were received from the State of Michigan Revolving Loan Fund during the year ended June 30, 2014. At June 30, 2014, there were no bonds authorized and unissued.

(b) Defeased Debt

In previous 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 basic financial statements. At June 30, 2014, $178,070,000 of bonds outstanding are considered defeased.

(c) Pledges of Future Revenue

The Water Fund has pledged specific revenue streams to secure the repayment of the revenue bonds and State of Michigan revolving fund loans. The bonds and loans are paid solely from the net revenues of the System. A summary of the pledged revenue and the applicable debt as of June 30, 2014 is as follows:

Debt	Type of revenue pledged	General purpose for debt	Term of pledged commitment	Remaining principal and interest requirement	Principal and interest	Net pledged revenue recognized for the year ended June 30, 2014	Proportion of pledged revenue collected
Revenue Bonds and State of Michigan Revolving Fund Loans	All Water Fund operating revenue	Funding of various waste water treatment and collection capital improvements, refund certain water revenue bonds, pay termination amounts for interest rate swap agreements, and funding reserve requirements	Through 2042	$ 4,510,976,358	182,464,867	212,022,819	116.2%

The Fund has approximately $311 million in restricted cash and investments related to various bond indentures as of June 30, 2014.

(d) Debt Ratings

On July 3, 2013, Standard & Poor's downgraded the rating on the Water Fund on the senior lien and second lien revenue bonds to "BB-" and then again lowered the rating on March 25, 2014 to a "CCC". On February 28, 2014, Fitch downgraded the Water revenue bonds. Senior lien Water Fund revenue bonds were downgraded to "BB+" from "BBB+". Water Fund second lien revenue bonds were downgraded to "BB" from "BBB".

(8) 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), collectively referred to as the Pension Systems. 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 Fund, Sewage Disposal Fund, and Water Fund 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 of the City, its prorated portion of the POCs liability assumed was included in the balance of the POCs obligation recorded in the governmental activities.

As of June 30, 2014, the Fund did not remit the required principal and interest payments on the POCs totaling $1,604,980 and $1,994,437, respectively. The entire amount of the principal and $326,186 of the interest was paid by the insurer subrogee. The Fund also failed to remit the required principal and interest payments totaling $1,250,904 and $967,694, respectively, as of June 30, 2013. The entire amount of the principal and $238,639 of the interest was paid by the insurer subrogee. According to agreements between the Fund and subrogee, the Fund is to repay the subrogee, and therefore, a current obligation has been recorded totaling $3,420,710. A current obligation has also been recorded for the remaining amount of unpaid interest totaling $2,397,306.

The following is a schedule of the Pension Obligation Certificates outstanding at June 30, 2014 for the Fund.

		Principal	Interest	Investment derivatives, net	Total
Year(s) ending June 30:					
2015	$	1,801,509	4,305,963	2,507,193	8,614,665
2016		2,000,473	1,825,554	2,507,193	6,333,220
2017		2,217,845	1,729,271	2,507,193	6,454,309
2018		2,450,918	1,622,526	2,507,193	6,580,637
2019		2,472,249	1,504,564	2,507,193	6,484,006
2020–2024		14,447,368	6,056,553	11,905,449	32,409,370
2025–2029		18,832,057	3,523,184	10,022,067	32,377,308
2030–2034		25,448,723	2,803,930	4,027,464	32,280,117
2035–2039		6,077,262	364,078	—	6,441,340
Total	$	75,748,404	23,735,623	38,490,945	137,974,972

(9) 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, 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.

(Continued)

Changes in the balance of claim liabilities for the years ended June 30, 2014 and 2013 were as follows:

		2014	2013
Balance at beginning of year	$	9,833,986	10,625,500
Current year claims and changes in estimates		4,616,714	4,274,472
Claims payments		(1,769,877)	(5,065,986)
Balance at end of year	$	12,680,823	9,833,986

(10) Derivative Instruments

The table below summarizes derivative instrument activity during the reporting period and balances at the end of the period:

	Changes in fair value			Fair value at June 30, 2014			Notional
	Classification		Amount	Classification		Amount	amount
Investment derivatives:							
Pay-fixed interest rate swaps	Investment loss	$	(436,518)	Long-term liabilities	$	(16,925,983)	43,440,338

Because the derivative instruments are classified as investment derivatives, the change in fair value of the swaps noted in the above table were reported within loss on investments for the year ended June 30, 2014.

The fair values of the interest rate swaps were 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 swaps.

(a) Objectives

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

(b) Terms

Certain key terms and fair values relating to the outstanding investment derivative instruments are presented below:

Associated financing issue	Notional amount (1)	Effective date	Rate paid	Rate received	Fair value	Swap termination date	Final maturity of bonds
Investment derivatives:							
Pension obligation certificates:							
Taxable certificate of participation SBSFPC-0009 (2)	$ 14,792,275	6/12/2006	6.36%	3-MTH LIBOR +0.34%	$ (6,007,513)	6/15/2034	6/15/2034
Taxable certificate of participation SBSFPC-0012 (2)	6,927,894	6/12/2006	6.32	3-MTH LIBOR +0.30%	(2,456,674)	6/15/2029	6/15/2029
Taxable certificate of participation 37380341 (2)	14,792,275	6/12/2006	6.36	3-MTH LIBOR +0.34%	(6,006,185)	6/15/2034	6/15/2034
Taxable certificate of participation 37380351 (2)	6,927,894	6/12/2006	6.32	3-MTH LIBOR +0.30%	(2,455,611)	6/15/2029	6/15/2029
Total	$ 43,440,338				$ (16,925,983)		

(1) Notional amount balance as of June 30, 2014

(2) Denotes the System's allocation of the associated notional amount

(c) Credit Risk

Credit risk can be measured by actual market value exposure or theoretical exposure. When the fair value of any swap has a positive market value, then the Fund is exposed to the actual risk that the counterparty will not fulfill its obligations. As of June 30, 2014, the Fund had no net exposure to actual credit risk on its investment derivatives (without regard to collateral or other security arrangements) for any of its counterparties. The table below shows the credit quality ratings of the counterparties to each swap. The Fund uses two different counterparties, as one way of diversifying its credit risk. In addition, the swap agreements contain varying collateral agreements with the counterparties. The swaps require full collateralization of the fair value of the swap should the counterparty's credit rating fall below certain rating levels by Fitch Ratings, Standard & Poor's (S&P), and/or Moody's Investors Service (Moody's). Collateral on all swaps is to be in the form of cash or U.S. government securities held by a third-party custodian. The Fund has not calculated theoretical credit exposure.

Counterparty	S&P	Moody's
SBS Financial Products Company, LLC:		
Credit Support provided by Merrill Lynch Capital Services, Inc. and guaranteed by Merrill Lynch & Co.	A	A2
UBS, AG	A	A2

(d) Interest Rate Risk

All investment derivatives are pay-fixed, receive-variable interest rate swaps. The Fund believes it has significantly reduced interest rate risk by entering into interest rate swaps, which are the subject of settlements with the swap counterparties and the adjustment of the related POCs pursuant to the plan of adjustment confirmed in the Bankruptcy Case described in note 17.

(e) 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, 2014, the associated debt used the same index for the POCs (based on LIBOR) in the table above. As a result, there is no significant exposure to basis risk as of June 30, 2014.

(f) 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 the GRS swaps should they be terminated prior to the maturity of the associated financings (POCs).

(g) Foreign Currency Risk

All derivatives are denominated in U.S. dollars, and therefore, the Fund is not exposed to foreign currency risk.

(h) Market Access Risk

The Fund is exposed to market access risk on swaps in the event it will not be able to enter credit markets or in the event the credit will become more costly.

(11) Pension Plan

(a) Plan Administration

Substantially all employees of the City, including employees of the Fund, are covered by a single employer plan composed of a defined benefit with an option employee-contributed annuity through the GRS. The plan provides retirement, disability, and death benefits to plan members and beneficiaries. The GRS is administered by a board of trustees. Benefit terms have been established by contractual agreements between the City and the employees' collective bargaining units; amendments are subject to the same process. The GRS issues separate, stand-alone financial statements annually. A copy of these financial statements can be obtained from City of Detroit Retirement Systems, One Detroit Center, 500 Woodward Ave., Suite 3000, Detroit, Michigan 48226 or obtained from the Pension Systems' website (*www.rscd.org*).

The board of trustees of the GRS consists of ten members – five elected employee members, one elected retired member, one mayor appointed citizen, and three ex-officio members.

(b) Plan Membership

Membership of the plan at June 30, 2013 consisted of the following:

Inactive plan members or beneficiaries currently receiving benefits	12,089
Inactive plan members entitled to but not yet receiving benefits	2,395
Active plan members	5,364

As of June 30, 2014, the plan has been closed to new participants.

(c) Benefits Provided

GRS provides retirement, disability, and death benefits. Benefit terms are established by negotiations between the City Council and the employees' collective bargaining unit and may be amended by the City Council.

(d) Contributions

Article 9, Section 24 of the State of Michigan constitution requires that financial benefits arising on account of employee service rendered in each year be funded during that year. Accordingly, GRS retains an independent actuary to determine the annual contribution. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by plan members during the year, with an additional amount to finance any unfunded accrued liability. Contribution requirements of plan members are established and may be amended by the board of trustees in accordance with the City Charter, union contracts, and plan provisions. For the year ended June 30, 2014, the average active member contribution rate for GRS was between 0% and 7%, as the Plan allows the employees to elect to contribute (a) 0%, (b) 3% of annual compensation up to the Social Security wage base and 5% of any excess over that, (c) 5%, or (d) 7% toward annuity savings.

The City's average contribution rate for fiscal year 2014 was 30.05% of annual payroll for GRS, and the estimated rate for the Water and Sewerage Funds was 34.6%. Contributions for the Fund were $16,900,472 for the year ended June 30, 2014.

(e) Investment Policy

GRS' policy in regard to the allocation of invested assets is established and may be amended by the board of trustees by a majority vote of its members. It is the policy of the board of trustees to pursue an investment strategy that manages risk through the prudent diversification of the portfolio across a broad selection of distinct asset classes. GRS' investment policy discourages the use of cash equivalents, except for liquidity purposes, and aims to refrain from dramatically shifting asset class allocations over short time spans. The following was the board of trustees' adopted asset allocation policy as of June 30, 2014:

Asset class	Target allocation
Global asset allocation/risk parity	12%
Domestic equity	23
International equity	22
Domestic fixed income	16
International fixed income	3
Real estate	8
Private equity	6
Hedge funds	5
Commodities	5

(f) Rate of Return

For the year ended June 30, 2014, the annual money-weighted rate of return on pension plan investments, net of pension plan investment expense was 16.3%. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

(g) Pension Plan Reserves

In accordance with State law, the following reserves are required to be set aside within the pension plan:

The retiree reserve is made up of two reserves – Annuity Reserve Fund and Pension Reserve Fund. The annuity reserve fund is an accumulation of transfers made from the annuity savings fund, when an employee retires, becomes disabled, or if a surviving spouse elects an annuity rather than a lump-sum payout of accumulated employee contributions. The pension reserve fund represents funded pension benefits available for retired members and is funded by actuarially determined transfers from the pension accumulation fund.

The employee reserve (Annuity Savings Fund) is credited as employee contributions are received throughout the year; GRS maintains a record of the amount contributed by each employee, and credits interest annually at a rate approved by the board of trustees. The City Council adopted an Ordinance limiting the interest rate on the GRS' net investment rate of return, with a cap of 7.9% and a floor of 0%. During fiscal year 2014, the board of trustees approved the interest rate at 0%. Members are

(Continued)

eligible to withdraw if they left the City for any reason (retire, laid-off, quit, disability, death), and have 25 years of service. Eligible active members may elect to withdraw their accumulated (annuity) contributions plus investment earnings. Upon retirement, a member can elect to annuitize or receive a lump sum of their accumulated contribution and interest earnings. When an employee retires, becomes disabled, or if a surviving spouse elects an annuity rather than a lump-sum payout of accumulated employee contributions, the balance is transferred to the annuity reserve fund.

The balances of the reserve accounts as of June 30, 2014 for GRS is as follows:

	GRS
Reserved for employee contributions	$ 267,783,724
Reserved for retired contributions	2,350,833,869

(h) Net Pension Liability of the City for GRS, as required by GASB Statement No. 67

The net pension liability of the City for GRS has been measured as of June 30, 2014 and is comprised of the following:

Total pension liability	$ 3,801,649,071
Plan fiduciary net position	2,015,207,879
City's GRS net pension liability	$ 1,786,441,192
Plan fiduciary net position as a percentage of the total pension liability	53%

(i) Actuarial Assumptions

The total pension liability was determined by an actuarial valuation as of June 30, 2013, which used update procedures to roll forward the estimated liability to June 30, 2014. The valuation used the following actuarial assumptions, which were different between the beginning of the year (July 1, 2013) and the end of the year (June 30, 2014) due to the GRS plan freeze and change in assumptions.

To calculate the June 30, 2013 total pension liability for GRS before the rollforward, the following significant assumptions were made:

Inflation	4%
Salary increases	4.0–8.9%
Investment rate of return	7.9%

For the General Retirement System, mortality rates were based on 110% of the RP-2000 Combined Table for males and 110% of the RP-2000 Combined Table set back 2 years for females.

(Continued)

To calculate the end of year total pension liability for GRS, the following significant assumptions were made:

For GRS, due to the plan freeze, pay was not assumed to increase in the future and no inflation assumption was utilized. The investment rate of return (net of pension plan investment expense, including inflation) applied to the end of year pension liability was 7.2%.

To calculate the total pension liability for GRS as of June 30, 2014, the mortality assumption was changed to the RP-2014 Blue Collar Mortality Tables, Employees and Health Annuitants for males and females with fully generational mortality projections using the 2-dimensional Mortality Improvement Scale MP-2014. For the General Retirement System, the table was set forward one year for males and females.

The actuarial assumptions used in the June 30, 2013 valuation to calculate the total pension liability as of June 30, 2014 were based on the results of an actuarial experience study for the period July 1, 2008 to June 30, 2013.

Cost of living adjustments: For both the beginning and end of year calculations of the total pension liability, for certain active members, depending upon bargaining group, benefits are increased annually by 2.25% of the original pension amounts at retirement.

(j) Discount Rate

The discount rate used to measure the total pension liability as of June 30, 2014 was 7.2%; however, the single discount rate used at the beginning of the year was 5.88%. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current contribution rate and that City contributions will be made at rates equal to the difference between actuarially determined contribution rates and the employee rate.

(k) Projected Cash Flows

For the General Retirement System, for purposes of the calculation of the total pension liability at the beginning of the year, based on the above beginning of year assumptions, GRS' fiduciary net position was not projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the discount rate used to calculate the total pension liability as of June 30, 2013 incorporated a municipal bond rate, which was 4.27% as of June 30, 2013. The source of that bond rate was the federal reserve. The long-term expected rate of return was applied to projected benefit payments from 2015 through 2035 and the municipal bond rate was applied to the remaining periods.

However, as of June 30, 2014, due primarily to the GRS plan freeze, which lowered the future benefit payments, based on the above end of year assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return as of June 30, 2014 for each major asset class included in the pension plan's target asset allocation, as disclosed in the investment footnote, are summarized in the following table:

	Long-term expected real rate of return
Global asset allocation/risk parity	4.62%
Domestic equity	5.01
International equity	6.13
Domestic fixed income	1.88
International fixed income	3.87
Real estate	3.90
Private equity	6.83
Hedge funds	4.15
Commodities	3.17

(l) Sensitivity of the Net Pension Liability for GRS to Changes in the Discount Rate

The following presents the net pension liability of the City for GRS, calculated using the discount rate of 7.2%, as well as what the City's net pension liability for GRS would be if it were calculated using a discount rate that is 1-percentage-point lower (6.2%) or 1-percentage-point higher (8.2%) than the current rate.

	1% decrease (6.2%)	**Current discount rate (7.2%)**	**1% increase (8.2%)**
Net pension liability of GRS	2,170,235,520	1,786,441,192	1,466,150,791

(m) Annual Pension Costs and Net Pension Asset, as required by GASB Statement No. 27

GASB Statement No. 68, which determines how employers and nonemployer contributing entities will report their pension liabilities on their financial statements, is effective for years beginning after June 15, 2014. Until that statement is implemented, the Fund continues to report its annual pension cost and net pension asset in accordance with GASB Statement No. 27, *Accounting for Pension by State and Local Government Employers*.

The annual pension costs and net pension assets for the Fund as of June 30, 2014 is as follows:

Annual required contributions	$	16,391,865
Interest on net pension asset		(7,604,684)
Adjustment to annual required contribution		5,404,294
Annual pension cost		14,191,475
Contributions made (employer)*		16,900,472
Change in net pension asset		2,708,997
Net pension asset, beginning of year		96,261,825
Net pension asset, end of year	$	98,970,822

* Includes payment subsequent to year-end $1,847,723; and overpayment from fiscal year ended June 30, 2013 of $1,483,608

Three-year trend information for the Fund is as follows:

	Fiscal year ended		Annual pension cost (APC)	Percentage of APC contributed		Net pension asset
General Retirement System	June 30, 2014	$	14,191,475	119%	$	98,970,822
	June 30, 2013		10,098,216	155		96,261,825
	June 30, 2012		4,387,834	150		90,677,096

(n) Funding Status and Funding Progress

The funded status of GRS as of June 30, 2013 based on actuarial assumptions of the City of Detroit Retirement System is as follows:

Actuarial value of assets	$	2,524,863,146
Actuarial accrued liability		3,609,073,858
Unfunded (overfunded) AAL		1,084,210,712
Funded ratio		70.0%
Covered payroll	$	213,291,083
Ratio of UAAL/covered payroll		508.3%

(o) Actuarial Methods and Assumptions

Significant actuarial assumptions used by the City to determine the annual required contribution for the year ended June 30, 2014 is as follows:

	GRS
Valuation date	June 30, 2012
Actuarial cost method	Entry Age
Amortization method	Level Percent
Remaining amortization period	30 years, Open
Asset valuation method	7-year Smoothed Market
Actuarial assumptions:	
Investment rate of return	7.9%
Projected salary increases	4.0%–8.9%
Inflation rate	4.0%
Cost-of-living adjustments	2.25%

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 (CAFR).

(12) 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 City's Retirement Systems. The Benefit Plan provides hospitalization, dental care, vision 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. Effective March 1, 2014, the City changed the health insurance coverage offered to retirees, which is described in more detail below.

The following paragraphs describe the healthcare benefits provided to employees prior to March 1, 2014:

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 on 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. Prior to March 1, 2014, the City provided 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 paid 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 paid healthcare coverage for the spouse, under the same formulas noted above, as long as the spouse continued to receive a pension. The Fund did not pay health coverage for a new non-City retiree spouse. Dental and vision coverage was provided for the retiree and the spouse.

The City provided healthcare coverage to Fund employees that opt for early retirement. For Fund 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. Prior to March 1, 2014, the Fund paid up to 90% of healthcare coverage for the retiree and the spouse. The Fund paid up to 90% of healthcare coverage for the spouse as long as the spouse continued to receive a pension. The City did not pay for healthcare coverage for a new non-City retiree spouse. Dental and vision coverage was provided for the retiree and the spouse.

The City also provided 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 was provided by the City for those Fund retirees that are Medicare-Eligible. Fund retirees who opt out of the retiree healthcare coverage may obtain coverage at a later date.

In addition to healthcare coverage, the City allowed 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 following paragraphs describe the healthcare benefits provided to employees effective March 1, 2014:

As noted above, the City changed the health insurance coverage offered to retirees effective March 1, 2014. The health benefits a retiree receives from the City effective with this change depends upon whether the retiree is “Medicare eligible.” Generally, a retiree is Medicare eligible if he or she is age 65 or older and has worked to earn Medicare coverage or has eligibility through a spouse. In addition, the City provided certain other benefits, effective as of March 1, 2014 through the remainder of the 2014 calendar year pursuant to the Retiree Health Care Settlement Agreement (the Retiree Settlement Agreement) between the City, the Retiree Committee, the Detroit Retired City Employees Association, the Retired Detroit Police and Fire Fighters Association, and AFSCME Sub-Chapter 98, City of Detroit Retirees. The revised coverages provided by the City will be in effect until December 31, 2014.

Medicare eligible retirees were able to select one of three Medicare Advantage insurance plans that included health and drug benefits for which the City pays most or all of the premium. These new options were available to all City retirees who were Medicare eligible.

Pursuant to the Retiree Settlement Agreement, Medicare-eligible retirees who opted out of a City-sponsored Medicare Advantage Plan on or prior to February 7, 2014 were automatically enrolled in a City-sponsored Health Reimbursement Arrangement (HRA). The City provided each enrolled retiree with a vested $115 monthly contribution credit to his or her HRA during the remainder of 2014, which will carry forward until used by the retiree or otherwise forfeited under terms negotiated by the parties to the Retiree Settlement Agreement. In addition, the retirees were provided an additional opportunity to opt out of a City-sponsored Medicare Advantage Plan after February 7, 2014 and by June 20, 2014 and receive an HRA with credits for the months they were not covered under the City-sponsored Medicare Advantage Plan.

Non-Medicare eligible retirees were required to obtain their own health insurance coverage (for themselves, their spouses, or their dependent family members). Non-Medicare eligible retirees who were enrolled in City retiree health benefits on February 28, 2014 (or as a spouse on a City health benefit) or who transitioned from active City benefits to retiree City benefits on or after November 1, 2013 were eligible for a monthly stipend beginning with the later of the month of March 2014 or the first month for which they were no longer eligible for active City benefits. Eligible retirees, surviving spouses, and surviving dependent children may use this taxable stipend for any purpose, including to defray the cost of premiums for health insurance coverage acquired through a Health Insurance Marketplace, through the retiree's or the retiree's spouse's employer or through other available health insurance premiums.

Pursuant to the Retiree Settlement Agreement, the City agreed to provide several additional benefits to non-Medicare eligible retirees, which included additional taxable stipends based on various eligibility conditions.

The City ceased to subsidize dental and vision coverage effective March 1, 2014 for any retirees. All retirees, regardless of age or Medicare eligibility, who wanted dental and vision coverage were required to pay the full cost of such coverages.

The Supplemental Death Benefit Plan (Supplemental Plan) is a pre-funded 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 8 to 10 years of service) to $3,720 (for 30 years of service). For years of service beyond 30 years, $93.00 will be added per year for each additional year of service.

The Benefit and Supplemental Plans do not issue separate financial statements.

Under the City's plan of adjustment approved in the bankruptcy case, the City restructured retiree health benefits through the creation of two voluntary employee beneficiary associations (or VEBAs). See note 18 of City CAFR for further detail. As a result of the restructuring, a special items totaling $70,306,819 was recorded by the Fund, which represented the reduction of the net other postemployment benefit liability for the Employee Health and Life Insurance Benefit Plan. The Benefit Plan was significantly reduced on March 1, 2014 and terminated December 31, 2014.

(b) Funding Policy

Employee Health and Life Insurance Benefit Plan – The cost of benefits for the benefit plan for the year ended June 30, 2014 is as follows:

Benefit		Fund cost	Retiree cost	Total cost
Hospitalization	$	7,563,678	1,458,396	9,022,074
Dental		347,184	114,525	461,709
Vision		58,942	19,179	78,121
Life Insurance		5,266	4,742	10,008
Total	$	7,975,070	1,596,842	9,571,912

Supplemental Death Benefit Plan – The cost of benefits for the Supplemental Plan, which is a pre-funded plan with the funds held in the City of Detroit Employee Benefit Trust, for the year ended June 30, 2014 for the Fund retiree's was as follows:

Benefit		Fund cost	Retiree cost	Total cost
Supplemental death benefit plan	$	11,992	—	11,992

The City of Detroit Employee Benefit Trust paid death benefits in the amount of $118,322 for the Fund retirees for the year ended June 30, 2014.

(c) Annual OPEB Costs and Net OPEB Obligation

Employee Health and Life Insurance Benefit – Prior to the City changing the health insurance coverage offered to retirees and the plan of adjustment approval, the Fund had a net OPEB obligation of $70,306,819 as of June 30, 2013. Given the significant changes to the plan, and ultimately the elimination of the plan as a result of the creation of the VEBAs, the Fund has recorded a special item to reduce the OPEB obligation as of June 30, 2014. The net OPEB obligation as of June 30, 2014 was eliminated and a contractual liability was created equal to the fiscal 2015 benefit payments of $1,782,195. The following table shows the components of the Fund's annual OPEB cost for the year ended June 30, 2014, the amount actually contributed to the plans, and changes in the Fund's OPEB obligation for the retirees of the Fund:

		Employee health and life insurance benefit plan
Net OPEB obligation, beginning of year	$	70,306,819
Special item – plan termination		(70,306,819)
Net OPEB obligation, end of year	$	—
Postemployment benefit contractual liability	$	1,782,195

Supplemental Death Benefit Plan – 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 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pension*. 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 accrued 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, 2014, the amount actually contributed to the plans, and changes in the Fund's OPEB obligation for the retirees of the Fund:

		Supplemental death benefit plan
Annual required contributions (ARC)	$	21,436
Interest on net OPEB obligation		12,263
Adjustment to ARC		(8,175)
Annual OPEB cost (expense)		25,524
Contributions made		(11,992)
Special item – Plan termination		—
Changes in net OPEB obligation		13,532
Net OPEB obligation, beginning of year		245,255
Net OPEB obligation, end of year	$	258,787

The annual OPEB cost, the percentage of annual OPEB cost contributed to each plan, and the net OPEB obligation for the three most recent fiscal years ended June 30 for the retirees of the Fund were as follows:

	Year ended		Annual OPEB cost	Actual contributions	Percentage of annual OPEB cost contributed	Net OPEB obligation
Supplemental Death Benefit Plan	June 30, 2014	$	25,524	11,992	47.0%	258,787
	June 30, 2013		92,150	11,261	12.2	245,255
	June 30, 2012		76,339	21,913	28.7	164,366

(d) Funded Status and Funding Progress

Employee Health and Life Insurance Benefit Plan (Benefit Plan) – As mentioned above, the City made significant changes to the plan, and ultimately eliminated the plan as a result of the creation of the VEBAs. Therefore, for the fiscal year, the funded status and funding progress was not applicable.

Supplemental Death Benefit Plan (Supplemental Plan) – As of June 30, 2013, the most recent actuarial valuation date for the Supplemental Plan, the actuarial accrued liability for benefits related to all City employees was $32,445,878 and the actuarial value of assets was $31,264,848, resulting in an unfunded actuarial accrued liability (UAAL) of $1,181,030. The covered payroll (annual payroll of all active City employees covered by the plan) was $396,950,077 and the ratio of the UAAL to the covered payroll was 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.

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) 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, 2014 were as follows:

	Health and life insurance benefit plan	**Supplemental death benefit plan**
Valuation date	June 30, 2013	June 30, 2013
Actuarial cost method	Aggregate Actuarial Cost Method	Individual entry-age
Amortization method	Level dollar	Level dollar
Amortization period for unfunded actuarial accrued liabilities	1.5 years	30 years, open
Asset valuation method	N/A	3 year smoothed market
Actuarial assumptions:		
Investment rate of return	0.0%	5.0%
Projected salary increases	N/A	N/A
Healthcare cost trend rate	N/A	N/A

In the June 30, 2013 actuarial valuation for the Supplemental Death Benefit Plan, the mortality tables used by the City's plan to evaluate death benefits to be paid for Fund retirees was 120% of the RP 2000 Combined Male and 120% of the RP 2000 Combined Female table setback two years. The City's plan used an annual rate of retirement of 50%, initially, reduced to an ultimate rate of 20% after age 70 for General City.

(13) 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," respectively, on the statement of fund net assets, will be settled within one year, and are summarized as follows as of June 30, 2014:

Due from other funds:		
General Fund	$	931,698
Fiduciary Funds		1,576,152
Sewage Disposal Fund		22,743,136
Total due from other funds	$	25,250,986
Due to other funds:		
Fiduciary Funds	$	1,919,469

(14) Capital Improvement Program

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 $504 million through fiscal year 2019. 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, 2014 was approximately $130.9 million.

(15) Contingencies

The City is subject to various governmental environmental laws and regulations. GASB Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*, established 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 determined that there were no estimated pollution remediation obligations to be recorded at June 30, 2014.

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 basic 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

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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 other potential loss exposures.

(16) Change in Accounting Principle

In fiscal year ending June 30, 2014, the Fund changed accounting for highly liquid money market funds to be included in cash equivalents, pursuant to GASB 9. The money market accounts consist of funds deposited and immediately available, and include daily and weekly transactions, for example, customer receipts and payments for trade payables. Cash and cash equivalents are reported on both the Statement of Fund Net Position and the Statement of Cash Flows. Previously, such funds had been classified as investments. Accordingly, the Fund adjusted the classification to report these funds as cash and cash equivalents. The adjustment had no impact on previously reported total current assets, total assets, working capital position, or cash flows from operating activities.

The following table presents a summary of the significant effects of change in accounting policy:

June 30, 2013		As previously reported	Adjustments	As adjusted
Total cash and cash equivalents	$	45,366,904	128,484,397	173,851,301
Total investments		336,667,686	(128,484,397)	208,183,289

(17) Bankruptcy

On July 18, 2013 (the Petition Date), the City filed a voluntary petition under Chapter 9 of the Bankruptcy Code in the United States Bankruptcy Court for the Eastern District of Michigan (the Bankruptcy Court), which case is captioned *In re City of Detroit, Michigan*, Case No. 13-53846 (Bankr. E.D. Mich.) (the Bankruptcy Case). On July 19, 2013, Bankruptcy Judge Steven W. Rhodes was assigned to the Bankruptcy Case by the Chief Judge of the United States Court of Appeals for the Sixth Circuit. On or about February 18, 2015, after Judge Rhodes' retirement, Judge Thomas J. Tucker assumed oversight of the Bankruptcy Case.

Under Chapter 9 of the Bankruptcy Code, actions by creditors to collect indebtedness the City owed prior to the Petition Date were stayed, and certain other pre-petition contractual obligations could not be enforced against the City. The Chapter 9 filing enabled the City to continue to operate and provide services to its residents and "froze" pre-petition debts, which would be treated and resolved under a plan of adjustment. Obligations of the City incurred, owing or attributable to the period prior to July 18, 2013 were subject to compromise in the bankruptcy process. The City paid certain pre-petition liabilities, including certain employee salaries, wages, benefits, and other obligations, during the Bankruptcy Case. The City stopped making payments related to unsecured funded debt and legacy liabilities, with the exception of retiree healthcare benefits (which were modified during the Bankruptcy Case) and certain vendors providing essential goods and services.

On December 3, 2013, the Bankruptcy Court issued a bench decision determining that the City was insolvent and eligible to be a Chapter 9 debtor (the Bench Decision). On December 5, 2013, the Bankruptcy Court entered: (1) its Opinion Regarding Eligibility memorializing and further elucidating the Bench Decision; and (2) an Order for Relief under Chapter 9 of the Bankruptcy Code (the Order for Relief) that permitted the City to be a debtor under Chapter 9 of the Bankruptcy Code.

The Bankruptcy Court set a deadline of March 1, 2014 for the City to file a plan of adjustment in the Bankruptcy Case. Accordingly, on February 21, 2014, the City filed its first plan of adjustment and a related disclosure statement. On May 5, 2014, following additional negotiations and mediations with its creditors, the City filed its fourth amended plan of adjustment and fourth amended disclosure statement. Also, on May 5, 2014, the Bankruptcy Court entered an order approving the fourth amended disclosure statement as containing adequate information with which creditors could determine whether to vote to accept or reject the plan, and established July 11, 2014 as the deadline for creditors to cast votes for or against the plan. Thereafter, the City through its claims and balloting agent, Kurtzman Carson Consultants LLC (KCC), sent the plan, the disclosure statement, ballots, and other materials that had been approved by the Bankruptcy Court to creditors entitled to vote on the plan.

After voting was completed, on July 21, 2014, KCC filed its first declaration regarding the solicitation and tabulation of votes on, and the results of voting with respect to, the fourth amended plan of adjustment. Impaired classes that voted to accept the Plan included classes comprising PFRS pension claims, GRS pension claims, OPEB claims, POC Swap claims and Unlimited Tax General Obligation Bond claims. Impaired classes that voted to reject the Plan included the classes comprising POC claims and certain classes of DWSD debt.

Thereafter, the City continued to negotiate and mediate with its creditors who had not either settled their disputes with the City or who voted to reject the plan in an attempt to reach full consensus on the City's plan of adjustment. Those continued discussions were successful, and the City filed successive amended versions of the plan of adjustment that reflected new settlements as they were achieved. On October 22, 2014, the City filed its eighth and last amended plan of adjustment (the Plan).

The hearing on confirmation of the Plan lasted 24 days between September 2, 2014 and October 27, 2014. On November 12, 2014, the Bankruptcy Court entered an order confirming the Plan (the Confirmation Order). On December 10, 2014 (the Effective Date), the transactions contemplated by the Plan closed, and the Plan became effective pursuant to its terms. On December 31, 2014, the Bankruptcy Court issued a Supplemental Opinion supporting the Confirmation Order.

Eight timely appeals of the Confirmation Order were filed and docketed in the United States District Court for the Eastern District of Michigan. Seven of the pending appeals of the Confirmation Order arise from the Plan's treatment of Pension and OPEB Claims and the ASF Recoupment program and are identified by case numbers: (1) No. 14 14872, (2) No. 14 14910, (3) No. 14 14917, (4) No. 14-14920, (5) No. 15 10036, and (6) No. 14-14899. The seventh pending appeal (No. 14-14919) concerns the unrelated issue of the Plan's treatment of claims arising under 42 U.S.C. § 1983.

On December 10, 2014, and in accordance with the Plan, the City: (1) issued $1.3 billion of debt of which $1.1 billion was delivered to various classes of creditors in satisfaction of their claims; (2) paid $110.1 million of cash including $73.1 million to various classes of creditors in satisfaction of their claims, $36.5 million to establish a Professional Fee Reserve account to pay the bankruptcy and restructuring professionals, and $.5 million to satisfy debt issuance costs; (3) assigned debt service payments on the remaining $43.3 million of the original UTGO bonds primarily to the income stabilization funds for the General Retirement System (GRS) and Police and Fire Retirement System (PFRS), and issued settlement credits totaling $25.0 million to the insurers of the POCs; and (4) irrevocably transferred the assets of the Detroit Institute of Arts (DIA) having a net book value of $86.6 million to the DIA, as trustee, to be held in perpetual charitable trust, subject to dispositions in accordance with applicable national ethical standards for museums, and within City limits, for the primary benefit of residents of the City and residents of the State. The table below describes the Plan creditor claims settlements and other requirements and the sources and amounts for the settlements made on or around December 10, 2014.

Description of plan creditor claims and other requirements	Source	Settlement amount
Limited Tax General Obligation (LTGO) Bond Debt	Cash	$ 54,999,940
Professional Fee Reserve	Cash	36,461,114
POC Swap Settlement	Casino Holdback Funds	12,662,479
Syncora POC Swap Settlement	Cash	5,000,000
Debt Issuance Costs	Cash	521,147
36th District Court Settlement	Cash	482,857
	Total cash	110,127,537
Unlimited Tax General Obligation (UTGO) Bonds to Holders	2014 A1 – K1 Bonds	279,618,950
Police Fire Retiree Health Care Trust (VEBA)	2014 B(1) & B(2) Bonds	253,900,999
General Retiree Health Care Trust (VEBA)	2014 B(1) & B(2) Bonds	238,780,159
Refund Series 2014 Financial Recovery Bonds Issued In April 2014	2014 A/B Bonds	120,105,000
POC Settlement FGIC/Syncora	2014 B(1)	97,692,788
POC Settlement FGIC/Syncora	2014 C Bonds	88,430,021
Funds for Revitalization and Reinvestment Initiatives (RRI)	2014 A/B Bonds	85,684,724
POC Swap Settlement	2014 A/B Bonds	37,969,929
Debt Service Set-Aside on 2014 A/B Bonds	2014 A/B Bonds	27,500,000
Class 14 Unsecured Claims	2014 B(1) & B(2) Bonds	20,596,747
LTGO Class 9 Settlement (POC Claims)	2014 B(1) & B(2) Bonds	17,301,861
Unlimited Tax General Obligation (UTGO) Bonds to Insurers	2014 A2 – K2 Bonds	7,941,840

Description of plan creditor claims and other requirements	Source		Settlement amount
Downtown Development Authority Class 13 Claim Assigned to FGIC	2014 B(1) Bonds	$	3,691,591
Debt Issuance and Other Costs	2014 A/B Bonds		3,740,347
	Total bonds		1,282,954,956
Income Stabilization Fund for Two Pension Funds	Original UTGO Bonds		43,349,210
Settlement Credits	No funds		25,000,000
	Total other sources		68,349,210
Transfer of Detroit Institute of Arts (DIA) Assets to DIA Trustee	DIA Assets (Book Value)		86,568,800
	Grand total	$	1,548,000,503

Included in the $1.3 billion of debt issued on December 10, 2014, were the City's Financial Recovery Income Tax Revenue and Refunding Bonds, Series 2014 A/B totaling $275.0 million, which (1) refunded the $120.0 million of the 2014 Financial Recovery Bonds issued in April 2014; (2) paid the $38.0 million final installment of the POC swap settlement claim; (3) provided an additional $85.7 million for reinvestment and revitalization initiatives in the City; (4) funded $27.5 million for a debt service reserve for the Series 2014 A/B Bonds; and (5) paid $3.8 million for issuance and other costs related to the new bonds. Also, the City has remaining proceeds available for reinvestment and revitalization initiatives from the $120.0 million of the 2014 Financial Recovery Bonds (Quality of Life) that was refunded with this new debt.

The City eliminated a net $8.3 billion ($9.6 billion of liabilities and deferred inflows less $1.3 billion of assets and deferred charges) of its obligations including (1) $7.0 billion of pension and retiree benefits ($994.8 million included in Long-Term Obligations – $3.0 billion) legacy costs which were not recorded in the City's June 30, 2014 financial statements; (2) $1.4 billion of POC long-term obligations; (3) $302.5 million of the POC swaps; and (4) $200.9 million of accrued but unpaid pension contributions. Also, as a result of the elimination of the POC long-term obligations, the City eliminated the related net pension asset totaling $1.2 billion, which included the obligation for the unpaid pension contributions.

The bankruptcy exit and settlement of claims provided the City a total of $6.8 billion in aggregate debt relief. Detailed in the table below is a summary of (1) the eliminated and restructured obligations; (2) cash and assets used and new or other obligations incurred; and (3) the net benefit of the Plan.

		Primary government						
		Assets and obligations			**Cash and assets used and new obligations**			
Description		**Eliminated**	**Applied or assigned**		**Cash and assets**	**New debt obligations**	**Other**	**Net benefit**
Assets:								
Net pension asset	(1)	$ (1,206,321,236)	—		—	—	—	(1,206,321,236)
Capital assets (net book value)		—	—	(10)	86,568,800	—	—	(86,568,800)
Deferred charges	(2)	(34,452,367)	—		—	—	—	(34,452,367)
Total assets		(1,240,773,603)	—		86,568,800	—	—	(1,327,342,403)
Deferred outflows of resources	(3)	(17,682,877)	—		—	—	—	(17,682,877)
Liabilities:								
Accounts payable		—	—	(11)	36,461,114	—	—	(36,461,114)
Accrued interest payable		53,306,470	—		—	—	—	53,306,470
Derivative instruments – swap								—
liability		302,463,879	—		17,662,479	37,969,929	—	246,831,471
Defaulted debt due to insurers	(4)	143,085,398	—		—	—	—	143,085,398
Other defaulted debt	(5)	25,000,000	—		—	—	—	25,000,000
Contingent liabilities		—	—		—	—	25,000,000	(25,000,000)
Long-term obligations	(6)	2,961,435,753	43,349,210		56,003,944	1,244,985,027	43,349,210	1,660,446,782
Total liabilities		3,485,291,500	43,349,210		110,127,537	1,282,954,956	68,349,210	2,067,209,007
Deferred inflows of resources	(7)	34,844,753	—		—	—	—	34,844,753
Total net position (deficit)		2,261,679,773	43,349,210		196,696,337	1,282,954,956	68,349,210	757,028,480
Other obligations not in financial statements:								
Long-term obligations – OPEB	(8)	4,723,511,843	—		—	—	—	4,723,511,843
Long-term obligations – net pension liability	(9)	1,326,824,448	—		—	—	—	1,326,824,448
Total other obligations		6,050,336,291	—		—	—	—	6,050,336,291
Grand total net position (deficit)		$ 8,312,016,064	43,349,210		196,696,337	1,282,954,956	68,349,210	6,807,364,771

(1) Net Pension Asset eliminated with bankruptcy and new GASB 67 and 68 requirements

(2) Prepaid insurance costs related to eliminated obligations

(3) Deferred charges related to eliminated obligations

(4) Principal and interest paid by insurers for defaulted debt including POC and LTGO debt

(5) Uninsured LTGO (2008 A(2) bonds principal defaulted on

(6) Includes $1.4 billion POC; $994.8 million OPEB eliminated for year ended June 30, 2014; $287.5 million Restructured UTGO; and $117.6 million LTGO obligations

(7) Deferred Swap Termination Fees

(8) Last OPEB valuation (June 11, 2011) $5,718,286,228 less $994,774,385 included in Long-Term Obligations.

(9) Net Pension Liability reduction ($2,918,025,938 pre-bankruptcy and $1,591,201,490 post-bankruptcy)

(10) DIA Assets transferred to DIA Trustee

(11) Funding for Professional Fee Reserve

The City entered into various settlement agreements and other resolutions as set forth in the Plan, including the following: (1) UTGO Settlement Agreement (Sections II.B.3.o and IV.C of the Plan and Exhibit I.A.360 to the Plan); (2) LTGO Settlement Agreement (Sections II.B.3.n and IV.H of the Plan and Exhibit I.A.237 to the Plan); (3) OPEB Benefits Settlement (Sections II.B.3.s, IV.G and IV.P of the Plan and Exhibits I.A.108 and I.A.112 to the Plan) and the Retiree Health Care Settlement Agreement (Exhibit I.A.298 to the Plan); (4) DIA Settlement (Section IV.E of the Plan and Exhibits I.A.126 and I.A.127 to the Plan); (5) State Contribution Agreement (Section IV.D of the Plan and Exhibit I.A.332 to the Plan); (6) General Retirement System (GRS) and Police and Fire Retirement System settlements (Sections II.B.3.q, II.B.3.r and IV.F of the Plan and Exhibits I.A.250.a-b, I.A.254.a-b, I.A.280, I.A.281, I.A.292, II.B.3.q.ii.A, II.B.3.q.ii.C, II.B.3.r.ii.A and II.B.3.r.ii.C to the Plan); (7) matters relating to the DWSD Authority (Great Lakes Water Authority – Section IV.A.3 of the Plan); (8) Syncora Settlement, including the Syncora Development Agreement and the other Syncora Settlement Documents (Sections II.B.3.p and IV.I of the Plan and Exhibits I.A.66, I.A.133, I.A.248, I.A.249, I.A.340 and I.A.344 to the Plan); (9) FGIC/POC Settlement, including the FGIC Development Agreement and the other FGIC/POC Settlement Documents (Sections II.B.3.p and IV.J of the Plan and Exhibits I.A.66, I.A.132, I.A.197, I.A.198, I.A.248 and I.A.249 to the Plan); (10) POC Swap Settlement Agreement (Section II.B.3.l of the Plan and Exhibit I.A.88 of the Plan); and (11) all other compromises and settlements included in, incorporated into or related to the Plan of Adjustment.

Certain of the primary activities in the Bankruptcy Case are summarized below:

UTGO Settlement

On April 9, 2014, the City and three bond insurers agreed to a settlement in principle regarding the unlimited tax general obligation bonds (UTGO) that they insure, which UTGO bonds had a total principal value of $330.9 million at June 30, 2014. The settlement resolved certain litigation pending in the Bankruptcy Court regarding the UTGO bonds. Pursuant to the settlement, holders of UTGO bonds having a principal amount of $279.6 million (2014 A1-K1 Bonds issued December 10, 2014). The insurers of the prior UTGO bonds received $7.9 million of the Restructured UTGO Bonds. The Restructured UTGO Bonds are secured by the City's pledge of UTGO bond ad valorem tax levy and distributable state aid (DSA) that the City is entitled to receive. The Plan reinstated the remaining Stub UTGO Bonds in the principal amount of $43.3 million, which were not discharged or exchanged for the Restructured Bonds. Pursuant to the Plan, the proceeds of ad valorem taxes pledged and collected to pay the remaining principal ($43.3 million) and the related interest of the reinstated Stub UTGO bonds are primarily to support the income stabilization funds for the City's two pension plans for additional distributions to those retires who meet certain income eligibility criteria. The insurers remain responsible for the debt service to the bondholders on the remaining $43.3 million Stub UTGO bonds.

LTGO Settlement

The City, the LTGO (Limited Tax General Obligation) bond insurer and Black Rock Financial Management reached a settlement related to the treatment of allowed LTGO Bond Claims, which is described in Exhibit I.A.237 and elsewhere in the Plan. On December 10, 2014, in accordance with the Plan, the City eliminated $161.0 million of Limited Tax General Obligation Bonds and paid to the holders of allowed LTGO Bond Claims $55.0 million in cash from the General Fund. Holders of allowed LTGO Bond Claims also received $17.3 million of the 2014 B(1) and B(2) Bonds issued by the City on that day.

Retiree Health Benefits

The Plan restructures the City’s retiree health legacy obligations, which consumed substantial (and escalating) percentages of the City’s revenues at the time of the Chapter 9 filing. The Plan allowed the City to eliminate billions in unfunded retiree health obligations through the creation of two voluntary employee beneficiary associations (or VEBAs), which will be exclusively responsible for retiree health programs and payments for City employees who retired prior to January 1, 2015. A total of $492.7 million (2014 B(1) and B(2) bonds issued on December 10, 2014), plus an additional amount of approximately $5.0 million (paid over time) from private foundations, will be used to fund the VEBAs.

The Plan provides for the establishment of two VEBAs in accordance with Section 501(c)(9) of the Internal Revenue Code of 1986, as amended, that would provide health care, life, or other permissible welfare benefits to beneficiaries and certain of their dependents. The “Detroit Police and Fire VEBA” (PFRHC Trust), funded largely with the $253.9 million of the $492.7 million in 2014 B(1) and B(2) bonds, has been established for retired police and fire uniform employees, and the “Detroit General VEBA” (GRHC Trust), funded largely with the remaining $238.8 million of the $492.7 million in 2014 B(1) and B(2) bonds, has been established for general retirees. The two VEBAs will each be governed by a board of trustees, which will be responsible for (1) management of the assets held by the VEBA; (2) administration; and (3) determination of the level of distribution of benefits to the beneficiaries. From and after January 1, 2015, the City shall have no further responsibility to provide retiree healthcare or any other retiree welfare benefits to City employees who retired prior to that date.

The two VEBA trusts, acting through their trustees, will be responsible for funding of retiree health coverage benefits on and after January 1, 2015, but the City will facilitate a smooth transition for the takeover of retiree health benefits by continuing the 2014 program of stipends and Medicare Advantage insurance for the months of January through March of 2015. The Trusts will reimburse the City for such payments.

In addition to the receipt of 2014 B(1) and B(2) bonds and certain foundation funds as noted above, and in order to provide liquidity to the two Trusts to make the reimbursement payments to the City and address other cash needs during the first half of 2015, the Governing Board of the City of Detroit Employee Benefits Plan (the Detroit Benefits Board) will provide grants as well as a loan from rate stabilization reserve to the Trusts.

Detroit Institute of Arts (DIA) Settlement (Grand Bargain)

Pursuant to the DIA Settlement, (1) certain charitable foundations and funders of the nonprofit corporation (DIA) that operates the Detroit Institute of Arts (collectively with DIA, the DIA Funding Parties) have committed to assist in the funding of the City's restructured legacy pension obligations and (2) the City has agreed to enter into certain transactions that will cause the DIA assets to remain in the City in perpetuity, subject to dispositions in accordance with applicable national ethical standards for museums, and to otherwise make the DIA assets available for the benefit of the residents on the City and State of Michigan (see below). The DIA Settlement will be funded over a 20-year period as follows: (1) an irrevocable commitment of at least $366 million by the charitable foundations payable in equal annual installments over the 20-year period; and (2) in addition to its continuing commitments outside of the DIA Settlement, an irrevocable commitment from DIA to raise at least $100 million from its donors, the payment of which $100 million will be guaranteed by the DIA payable in equal annual installments over the 20-year period, which DIA payments are subject to a present value discount if paid in advance of the 20-year schedule of payments. Upon the closing of the DIA Settlement transaction on December 10, 2014, the City irrevocably transferred the DIA assets, having a net book value of $86.6 million, to the DIA, as trustee, to be held in perpetual charitable trust, subject to dispositions in accordance with applicable national ethical standards for museums, and within the City limits, for the primary benefit of the residents of the City and citizens of the State.

In addition, related to the DIA Settlement, the State of Michigan, per the State Contribution Agreement (Exhibit I.A.332 of the Plan), committed to make a contribution equal to the net present value of $350.0 million payable over 20 years using a discount rate of 6.75% to GRS ($98.8 million) and PFRS ($96.0 million) in support of the Plan. The State Contribution Agreement requires that the Plan provide for release of the State and certain other entities related to the State by each holder of a pension claim from all liabilities arising from or related to the City and the Bankruptcy Case.

In accordance with the Plan of Adjustment, on the closing of the DIA Settlement transaction on December 10, 2014, the City, the DIA, and the Foundation for Detroit's Future (FDF) delivered the following agreements to effectuate the DIA Settlement: (1) the Omnibus Transaction Agreement (Exhibit I.A. 127 of the Plan) by and among the City, the DIA and the FDF; (2) the Settlement Conveyance and Charitable Trust Agreement by and between the City and the DIA (the Conveyance Agreement); (3) the Quit Claim Deed from the City to the DIA granting the DIA the City's interest in the cultural center garage (the Garage Deed); (4) the Quit Claim Deed from the City to the DIA granting the DIA the City's interest in the real property of the Detroit Institute of Arts (the DIA Deed); (5) the Bill of Sale by and between the City and the DIA (the Bill of Sale); and (6) the Intellectual Property Transfer Agreement by and between the City and the DIA.

On December 10, 2014, the Foundation for Detroit's Future made the first payments totaling $23.3 million in accordance with the DIA Settlement Agreement to the GRS ($5.0 million) and PFRS ($18.3 million). On February 9, 2015, the State paid the GRS $98.8 million and the PFRS $96.0 million in accordance with the State Contribution Agreement.

Pension Settlements

On the Effective Date (December 10, 2014) of the Plan, the City assumed the obligations related to the already accrued benefits under the GRS pension plan and the PFRS pension plan as those benefits were modified in the Plan. The old GRS and old PFRS plans (which were frozen on July 1, 2014) are closed to new participants, and vested active employees have not accrued additional pension benefits under the terms and conditions of those plans since that date. As of the Effective Date, the City retained the responsibility to fund all amounts necessary to provide the adjusted (reduced) pension benefits to its employees and retirees who accrued benefits in either of the old, frozen GRS or PFRS pension plans, although the City's contributions will be fixed during the period ending June 30, 2023. Thereafter, the City will be required to contribute all amounts necessary to fund the modified accrued pensions. Although, pursuant to the Plan, the City will provide necessary funding to support the reduced pension benefit levels, the level of funding necessary to support those reduced pension benefits will depend upon, among other things, future actuarial assumptions, changes in retiree mortality and investment returns.

To ensure that pension funding obligations do not impair the Plan objective of assuring that the City will have sufficient funds to operate and to improve infrastructure and public safety, the City developed the following pension restructuring assumptions and objectives: (1) the City has set a goal of achieving a 70% and 75% funded status for GRS and PFRS, respectively, based upon an assumed investment rate of return of 6.75%, by June 30, 2023 and based further on the market value of assets, not a smoothed value of assets; and (2) the City has determined the cash contributions it can reasonably afford to make to each pension plan during the period ending June 30, 2023. Based on these parameters, which were chosen to achieve predictable pension contributions over the long term and sufficient pension funding to provide benefits as modified, and to align the City's required future cash contributions to the plans with its reasonably projected revenues, the City has determined what pension benefit cuts are necessary from the participants in each pension plan.

Under the Plan, claims against the City are divided into different classes. Claims related to PFRS pensions are in Class 10. Claims related to GRS pensions are in Class 11. Specifically, the calculation of the amounts of the allowed PFRS pension claims in Class 10 and the allowed GRS pension claims in Class 11 utilized among, other assumptions, a 6.75% discount rate to value liabilities and a 6.75% investment return rate for future growth rate of assets. This investment return rate is less than (a) the net 8% investment return rate historically utilized by PFRS in calculating the actual underfunding of the PFRS pension plan and (b) the net 7.9% investment return rate historically utilized by GRS in calculating the actuarial underfunding of the GRS pension plan. In both cases the City utilized the lower assumed rate as a measure to ensure that more conservative investment policies. Such policies would concomitantly reduce the risk of unexpected loss, which better ensures that the plan beneficiaries will receive their adjusted benefits and that the City is not confronted with unforeseen and unbudgeted increases in required future pension contributions that could cause the City to experience budget deficits in the future.

With respect to PFRS pension claims, the Plan does not reduce monthly pension payments for holders of PFRS pension claims, but it does reduce annual cost of-living adjustments (COLAs or escalators) by 55%.

Similarly, with respect to GRS pension claims, the Plan provides for reduction of pension benefits by 4.5% and eliminates COLAs. Holders of GRS pension claims who participated in the Annuity Savings Fund during the period July 1, 2003 to June 30, 2013, also are subject to the recoupment into the GRS trust of a portion of the excess interest credited to Annuity Savings Funds accounts during that period, either by a single lump sum payment, or over time through reductions in their monthly checks.

(Continued)

The table below details the anticipated pension contributions to the GRS and PFRS from December 10, 2014 through June 30, 2023.

Source of pension contributions		Required or paid FY 2015	Contributions through June 30, 2023	Beneficiary
Detroit Water and Sewerage Department	$	65,400,000	428,500,000	GRS
State contribution		98,800,000	98,800,000	GRS
DIA		5,000,000	45,000,000	GRS
General Fund		12,100,000	92,100,000	GRS
Other (i.e., Library)		2,500,000	22,500,000	GRS
Stub UTGO Bond Millage Collections		4,400,000	31,700,000	GRS
Total GRS contributions through June 30, 2023	$	188,200,000	718,600,000	
Foundation for Detroit's Future	$	18,300,000	164,700,000	PFRS
State contribution		96,000,000	96,000,000	PFRS
Total PFRS contributions through June 30, 2023	$	114,300,000	260,700,000	

The latest actuarial reports "GASB Statement No. 67, *Plan Reporting and Accounting Schedules*", for the GRS and PFRS estimated that the pre-bankruptcy exit net pension liability at June 30, 2014 was $1,786,441,192 and $1,131,584,746, respectively (See note IX Pension Plans in the City of Detroit June 30, 2014 CAFR). Also, as part of their analysis, the actuary projected that the net pension liability at June 30, 2014 for the GRS and PFRS as a result of the benefit changes in the Plan were $999,849,016 and $591,352,474, respectively. The net pension liability for both retirement systems decreased $1,326,824,448 ($786,592,176 GRS and $540,232,272 PFRS) because of the pension settlements.

Great Lakes Water Authority

On September 9, 2014, as a result of the mediation in bankruptcy and pursuant to Section 12(l)(r) of PA 436, the Emergency Manager, the Mayor, the County Executives of Wayne, Oakland and Macomb Counties and the Governor executed a Memorandum of Understanding detailing the framework and parameters for establishing a regional authority under Act 233 of 1955, as amended (Act 233), to be called the Great Lakes Water Authority (the Authority), to operate and manage the regional assets of the Detroit Water Supply System and Sewage Disposal System (Systems) owned by the City of Detroit and presently operated by the Detroit Water and Sewerage Department(DWSD) and the proposed Articles of Incorporation therefor, including the lease of the Systems (other than the Detroit infrastructure serving residents, businesses and other customers within the City). On September 9, 2014, the Emergency Manager issued order number 34, approving the Articles of Incorporation of the Great Lakes Water Authority and related transactions. The Articles of Incorporation and Memorandum of Understanding include the following:

- The City retains control of the local water and sewer systems (the Detroit Systems) and ownership of the Systems.
- The Authority is incorporated for the purpose of acquiring, owning, leasing, improving, enlarging, extending, financing, refinancing and operating a water supply system and a sewage disposal system, including a storm water collection and treatment system, or a combination of such systems, and for exercising any of the powers of the Authority under these Articles and for purposes authorized under Article 7, Section 28 of the Michigan Constitution and other Michigan law.
- The City shall lease the Systems (except the Detroit local system infrastructure) to the authority for an initial term of 40 years, extendable to at least match the term of any outstanding bonds of the Authority.
- Consideration for the Lease shall be a $50 million charge per year to be held by the Authority and used at the City’s discretion to fund any or a combination of the following: Detroit local system infrastructure improvements, debt service associated with such improvements or the City’s share of the cost of common-to-all improvements. Initially, 45% of the charge shall be allocated to Water Supply System customers and 55% shall be allocated to Sewage Disposal System customers. The City is forbidden to use the charge to support the General Fund.
- The State shall allow the Authority to use the Michigan Finance Authority to issue bonds on behalf of the Authority.
- The Authority will contribute $4.5 million in fiscal year 2014-15 and 0.5% of base operating revenues of the Authority per year to a Water Residential Affordability Program Fund to assist customers who are financially unable to afford water or sewer service and agree to undertake conservation measures.
- The existing recognitions of the City’s ownership and system support in the water and sewer system rate structures (return on equity for water and per settlement for sewer) will be frozen and continue at $26.216 million per year ($20,700,000 as the rate of return for the water system and $5,516,600 pursuant to settlements for the sewer system) during the term of the Authority.
- The transfer of the Systems to the Authority shall not cause impairment of tax treatment of outstanding DWSD bonds. New debt and refunding bonds shall be issued pursuant to the Revenue Bond Act (PA 94 of 1933) or other statutory authority.

(Continued)

- The financial analysis undertaken by the parties to the Memorandum of Understanding assumes that the Authority will issue bonds to prepay its Pension Liability or identify other savings should such financing prove infeasible and the Pension Liability is paid over the schedule provided in the Plan of Adjustment. Within 90 days after the establishment of the Authority, the Authority, working with the City and Investment Committee of the GRS shall develop a process to reach agreement on the dollar amount which the Authority would need to deposit with the GRS as a one-time payment in lieu of the Pension Liability payments payable at $42.9 million per year (not including the $2.5 million in annual administrative expenses or the one-time restructuring cost payment of $20 million in fiscal year 2014-15) over nine years pursuant to the Plan of Adjustment.
- The GRS will continue to (a) track DWSD retirees, deferred retirees, and active vested members, pension benefits paid and actuarial accrued liabilities separately from other GRS members; and (b) shall allocate to the DWSD/Authority an undivided interest in GRS administrative expenses and in each investment and class of investment in the GRS, to enable the Authority to verify the appropriateness of allocations to the Authority.
- Each System is assumed to experience revenue requirement increases of not more than 4% for each of the first 10 years under the Authority management.
- The City and each wholesale customer shall retain responsibility for all obligations associated with their individual revenue requirements.
- The City has the right to continue to operate and retain employees to operate, maintain, repair and improve the local system in Detroit, including capital improvements and repairs, and billing and collection services and any other services.
- The City shall continue to develop the capital improvement program for the Detroit local system infrastructure and may elect to administer the maintenance and improvements to that system, and in any event, will direct the expenditure of all funds dedicated for those purposes.
- The Authority will finance Detroit local system improvements through the issuance of Authority bonds under the Revenue Bond Act, with the debt service to be allocated solely to Detroit local subsystem ratepayers.
- The Authority may provide services and issue bonds to finance improvements for other local systems within its service areas.
- The State agrees to identify ways to facilitate access and eligibility for the Authority to the Clean Water State Revolving Fund and Drinking Water State Revolving Fund (SRF) grants and other sources of State funding to mitigate the cost of improvements for the Systems and local system improvements.
- The City will assign all customer and vendor contracts to the Authority.
- The Authority shall be a successor employer to DWSD for those employees transferring to the Authority, and will assume and honor DWSD’s collective bargaining agreements for those employees.

- The Authority shall, in connection with its assumption of or substitution for outstanding DWSD bonds, covenant to:

  A. Maintain compliance with DWSD's three-part combined coverage requirements for senior lien, second lien, and SRF junior lien indebtedness, respectively for both additional bonds test and rate covenant purposes;

  B. Maintain, pursuant to such ordinances or indentures, a flow of funds consistent with Act 94, on the following order of priority required by Act 94: (x) operation and maintenance expenses of the related System and (y) debt service on all bonds payable from net revenues of the related System before making deposits to other accounts in the flow of funds; and

  C. Comply with the provisions of the Bankruptcy Court Order dated August 25, 2014 approving the DWSD tender and new money financing, including but not limited to paragraph 24 thereof (requiring the method of making pension payments to the frozen defined GRS plan).

- The Authority shall also have received (a) an opinion of a nationally recognized bond counsel to the effect that the transfer of the Systems to the Authority and assumption of the outstanding DWSD bonds, in and of themselves, will not materially impair the tax-exempt status of the interest on such bonds and (b) confirmation from one or more recognized rating agencies that the bonds, after assumption or substitution by the Authority are rated not less than the then-current rating on the bonds.

At the time of this report, the Authority has been established and negotiations regarding the transfer of the regional systems to the Authority were still ongoing.

The Syncora Settlement

Syncora owned and was an insurer of certain of the City's POC debt (Insurer of $351.9 million pre-petition balance). In addition, Syncora insured certain interest rate swap agreements and UTGO debt ($34.4 million pre-petition balance). Also, Syncora, through its wholly owned subsidiaries, owns the company that currently leases and operates the City of Detroit's side of the Tunnel.

The City and Syncora reached a Settlement Agreement (Exhibit I.A.340 of the Plan) effecting a global resolution of all matters and litigation between the parties related to the Bankruptcy Case, as set forth in the Syncora Settlement Documents (Exhibit I.A.344 of the Plan). Pursuant to the Syncora Settlement, and in accordance with the Plan: (1) the City, pursuant to Section II.D.1, assumed the Tunnel Lease and extended and amended Syncora's lease an additional 20 years to December 2040; (2) the parties entered into the Syncora Development Agreement and the Syncora Option Agreement; (3) the parties dismissed the Syncora litigation as set forth in the Syncora Settlement Agreement; (4) Syncora supported confirmation of the Plan; and (5) the City paid $5 million (on December 10, 2014) to Syncora in full satisfaction of all of Claims filed or asserted against the City by Syncora relating to the POC Swap Agreements and any agreements related thereto, including the POC Syncora Swap Insurance Policies and the POC Swap Collateral Agreement.

In accordance with the Syncora Development Agreement, Syncora was granted options of 4, 5, and 7 years to acquire certain properties owned by the City including the former Police Headquarters located at 1300 Beaubien. If Syncora exercises the option on any of those properties, it would have fifteen months to commence development of such property into parking facilities, residential housing, commercial retail space or any other suitable use that is consistent with the City's urban planning policies and comprehensive development plan. If Syncora does not begin development of the property within fifteen months after the option is exercised, ownership of the property will revert to the City. Syncora must also complete construction within three years and three months of exercising the option. Syncora may exercise its option with respect to individual properties and is not required to exercise its option on all of those properties.

The Syncora Option Agreement includes a one-year option, exercisable from the Effective Date of the Plan for Syncora to enter into a thirty-year concession with respect to the parking garage located under Grand Circus Park. If Syncora exercises the option, it will have the right to operate the garage and will also be obligated to invest at least $13.5 million in capital expenditures within the first five years of assuming garage operations. The Syncora Option Agreement contemplates that Syncora will retain all revenues from the parking garage until it has recouped 140% of its initial capital expenditures of $13.5 million. After that, Syncora will be required to pay the City 25% of the free cash flow of the garage.

On December 10, 2014, in accordance with the Plan, the City paid cash, issued bonds, and gave options and credits in settlement of all Syncora's claims against the City as detailed in the table below.

Source		Amount	Description
2014 A1 – K2 Bonds	$	26,765,375	Restructure UTGO 2003 A Bonds totaling $31,675,000
2014 A2 – K2 Bonds		47,479	UTGO Bonds Delivered to Syncora
2014 B(1) Bonds		23,500,000	POC Settlement (2005A $52,750,000 and 2006B $299,155,000)
2014 C Bonds		21,271,804	POC Settlement
General Fund Cash		5,000,000	Settle all remaining Syncora claims against the City
Settlement Credits		6,013,750	Development Agreements
	$	82,598,408	

FGIC/POC Settlement

The Financial Guaranty Insurance Company (FGIC) was an insurer of certain of the City's POC debt ($1.1 billion pre-petition balance). The City and FGIC reached a settlement agreement affecting a global resolution of all matters and litigation between the parties related to the Bankruptcy Case, as set forth in the FGIC/POC settlement documents (Exhibits I.A. 197 and 198 of the Plan). Pursuant to the FGIC/POC settlement, and in accordance with the Plan: (1) the City and the Developer, for the benefit of FGIC and the FGIC POC Holders, entered into the FGIC Development Agreement (Exhibit I.A.198 of the Plan); (2) FGIC, on behalf of the FGIC POC Holders, became a settling POC claimant with respect to all POCs and POC claims associated with POCs originally insured by FGIC; (3) the parties dismissed the FGIC/POC Litigation as set forth in the FGIC/POC settlement documents; (4) except for excluded actions, FGIC waived any claims it may have had against any other party related to the dismissed FGIC/POC Litigation as set forth in the FGIC/POC settlement documents; and (5) in full satisfaction and discharge of FGIC's claims against the City related to FGIC's swap insurance policies, (a) FGIC received an Allowed Class 14 Claim in the amount of $6.15 million, entitling FGIC to receive the Distributions provided pursuant to Section II.B.3.u.i and (b) the DDA assigned to FGIC all of its right, title, and interest to the 2014 B (1) Bonds distributed to the DDA pursuant to Section II.B.3.t.ii.

Per the settlement agreement, FGIC and the POCs Holders will divide the consideration provided under the Class 9 settlement (POCs claims) option under terms agreed upon between them. As part of the settlement, the parties agreed to dismiss the POCs litigation. FGIC also agreed to waive any and all claims it may have had against any other party, including the GRS and the PFRS related to the POCs litigation.

In addition to FGIC's share of the Class 9 settlement option, FGIC and the City entered into a development agreement for the Joe Louis Arena site. Under this agreement, an entity to be formed and controlled by FGIC and the POCs Holders will have the option to acquire and develop the land upon which the Joe Louis Arena and its garage currently sit. The City will demolish the structures on the land and perform any necessary environmental remediation pursuant to the terms of the development agreement.

Within 36 months after executing the development agreement, the new entity must prepare a comprehensive development plan for the site. If the City approves the development plan, the City and the new entity must close on the sale of the parcels within two years of that approval, or within six months of completion of the demolition of the structures located on the property, whichever is later. The State has agreed to reimburse the new entity for eligible project costs and tax increment financing incentives. The City has also agreed to zone the property such that a mixed-use development would be permitted and assist the new entity in obtaining certain tax abatements. The new entity is required to have the development substantially completed within 36 months after closing on the sale of the property.

FGIC also had asserted claims against the City relating to the swap agreements. In settlement of those claims, FGIC has an allowed Class 14 claim for $6.15 million to share pro-ratably with other Class 14 creditors in the $20.4 million of 2014 B(1) bonds and $.2 million of 2014 B(2) bonds issued December 10, 2014. In addition, the Downtown Development Authority assigned to FGIC its right, title and interest to its distribution of 2014 B (1) Bonds under the plan on account of its $33.6 million Class 13 Claim.

On December 10, 2014, in accordance with the Plan, the City paid cash, issued bonds, and gave options and credits in settlement of all FGIC's claims against the City as detailed in the table below.

Source		Amount	Description
2014 B(1) Bonds	$	74,192,788	POC Settlement (2005A $450,615,000; 2006A $148,540,000 and 2006B $500,845,000)
2014 C Bonds		67,158,217	POC Settlement
2014 B(1) Bonds		3,691,591	DDA settlement amount
2014 B(1) and B(2) Bonds[(1)]		TBD	Pro-rata share of $20.6 M Class 14 Claims Amount Unknown at time of this report
Settlement Credits		18,986,250	Development Agreements
Total FGIC Settlement	$	164,028,846	

(1) Class 14 Claims (general unsecured creditors) remain unsatisfied pending determination of the allowed claim for each member of the class. A total of $20,596,747 of 2014B(1) and 2014 B(2) Bonds are

being held by a disbursing agent for distribution to claimants as such time as the allowed claims have been determined, and are the sole source of payment of Class 14 Claims.

Swap Settlement

The City reached a settlement agreement with the counterparties to the City's interest rate swap agreements (the Swap Counterparties) that allowed the City to terminate its obligations related to the swap agreements in exchange for approximately $85.0 million, less certain payments, in full satisfaction of the claims between the parties (the Plan Support Agreement). The POC Swap agreements are detailed in Exhibit I.A.88 of the Plan. On June 30, 2014, the fair value of the interest rate swaps obligation to the City was $302.5 million ($244.1 million to the Governmental Activities). On December 12, 2014, the City used $37,969,929 of bond proceeds (Series 2014 B Bonds) and $12,662,479 of Casino holdback funds to pay the remaining balance owed the Swap counterparties in accordance with the Plan of adjustment.

Financial Review Commission

Public Act 181 of 2014, M.C.L. §§ 141.1631, *et eq.*, established the Michigan Financial Review Commission, to monitor the City's compliance with the Plan of Adjustment and Public Act 181 and provide oversight of the City's financial activities. On December 10, 2014, the Financial Review Commission (the Commission) became operational. The Commission has broad authority (as of the Effective Date) to obtain and review the City's financial records on an ongoing basis, approve budgets and contracts and conduct financial audits of the City. Public Act 182 of 2014, M.C.L. 117.4s-t, further imposes requirements including the City adopt a multi-year financial plan and appoint a chief financial officer (CFO).

(Continued)

Liabilities Subject to Compromise

Unsecured obligations owed or incurred by the City as of, or relating to the period prior to, July 18, 2013 were subject to compromise in the Bankruptcy Case. As of June 30, 2014, the City had made significant progress in achieving settlements with the major creditors. On December 10, 2014, the City exited bankruptcy with settlements with all its major creditors. As a result, the City was able to reduce a large amount of obligations owed to creditors. The table below details the City's Primary Government obligations at June 30, 2014, and the bankruptcy compromise/settlement impact on those obligations. In addition, the table shows the additional debt incurred pursuant to the Plan to satisfy claims in accordance with the Plan of Adjustment and to provide funding for restructuring initiatives.

	Total primary government	Bankruptcy compromise	Debt added effective date	Pro forma balance
Long-term obligations subject to compromise:				
Net Pension Liability GRS (Note IX (i))	$ 1,786,441,192	(786,592,176)	—	999,849,016
Net Pension Liability PFRS (Note IX (i))	1,131,584,746	(540,232,272)	—	591,352,474
OPEB Employee Health and Life Insurance Benefit Plan	5,718,286,228	(5,718,286,228)	—	—
General Obligation Bonds Unlimited Tax (Note VII (b))	330,910,000	(287,560,790)	—	43,349,210
General Obligation Bonds Limited Tax (Note VII (b))	117,550,000	(117,550,000)	—	—
General Obligation Financial Recovery Bonds (Note VII (b))	120,000,000	(120,000,000)	—	—
Revenue Bonds (Note VII [c])	—	—	—	—
POC (Note VII (g))	1,399,155,000	(1,399,155,000)	—	—
Premium On UTGO and LTGO Bonds	8,795,578	(8,795,578)	—	—
2014 A1-K2 Bonds (Restructured UTGO)	—	—	287,560,790	287,560,790
2014 A Income Tax Bonds	—	—	134,725,000	134,725,000
2014 B Income Tax Bonds	—	—	140,275,000	140,275,000
2014 B(1) Bonds	—	—	616,560,047	616,560,047
2014 B(2) Bonds	—	—	15,404,098	15,404,098
2014 C Bonds	—	—	88,430,021	88,430,021
Notes and Loans Payable (Note VII (a) and (e))	33,600,000	(33,600,000)	—	—
Claims and Judgements (Note VII (a))	53,612,145 (1)	TBD	—	53,612,145
Total long-term obligations subject to compromise	$ 10,699,934,889	(9,011,772,044)	1,282,954,956	2,971,117,801

	Total primary government	Bankruptcy compromise	Debt added effective date	Pro forma balance
Current Obligations Subject to Compromise:				
Accounts payable	$ 16,329,862 (1)	TBD	—	16,329,862
Accrued interest payable	53,306,471	(53,306,471)	—	—
Pension Contributions Due Retirement Systems	200,858,070	(200,858,070)	—	—
Swap Liability	302,463,879	(302,463,879)	—	—
LTGO P&I due Insurer	22,953,172	(22,953,172)	—	—
UTGO P&I Due Insurer	56,949,551	(56,949,551)	—	—
POC P&I Due Insurer	63,182,675	(63,182,675)	—	—
Other Unpaid Defaulted Debt (2008 A(2) Uninsured LTGO Bonds)	25,000,000	(25,000,000)	—	—
Deferred Inflows of Resources	34,844,753	(34,844,753)	—	—
Total current obligations subject to compromise	$ 775,888,433	(759,558,571)	—	16,329,862

(1) Class 14 Claims (general unsecured creditors) remain unsatisfied pending determination of the allowed claim for each member of the class. A total of $20,596,747 of 2014B(1) and 2014 B(2) Bonds are being held by a disbursing agent for distribution to claimants as such time as the allowed claims have been determined, and are the sole source of payment of Class 14 Claims.

The largest settlements were with the City's current employees and retirees. The City reduced its OPEB (Other post-employment benefits) obligations by $5.7 billion and net pension liabilities by $1.3 billion. In addition, the City's unpaid pension contributions required for FY 12 through FY 14, totaling $200.9 million, were eliminated in the bankruptcy.

Other significant reductions were for the (1) POC settlement of $1.4 billion; (2) Unsecured LTGO bonds of $142.6 million including the $25.0 million of the uninsured 2008 A(2) LTGO bonds; (3) Swap/derivative liability of $302.5 million; and (4) insurer subrogation for defaulted debt totaling $143.1 million.

The City issued $1.3 billion of new debt under the Plan. Major application of the new debt include (1) $492.7 million to fund the VEBAs for retiree health benefits; (2) $287.6 million to restructure a portion of the original UTGO debt; (3) $203.4 million to satisfy POC claims; (4) $120.1 million to refund the 2014 Financial Recovery Bonds (Quality of Life financing issued in April 2014); and (5) $85.7 million for restructuring initiatives.

Pro Forma General Fund Balance Sheet

Due to the timing of the City's CAFR, the June 30, 2014 financial statements do not represent the impact of the settlements reached in bankruptcy and the Plan of Adjustment, which became effective on December 10, 2014 when the City exited bankruptcy. In accordance with GAAP, the financial statements record the City's Assets, Liabilities (obligations), and Fund Balances as of June 30, 2014 when the bankruptcy was still pending. At June 30, 2014, the City was still obligated to its creditors for its pre-petition debt.

The following Pro Forma General Fund Balance Sheet at June 30, 2014 has been restated for the impact of the occurrence of the Effective Date. As of the date of this report, there are unresolved claims and obligations of the City that are not included in the Pro Forma General Fund Balance Sheet.

General Fund		Balance June 30, 2014	Bankruptcy compromise	Pro forma Balance June 30, 2014
Assets:				
Cash and cash equivalents	$	376,272,685	—	376,272,685
Investments		5,009,151	—	5,009,151
Accounts and contracts receivable:				
Estimated withheld income taxes receivable		24,694,559	—	24,694,559
Utility users' taxes receivable		2,505,618	—	2,505,618
Property taxes receivable		260,081,217	—	260,081,217
Income tax assessments		58,485,008	—	58,485,008
Special assessments		24,669,919	—	24,669,919
Trade receivables		211,692,008	—	211,692,008
Total accounts and contracts receivable		582,128,329	—	582,128,329
Allowance for uncollectible accounts		(513,781,842)	—	(513,781,842)
Total accounts and contracts receivable – net		68,346,487	—	68,346,487
Due from other funds		10,729,220	—	10,729,220
Due from fiduciary funds		2,538,863	—	2,538,863
Due from component units		1,808,025	—	1,808,025
Due from other governmental agencies		156,927,661	—	156,927,661
Other advances		805,485	—	805,485
Other assets		348,865	—	348,865
Total assets		622,786,442	—	622,786,442
Deferred outflows of resources		—	—	—
Total assets and deferred outflows of resources	$	622,786,442	—	622,786,442

(Continued)

General Fund		**Balance June 30, 2014**	**Bankruptcy compromise**	**Pro forma Balance June 30, 2014**
Liabilities:				
Accounts and contracts payable	$	50,239,629	—	50,239,629
Accrued liabilities		68,690,505	—	68,690,505
Accrued salaries and wages		17,141,508	—	17,141,508
Due to other funds		181,615,738	(138,359,015)	43,256,723
Due to fiduciary funds		32,167,402	—	32,167,402
Due to other governmental agencies		87,700,587	—	87,700,587
Due to component units		9,295,244	—	9,295,244
Income tax refunds payable		3,862,477	—	3,862,477
Deposits from vendors and customers		5,440,699	—	5,440,699
Unearned revenue		5,051,341	—	5,051,341
Defaulted debt due to insurer		22,953,172	(22,953,172)	—
Other defaulted debt		25,000,000	(25,000,000)	—
Other liabilities		14,639,129	—	14,639,129
Accrued interest payable		3,890,348	(3,890,348)	—
Accrued compensated absences		—	—	—
Claims and judgments		628,806	—	628,806
Total liabilities		528,316,585	(190,202,535)	338,114,050
Deferred inflows of resources		41,063,488	—	41,063,488
Fund balances (deficit):				
Restricted for:				
Capital acquisitions		42,000,000	—	42,000,000
Unspent bond proceeds		979,826	—	979,826
Committed for:				
Risk management operations		79,267,054	—	79,267,054
Assigned for:				
Quality of life program		77,067,071	—	77,067,071
Unassigned:				
General fund (deficit)		(145,907,582)	190,202,535	44,294,953
Total fund balances (deficit)		53,406,369	190,202,535	243,608,904
Total liabilities, deferred inflows of resources, and fund balances (deficit)	$	622,786,442	—	622,786,442

(Continued)

The bankruptcy settlements in the Plan eliminated $190.2 million or 36.0% of the City's General Fund liabilities at June 30, 2014. This includes (1) $85.6 million owed to the service corporations for the POC debt that the City defaulted on; (2) $52.8 million of the UTGO debt service millage owed to the Debt Service Fund; and (3) $51.8 million due to bondholders and insurers for principal and interest the City defaulted on for LTGO debt. The City's General Fund deficit would have been eliminated in fiscal year 2014 if the City's Plan had been confirmed and it had exited bankruptcy on June 30, 2014.

Long-Term Debt Compromised in Bankruptcy

The following schedule details the City's Primary Government long-term obligations at June 30, 2014, the impact of the settlements approved by the Plan, and the new debt issued on December 10, 2014, the Effective Date.

	Balance June 30, 2014	Discharged or refunded	Effective date financing	Balance December 10, 2014
Limited Tax General Obligation Bonds:				
Self Insurance 2012C	$ 129,520,000	—	—	129,520,000
Subtotal	129,520,000	—	—	129,520,000
Series 2005-A(1)	3,950,000	(3,950,000)	—	—
Series 2005-A(1)	52,175,000	(52,175,000)	—	—
Series 2005-A(2)	745,000	(745,000)	—	—
Series 2005-A(2)	9,475,000	(9,475,000)	—	—
Series 2005-B	1,000,000	(1,000,000)	—	—
Series 2005-B	6,940,000	(6,940,000)	—	—
Series 2008-A(1)	43,265,000	(43,265,000)	—	—
Subtotal	117,550,000	(117,550,000)	—	—
Distributable State Aid 2010	249,790,000	—	—	249,790,000
2014 A Income Tax Bonds	—	—	134,725,000	134,725,000
2014 B Income Tax Bonds	—	—	140,275,000	140,275,000
2014 B(1) Bonds	—	—	616,560,047	616,560,047
2014 B(2) Bonds	—	—	15,404,098	15,404,098
2014 C Bonds	—	—	88,430,021	88,430,021
Series 2014 – QOL Financial Recovery Bonds	120,000,000	(120,000,000)	—	—
Total Limited Tax General Obligation Bonds	$ 616,860,000	(237,550,000)	995,394,166	1,374,704,166

	Balance June 30, 2014	Discharged or refunded	Effective date financing	Balance December 10, 2014
Unlimited Tax General Obligation Bonds:				
Series 1999-A	$ 15,765,000	(13,699,785)	—	2,065,215
Series 2001-A (1)	74,800,000	(65,001,200)	—	9,798,800
Series 2002	6,645,000	(5,774,505)	—	870,495
Series 2003-A	31,675,000	(27,525,575)	—	4,149,425
Series 2004-A(1)	39,270,000	(34,125,630)	—	5,144,370
Series 2004-B(1)	29,365,000	(25,518,185)	—	3,846,815
Series 2004-B(2)	575,000	(499,675)	—	75,325
Series 2005-B	4,695,000	(4,079,955)	—	615,045
Series 2005-B	37,920,000	(32,952,480)	—	4,967,520
Series 2005-C	4,730,000	(4,110,370)	—	619,630
Series 2005-C	10,795,000	(9,380,855)	—	1,414,145
Series 2008-A	12,385,000	(10,762,565)	—	1,622,435
Series 2008-A	43,510,000	(37,810,190)	—	5,699,810
Series 2008-B(1)	18,780,000	(16,319,820)	—	2,460,180
Series 2014 A1 – K2	—	—	13,321,425	13,321,425
Series 2014 A1 – K2	—	—	63,206,000	63,206,000
Series 2014 A1 – K2	—	—	5,615,025	5,615,025
Series 2014 A1 – K2	—	—	26,765,375	26,765,375
Series 2014 A1 – K2	—	—	33,183,150	33,183,150
Series 2014 A1 – K2	—	—	24,813,425	24,813,425
Series 2014 A1 – K2	—	—	485,875	485,875
Series 2014 A1 – K2	—	—	36,009,675	36,009,675
Series 2014 A1 – K2	—	—	13,118,625	13,118,625
Series 2014 A1 – K2	—	—	47,231,275	47,231,275
Series 2014 A1 – K2	—	—	15,869,100	15,869,100
Series 2014 A1 – K2	—	—	378,360	378,360
Series 2014 A1 – K2	—	—	1,795,200	1,795,200
Series 2014 A1 – K2	—	—	159,480	159,480
Series 2014 A1 – K2	—	—	760,200	760,200
Series 2014 A1 – K2	—	—	942,480	942,480
Series 2014 A1 – K2	—	—	704,760	704,760
Series 2014 A1 – K2	—	—	13,800	13,800
Series 2014 A1 – K2	—	—	1,022,760	1,022,760
Series 2014 A1 – K2	—	—	372,600	372,600
Series 2014 A1 – K2	—	—	1,341,480	1,341,480
Series 2014 A1 – K2	—	—	450,720	450,720
Subtotal	330,910,000	(287,560,790)	287,560,790	330,910,000
Series 2010-E	100,000,000	—	—	100,000,000
Total General Obligation Unlimited Tax Bonds	$ 430,910,000	(287,560,790)	287,560,790	430,910,000

	Balance June 30, 2014	Discharged or refunded	Effective date financing	Balance December 10, 2014
Revenue bonds:				
Sewer revenue bonds	$ 2,785,567,772	—	—	2,785,567,772
Water revenue bonds	2,484,925,000	—	—	2,484,925,000
Total revenue bonds	5,270,492,772	—	—	5,270,492,772
State revolving loans:				
Sewer revolving loans	459,787,878			459,787,878
Water revolving loans	20,123,761			20,123,761
Total state revolving loans	479,911,639	—	—	479,911,639
PLAD bonds	60,000,000	—	—	60,000,000
Governmental notes payable:				
Federal note – Ferry Project	1,635,000	—	—	1,635,000
Federal note – Garfield Project	525,000	—	—	525,000
Federal note – Stuberstone Project	90,000	—	—	90,000
Federal note – New Amsterdam Project	7,750,000	—	—	7,750,000
Federal note – Mexicantown Welcome Center	3,210,000	—	—	3,210,000 —
Federal note – Vernor Lawndale Project	1,340,000	—	—	1,340,000
Federal note – Book Cadillac	7,300,000	—	—	7,300,000
Federal note – Garfield II Note 1	6,372,000	—	—	6,372,000
Federal note – Garfield II Note 2	2,058,000	—	—	2,058,000
Federal note – Fort Shelby	17,750,000	—	—	17,750,000
Federal note – Book Cadillac II	9,984,000	—	—	9,984,000
Federal note – Woodward Garden	7,050,000	—	—	7,050,000
Federal note – Woodward Garden Note 2	6,197,000	—	—	6,197,000
Federal note – Garfield II Note 3	6,697,000	—	—	6,697,000
Federal note – Garfield II Note 4 (interim)	1,473,000	—	—	1,473,000
Federal note – Woodward Garden Note 3	5,753,000	—	—	5,753,000
Total governmental notes payable	85,184,000	—	—	85,184,000
Loan payable to downtown:				
Development Authority	33,600,000	(33,600,000)	—	—
Loans Payable – IBM – Schedule-001	3,093,164	—	—	3,093,164
Total governmental loans payable	36,693,164	(33,600,000)	—	3,093,164
Pension obligation certificates:				
Series 2005A	450,615,000	(450,615,000)	—	—
Series 2006A and 2006B	948,540,000	(948,540,000)	—	—
Total pension obligation certificates	1,399,155,000	(1,399,155,000)	—	—

(Continued)

		Balance June 30, 2014	Discharged or refunded	Effective date financing	Balance December 10, 2014
Unamortized premiums and discounts	$	167,391,362	(8,795,578)	—	158,595,784
Deferred amount on refunding		—	—	—	—
Swap termination fees		—	—	—	—
Total other financing costs		167,391,362	(8,795,578)	—	158,595,784
Opeb obligation		19,307,371	—	—	19,307,371
Pollution remediation		51,265	—	—	51,265
Accrued compensated absences		77,671,327	—	—	77,671,327
Claims and judgments		53,612,145	—	—	53,612,145
Other		47,563,087	—	—	47,563,087
Workers compensation		87,287,979	—	—	87,287,979
Total other long-term debt		285,493,174	—	—	285,493,174
Grand total long-term debt		8,832,091,111	(1,966,661,368)	1,282,954,956	8,148,384,699
Defaulted debt		168,085,398	(168,085,398)	—	—
Total primary government	$	9,000,176,509	(2,134,746,766)	1,282,954,956	8,148,384,699

The Primary Government long-term obligations, as of June 30, 2014, discharged or refinanced in bankruptcy totaled $2.0 billion. This includes (1) $1.4 billion of POC debt and (2) $237.6 million of LTGO debt including the cost of refunding the $120.0 million 2014 Financial Recovery Bonds (Quality of Life) issued in April 2014. In addition, the City's OPEB obligations totaling $1.0 billion at June 30, 2013 were eliminated during the year ended June 30, 2014 because the Employee Health and Life Insurance Benefit Plan was significantly reduced on March 1, 2014 and terminated on December 31, 2014 in accordance with the Plan of Adjustment and settlements reached with retirees in the bankruptcy case. The City's only OPEB obligations to retirees were the $19.3 million ($17.5 million Health Plan and $1.8 million Death Benefit Plan) included in the City's long-term obligations at June 30, 2014, which were payable through December 31, 2014 in accordance with the Plan (the Retiree Health Care Settlement Agreement). In addition, $168.1 million of defaulted debt owed to the insurers as subrogees and bond holders including the $25.0 million of uninsured LTGO bonds was discharged. The obligations that were discharged or refinanced in the Plan were satisfied in part by the issuance and distribution, on the Effective Date, of $1.3 billion of new debt. The net Plan impact was a $1.7 billion ($1.0 billion OPEB and $.7 billion other Long-Term debt) reduction in the Primary Government long-term obligations at June 30, 2014.

Pro Forma Statement of Net Position (Government-Wide)

The following Primary Government Pro Forma Statement of Net Position at June 30, 2014 has been restated for the impact of the occurrence of the Effective Date on December 10, 2014. As of the date of this report, there are unresolved claims and obligations of the City that are not included in the Pro Forma Statement of Net Position.

		Primary Government			
		June 30, 2014 Balance	**Bankruptcy compromise**	**Added bankruptcy**	**Pro forma Primary Government**
Assets:					
Cash and cash equivalents	$	1,113,676,509	—	(110,127,537)	1,003,548,972
Investments		392,313,638	—	—	392,313,638
Accounts and contracts receivable – net		288,158,532	—	—	288,158,532
Due from component units		3,592,899	—	—	3,592,899
Due from other governmental agencies		178,184,774	—	—	178,184,774
Inventory		19,816,345	—	—	19,816,345
Prepaid expenses		1,051,783	—	—	1,051,783
Prepaid insurance on debt		73,173,163	(34,452,367)	—	38,720,796
Long-term receivable		10,219,051	—	—	10,219,051
Advance to component unit/library		24,016,604	—	—	24,016,604
Other assets		2,059,941	—	—	2,059,941
Net pension asset		1,206,321,236	(1,206,321,236)	—	—
Capital assets:					
Nondepreciable		939,136,821	—	(10,800)	939,126,021
Depreciable, net		5,678,448,948	—	(86,558,000)	5,591,890,948
Total capital assets – net		6,617,585,769	—	(86,568,800)	6,531,016,969
Total assets	$	9,930,170,244	(1,240,773,603)	(196,696,337)	8,492,700,304
Deferred outflows of resources	$	346,369,340	(17,682,877)	—	328,686,463
Liabilities:					
Accounts and contracts payable	$	230,753,975	—	—	230,753,975
Accrued liabilities		89,850,714	—	—	89,850,714
Accrued salaries and wages		21,183,213	—	—	21,183,213
Accrued interest payable		197,216,027	(53,306,471)	—	143,909,556
Due to other governmental agencies		134,026,126	—	—	134,026,126
Due to component units		13,069,229	—	—	13,069,229
Deposits and refunds		10,102,587	—	—	10,102,587
Unearned revenue		17,983,338	—	—	17,983,338
Derivative instruments – swap liability		302,463,879	(302,463,879)	—	—
Defaulted debt due to insurers		143,085,398	(143,085,398)	—	—

		Primary Government			
		June 30, 2014 Balance	**Bankruptcy compromise**	**Added bankruptcy**	**Pro forma Primary Government**
Other defaulted debt	$	25,000,000	(25,000,000)	—	—
Other liabilities		19,286,339	—	25,000,000	44,286,339
Long-term obligations:					
Due within one year		412,290,238	—	—	412,290,238
Due in more than one year		8,419,800,873	(1,966,661,368)	1,282,954,956	7,736,094,461
Total liabilities	$	10,036,111,936	(2,490,517,116)	1,307,954,956	8,853,549,776
Deferred inflows of resources	$	52,033,918	(34,844,753)	—	17,189,165
Net position (deficit):					
Net investment in capital assets	$	940,478,218	—	—	940,478,218
Restricted for:					
Highway and street improvement		48,941,150	—	—	48,941,150
Endowments and trust (expendable)		765,245	—	—	765,245
Endowments and trust (nonexpendable)		937,861	—	—	937,861
Capital projects and acquisitions		187,742,180	—	—	187,742,180
Donations		1,135,691	—	—	1,135,691
Debt service		335,582,345	—	—	335,582,345
Unrestricted (deficit)		(1,327,188,960)	1,266,905,389	(1,504,651,293)	(1,564,934,864)
Total net position (deficit)	$	188,393,730	1,266,905,389	(1,504,651,293)	(49,352,174)

The Primary Government Pro Forma Statement of Net Position includes $2.5 billion reduction in liabilities resulting from the settlements reached in bankruptcy. The liability reductions include $2.0 billion of long-term obligations including $1.4 billion of POC debt. Also, $302.5 million of swaps were eliminated. In addition, the Pro Forma Statement of Net Position includes the $1.3 billion of new debt issued and the transfer of $86.6 million of the DIA assets pursuant to the Plan.

In addition, the City's OPEB obligations totaling $994.8 million at June 30, 2013 were eliminated during the year ended June 30, 2014 because the Employee Health and Life Insurance Benefit Plan was significantly reduced on March 1, 2014 and terminated on December 31, 2014 in accordance with the Plan of Adjustment and settlements reached with retirees in the bankruptcy case. As a result, the City's Long-Term Obligations were reduced by $994.8 million for the year ended June 30, 2014, and this was the primary reason for the $866.6 million increase from the June 30, 2013 Net Position Deficit of $678.2 million to the $188.4 million Net Position at June 30, 2014.

The net impact of the occurrence of the Effective Date on the June 30, 2014 Primary Government Statement of Net Position is a $237.8 million increase in the Unrestricted Deficit and a $49.4 million deficit Net Position, a $237.8 million decrease from the $188.4 million Net Position at June 30, 2014.

The actual net impact on the City's Net Position from the Plan is a $628.8 million decrease ($866.6 million less $237.8 million) from the Net Position Deficit of $678.2 million at June 30, 2013 to a $49.4 million Net Position Deficit.

(18) Subsequent Events

(a) Bankruptcy Exit

On November 12, 2014, the Bankruptcy Court entered an order confirming the Plan (the Confirmation Order). The Effective Date of the Plan occurred on December 10, 2014, and the City exited bankruptcy. On December 31, 2014 the Bankruptcy Court issued a Supplemental Opinion supporting the Confirmation Order.

Major Plan implementation activities subsequent to the Effective Date are detailed below.

Retiree Health Benefits

Pursuant to the comprehensive settlement of pension, healthcare and other labor-related issues that the City entered into with employee and retiree representatives that is set forth in the Plan (the Global Retiree Settlement), two voluntary employee beneficiary associations (VEBAs) have been established to assume the responsibility for providing healthcare benefits to City retirees who retired on or before December 31, 2014. The trustees of the VEBAs assumed day-to-day responsibility for providing benefits beginning on April 1, 2015 and are currently: (1) working with vendors to monetize the new 2014 B(1) and B(2) bonds distributed to the VEBAs under the Plan; (2) negotiating contracts with insurers; and (3) designing benefits plans.

On the Effective Date, the Foundation for Detroit's Future transferred $3,632,857 to an escrow account held in the name of the City to partially fund the two voluntary employee beneficiary associations established pursuant to Section II.B.3.s.ii of the Plan. On that same date, as required pursuant to the escrow agreement governing such escrow account, the City caused such funds to be disbursed to the Detroit General Retiree Health Care Trust (for the Detroit General VEBA) and the City of Detroit Police and Fire Retiree Health Care Trust (for the Detroit Police and Fire VEBA).

Pension Plans

The Retirement Systems have commenced implementation of pension plan modifications required by the Plan, including implementation of (a) pension benefit and COLA reductions, (b) ASF Recoupment; and (c) income stabilization benefits for eligible applicants. The Retirement Systems have represented that they have taken steps so that the modifications were reflected in the pension payments distributed by the Retirement Systems on March 1, 2015. Pursuant to the DIA Settlement and the State Contribution Agreement, both of the Retirement Systems adopted new governance and financial oversight mechanisms.

Pursuant to the Global Retiree Settlement, on January 2, 2015, excess interest totaling, in the aggregate, approximately $55.5 million was debited from the annuity savings fund (ASF) accounts of substantially all current account holders. Each annuity savings fund participant who previously received a distribution of the contents of his or her account has been provided the opportunity to elect to return excess interest in the form of a lump-sum payment, and the election period closed on January 21, 2015. Reductions in pension payments to ASF participants who declined to make a lump-sum payment commenced on March 1, 2015. For each ASF participant who elected to make a lump-sum payment but fails to timely remit the ASF Recoupment Cash Payment, deductions of annuitized excess amounts will begin after May 1, 2015.

Syncora Settlement

Pursuant to the Syncora Settlement set forth in the Plan: (a) the options to purchase certain land provided to Syncora were executed on the Effective Date, and memoranda thereof were recorded on December 11, 2014; (b) on the Effective Date, the lease of the Detroit Windsor Tunnel was amended and extended for approximately 20 years; and (c) the City paid $5.0 million to Syncora in satisfaction of claims relating to the POC Swap Agreements and certain related agreements.

FGIC Settlement

On the Effective Date, pursuant to the FGIC/POC Settlement set forth in the Plan, the City executed the Development Agreement associated with the properties related to such settlement (specifically, the property commonly referred to as the Joe Louis Arena and its parking structure). As part of this transaction, the City has also entered into a Memorandum of Understanding transferring property to Wayne County Community College District to obtain clean title on the Joe Louis Arena Garage.

Settlement Credits

On the Effective Date, pursuant to the Syncora Settlement and the FGIC/POC Settlement, the City transferred settlement credits to a trustee (on behalf of Syncora and FGIC) in the aggregate amount of $25 million that may be applied to the purchase price of certain eligible City assets, subject to the terms and conditions of those settlement credits.

DIA Assets

On the Effective Date, pursuant to the DIA Settlement set forth in the Plan, the City irrevocably transferred all of its right, title and interest in the DIA Assets to a perpetual charitable trust, including (a) the DIA Collection; and (b) the real property located at 5200 Woodward Avenue, Detroit, Michigan (the site of the DIA); and associated parking lots and garages.

Implementation of Reinvestment Initiatives

The City began implementation of the $1.7 billion program of reinvestment and revitalization initiatives contemplated in, and made possible by confirmation of, the Plan. The reinvestment and revitalization initiatives provide funds for (a) public safety equipment, facilities and services; (b) blight remediation; (c) upgrades to City infrastructure, operations, and information technology; and (d) public transportation improvements.

Budget Implementation

Pursuant to Section 21(1) of PA 436, the City implemented a two-year budget, which includes contractual agreements assumed pursuant to the Plan and employment terms negotiated during the pendency of the Bankruptcy Case (including the implementation of new collective bargaining agreements negotiated with approximately 40 unions and incorporated into the Plan) and reflects the debt relief provided by the Plan.

For more details on the Bankruptcy Case see Footnote (17).

(b) Restoration of Mayor and City Council Authority

On September 25, 2014, in accordance with Section 9(6)(c) of PA 436, the City Council voted unanimously to remove the Emergency Manager (EM) as of the Effective Date (the period from the appointment of the EM through such removal, the EM Tenure). By a letter to the Governor, the Mayor approved of the Council's vote on the same day. On September 25, 2014, the EM issued his Order No. 42. Order No. 42 restored the authority of the Mayor and the Council over day-to-day operations and activities effective immediately as permitted by PA 436. The EM continued to exercise his powers for the management of the Bankruptcy Case and related bankruptcy proceedings and the implementation of the Plan of Adjustment until the City's exit from bankruptcy on December 10, 2014. On December 9, 2014, pursuant to Michigan Public Act 436 of 2012, the Local Financial Stability and Choice Act, M.C.L. §§ 141.1541, *et seq. (PA 436)*, the Governor of Michigan, Richard D. Snyder, approved the termination of (a) the City's financial emergency status and (b) the Emergency Manager's contract, in both cases upon the occurrence of the Effective Date. On December 9, 2014, pursuant to Section 9(7) of PA 436, Governor Snyder determined that the financial condition of the City would be corrected in a sustainable fashion so as to justify removing the City from receivership upon the occurrence of the Effective Date. Upon the occurrence of the Effective Date, the EM resigned, thereby fully restoring day-to-day management of the City to the Mayor and City Council.

(c) Financial Review Commission

On the December 10, 2014 Effective Date, the Financial Review Commission (the Commission) became operational and began its oversight responsibilities. Michigan Public Act 181 of 2014, M.C.L. §§ 141.1631, *et eq.*, established the Commission to monitor the City's compliance with the Plan of Adjustment and Public Act 181, and provide oversight of the City's financial activities. Commission had broad authority (as of the Effective Date) to obtain and review the City's financial records on an ongoing basis, approve budgets and contracts and conduct financial audits of the City. Public Act 182 of 2014, M.C.L. 117.4s-t, further imposes requirements including that the City adopt a multi-year financial plan and appoint a chief financial officer (CFO).

Compliance with Public Act 181 includes the following:

- Providing to the Commission any documents, records or other information requested of City officials by the Commission or its staff, including any documents, records or other information specifically required by PA 181.
- Appearing before the Commission to provide testimony, documents, records or other information as and when requested by the Commission or its staff.

- Providing to the Commission upon its request verification of compliance by the City with all of the following consistent with the requirements of Section 6(3) of PA 181:

  A. Section 8 of Michigan Public Act 152 of 2011, the Publicly Funded Health Insurance Contribution Act

  B. Sections 4i, 4p, 4s, and 4t of Michigan Public Act 279 of 1909, the Home Rule City Act

  C. Michigan Public Act 34 of 2001, the Revised Municipal Finance Act

  D. Michigan Public Act 2 of 1968, the Uniform Budgeting and Accounting Act

- Providing to the Commission a 4-year financial plan for review by March 23 of each year (100 days prior to the beginning of the fiscal year). Sec. 6 (4) of PA 181 states – "*During the period of oversight, the commission shall review and approve that qualified city's 4-year financial plan required by Section 4t of the home rule city act, 1909 PA 279, MCL 117.4t. A-year financial plan described in this subsection shall be submitted at least 100 days prior to the commencement of a qualified city's fiscal year.*" The Commission shall approve or disapprove the plan within 30 days after receipt of the plan. The Commission, if it disapproves the plan, shall receive from the city a revised plan that addresses the commission's rationale for rejection within 15 days after disapproving plan. The Commission shall approve or disapprove the revised plan no later than 15 days after receiving the revised plan from the city. If the revised plan is disapproved the Commission may adopt and impose a financial plan that satisfies all requirements.

  The Commission is required on June 1 and December 1 of each year to file a written report with the Governor with copies to the Senate Majority Leader and the Speaker of the House and posted on the Treasury website as well as sent to the Mayor and the Council.

(d) Great Lakes Water Authority

On November 26, 2014, the Bankruptcy Court entered a Mediation Order, ordering parties "to continue to engage in facilitative mediation of any matters regarding the formation of the Great Lakes Water Authority." A Board of Directors for the Authority has been appointed and began meeting, on a bimonthly basis, in December 2014. The State has awarded a $3.8 million grant to the Authority for payment of costs associated with the transition of operations and oversight. Professionals have been hired to assist in all aspects of the transition and currently are preparing documents related to: (a) the lease of the City's regional water supply and sewer disposal systems; (b) bondholder consents to the transfer and assumption of outstanding City water and sewer bonds by the Authority; and (c) the issuance of the Great Lakes Water Authority bonds. At the time of this report, negotiations regarding the Great Lakes Water Authority were still ongoing regarding the details of various transactions related to the creation and operation of the Authority.

(e) New Pension Plan

The City of Detroit implemented new hybrid pension programs under the General Retirement System (GRS) and Police and Fire Retirement System (PFRS) for all active and new employees beginning July 1, 2014. Current and new City employees who participate in GRS will contribute 4% of their weekly pre-tax base salary and employees who participate in PFRS will contribute 6% of their weekly pre-tax base salary toward the cost of benefits payable under their respective hybrid pension plans. PFRS members hired after June 30, 2014 will contribute 8% of their weekly pre-tax base salary toward the cost of benefits under the new hybrid plan. The City will make contributions to GRS equal to 5% of members' base compensation and will make contributions to PFRS equal to 12.25% of members' base compensation (a contribution rate equal to 11.2% applied for pay periods after July 1, 2014 and the effective dates of certain bargaining agreements). In addition, each of the new hybrid pension programs contains rules requiring greater contributions from employee participants, as well as changes to accrual rates, and reduction in cost of living adjustments, in the event that the funding level of a hybrid program falls below a certain threshold level.

In connection with the establishment of new hybrid pension plan programs, benefit accruals under the old GRS and PFRS benefit programs were frozen as of June 30, 2014 and no employees were allowed to earn benefits under those old benefit programs after that date. On July 1, 2014 all current and future employees began participating in the new hybrid pension plans. Active City employees who participated in the old frozen GRS or PFRS will be entitled to the accrued benefits they earned under those Retirement Systems through June 30, 2014, with such accrued benefits reduced by the pension reduction provisions of the Bankruptcy Plan of Adjustment, plus an additional benefit under the new hybrid plan formula, as long as they satisfy vesting requirements. Assets supporting the new hybrid pension programs will be accounted separately from accounting of assets supporting the frozen pension programs.

All employees must meet the vesting rules governing these new hybrid plans but will receive credit toward those vesting requirements for service performed prior to June 30, 2014.

No new contributions will be made to the Annuity Savings Funds (ASF) under the frozen GRS after June 30, 2014. Amounts held in ASF accounts under the frozen GRS will continue to be credited with interest until distributed to members or used to increase members' retirement allowances. The interest rate credited to ASF accounts for fiscal years beginning after June 30, 2013 will be credited at the actual net investment rate of return earned by the GRS, but not be less than zero (i.e., no negative adjustments to ASF accounts) or more than 5.25%.

(Continued)

(f) Other Restructuring Initiatives – New Citywide ERP

The City has begun a process to replace its old DRMS (Detroit Resource Management System) system. This process is referred to internally as “Fast Track” and will result in the implementation of modern Finance and Human Resource systems. These systems are cloud based (hosted environments where software is purchased as a service).

(g) Debt Ratings

On August 20, 2014, Standard & Poor’s Ratings Services increased the senior and second lien debt from CCC/CCC to BBB+/BBB+; Moody’s increased the ratings from B1/B2 to Ba2/Ba3. Fitch increased the ratings from BB+/BB to BBB-/BB+.

(h) New Debt issues

On August 21, 2014, the Board accepted revenue bond tender offers of $752,450,000. Subsequently, on August 26, 2014, the Fund issued refunding revenue Series 2014D bonds in the amount of $854,850,000 as a conduit financing through the Michigan Finance Authority. The net present value savings from this transaction was $57 million.