KPMG

CITY OF DETROIT
SEWAGE DISPOSAL FUND

Basic Financial Statements

June 30, 2015

(With Independent Auditors' Report Thereon)

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 Sewage Disposal Fund (the Fund), an enterprise fund of the City of Detroit, Michigan (the City), as of and for the year ended June 30, 2015, 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 Sewage Disposal Fund as of June 30, 2015, 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 Exit from Bankruptcy

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 (p) to the financial statements, in 2015, the Fund adopted Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions* and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*. 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 Sewage Disposal Fund and do not purport to, and do not, present fairly the financial position of the City of Detroit, Michigan, as of June 30, 2015, 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 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 31, 2016

CITY OF DETROIT
SEWAGE DISPOSAL FUND

Statement of Fund Net Position

June 30, 2015

Current assets:	
Cash and cash equivalents	$ 158,587,114
Investments	38,483,036
Accounts receivable:	
Billed accounts receivable	183,811,794
Unbilled accounts receivable	38,594,282
Other accounts receivable	9,336,620
Allowance for doubtful accounts	(124,299,622)
Total accounts receivable, net	107,443,074
Restricted:	
Cash and cash equivalents	135,873,306
Cash on deposit with trustee	51,419,750
Due from fiduciary funds	1,219,903
Inventories	6,759,899
Prepaid expenses and other current assets	1,706,766
Total current assets	501,492,848
Noncurrent assets:	
Restricted:	
Cash and cash equivalents	156,319,430
Investments	30,503,724
Prepaid insurance on debt	30,905,040
Capital assets:	
Assets not subject to depreciation	374,917,615
Assets subject to depreciation, net	2,494,227,943
Total capital assets, net	2,869,145,558
Total noncurrent assets	3,086,873,752
Total assets	$ 3,588,366,600
Deferred outflows of resources	$ 254,269,732

(Continued)

CITY OF DETROIT
SEWAGE DISPOSAL FUND

Statement of Fund Net Position

June 30, 2015

Current liabilities:		
Accounts and contracts payable	$	48,969,920
Accrued salaries and wages		665,871
Due to other funds		44,221,158
Due to fiduciary funds		12,396
Accrued interest payable		70,541,446
Revenue bonds and state revolving loans		96,685,000
Financial recovery bonds		412,153
Other accrued liabilities		11,084,151
Accrued compensated absences		2,315,018
Accrued workers' compensation		1,033,980
Claims and judgments		455,000
Total current liabilities		276,396,093
Long-term liabilities:		
Revenue bonds and state revolving loans, net		3,386,340,655
Financial recovery bonds		49,981,514
Net pension liability		297,341,040
Accrued other postemployment benefits		282,529
Accrued compensated absences		2,305,776
Accrued workers' compensation		6,730,560
Claims and judgments		13,361,600
Total long-term liabilities		3,756,343,674
Total liabilities	$	4,032,739,767
Deferred inflows of resources	$	58,630,282
Fund net position:		
Net investment in capital assets	$	(121,231,206)
Restricted:		
Restricted for capital acquisitions		126,068,143
Restricted for debt service		144,671,040
Unrestricted deficit		(398,241,694)
Total fund net position	$	(248,733,717)

See accompanying notes to basic financial statements.

CITY OF DETROIT
SEWAGE DISPOSAL FUND

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

Year ended June 30, 2015

Operating revenues:	
General customers	$ 237,164,889
Wholesale customers	257,677,591
City departments	236,503
Sewage surcharge	5,608,521
Miscellaneous	4,984,110
Total operating revenues	505,671,614
Operating expenses:	
Wastewater treatment plant	103,953,917
Pumping stations	10,731,376
Combined sewage overflow control basins	4,785,711
Interceptors	2,468,131
Sewer	5,203,726
Industrial waste control	2,365,109
Meters	1,254,315
Commercial	8,547,328
Operations and maintenance	—
Administrative and general	42,069,059
Other item:	
Pension expense (reduction)	(15,533,508)
Nonrecurring capital asset adjustment	2,313,365
Total operating expenses before depreciation	168,158,529
Depreciation	119,848,088
Total operating expenses	288,006,617
Operating income	217,664,997
Nonoperating revenues (expenses):	
Investment earnings	1,231,254
Interest expense, net of capitalized interest	(129,855,608)
Amortization of bond insurance costs and deferrals	14,851,973
Costs of issuance, revenue bonds	(7,336,713)
Miscellaneous expenses	(2,159,647)
Total nonoperating revenues (expenses), net	(123,268,741)
Increase in fund net position before special item	94,396,256
Extraordinary item – gain (loss) on bankruptcy (See note 2(q))	59,107,921
Transfer to General Fund	(12,825,000)
Increase in fund net position	140,679,177
Fund net position – beginning of year, restated (See note 2(p))	(389,412,894)
Fund net position – end of year	$ (248,733,717)

See accompanying notes to basic financial statements.

CITY OF DETROIT
SEWAGE DISPOSAL FUND

Statement of Cash Flows

Year ended June 30, 2015

Cash flows from operating activities:		
Receipts from customers	$	538,828,848
Internal activity – payments to other funds		28,913,493
Payments to suppliers		(155,620,470)
Payments to employees		(74,945,991)
Net cash provided by operating activities		337,175,880
Cash flows from noncapital financing activities:		
Interest paid on pension obligation certificates of participation		(625,892)
Proceeds from issuance of revenue bonds, net		785,860,000
Tendered and refunded par, revenue bonds		(808,025,000)
Costs of issuance, revenue bonds		(7,336,718)
Transfer to General Fund		(12,825,000)
Miscellaneous nonoperating expenses		(2,544,437)
Net cash used in noncapital financing activities		(45,497,047)
Cash flow from capital and related financing activities:		
Acquisition and construction of capital assets		(142,442,466)
Principal paid on revenue bonds and state revolving loans		(86,495,000)
Interest paid on long term debt		(122,891,110)
Proceeds from issuance of long-term debt		220,967,782
Net cash used in capital and related financing activities		(130,860,794)
Cash flows from investing activities:		
Proceeds from sales and maturities of investments		67,328,396
Purchase of investments		(27,997,500)
Interest received on investments		1,231,254
Net cash provided by investing activities		40,562,150
Net increase in cash and cash equivalents		201,380,189
Cash and cash equivalents at beginning of year		300,819,411
Cash and cash equivalents at end of year	$	502,199,600
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	$	217,664,997
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation		119,848,088
Bad debt expense		28,427,178
Pension expense reduction		(15,533,508)
Nonrecurring capital asset adjustment		2,313,365
Accounts receivable		4,730,056
Due from other funds		7,435,471
Inventories		2,624,520
Prepaid expenses		(919,035)
Accounts and contracts payable		(14,043,332)
Accrued salaries and wages		45,448
Due to other funds		21,478,022
Due to fiduciary funds		(933,981)
Other accrued liabilities, accrued compensated absences, and accrued workers' compensation		(20,063,508)
Other postemployment benefits obligation		(1,083,143)
Claims and judgments payable		11,111,642
(Increase) decrease in deferred outflows of pension resources		(25,926,400)
Net cash provided by operating activities	$	337,175,880
Noncash capital financing activities:		
Prior period adjustment	$	(460,456,345)
Extraordinary item – gain (loss) on bankruptcy		59,107,927

See accompanying notes to basic financial statements.

(1) Reporting Entity

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 Sewage Disposal Fund (the Fund), an enterprise fund, separately accounts for the Sewage Disposal System (the System), as is required by bond ordinances of the City.

The 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 (unless the debt contains a full or partial general obligation pledge of the City, in which case City Council approval would be required prior to issuance).

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The accompanying financial statements report the net position, changes in net financial position and the cash flows of the Fund, an enterprise fund of the City of Detroit, Michigan. Accordingly, they do not purport to, and do not, present fairly the net financial position and the changes in net financial position and cash flows of the City of Detroit, Michigan or its components in conformity with GAAP. The financial statements are 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, maintenance, and repair parts for sewage 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. 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
Interceptors and regulators	100 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*, as amended. Accordingly, capitalized interest for the year ended June 30, 2015 was $10,869,705.

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 canceled 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 sewage services provided to City departments.

(g) Shared Costs

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

(h) Compensated Absences

The liability for compensated absences reported in the 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).

(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 will sometimes report 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. The City implemented GASB 68, *Accounting and Financial Reporting for Pensions*, electing an implementation date of June 30, 2014. This reporting category also includes pension contributions made during the fiscal year ended June 30, 2015 in accordance with GASB 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*.

In addition to liabilities, the statement of net position will sometimes report 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. The Fund also included the deferred amounts on changes in actuarial assumptions and actual vs projected assumptions in investment earnings related to implementation of GASB 68, *Accounting and Financial Reporting for Pensions*, in this reporting category. The amount for the changes in actuarial assumptions is deferred and amortized over the estimated remaining service life. The amount for the difference between actual vs projected assumptions in investment earnings is deferred and amortized over five years.

(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 related to the accretion of capital appreciation bonds, 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 revenue includes activities that have the characteristics of exchange transactions, such as revenue from charges for services. Such revenue has been shown net of allowances of $28,427,178.

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 sewer 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) Prior Period Adjustment and Restatement of Beginning Net Position

During the year the City implemented GASB Statement No. 68, *Accounting and Financial Reporting for Pensions* and GASB No. 71 *Pension Transition for Contributions Made Subsequent to the Measurement Date* – an Amendment of GASB No. 68. As a result, the statements now include a net pension liability for unfunded legacy pension costs. Some of the changes in this net pension liability will be recognized immediately as part of the pension expense measurement and will be deferred and recognized over future years. Refer to Note (12) Pension Plan for further details.

The financial statements for the year ended June 30, 2014 have been restated in order to adopt GASB Nos. 68 and 71. The effect of these new accounting standards was a net decrease in net position to record the net pension liability and deferred outflows at June 30, 2014.

(Continued)

As a result of implementing this statement, the net pension asset of $90,144,213 has been replaced by a net pension liability at July 1, 2014 of $297,341,040. The beginning balance of net position has been restated as follows:

Net position – June 30, 2014 – as reported	$	71,043,450
Adjustment for implementation of GASB Statement 68		(460,456,344)
Net position – June 30, 2014 – as restated	$	(389,412,894)

(q) Extraordinary Item

As a result of the City's bankruptcy during the year, an extraordinary item is recorded. A summary of the extraordinary item detail is as follows:

Extraordinary Item Description		
POC – principal forgiven	$	85,843,430
Derivatives settled		21,241,582
Liabilities to insurers forgiven		3,876,257
Other miscellaneous settlements and write-offs		(1,236,894)
Consideration given		(50,616,454)
Total gain from bankruptcy extraordinary item	$	59,107,921

(r) Upcoming Accounting Pronouncements

In February 2015, the Governmental Accounting Standards Board issued GASB Statement No. 72, *Fair Value Measurement and Application*. The requirements of this Statement will enhance comparability of financial statements among governments by requiring measurement of certain assets and liabilities at fair value using a consistent and more detailed definition of fair value and acceptable valuation techniques. This Statement will also enhance fair value application guidance and related disclosures in order to provide information to financial statement users about the impact of fair value measurements on a government's financial position. GASB Statement No. 72 is required to be adopted for years beginning after June 15, 2015. 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.

In June 2015, the GASB issued two new standards addressing accounting and financial/reporting by state and local governments for postemployment benefits other than pensions (OPEB). GASB Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, addresses reporting by OPEB plans whereas GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, addresses accounting and reporting by employer governments that provide OPEB benefits to their employees. Along with the currently required statement of fiduciary net position and statement of changes in fiduciary net position, OPEB plans will now be required to include in the financial statements more extensive footnote disclosures and required supplemental information related to the measurement of the OPEB liabilities for which assets have been accumulated. In addition, the Fund will, after adoption of GASB 75, recognize on the face of the financial statements its net OPEB liability. The Fund is currently evaluating the impact these standards will have on the financial statements when adopted. GASB 74 is effective for fiscal years beginning after June 15, 2016, whereas GASB 75 is effective one year later.

(3) Deposits and Investments

The deposits and investments of the Fund at June 30, 2015 are reported in the financial statements as follows:

		Cash and cash equivalents	Investments
Current unrestricted assets	$	158,587,114	38,483,036
Current restricted assets		187,293,056	—
Noncurrent restricted assets		156,319,430	30,503,724
Total cash and investments	$	502,199,600	68,986,760

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, 2015, the Fund had $231,660,242 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 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, 2015, 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, 2015, 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	$ 68,986,760	—	68,986,760	—

(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.

As of June 30, 2015, the credit quality ratings for the Fund's fixed income investments were as follows:

		Ratings	
Investment	**Fair value**	**S&P**	**Moody's**
U.S. government agency securities	$ 68,986,760	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, 2015, 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 the Board decree. These assets are maintained as follows:

(1) With respect to the Bond and Interest Redemption Fund, after provision has been made for expenses of operation and maintenance of the System, a sum proportionately sufficient to provide for payment, when due, of the current principal and interest is set aside. The Bond Reserve Account is part of the Bond and Interest Redemption Fund, and the amounts credited to this account are to be used only to pay principal and interest on the bonds when current revenues are not sufficient.

(2) With respect to the Extraordinary Repair and Replacement Reserve Fund, after meeting the requirements of the foregoing funds, monthly deposits in an amount equal to one-twelfth of 3% of the budgeted operation and maintenance expense of the System for the fiscal year must be set aside until the aggregate amount funded totals at least 15% of that year's budgeted operating and maintenance costs. These deposits are to be used for major unanticipated repairs and replacement to the System with actual or anticipated cost exceeding $1 million. Once this fund is fully funded, deposits required are amounts needed to maintain fully funded status. Borrowings of up to 50% of the balance in this fund on the first day of the related fiscal year are allowed for transfer to and use from the Improvement and Extension Fund. Any such borrowings must be repaid prior to any deposits being made to the Improvement and Extension Fund.

(3) After the above deposits have been made, excess amounts may be deposited in the Improvement and Extension Fund, established for the payment of improvements, enlargements, repairs, extensions, or betterment to the System.

(4) With respect to the Construction Fund, the portion of the proceeds of the sale of bonds for building or improving the System is deposited in this fund. A separate depository account is required for each series of bonds. Proceeds for construction purposes received from federal and state grants and other sources that restrict the use of such proceeds are also deposited into this account.

(Continued)

As previously discussed, the City 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 Sewage Disposal Fund's reserves consist of the following cash and investments classified on the statement of net position as either restricted or unrestricted as follows:

Cash/Investment classified on statement of net position as:

	Funded from revenues		Funded from debt issuance	
	Unrestricted	**Restricted**	**restricted**	**Total**
Flow of funds (per ordinance):				
Receiving fund	$ —	—	—	—
Operations and maintenance	18,057,817	—	—	18,057,817
Senior lien debt service	—	92,631,252	—	92,631,252
Senior lien bond reserve	—	—	137,999,301	137,999,301
Second lien debt service	—	61,826,224	—	61,826,224
Second lien bond reserve	—	—	81,524,737	81,524,737
Extraordinary repair and replacement	32,504,070	—	—	32,504,070
Improvement and extension	—	—	—	—
Subtotal – reserves defined by ordinance	50,561,887	154,457,476	219,524,038	424,543,401
Less funded by surety (noncash)	—	—	(158,769,028)	(158,769,028)
Total – reserves defined by ordinance (net of Surety coverage)	50,561,887	154,457,476	60,755,010	265,774,373
Unspent construction bond proceeds	—	—	158,903,724	158,903,724
Variance from ordinance requirement	146,508,263	—	—	146,508,263
Total cash, cash equivalents, and investments	$ 197,070,150	154,457,476	219,658,734	571,186,360

	Unrestricted	**Restricted current**	**Restricted noncurrent**	**Total**
Summary by statement classification:				
Cash and cash equivalents	$ 158,587,114	187,293,056	156,319,430	502,199,600
Investments	38,483,036	—	30,503,724	68,986,760
Total	$ 197,070,150	187,293,056	186,823,154	571,186,360

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.

(Continued)

The "variance from ordinance requirement" amount represents excess 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.

(5) Capital Assets

Capital asset activity for the year ended June 30, 2015 was as follows:

	Balance, June 30, 2014	Additions	Transfers	Balance, June 30, 2015
Nondepreciable assets:				
Land and land rights	$ 37,926,842	—	—	37,926,842
Construction in progress	251,923,506	158,230,548	(73,163,281)	336,990,773
Total nondepreciable assets	289,850,348	158,230,548	(73,163,281)	374,917,615

	Balance, June 30, 2014	Additions	Disposals	Balance, June 30, 2015
Depreciable assets:				
Land improvements	76,829,093	—	(28,209)	76,800,884
Buildings and structures	2,115,462,929	15,785,796	—	2,131,248,725
Interceptors and regulators	205,749,861	—	—	205,749,861
Machinery, equipment, and fixtures	1,712,904,344	50,169,715	—	1,763,074,059
Total depreciable assets	4,110,946,227	65,955,511	(28,209)	4,176,873,529
Less accumulated depreciation:				
Land improvements	(22,561,166)	(1,040,342)	4,236	(23,597,272)
Buildings and structures	(659,345,873)	(45,053,337)	—	(704,399,210)
Interceptors and regulators	(72,874,922)	(1,943,628)	—	(74,818,550)
Machinery, equipment, and fixtures	(808,019,774)	(71,810,780)	—	(879,830,554)
Total accumulated depreciation	(1,562,801,735)	(119,848,087)	4,236	(1,682,645,586)
Net capital assets	$ 2,837,994,840	104,337,972	(73,187,254)	2,869,145,558

See note 15 for discussion of commitments related to construction activities.

(Continued)

(6) Long-Term Obligations

Changes in long-term obligations for the year ended June 30, 2015 were as follows:

	Balance, June 30, 2014	Increase	Decrease	Balance, June 30, 2015	Amount due within one year
Revenue bonds	$ 2,728,310,000	935,860,000	(818,425,000)	2,845,745,000	50,530,000
Capital appreciation bonds	72,550,000	—	(39,660,000)	32,890,000	8,725,000
Discount on capital appreciation bonds	(15,292,228)	—	10,210,399	(5,081,829)	—
State revolving loans	459,787,878	70,967,782	(36,435,000)	494,320,660	37,430,000
Total revenue bonds	3,245,355,650	1,006,827,782	(884,309,601)	3,367,873,831	96,685,000
Add unamortized premiums	100,456,176	66,443,213	(51,747,565)	115,151,824	—
Total revenue bonds, net	3,345,811,826	1,073,270,995	(936,057,166)	3,483,025,655	96,685,000
Pension obligation certificates 2005 series	27,802,669	—	(27,802,669)	—	—
Pension obligation certificates 2006 series	58,040,761	—	(58,040,761)	—	—
Financial recovery bonds, 2014 Series B	—	44,233,463	—	44,233,463	—
Financial recovery bonds, 2014 Series C	—	6,382,990	(222,786)	6,160,204	412,153
Total pension obligation certificates and financial recovery bonds	85,843,430	50,616,453	(86,066,216)	50,393,667	412,153
Other long-term liabilities:					
Accrued compensated absences	4,743,943	2,191,869	(2,315,018)	4,620,794	2,315,018
Accrued workers' compensation	3,692,000	5,177,080	(1,104,540)	7,764,540	1,033,980
Claims and judgments	2,704,958	12,434,000	(1,322,358)	13,816,600	455,000
Other accrued liabilities	31,220,793	119,120	(20,255,762)	11,084,151	11,084,151
Accrued other postemployment benefits	1,365,671	28,413	(1,111,555)	282,529	—
Total other long-term liabilities	43,727,365	19,950,482	(26,109,233)	37,568,614	14,888,149
Total	$ 3,475,382,621	1,143,837,930	(1,048,232,615)	3,570,987,936	111,985,302

(Continued)

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

Revenue bonds payable were $2,873,553,171 at June 30, 2015. Net revenues of the Fund are pledged to repayment of bonds. The following is a schedule of the revenue bonds payable at June 30, 2015:

Issue	Bond date	Original issued amount	Range of interest rates	Maturity date	Outstanding balance at June 30, 2015	
Series 1998-A	12/14/06	$ 18,540,000	5.50%	07/01/15–17	$ 4,595,000	
Series 1998-A	12/14/06	49,075,000	5.25	07/01/18–23	18,485,000	c
Series 1998-B	12/14/06	18,750,000	5.50	07/01/15–17	6,800,000	
Series 1998-B	12/14/06	48,770,000	5.25	07/01/18–23	18,260,000	c
Series 1999-A **	12/01/99	33,510,118	—	07/01/15–21	27,808,171	
Series 2001-B	09/15/01	110,550,000	5.50	07/01/23–29	78,895,000	
Series 2001-C-1	06/17/09	6,360,000	5.25	07/01/15–19	2,130,000	
Series 2001-C-1	06/17/09	148,510,000	6.50–7.00	07/01/20–27	40,705,000	c
Series 2001-C-2	05/08/08	3,275,000	4.00	07/01/15–18	1,170,000	
Series 2001-C-2	05/08/08	119,630,000	4.00–5.25	07/01/19–29	107,045,000	c
Series 2001-D	10/23/01	92,450,000	Variable (*)	07/01/32	6,450,000	c
Series 2001-E	05/07/08	136,150,000	5.75	07/01/24–31	134,745,000	c
Series 2003-A	05/15/03	213,395,000	3.50–5.50	7/1/15–18	9,145,000	
Series 2003-A	05/15/03	385,985,000	3.65–5.00	07/01/15–32	265,000	c
Series 2003-B	06/17/09	150,000,000	7.50	07/01/32–33	25,650,000	c
Series 2004-A	02/12/04	101,435,000	5.25	07/01/19–24	35,010,000	
Series 2005-A	03/17/05	3,765,000	3.70	07/01/15	360,000	
Series 2005-A	03/17/05	269,590,000	3.75–5.125	07/01/16–35	232,500,000	c
Series 2005-B	03/17/05	40,215,000	5.00–5.50	07/01/15–22	23,480,000	
Series 2005-C	04/05/05	22,065,000	5.00	07/01/15	1,150,000	
Series 2005-C	04/05/05	41,095,000	5.00	07/01/16–25	8,280,000	c
Series 2006-A	05/07/08	123,655,000	5.50	07/01/34–36	123,185,000	c
Series 2006-B	08/10/06	11,850,000	5.00	07/01/15–16	2,365,000	
Series 2006-B	08/10/06	238,150,000	4.25–5.00	07/01/17–36	229,665,000	c
Series 2006-C	08/10/06	8,495,000	5.25	07/01/16	1,475,000	
Series 2006-C	08/10/06	18,065,000	5.00	07/01/17–18	9,740,000	c
Series 2006-D	12/14/06	370,000,000	Variable (*)	07/01/26–32	239,475,000	c
Series 2012-A	06/26/12	95,445,000	5.00	07/01/15–22	73,695,000	
Series 2012-A	06/26/12	564,335,000	5.00 – 5.50	07/01/23–39	475,165,000	c
Series 2014-A (C-1)	09/04/14	20,000	5.00	07/01/19–22	20,000	
Series 2014-A (C-1)	09/04/14	123,200,000	5.00	07/01/23–44	123,200,000	c
Series 2014-B (C-2)	09/04/14	27,470,000	5.00	07/01/19–44	27,470,000	
Series 2014-C (C-3)	09/04/14	142,600,000	5.00	07/01/21–24	142,600,000	
Series 2014-C (C-3)	09/04/14	303,570,000	5.00	07/01/25–33	303,570,000	c
Series 2014-D (C-5)	09/04/14	95,165,000	5.00	07/01/17–20	95,165,000	
Series 2014-E (C-6)	09/04/14	54,980,000	2.00–5.00	07/01/15–16	54,980,000	
Series 2014-E (C-6)	09/04/14	88,900,000	5.00	07/01/32–33	88,900,000	c
Series 2014-F (C-7)	09/04/14	32,650,000	5.00	07/01/19–24	32,650,000	

Issue	Bond date		Original issued amount	Range of interest rates	Maturity date		Outstanding balance at June 30, 2015	
Series 2014-F (C-7)	09/04/14	$	44,065,000	5.00	07/01/25–36		44,065,000	c
Series 2014-G (C-8)	09/04/14		23,240,000	2.00 – 5.00	07/01/15–18		23,240,000	
Total revenue bonds payable						$	2,873,553,171	

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

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

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

For the 2014 issues principal and interest payments on these bonds are due July 1, the Department makes payment on those obligations before June 30 pursuant to terms with Michigan Finance Authority. These payments are classified as restricted current asset of cash on deposit with trustee.

The following is a schedule of the state revolving loans payable at June 30, 2015:

Issue	Bond date		Amount issued	Range of interest rates	Maturity date		Outstanding balance at June 30, 2015
Series 1997-B-SRF	09/30/97	$	5,430,174	2.250	10/01/15–18	$	1,275,000
Series 1999-SRF-1	06/24/99		21,475,000	2.500	04/01/16–20		6,400,000
Series 1999-SRF-2	09/30/99		46,000,000	2.500	10/01/15–22		21,190,000
Series 1999-SRF-3	09/30/99		31,030,000	2.500	10/01/15–20		10,985,000
Series 1999-SRF-4	09/30/99		40,655,000	2.500	10/01/15–20		14,390,000
Series 2000-SRF-1	03/30/00		44,197,995	2.500	10/01/15–22		17,947,995
Series 2000-SRF-2	09/28/00		64,401,066	2.500	10/01/15–22		29,536,066
Series 2001-SRF-1	06/28/01		82,200,000	2.500	10/01/15–24		46,210,000
Series 2001-SRF-2	12/20/01		59,850,000	2.500	10/01/15–24		33,650,000
Series 2002 SRF-1	06/27/02		18,985,000	2.500	04/01/16–23		8,735,000
Series 2002-SRF-2	06/27/02		1,545,369	2.500	04/01/16–23		715,369
Series 2002-SRF-3	12/19/02		31,549,466	2.500	10/01/15–24		16,364,466
Series 2003-SRF-1	06/26/03		48,520,000	2.500	10/01/15–25		29,645,000
Series 2003-SRF-2	09/25/03		25,055,370	2.500	04/01/16–25		13,990,370
Series 2004 SRF-1	06/24/04		2,910,000	2.125	10/01/15–24		1,605,000
Series 2004 SRF-2	06/24/04		18,353,459	2.125	04/01/16–25		10,108,459
Series 2004 SRF-3	06/24/04		12,722,575	2.125	04/01/16–25		6,997,575
Series 2007 SRF-1	09/20/07		167,540,598	1.625	10/01/15–29		130,605,598
Series 2009 SRF-1	04/17/09		13,970,062	2.500	04/01/16–30		10,760,062
Series 2010 SRF-1	01/22/10		4,214,763	2.500	04/01/16–31		3,480,763
Series 2012 SRF-1	08/30/12		14,950,000	2.500	10/01/15–34		12,719,209
Series 2015 SRF-1	03/20/15		79,500,000	2.500	4/01/17–36		58,795,104
Series 2015 SRF-2	03/20/15		33,030,000	2.500	10/01/16–35		8,214,624
Total state revolving loans payable						$	494,320,660

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, 2015, aggregate debt service requirements of the Fund's debt (fixed-rate and variable-rate) instruments were as follows. 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:			
2016	$ 96,685,000	145,663,323	242,348,323
2017	94,445,000	142,679,583	237,124,583
2018	97,930,000	139,178,468	237,108,468
2019	101,480,000	135,559,418	237,039,418
2020	105,220,000	131,737,632	236,957,632
2021–2025	575,879,924	594,196,697	1,170,076,621
2026–2030	685,225,660	462,000,770	1,147,226,430
2031–2035	779,475,076	308,830,956	1,088,306,032
2036–2040	686,135,000	118,324,256	804,459,256
2041–2045	150,480,000	19,522,750	170,002,750
	$ 3,372,955,660	2,197,693,853	5,570,649,513

* The future principal payments exceed the bonds payable balance by $5,081,829 at June 30, 2015 because the future principal payments on capital appreciation bonds are greater than the carrying value of those bonds. The balance of the capital appreciation bonds will increase each year, until maturity, through accretion.

Bonds outstanding at June 30, 2015 include approximately $2.23 billion of bonds and loans callable at various dates after June 30, 2015. These bonds are callable at varying premiums, depending on the issue and length of time to maturity.

(a) Issuance of State Revolving Loans

The City received loans from the State of Michigan Revolving Loan Fund totaling $70,967,782 during the year ended June 30, 2015. The proceeds of the loans were used to pay costs of acquiring, constructing extensions, and making certain repairs and improvements to the System. At June 30, 2015, $47,751,063 in bonds was authorized and unissued.

(b) Issuance of Revenue Bonds

In September 2014, The Fund issued $935,860,000 in Revenue Bonds. The issue included $835,905,000 of senior lien and $99,955,000 of second lien bonds with interest rates of 2% to 5%. The proceeds were used to refund bonds with a par value of $808,025,000 and to fund future construction projects of $150,000,000. The proceeds along with cash from the prior reserve fund and accrued interest equity contributions net of $26,806,483 in underwriting fees, insurance, and other issuance costs were distributed as follows: $749,235,690 to refund bonds tendered in September 2014 including accrued interest, a deposit of $150,000,000 to the Project Fund and the remaining net proceeds of $94,025,608 were put in an escrow account to purchase U.S. government securities to refund the remaining bonds in October 2014. The Fund completed the advance refunding/tender to reduce its total debt service payments over the next 30 years by $107 million and to obtain an economic gain of $49,684,236 or 7.058% on the senior lien bonds and $6,905,294 or 6.633% on the second lien bonds, for a total economic gain of $56,589,530.

(c) 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 financial statements. At June 30, 2015, $808,025,000 of bonds outstanding are considered defeased.

(d) Pledges of Future Revenue

The Sewage Disposal 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, 2015 is as follows:

Debt	Type of revenue pledged	General purpose for debt	Term of pledged commitment	Remaining principal and interest requirement	Principal and interest	Pledged revenue recognized for the year ended June 30, 2015	Proportion of pledged revenue collected
Revenue Bonds and State of Michigan Revolving Fund Loans	All Sewage Disposal Fund operating revenue	Funding of various waste water treatment and collection capital improvements, refund certain sewage disposal revenue bonds, pay termination amounts for interest rate swap agreements, and funding reserve requirements	Through 2045	$ 5,570,649,513	232,409,122	312,324,196	134.4%

The Fund has approximately $374 million in restricted cash and investments related to various bond indentures as of June 30, 2015.

(e) Debt Ratings

In August 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+.

(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). 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.

As discussed in more detail in note 17, the Detroit bankruptcy Plan of Adjustment and related settlement agreements eliminated these POCs during the year.

(9) 2014 Financial Recovery Bonds

On December 10, 2014, the City issued approximately $1.3 billion of debt. The Financial Recovery Bonds, Series 2014-B(1) and Series 2014-B(2) total $616,560,047 and $15,404,098, respectively. They are federally taxable. The bonds' interest rate is 4.0% per annum from December 10, 2014 to and including March 31, 2034 and 6.0% per annum thereafter until the maturity date of April 1, 2044. The bonds were delivered to classes of creditors in satisfaction of: (1) Class 12 OPEB Claims (the bonds were distributed to the new Voluntary Employee Beneficiary Associations (VEBAs) for the general retirees and police and fire retirees; (2) Class 9 Pension Obligation Certificate (POC) claims; and (3) other unsecured bankruptcy claims.

The Financial Recovery Bonds, Series 2014-C total $88,430,021. The bonds bear interest at 5.0% per annum. The bonds mature on December 10, 2026. The bonds are unsecured but City revenues from its parking garages will provide the required debt service. If the parking garage revenues are insufficient, then the City's General Fund will provide the necessary debt service funds. The 2014-C Bonds were issued as part of the Syncora Settlement and FGIC/POC Settlement in the Plan of Adjustment (the Plan), on the Effective Date.

The following is a schedule of the Financial Recovery Bonds payable at June 30, 2015:

General Obligation Bonds – Limited Tax

	Bond date	Amount issued	Range of interest rates	Maturity date	Balance June 30, 2015
Series 2014-B(1)	12/10/14	$ 44,233,463	% 4.00 to 6.00	4/1/25-44	$ 44,233,463
Series 2014-C	12/11/14	6,382,990	5.0	6/1/16-12/10/26	6,160,204
Total General Obligation Bonds – Limited Tax					$ 50,393,667

As of June 30, 2015, aggregate debt service requirements of the Financial Recovery Bonds were as follows:

		Principal	Interest	Total requirements
Year(s) ending June 30:				
2016	$	412,153	2,055,784	2,467,937
2017		432,761	2,056,742	2,489,503
2018		454,399	2,035,103	2,489,502
2019		477,119	2,012,383	2,489,502
2020		500,975	1,988,528	2,489,503
2021–2025		5,118,289	9,540,902	14,659,191
2026–2030		12,034,549	7,575,272	19,609,821
2031–2035		11,058,365	5,750,350	16,808,715
2036–2040		11,058,365	4,644,515	15,702,880
2041–2044		8,846,692	1,327,004	10,173,696
	$	50,393,667	38,986,583	89,380,250

(10) Risk Management

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

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

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

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

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

(Continued)

Changes in the balance of claim liabilities for the years ended June 30, 2015 and 2014 are as follows:

		2015	2014
Balance at beginning of year	$	6,396,958	3,483,000
Current year claims and changes in estimates		17,611,080	3,504,987
Claims payments		(2,426,898)	(591,029)
Balance at end of year	$	21,581,140	6,396,958

(11) Derivative Instruments

During the year, the City held interest rate swaps. As discussed in greater detail in note 17, these were eliminated as part of the bankruptcy Plan of Adjustment and related settlement agreements.

At the beginning of the year the City held pay-fixed, receive-variable interest rate swaps with a notional amount of $43,440,338 and a fair value of $(16,925,983). This was reported in the financial statements as a long term liability; because the swaps were classified as investment derivatives, changes in the value were reported as a component of investment income. During the current year the swap agreements were eliminated as part of the bankruptcy Plan of Adjustment and related settlement agreements; the gain from this elimination is reported as an special item.

(12) Pension Plan

(a) Plan Administration

The Sewer Fund participates in the City of Detroit General Employees' Retirement System (GRS). The system is a single employer plan composed of a Defined Benefit Plan component and a Defined Contribution Annuity Plan component. The plan provides retirement, disability, and survivor benefits to plan members and beneficiaries. The plan is administered by its own board of trustees. Plan members include active employees, retirees, and beneficiaries from various departments within the City. 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 System issues publicly available financial reports that include financial statements and the required supplementary information. The reports can be obtained from City of Detroit Retirement Systems, One Detroit Center, 500 Woodward Ave., Suite 3000, Detroit, MI 48226 or obtained from Systems' website (www.rscd.org). Detailed information about the pension plan's fiduciary net position is available in the separately issued financial report. For purposes of determining the Fund's net pension liability, the pension plan's fiduciary net position has been determined on the same basis used by the pension plan. The System uses the economic resources measurement focus and the full accrual basis of accounting. Investments are stated at fair value or estimated fair value. Plan member contributions are recognized in the period in which the contributions are due. Employer contributions to the plan are recognized when due pursuant to legal requirements. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan.

The City filed for bankruptcy in June 2013 and subsequently exited bankruptcy on December 10, 2014. This resulted in the adoption of the Eighth Amended Plan for Adjustment of Debts of the City of Detroit (the “POA”).

In June 2014, separate and apart from the bankruptcy proceedings and resulting POA, the Emergency Manager directed the City and its professional pension advisors to undertake efforts to prepare documentation and Emergency Manager Orders necessary to freeze the existing plan as of June 30, 2014, and establish a new Hybrid Plan for GRS effective July 1, 2014. The Emergency Manager effectuated this action pursuant to authority under PA 436, separate and apart from those pension changes requiring Bankruptcy Court approval. The Plan in existence for each system as of June 30, 2014 is known as the "legacy plan” or “Component II”.

As of July 1, 2014, all eligible employees began participating in the new hybrid pension plan, or Component I. Eligible City employees will receive the benefits they have earned under the legacy Component II plan for services performed through June 30, 2014 plus an additional benefit under the new hybrid plan formula, for services after June 30, 2014.

For GRS, with respect to Component II benefit adjustments resulting from the POA, the Pension Settlement (for which benefit levels were and are contingent on other factors, including receipt of outside contributions), provided: for a loss of cost of living adjustments, or “escalators” (COLAs) paid after July 1, 2014; for a 4.5 percent reduction to the remaining accrued pension benefit after the COLA loss; and, for GRS members who participated in the Annuity Savings Fund plan between 2003 and 2013, subject to certain caps, recoupment of certain amounts of interest deemed by the City to be in “excess” of that which should have been credited to individual ASF accounts, referred to as “ASF Recoupment.” ASF Recoupment, like other provisions of the Pension Settlement, was not optional. Most members will pay their ASF Recoupment by a monthly deduction from their future pension benefits for a set term of months, including interest calculated at 6.75 percent. All members were offered a lump-sum cash option, which was limited in the aggregate to $30 million in member recoupment. The POA also included the possibility of restoration of certain pension benefit reductions, based on a program for the most financially vulnerable pensioners and beneficiaries through the State of Michigan Treasury Department as well as a new feature of Component II allowing restoration of benefits depending on the System’s funding level over time.

In fiscal year 2015, the City implemented GASB 68 using a measurement date of June 30, 2014. Component I of the System did not exist as of June 30, 2014, therefore the disclosures below pertain solely to Component II, for the system. The changes in the benefit terms as a result of the bankruptcy proceedings and POA were effective subsequent to the measurement date and were not included in the implementation of GASB 68.

(b) Plan Membership

Membership of the plan at June 30, 2014, the measurement date, consisted of the following:

Inactive plan members or beneficiaries currently receiving benefits	12,118
Inactive plan members entitled to but not yet receiving benefits	2,214
Active plan members	5,658

As of June 30, 2014, the Component II plan has been frozen. As of that date, now new participants were allowed to enter the plan and no new benefit accruals were allowed for existing participants.

(c) Benefits Provided

Component II – Component II is the legacy plan, the original defined benefit plan, which includes a defined benefit component and a defined contribution component. Component II generally applies to benefits accrued by Members prior to July 1, 2014. The plan provides retirement, disability, and survivor benefits to plan members and beneficiaries. Except as specifically provided in Combined Plan, benefits provided under Component II are frozen effective June 30, 2014. Component II also includes the Income Stabilization Fund. The fund, a part of Component II and established as a provision of the POA, was established for the sole purpose of paying the Income Stabilization Benefits and Income Stabilization Benefits Plus to eligible pensioners.

The Income Stabilization Fund is outlined in Section G-3 of the POA. The annual supplemental pension income stabilization benefit is equal to the lesser of either (i) the amount needed to restore an eligible retiree’s reduced annual pension benefit to 100% of the amount of the annual pension benefit that the eligible retiree was receiving from the System in 2013; or (ii) the amount needed to bring the total annual 2013 household income of the eligible retiree up to 130% of the Federal Poverty Level for 2013. The Income Stabilization Fund did not have an impact as of the measurement date of June 30, 2014 because it was created as part of the POA which went into effect in fiscal year 2015.

Plan Members upon retirement will receive an annuity which shall be the actuarial equivalent of the Member's accumulated contributions in the 1973 Defined Contribution Annuity Savings Fund at the time of retirement. In addition each member will receive a basic service and a membership service pension. Basic Service Pension will consist of $12.00 per annum multiplied by the number of years and fractions of years of credited service, not to exceed ten years. The Membership Service Pension will be calculated as follows:

(1) For Members who retire on or before June 30, 1992, a membership service pension of one point five percent (1.5%) of Average Final Compensation for the first ten (10) years of service and one point six three percent (1.63%) for service in excess of ten (10) years.

(2) For Members who retire on or after July 1, 1992 but prior to July 1, 1998, a membership service pension of one point five percent (1.5%) of Average Final Compensation for each year of service for the first ten (10) years, plus one point seven percent (1.7%) of Average Final Compensation

for each year of service in excess of ten (10) years up to twenty (20) years of service, plus one point nine percent (1.9%) of Average Final Compensation for each year of service in excess of twenty years. In no event shall benefits paid by the Retirement System exceed ninety percent (90%) of Average Final Compensation.

(3) For Members who retire on or after July 1, 1998, a membership service pension for service rendered prior to July 1, 2012 of one point six percent (1.6%) of Average Final Compensation for each year of service for the first ten (10) years, plus one point eight percent (1.8%) of Average Final Compensation for each year of service in excess of ten (10) years, up to twenty (20) years of service, plus two percent (2%) of Average Final Compensation for each year of service in excess of twenty (20) years up to twenty-five (25) years, plus two point two percent (2.2%) of Average Final Compensation for each year of service in excess of twenty-five (25) years; plus, for service rendered after July 1 2012 and prior to July 1, 2014, one and one-half percent (1.5%) of Average Final Compensation for each year of service; plus twelve dollars ($12) for each year of City service not to exceed one hundred twenty dollars ($120). Notwithstanding the foregoing, for members of the Michigan Council 25 of the American Federation of State, County and Municipal Employees, AFL-CIO Local 2920 and the Detroit Senior Water Systems Chemists Association bargaining units, the effective date of the one and one-half percent multiplier was April 1, 2013 for all years of service rendered after that date. In no case shall benefits paid by the Retirement System exceed ninety percent (90%) of Average Final Compensation.

In the event the eligible retiree's Estimated Adjusted Annual Household Income in any calendar year after the first year that the eligible retiree receives a benefit from the Income Stabilization Fund is less than 105% of the Federal Poverty Level in that year, the eligible retiree will receive an additional Income Stabilization Benefit Plus benefit commencing as of the next following July 1.

Component I – Component I is considered a "Hybrid" plan because it includes a defined benefit component and a defined contribution component. Component I of the Plan Document applies to benefits accrued by Members of the GRS on and after July 1, 2014. The Component I plans provide retirement, disability, and survivor benefits to plan members and beneficiaries.

(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, in the past, the System retained an independent actuary to determine the annual contribution. Until 2024, contributions are based on specific provisions of the Plan of Adjustment. After 2024, contributions will be actuarially determined based on a 30-year level principal closed amortization.

Employer Contributions

During fiscal year 2015, employer contributions to the General Retirement System were determined by the provisions of the POA detailed under Exhibit II.B.3.r.ii.A. Included within contributions in Component II are contributions from the Foundation for Detroit's Future (the “Foundation”) in the amount of $5,000,000 and contributions from the State of Michigan in the amount of $98,800,000 along with $4,400,000 from Unlimited Tax General Obligation bonds (UTGO) and approximately $81,082,094 of contributions from the City and related entities. Employer contributions were also made into the Income Stabilization fund for $1,864,326 from the UTGO proceeds.

The Plan of adjustment specifies annual contributions to be $45.4 million per year in total for both water and sewer employees, until 2023. The portion allocable to the Sewer Fund is $25.9 million for fiscal year 2015. Subsequent to 2023, employer contributions will again be actuarially determined based on a 30-year level principal closed amortization.

Employee Contributions

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, 2015, there were minimal employee contributions into Component II, as the plan was frozen as of June 30, 2014. Effectively, employee contributions were allowed only until August 1, 2014. Contributions into Component I began with the members’ first payroll date occurring in August 2014. With respect to GRS Component I employees who are members of GRS are now required to make mandatory contributions of 4% of pay toward their defined benefit pensions and the City contributes an additional 5% of pay.

(e) Net Pension Liability of the City

As permitted by GASB 68, the City has chosen to use June 30, 2014 as its measurement date for the net pension liability. The net pension liability was calculated using a measure of the total pension liability and the pension net position as of June 30, 2014. The June 30, 2014 total pension liability was determined by an actuarial valuation performed as of June 30, 2013, which used update procedures to roll forward the estimated liability to June 30, 2014. Changes in the net pension liability for the General Employees Retirement System during the measurement year were as follows:

		Increase (decrease)		
GRS changes in net pension liability		**Total pension liability**	**Plan net position**	**Net pension liability**
Balance at July 1, 2013	$	4,308,537,551	2,099,021,954	2,209,515,597
Changes for the year:				
Service cost		32,736,019	—	32,736,019
Interest		242,611,073	—	242,611,073
Changes in benefits terms		(113,311,571)	—	(113,311,571)
Changes in assumptions		(271,190,194)	—	(271,190,194)
Contributions – employer		—	25,126,131	(25,126,131)
Contributions – employees		—	10,241,761	(10,241,761)
Net investment income		—	289,789,607	(289,789,607)
Benefit payments, including refunds		(397,733,807)	(397,733,807)	—
Administrative expenses		—	(11,237,767)	11,237,767
Net changes		(506,888,480)	(83,814,075)	(423,074,405)
Balances at June 30, 2014	$	3,801,649,071	2,015,207,879	1,786,441,192

The Fund's allocated proportionate share of the City's net pension liability was $297,341,040 was 16.64% of the City's net pension liability for Component II related to GRS.

Changes between the measurement date and the reporting date occurred as a result of the City's bankruptcy plan being approved on December 10, 2014. For GRS, the bankruptcy terms included a 4.5% pension reduction. In addition, future cost of living adjustments were reduced to zero. The impact on the Total Pension Liability (TPL) as of June 30, 2014 at the discount rate of 7.2% is an estimated decrease of $786,592,176 when using assumptions consistent with the June 30, 2014 TPL.

(f) Pension Expense, Deferred Outflows of Resources, and Deferred Inflows of Resources Related to Pensions

For the year ended June 30, 2015, the Fund recognized pension expense of $15,533,508 (an expense reduction). At June 30, 2015, the Fund reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred outflows of resources	Deferred inflows of resources
Net difference between projected and actual earnings on pension plan investments	$ —	29,702,318
Assumption changes	—	27,733,266
Employer contributions to the plan subsequent to the measurement date	24,446,667	—
Total	$ 24,446,667	57,435,584

The $24,446,667 reported as deferred outflows of resources resulting from employer contributions subsequent to the measurement date and will be recognized as a reduction of the net pension liability in the year ended June 30, 2016. Included in those amounts are amounts sourced from the sale of City owned artwork with proceeds from the State of Michigan as outlined in the POA (also referred to as "the Grand Bargain"). See Note 17 for details. The deferred inflows of resources related to the change in actuarial assumptions and the net differences between projected and actual earnings on pension plan investments will be amortized and recognized as an a reduction of pension expense as follows:

Year ended June 30:	
2016	$ 22,292,774
2017	20,291,650
2018	7,425,580
2019	7,425,580

(g) 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 plan freeze and change in assumptions.

The significant actuarial assumptions used to measure the June 30, 2014 total pension liability were as follows:

Inflation	4%
Salary increases	4.0%–8.9%
Investment rate of return and discount rate	7.2%

The actuarial assumptions were based on the results of an actuarial experience study for the period July 1, 2008 to June 30, 2013. As a result of this experience study, the mortality assumption was updated for the June 30, 2014 measurement 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. In addition, the assumed discount rate was changed for both plans; for the 2013 measurement, the GRS used 5.88%. For certain active members, depending upon bargaining group, benefits are increased annually by 2.25% of the original pension amounts at retirement.

(h) 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 cease as of June 30, 2014 and that City contributions will be made at rates equal to those set by the final Plan of Adjustment through June 30, 2023 and a 30-year closed level dollar amortization thereafter. Based on those assumptions, the pension plans' 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:

	Target Allocation	Long-term Expected Real Rate of Return
Global asset allocation/risk parity	12.00%	4.62%
Domestic equity	23.00	5.01
International equity	22.00	6.13
Domestic fixed income	16.00	1.88
International fixed income	3.00	3.87
Real estate	8.00	3.90
Private equity	6.00	6.83
Hedge funds	5.00	4.15
Commodities	5.00	3.17

(i) Sensitivity of the Net Pension Liability to Changes in the Discount Rate

The following presents the Fund's net pension liability, calculated using the discount rate of 7.2%, as well as what the Fund's proportionate share of the net pension liability 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 the Plan	$ 361,127,191	297,341,040	243,967,492

(13) Other Postemployment Benefits

In prior years, City offered retiree health care, life insurance, and supplemental death benefits. 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. The Employee Health and Life Insurance Benefit Plan was significantly reduced on March 1, 2014 and terminated on December 31, 2014. The supplemental death benefits plan was also closed as of December 10, 2014; benefits to be paid to individuals retiring prior to that date are limited to the assets allocated to the closed plan. There are no further contribution requirements for the City or for plan members.

The City continues to provide supplemental death benefits to its employees providing services after December 10, 2014. The remainder of this note relates solely to those benefits.

(a) Plan Description

The Supplemental Death Benefit Plan (Supplemental Plan) is a pre-funded single-employer defined benefit plan administered by the Employee Benefit Board of Trustees and is accounted for in the Employee Death Benefits Fund. The Plan does not issue a separate stand-alone financial statement. 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.

(b) Funding Policy

The City is under no legal obligation to pre-fund the plan benefits. Plan members have no contribution requirements. While the City has made contributions in prior years, no contributions were made during the year ended June 30, 2015.

(c) Annual OPEB Costs and Net OPEB Obligation

The 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 Sewer Fund's annual OPEB cost for the year ended June 30, 2015, the amount actually contributed to the Employee Supplemental Death Benefit Plan, and changes in the Fund's net OPEB obligation for the Benefit Plan:

Annual required contributions (ARC)	$	25,982
Interest on net OPEB obligation		10,902
Adjustment to ARC		(8,471)
Annual OPEB cost (expense)		28,413
Contributions made		—
Changes in net OPEB obligation		28,413
Net OPEB obligation, beginning of year		254,116
Net OPEB obligation, end of year	$	282,529

The Fund's annual OPEB cost, the percentage of annual OPEB cost contributed to the 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	June 30, 2015	$ 28,413	—	0.00%	$ 282,529
Benefit plan	June 30, 2014	17,437	7,350	42.2	254,116
	June 30, 2013	81,853	9,986	12.2	244,030

(d) Funding Status and Funding Progress

As of June 30, 2014, the most recent actuarial valuation date for the Supplemental Plan, the actuarial accrued liability for benefits related to all City employees was $5,798,841 and the actuarial value of assets was $3,383,478, resulting in an UAAL of $2,415,363. 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 0.6%. Approximately 11% of this is allocable to the Sewer Fund, based on the current allocation of the plan's required contributions.

(e) Actuarial Methods and Assumptions

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. The schedules of funding progress are presented following these notes to the financial statements as required supplemental information and present multiyear trend information about whether the actuarial values of plan net assets are increasing or decreasing over time relative to the actuarial accrued liability for benefits.

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.

In the June 30, 2014, actuarial valuation, the individual entry age actuarial cost method was used. The actuarial assumptions included a 4.29% discount rate, which is a solvency rate based on the June 30, 2014 interest rate on 20 year municipal bonds with a AA credit rating. This also approximates a blend of the Board's assumed investment rate of return of 7.0% of Plan assets and the expected rate of return of the City's own assets. The actuarial value of assets was determined using techniques that spread the effects of short-term volatility in the market value of investments over a three-year period. The UAAL is being amortized over 30 years as a level dollar amount, on an open basis.

In the June 30, 2014 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 General, EMS, and Department of Transportation (D.O.T.) retirees was 120% of the RP 2000 Combined Male and 120% of the RP 2000 Combined Female table setback two years. For police and fire retirees, the City's plan used 105% of the RP 2000 Combined Male and 110% 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. The City's plan used an annual rate of retirement of 25%, initially, increased to an ultimate rate of 100% after age 70 for police and 100% for fire for all ages.

(14) Interfund Balances and Activity

(a) 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, 2015:

Due from other funds:		
Fiduciary Fund	$	1,219,903
Due to other funds:		
Fiduciary funds	$	12,396
Other governmental funds		3,291,793
Water Fund		40,929,365
Total due to other funds	$	44,233,554

(b) Transfer

The Plan of adjustment specifies a contribution of $22.5 million in total for both water and sewer to the General Fund pursuant to the Pension Settlement. The portion allocable to the Sewer Fund is $12.825 million for fiscal year 2015.

(15) 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 $463 million through fiscal year 2020. The Program is being financed primarily from revenues of the Fund and proceeds from the issuance of revenue bonds.

The total amount of construction contract commitments outstanding at June 30, 2015 was approximately $75.2 million.

(16) Contingencies

The City is subject to various government 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 remedial 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 post closure care. The Fund determined that there were no estimated pollution remediation obligations to be recorded at June 30, 2015.

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

The Fund operates the WWTP pursuant to an NPDES permit that was renewed through October 1, 2017.

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

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

(17) Bankruptcy

The City of Detroit was insolvent on June 30, 2013 as the General Fund liabilities exceeded its assets by $73.0 million and cash and investments on hand totaling $102.2 million were insufficient to meet obligations due. The City’s accumulated unrestricted General Fund deficit was $132.6 million on June 30, 2013. Public Act 436 provided, under certain circumstances the mechanism for a municipality under emergency management to obtain authorization from the State of Michigan (the State) to initiate bankruptcy proceedings under the municipal debt adjustment provisions of Chapter 9, Title XI, of the United States Code (the Bankruptcy Code). On July 18, 2013, due to the City’s insolvency and inability to meet its obligations, including its inability to provide services at acceptable levels, 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 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 that permitted the City to be a debtor under Chapter 9 of the Bankruptcy Code.

In confirming the eligibility of the City to file a petition for bankruptcy under Chapter 9 the Bankruptcy Court determined that the City was in a state of service insolvency as well as financial insolvency. The Plan and the settlements thereunder enabled the City to accelerate its efforts to provide basic services to its constituents, replacing non-functioning streetlights, significantly improving EMS, police and fire response times by adding staff and replacing equipment, restoring bus service, accelerating blight removal, stabilizing neighborhoods and replacing antiquated and dysfunctional technology equipment and systems in the City. The bankruptcy also created the opportunity to regionalize management of the regional water and sewer systems owned by the City while making available a revenue source to improve water and sewer infrastructure serving retail customers in the City.

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 $0.5 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); (4) issued settlement credits totaling $25.0 million to the insurers of the POCs; and (5) 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 Plan of Adjustment may be obtained on the City's Website via the following link: http://www.detroitmi.gov/Portals/0/docs/EM/Bankruptcy%20Information/Detroit%20-%20Eighth%20Amended%20Plan%20of%20Adjustment%208045.pdf?ver=2014-11-04-111305-127

(Continued)

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) Bond debt to holders	2014 A1 – K1 UTGO 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 Income Tax 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 Income Tax Bonds		85,684,724
POC swap settlement	2014 A/B Income Tax Bonds		37,969,929
Debt Service Reserve on 2014 A/B Bonds	2014 A/B Income Tax 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) bond debt to insurers	2014 A2 – K2 UTGO Bonds		7,941,840
Downtown Development Authority Class 13 Claim Assigned to FGIC	2014 B(1) & B(2) Bonds		3,691,591
Debt issuance and other costs	2014 A/B Income Tax 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	Noncash		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

The bankruptcy exit and settlement and discharge of claims under the Plan 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 GASB 67 and upcoming GASB 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 obliga
(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) 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.

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

(a) 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 insured, 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 receive a pro-rata share of Restructured UTGO Bonds in the 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 a fourth lien on 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 settlement and 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 were assigned primarily to support the income stabilization funds for the City's two pension plans for additional distributions to those retirees 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.

(b) 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.

(c) Retiree Health Benefits

The Plan allowed the City to eliminate its unfunded retiree health obligations through the creation of two voluntary employee beneficiary associations (VEBAs), which are now exclusively responsible for retiree health programs and payments for City employees who retired prior to January 1, 2015. Debt service payments by the City on $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, are being used to fund the VEBAs.

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

Pursuant to the DIA Settlement: (1) certain charitable foundations and supporters of the nonprofit corporation (DIA) that operates the Detroit Institute of Arts (collectively with DIA, the “DIA Funding Parties”) committed to fund a portion of the City’s restructured legacy pension obligations; and (2) the City entered into certain transactions that will assure the DIA assets will 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 is being funded over a 20-year period as follows: (1) an irrevocable commitment of $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 has been guaranteed by the DIA, payable in equal annual installments over the 20-year period. The 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), made 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.

(e) 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 are fixed through June 30, 2023 and are payable from the sources shown in the table below. 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.

The table below details the actual and 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
Library	2,500,000	22,500,000	GRS
Stub UTGO Bond Millage Assignment to Income Stabilization Fund	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 City CAFR Note VII Pension Plans). 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.

(f) Great Lakes Water Authority

On September 8, 2014, the Emergency Manager and the Mayor for the City executed a Memorandum of Understanding regarding the Formation of the Great Lakes Water Authority (the MOU) with the county executives of Wayne, Oakland, and Macomb Counties (the Counties) and the Governor of the State, establishing a framework for the creation of a regional water and sewer authority.

On June 12, 2015, the Authority Board approved and the Mayor and the Authority executed two separate leases (the Leases) of the regional facilities comprising Regional Systems (the Leased Facilities), and a Water and Sewer Services Agreement for the provision by the Authority of water supply and sewage disposal services to City retail customers (the Water and Sewer Services Agreement). The Leases contemplate that the City would lease the Leased Facilities and assign and transfer its interest in all revenues derived from the sale of sewage disposal and water supply services to the wholesale customers and the retail customers of the Systems to the Authority for an initial term of 40 years. The Leases require the City, on the date they become effective, to convey to the Authority, for the term of the Leases, all of the City's right, title, and interest in and to the Leased Facilities in order to enable the Authority to operate the Leased Facilities. The City will continue to own, operate, and be responsible for the operation and maintenance of all water supply and sewage disposal facilities that provide water supply and sewage disposal services directly to the retail customers (the Local Facilities).

Upon the issuance of bonds by the Authority with a maturity date after the initial term of the leases the term of the Leases shall automatically be extended to coincide with the date on which all of the Authority Bonds have been paid or defeased.

On the effective date of the Leases, the Authority would assume all of the City's obligations under the DWSD Bonds, including all of the obligations to make payments of principal of and interest on the DWSD Bonds and employees and vendor contracts associated with the Regional Systems. In acquiring the Leased Facilities pursuant to the Lease, the Authority would also acquire for the term of the Leases, and the City would absolutely and irrevocably sell, assign, transfer, and convey to the Authority, (i) all of the City's right, title and interest in and to the revenues of the Systems including the rates and charges collected from the retail customers served by the Local Facilities, and (ii) all of the City's right, title, and interest in and to the revenues derived from operation of the Systems on and after the Effective Date and through the end of the term. The City retains control of and will continue to operate the Local Systems and retains ownership of the Systems.

Rate Setting

Pursuant to the Leases, (i) the Authority shall have the exclusive right to establish rates for water and sewer service for customers of the Systems including retail customers, (ii) may delegate its rights to establish rates for services to customers of the Systems to one or more agents, as it deems necessary or convenient, and (iii) directly or through an agent, the Authority shall have the exclusive right to charge and bill to and collect from such customers amounts from services constituting the revenues of the Systems, including the retail rates and charges. Under the Water and Sewer Services Agreement, the Authority delegated to the City its rights to set and collect rates with respect to retail customers of the City.

Lease Payments

Part of the consideration for the Lease will be an allocation of $50 million per year (the Lease Payment) (initially $27,500,000 for the Sewer Lease and $22,500,000 for the Water Lease) to be funded from a portion of the common-to-all revenue requirements for the Regional Systems. The Lease Payments will be applied as provided below. The Lease Payments will flow through the existing flow of funds under the related Authority master bond ordinance. The parties to the Leases anticipated that, due to efficiencies, restructuring opportunities, local and regional capital improvements now underway, or planned for the future and other cost savings, funding of the Lease Payment will not increase the revenue requirements for the Regional Systems by more than 4% per year. Nothing in the Leases changes the obligation of the Authority to comply with the rate covenant under the Master Bond Ordinances. The Lease Payments will not be treated as an operation and maintenance expense and may be applied solely, at the City's direction and discretion, to the cost of improvements to the local system infrastructure located within the City (payable after debt service and pension liability payments in the flow of funds), the payment of debt service on Authority Bonds associated with such improvements or the City's share of debt service on Authority Bonds associated with common-to-all improvements. Any bonds issued by the Authority to finance Regional System improvements or DWSD local infrastructure would be issued by the Authority and would be secured by the Net Revenues (as defined in the Master Bond Ordinances).

(g) 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 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. Pursuant to the Syncora Settlement, and in accordance with the Plan: (1) the City, pursuant to Section II.D.1 of the Plan, 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.

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 & 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
Total Syncora Settlement	$	82,598,408	

(h) *FGIC/COP 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 effecting 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. 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.

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 & 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 Syncora 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.

(i) 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.

(j) Financial Review Commission

Michigan Public Act 181 of 2014, M.C.L. §§ 141.1631, *et seq*., established the Detroit Financial Review Commission (the Commission) as of the Effective Date, to monitor the City's compliance with the Plan and Public Act 181 and provide oversight of the City's financial activities. On December 10, 2014, 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. Michigan 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).

Beginning with Fiscal Year 2016, Public Act 182 requires the City to adopt a financial plan covering the current fiscal year, and the next 3 succeeding fiscal years (the Financial Plan). The Financial Plan must be consistent with the 2-year budget adopted by the Emergency Manager pursuant to Act 436. The Financial Plan shall be the basis for the City's required budget under Act 2. The Financial Plan shall be proposed by the Mayor and approved by the City Council. The Financial Plan must be approved by the Financial Review Commission for the City (the Commission) before it takes effect. The Commission approved the Financial Plan for Fiscal Years 2016-19 on April 20, 2015.

(k) 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 substantially all its major creditor groups. As a result, the City was able to reduce a substantial portion of its 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 and to provide funding for restructuring initiatives.

		Total primary government	Bankruptcy compromise	Debt Issued effective date	Proforma 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 (d))		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 & loans payable (note VII (a) and (e))		33,600,000	(33,600,000)	—	—
Claims and Judgments (note VII (a))		53,612,145	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
Current obligations subject to compromise:					
Accounts payable	$	16,329,862	—	—	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 2014B(2) Bonds are being held by a disbursing agent for distribution to claimants as such time as the allowed claims have been determiined, and are the sole source of payment oc 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 discharged in the bankruptcy.

Certain Accounts Payable 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. In accordance with the Plan of Adjustment, Accounts Payable obligations fall under Class 14 Other Unsecured Claims and will receive a pro rata share of $20.6 million of 2014B Notes. The $20.6 million in B Notes is a fixed amount, regardless of the total amount of allowed Class 14 claims.

See Section I.A.262 of the Plan of Adjustment for the definition of Class 14 Other Unsecured Claims. See Section II.B.3.u.i and Section II.B.3.p.iA of the Plan of Adjustment for details on the treatment of Class 14 claims. See Exhibit I.A.246 for terms and details of the B Notes issued.

Since the effective date of the bankruptcy, the City of Detroit has continued to resolve the approximately 4,000 bankruptcy claims filed. The City is making progress but many claims, including some very large claims, are still unresolved. It is unclear when the City will complete the claims reconciliation process and distribute B Notes.

(l) 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
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

		Balance June 30, 2014	Discharged or refunded	Effective date financing	Balance December 10, 2014
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
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

	Balance June 30, 2014	Discharged or refunded	Effective date financing	Balance December 10, 2014
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)	—	—
Unamortized premiums and discounts	167,391,362	(8,795,578)	—	158,595,784
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)	1,282,953,956	8,148,384,699
Defaulted debt	168,085,398	(168,085,398)	—	—
Total primary government	$ 9,000,176,509	(2,134,746,766)	1,282,953,956	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 and (3) $33.6 million discharge for loan payable to DDA; and (4) $8.8 million for refund of unamortized premiums and discounts.

(18) Subsequent Events

(a) Bankruptcy Appeals

A number of creditors and other parties in interest in the City's bankruptcy case filed appeals of the Confirmation Order. Since then, all of these appeals have been dismissed or otherwise resolved, except the following, which are pending in the 6th Circuit Court of Appeals as appeals from dismissal by the U.S. District Court:

Appellants
William Ochadleus, et al v. City of Detroit, MI, et al, *U.S. Court of Appeals Docket No. 15-2194*
John Quinn v. City of Detroit, et al *U.S. Court of Appeals Docket No. 15-2337*
Dennis Taubitz, et al v. City of Detroit, et al *U.S. Court of Appeals Docket No. 15-2353*
William Davis v. City of Detroit, MI, et al. *U.S. Court of Appeals Docket No. 15-2379*
Lucinda Darrah v. City of Detroit, et al *U.S. Court of Appeals Docket No. 15-2371*

(b) Great Lakes Water Authority and Board of Water Commissioners

On December 17, 2015, the Board of the Great Lakes Water Authority and the Mayor determined that the conditions precedent contained in the Leases of the Regional Sewer System and the Regional Water System to the effectiveness of the Leases had been satisfied and the effective date for the Leases and the transactions contemplated thereby occurred on January 1, 2016, at which time the Authority began to operate the Regional System and all revenues of the Systems were assigned to the Authority. The City, through its Water and Sewerage Department, under the oversight of the Board, continues to operate the local water and sewer infrastructure.

On December 15, 2015, effective as of the date the Leases became effective, January 1, 2016, the federal court, in United States of America v City of Detroit, et al., Case No. 77-71100, entered an order modifying the court's prior orders in the case, restoring the powers of the Board under the City Charter, Section 7-1201 through 7-1204 and the power of the Board to receive certain services from other City departments as long as such arrangements do not impair the City's ability to comply with its NPDES permit No. MI0022802; the Clean Water Act; or its obligations under the Leases, the Water and Sewer Services Agreement or other agreements with the Authority. Further, the court approved the transactions and arrangements contemplated by the Leases.

(c) Syncora

On December 8, 2015, Pike Pointe Holdings, LLC, an affiliate of Syncora, notified the City that it was exercising its option under an Option Agreement dated December 10, 2014 as part of the settlement of Syncora's claims against the City in the bankruptcy, to enter into a concession with respect to the City's Grand Circus Parking Garage. The notice triggered a 90 day period to negotiate a concession agreement in accordance with the terms of the Option Agreement.

(d) Debt Rating

On November 9, 2015, Standard & Poor's Ratings Services increased the senior lien debt from BBB+ to A-. On August 27, 2015, Moody's increased the senior and second lien debt ratings from Ba2/Ba3 to Baa3/Ba1 and on September 3, 2015, Fitch increased the ratings from BBB-/BB+ to BBB/BBB-.

(e) New Debt Issues

On December 2, 2015, the Board accepted revenue bond tender offers of $215,245,000. Subsequently on December 15, 2015, the Department issued refunding revenue Series 2015C bonds in the amount of $197,660,000 as a conduit financing through the Michigan Finance Authority. The anticipated net present value savings from the refunding transaction was $13.2 million.