CITY OF DETROIT
WATER FUND

Basic Financial Statements

Six Months Ended December 31, 2015

(With Independent Auditors' Report Thereon)

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Independent Auditor's Report

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

Report on the Financial Statements

We have audited the accompanying financial statements of the Water Fund of the City of Detroit, Michigan as of and for the six months ended December 31, 2015, and the related notes to the 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 accounting principles generally accepted in the United States of America; 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.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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 auditor's 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 opinions.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Water Fund of the City of Detroit, Michigan as of December 31, 2015 and the changes in its financial position and cash flows for the six months then ended in accordance with accounting principles generally accepted in the United States of America.

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

Emphasis of Matter

We draw attention to Note 1, which explains that these financial statements present only the Water Fund and do not purport to, and do not, present fairly the financial position of the City of Detroit, Michigan as of December 31, 2015, the changes in its financial position, and the changes in its cash flows, where applicable thereof, for the six months then ended in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Matters

Management has omitted the management's discussion and analysis that accounting principles generally accepted in the United States of America 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, which 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.

Plante & Moran, PLLC

July 5, 2017

CITY OF DETROIT
WATER FUND

Statement of Net Position
December 31, 2015

Assets		
Current assets:		
Cash and cash equivalents	$	149,234,447
Accounts receivable:		
Billed accounts receivable		76,424,682
Unbilled accounts receivable		30,095,480
Other accounts receivable		3,183,371
Allowance for doubtful accounts		(31,910,278)
Total accounts receivable, net		77,793,255
Due from other funds		3,115,225
Inventories		3,326,307
Prepaid expenses and other current assets		638,120
Total current assets		234,107,354
Noncurrent assets:		
Investments		54,797,225
Restricted:		
Cash and cash equivalents		109,538,416
Investments		24,806,850
Prepaid insurance on debt		21,543,900
Capital assets:		
Assets not subject to depreciation		121,995,594
Assets subject to depreciation, net		1,778,732,803
Total capital assets, net		1,900,728,397
Total noncurrent assets		2,111,414,788
Total assets		2,345,522,142
Deferred Outflows of Resources		124,660,817

See Notes to Financial Statements.

CITY OF DETROIT

WATER FUND

Statement of Net Position

December 31, 2015

Liabilities		
Current liabilities:		
Accounts and contracts payable	$	44,656,652
Accrued salaries and wages		1,454,256
Due to other funds		5,243,438
Other accrued liabilities		8,386,369
Financial recovery bonds		247,294
Accrued interest		36,178,988
Accrued compensated absences		3,088,834
Accrued workers' compensation		419,000
Claims and judgments		5,255,994
Total current liabilities		104,930,825
Noncurrent liabilities:		
Revenue bonds and state revolving loans, net		2,415,861,618
Financial recovery bonds		29,988,909
Net pension liability		104,743,615
Accrued other postemployment benefits		337,784
Accrued compensated absences		2,929,241
Accrued workers' compensation		4,712,000
Total noncurrent liabilities		2,558,573,167
Total liabilities		2,663,503,992
Deferred Inflows of Resources		30,888,871
Net Position		
Net investment in capital assets		(224,124,128)
Restricted:		
Restricted for capital acquisitions		17,471,801
Restricted for donations		1,064,313
Restricted for debt service		79,630,163
Unrestricted deficit		(98,252,053)
Total net position (deficit)	$	(224,209,904)

See Notes to Financial Statements.

CITY OF DETROIT

WATER FUND

Statement of Revenue, Expenses, and Changes in Net Position

Six Months Ended December 31, 2015

Operating Revenue		
Water sales - Detroit	$	52,311,643
Water sales - Wholesale		158,904,895
Miscellaneous		6,542,734
Total operating revenue		217,759,272
Operating Expenses		
Source of supply		2,255,226
Low-lift pumping		3,268,926
High-lift pumping		10,375,035
Purification		8,073,638
Water quality operations		598,184
Pumping stations		8,360,346
Transmission		8,434,831
Distribution		7,250,998
Services		1,385,030
Hydrant division		657,615
Meters		2,128,975
Commercial		6,897,548
Administrative and general		13,223,760
Other item:		
Pension expense (reduction)		(123,356,206)
Nonrecurring capital asset adjustment		14,409,000
Total operating expenses before depreciation		(36,037,094)
Depreciation		40,905,193
Total operating expenses		4,868,099
Operating Income		212,891,173
Nonoperating Revenue (Expenses)		
Investment earnings		172,942
Interest expense, net of capitalized interest		(51,533,362)
Amortization of prepaid insurance on bonds and deferrals		(4,556,958)
Bond issuance costs		(1,978,658)
Asset impairment		(26,736,830)
Other expenses		291,469
Total nonoperating expenses - Net		(84,341,397)
Change in Net Positon		128,549,776
Net Position (Deficit) - Beginning of year		(352,759,680)
Net Position (Deficit) - End of year	$	(224,209,904)

See Notes to Financial Statements.

CITY OF DETROIT
WATER FUND

Statement of Cash Flows
Six Months Ended December 31, 2015

Cash flows from operating activities:		
Receipts from customers	$	214,061,019
Receipts from other funds		32,289,141
Payments to suppliers		(45,272,800)
Payments to employees		(24,633,755)
Net cash provided by operating activities		176,443,605
Cash flows from noncapital financing activities:		
Interest paid on bonds		(609,869)
Miscellaneous nonoperating revenue		291,469
Net cash used in noncapital financing activities		(318,400)
Cash flows from capital and related financing activities:		
Acquisition and construction of capital assets		(29,049,935)
Principal paid on capital lease		126,665,000
Principal paid on revenue bonds, state revolving loans and financial recovery bonds		(207,125,000)
Interest paid on revenue bonds, state revolving loans and financial recovery bonds		(69,788,085)
Net cash used in capital and related financing activities		(179,298,020)
Cash flows from investing activities:		
Proceeds from sales and maturities of investments		10,000,000
Earnings on investments		172,942
Net cash provided by investing activities		10,172,942
Net increase in cash and cash equivalents		7,000,127
Cash and cash equivalents at beginning of year		251,772,736
Cash and cash equivalents at end of year	$	258,772,863
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	$	212,891,173
Adjustments to reconcile operating income to net cash provided by operating activites:		
Depreciation		40,905,193
Bad debt recovery		(2,454,623)
Nonrecurring capital asset adjustment		14,409,000
Changes in assets and liabilities:		
Accounts receivable		(1,243,630)
Due from other funds		32,265,573
Inventories		6,314,893
Prepaid expenses		1,381,926
Net pension liability		(119,566,293)
Accounts and contracts payable		(2,669,822)
Accrued salaries and wages		155,116
Other accrued liabilities, compensated absences, and workers' compensation		(2,278,667)
Other postemployment benefits - death benefit obligation		34,864
Claims and judgments payable		(1,731,006)
Deferred outflows of pension resources		(1,970,092)
Net cash provided by operating activities	$	176,443,605
Noncash activities -		
Asset impairments	$	26,736,830

See Notes to Financial Statements.

Note 1 - Reporting

The City of Detroit (the City) Charter established the Detroit Water and Sewerage Department (the DWSD) in the year 1836 to supply water, drainage, and sewage service within and outside the City. The Water Fund (the Fund), an enterprise fund, separately accounts for the Water Supply System (the System), as is required by bond ordinances of the City.

The DWSD is governed by a seven-member Board of Water Commissioners (the Board). Pursuant to federal court order issued in February 2011, the Board includes four members appointed by the Mayor of the City of Detroit, and one each nominated by the Wayne County Executive, the Oakland County Water Resources Commissioner, and the Macomb Public Works Commissioner with confirmation by the Mayor of Detroit. All members must have at least seven years of experience in a regulated industry. The Board's governance structure, authority, and level of operational autonomy is established by four standing federal court orders dated September 9, 2011 (Creation of the Root Cause Committee); November 4, 2011 (Adoption of the Root Cause Committee Plan of Action); October 5, 2012 (Clarification of the November 4, 2011 Order); December 14, 2012 (Adoption of Root Cause Committee's Plan of Action Clarification); and December 15, 2015 (Opinion & Order Joint Motion for Relief of Judgment).

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, December 14, 2012 and December 15, 2015.

Authority granted by the federal court to the DWSD includes operational independence in the areas of law, finance, human resources, and procurement. Specifically, these orders enjoin the City from applying any existing or future Charter provisions, ordinances, resolutions, executive orders, city policies, regulations, procedures or similar rules or practices that are inconsistent with the express terms of this court's orders. Further, the orders grant DWSD the authority to: purchase its own information technology systems; establish its own subunits and programs within its Finance Division including debt management, accounts payable, accounts receivable, accounting, budget, cash management, asset management, and deferred compensation; independence from City Finance Policies; be exempt from the application of City ordinances, the City's human resources policies and regulations, Civil Service Commission Rules, and City resolutions and orders, pertaining to payroll, employee benefits, and employee and labor relations; establish bank accounts in its own name; establish its own self-insurance fund; and approve the issuance of debt and to refinance debt upon the sole approval of the Board of Water Commissioners (unless the debt contains a full or partial general obligation pledge of the City of Detroit, in which case City Council approval would be required prior to issuance). The basic financial statements of the Fund have been included in the City's Comprehensive Annual Financial Report and reported as an enterprise fund. Copies of these reports, along with other financial information, can be obtained at the Fund's administrative office located at 735 Randolph, Detroit, Michigan 48226 and on its website at *www.dwsd.org*.

Note 2 - Summary of Significant Accounting Policies

The following is a summary of the more significant accounting policies followed in the preparation of the Fund's basic financial statements. These policies conform to U.S. generally accepted accounting principles (GAAP).

(a) Basis of Accounting

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

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

(b) Cash and Cash Equivalents

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

(c) Investments

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

(d) Inventories and Prepaid Items

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

(e) Capital Assets

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

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

The Fund capitalizes qualifying net interest costs of the System on bonds issued for capital construction in accordance with GASB Statement No. 62, *Capitalization of Interest Cost*, as amended. Accordingly, capitalized interest for the year ended December 31, 2015 was $4,032,771.

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

(f) 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 represents a consumption of net position that applies to a future period 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. A deferred outflow has been recorded related to pension and results from contributions to the defined benefit pension plans subsequent to the plan’s year end through the Fund’s period ended December 31, 2015 as well as due to the variance between the plan’s actual investment earnings compared to the plan’s assumed investment earnings.

In addition to liabilities, the statement of net position may report a separate section for deferred inflows of resources. This separate financial statement element represents an acquisition of net position that applies to a future period 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 related to pension. The deferred inflows of resources result from three transactions: the variance between the plan's actual investment earnings compared to the plan's assumed interest earnings, the variance between the plan's actual experience compared to the plan's assumed experience, and changes in assumptions (see Note 6).

(g) Taxes and City Services

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

(h) 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.

(i) Compensated Absences

The liability for compensated absences reported in the basic financial statements consists of unpaid, accumulated vacation, and sick leave balances. 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).

(j) 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.

(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 less the outstanding balances of bonds or other borrowing that are attributable to the acquisition, construction and improvement of those assets.

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

Unrestricted - This consists of net position that does not meet the definition of "restricted" or net investment in capital assets."

(l) Unbilled Revenue

The Fund records unbilled revenue for services provided prior to the end of the period by accruing actual revenue billed in the subsequent month.

(m) Interest Expense

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

(n) Classification of Revenues and Expenses

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

Operating revenues include activities that have the characteristics of exchange transactions, such as revenue from charges for water service. Such revenue has been shown net of bad debt recovery of $2,454,623.

Nonoperating revenue and expenses include activities that have the characteristics of nonexchange transactions, such as investment income and amortization of prepaid insurance on debt.

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

(o) Use of Estimates

The preparation of basic financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the basic financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

(p) Upcoming Accounting Pronouncements

In 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 the Fund's fiscal year June 30, 2017, whereas GASB 75 is effective one year later. These new statements will be implemented for the Fund's Employee Death Benefits plan. As a result of the bankruptcy proceedings, the Fund no longer has a liability for retiree healthcare expenditures.

In November 2016, the Governmental Accounting Standards Board issued GASB Statement No. 83, *Certain Asset Retirement Obligations*, which establishes criteria for determining the timing and pattern of recognition of a liability and a corresponding deferred outflow of resources for asset retirement obligations. The Fund is currently evaluating the impact this standard will have on the financial statements when adopted. The provisions of this statement are effective for the Fund's fiscal year ending June 30, 2019.

In March 2017, the Governmental Accounting Standards Board issued GASB Statement No. 85, *Omnibus 2017*, which address practice issues that have been identified during implementation and application of certain GASB statements. The statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pension and other postemployment benefits (OPEB)). The Fund is currently evaluating the impact this standard will have on the financial statements when adopted. The provisions of this statement are effective for the Fund's fiscal year ending June 30, 2018.

Note 3 - Deposits and Investments

The deposits and investments of the Fund at December 31, 2015 are reported in the basic financial statements as follows:

	Cash and cash equivalents	Investments
Current unrestricted assets	$ 149,234,447	$ —
Noncurrent unrestricted assets	—	54,797,225
Noncurrent restricted assets	109,538,416	24,806,850
Total cash and investments	$ 258,772,863	$ 79,604,075

Michigan Compiled Laws Section 129.91 (Public Act 20 of 1943, as amended) authorizes the Fund to make deposits and invest in the accounts of federally insured banks and credit unions that have offices in Michigan. The law allows investments outside of the state of Michigan when fully insured. The Fund is allowed to invest in bonds, securities and other direct obligations of the United State or any instrumentality of the United States; repurchase agreements, bankers' acceptances; commercial paper; obligations of the State of Michigan or its political subdivisions, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investments by local units of government in Michigan. Cash held by fiscal agents or by trustees is secured in accordance with the requirements of the agency or trust agreement.

(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 December 31, 2015, the bank deposits (certificates of deposit, checking, and savings accounts) were $143,623,711, of which $143,331,520 was exposed to custodial credit risk as it was 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 with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

(b) Interest Rate Risk

Interest rate risk is the risk that, over time, the value of investments will decrease as a result of a rise 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 December 31, 2015, the maturities for the Fund's fixed income investments were as follows:

		Investment maturities in years		
	Fair value	Less than 1 Year	1-5 Years	Over 10 Years
Investment - U.S. government agency securities	$ 79,604,075	$ —	$ 79,604,075	$ —

(c) Credit Risk

Credit risk is the risk that the Fund will not recover its investments due to the inability of the counterparty to fulfill its obligation. The Fund limits its investments in commercial paper, mutual funds, and external investment pools that purchase commercial paper to the top two rating classifications issued by two nationally recognized statistical rating organizations (NRSROs): Standard & Poor's (S&P) and Moody's Investor Service (Moody's).

As of December 31, 2015, the credit quality ratings as rated by S&P or Moody's are as follows:

		Ratings	
Investment	**Fair value**	**S&P**	**Moody's**
U.S. government agency securities	$ 79,604,075	AA+	Aaa

(d) 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 December 31, 2015, the Fund had no investments subject to concentration of credit risk.

(e) Fair Value

The Fund categorizes investments measured at fair value within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the assets. Level 1 inputs are quoted at prices in active markets for identical assets; Level 2 inputs are quoted prices for similar assets or liabilities in active markets; Level 3 inputs are unobservable in the market and are the least reliable. The Fund had the following fair value measurements as of December 31, 2015:

	Investments by Fair Value Level		
	Level 1	**Level 2**	**Level 3**
U.S. government agency securities	$ —	$ 79,604,075	$ —

Note 4 - Restricted Assets

Restricted assets, principally cash and investments, are available for debt service on revenue bonds and to provide funds for improvements, enlargements, extensions, and construction. In certain instances, minimum levels of assets are required by bond ordinance provisions or by Board of Water Commissioners' decree. These assets are maintained as follows:

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

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

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

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

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

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	13,563,775	-	-	13,563,775
Senior lien debt service	-	44,506,045	-	44,506,045
Senior lien bond reserve	-	-	139,470,377	139,470,377
Second lien debt service	-	26,448,729	-	26,448,729
Second Lien Bond Reserve	-	-	61,678,500	61,678,500
Extraordinary Repair and Replacement	24,414,795	-	-	24,414,795
Improvement and Extension	-	-	-	-
Subtotal - Reserves defined by ordinance	37,978,570	70,954,774	201,148,877	310,082,221
Less: Funded by surety (non-cash)	-	-	(156,294,499)	(156,294,499)
Total - Reserves defined by ordinance (net of Surety coverage)	37,978,570	70,954,774	44,854,378	153,787,722
Unspent Construction Bond proceeds	-	-	17,471,801	17,471,801
Other restricted proceeds-donations	-	1,064,313	-	1,064,313
Additional operations and maintenance requirements	34,962,548	-	-	34,962,548
Variance from ordinance requirement	131,090,554	-	-	131,090,554
Total Cash, Cash Equivalents and Investments	$ 204,031,672	$ 72,019,087	$ 62,326,179	$ 338,376,938

Summary by Statement Classification	Unrestricted	Unrestricted Noncurrent	Restricted Noncurrent	Total
Cash and cash equivalents	$ 149,234,447	$ -	$ 109,538,416	$ 258,772,863
Investments	-	54,797,225	24,806,850	79,604,075
Total	$ 149,234,447	$ 54,797,225	$ 134,345,266	$ 338,376,938

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

The "variance from ordinance requirement" amount represents 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.

Note 5 - Capital Assets

Capital asset activity for the six months ended December 31, 2015 was as follows:

	Balance, June 30, 2015	Additions	Retirements	Balance, December 31, 2015
Nondepreciated capital assets:				
Land and land rights	$ 8,872,365	$ 11,474	$ –	$ 8,883,839
Construction in progress	184,815,383	37,922,327	(109,625,955)	113,111,755
Total nondepreciable assets	193,687,748	37,933,801	(109,625,955)	121,995,594
Depreciated capital assets:				
Land improvements	115,911,645	3,339,200	–	119,250,845
Buildings and structures	684,377,278	25,959,794	–	710,337,072
Mains	1,034,926,486	36,758,652	–	1,071,685,138
Services	51,838,576	–	–	51,838,576
Meters	124,814,348	1,408,967	–	126,223,315
Machinery, equipment, and fixtures	1,180,385,651	15,792,776	(66,922,684)	1,129,255,743
Total depreciable assets	3,192,253,984	83,259,389	(66,922,684)	3,208,590,689
Less accumulated depreciation:				
Land improvements	(24,159,900)	(1,255,137)	–	(25,415,037)
Buildings and structures	(307,769,219)	(9,287,316)	–	(317,056,535)
Mains	(381,886,137)	(7,589,941)	–	(389,476,078)
Services	(28,734,161)	(303,709)	–	(29,037,870)
Meters	(59,811,834)	(2,530,162)	–	(62,341,996)
Machinery, equipment, and fixtures	(633,883,767)	(19,938,928)	47,292,325	(606,530,370)
Total accumulated depreciation	(1,436,245,018)	(40,905,193)	47,292,325	(1,429,857,886)
Net capital assets	$ 1,949,696,714	$ 80,287,997	$ (129,256,314)	$ 1,900,728,397

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

Capital assets were evaluated during the year to determine if any asset impairments exist, defined as a significant, unexpected decline in the service utility of a capital asset. The Fund reported a loss on impairments of $26,736,830, net of adjustment, for accumulated depreciation relating to certain vehicles, equipment and construction work in progress costs that will not ultimately result in a future capital asset.

Note 6 - Deferred Outflows/Inflows

	Deferred Outflows	Deferred Inflows
Pension - Net difference between projected and actual earnings on pension plan investments	$ 4,845,156	$ 16,805,259
Pension - Changes in assumptions related to economic and demographic factors	—	9,839,891
Debt refunding - Difference between the reacquisition price and the net carrying amount of the old debt	119,815,661	—
Debt refunding - Swap termination receipt	—	4,243,721
Total	$ 124,660,817	$ 30,888,871

Note 7 - Long-term Obligations

Changes in long-term obligations for the six months ended December 31, 2015 were as follows:

	Balance, June 30, 2015	Increase	Decrease	Balance, December 31, 2015	Amount due within one year
Revenue bonds	$ 2,375,375,000	$ 126,665,000	$ (205,740,000)	$ 2,296,300,000	$ 54,395,000
State revolving loans	18,768,761	–	(1,385,000)	17,383,761	1,400,000
Total revenue bonds	2,394,143,761	126,665,000	(207,125,000)	2,313,683,761	55,795,000
Add unamortized premiums	90,962,974	16,474,660	(5,259,777)	102,177,857	–
Total revenue bonds, net	2,485,106,735	143,139,660	(212,384,777)	2,415,861,618	55,795,000
Financial recovery bonds, 2014 Series B	26,540,080	–	–	26,540,080	–
Financial recovery bonds, 2014 Series C	3,696,123	–	–	3,696,123	247,294
Total financial recovery bonds	30,236,203	–	–	30,236,203	247,294
Other long-term liabilities:					
Accrued compensated absences	6,433,245	–	(415,170)	6,018,075	3,088,834
Accrued workers' compensation	5,857,460	743,328	(1,469,788)	5,131,000	419,000
Other accrued liabilities	9,523,405	1,564,570	(2,701,606)	8,386,369	8,386,369
Claims and judgments	6,987,000	476,094	(2,207,100)	5,255,994	5,255,994
Accrued other postemployment benefits	302,920	34,864	–	337,784	–
Total other long-term liabilities	29,104,030	2,818,856	(6,793,664)	25,129,222	17,150,197
Total	$ 2,544,446,968	$ 145,958,516	$ (219,178,441)	$ 2,471,227,043	$ 73,192,491

Note 8 - Revenue Bonds Payable (Including State Revolving Loans)

Revenue bonds payable and state revolving loans amounted to $2,313,683,761 at December 31, 2015. Net revenues of the Fund are pledged to repayment of bonds. The following is a schedule of the revenue bonds payable at December 31, 2015:

Issue	Bond date	Original Issued Amount	Range of interest rates	Maturity date	Outstanding balance at December 31, 2015	
Series 2001-C	5/14/08	$ 4,055,000	4.25	7/01/16-18	$ 1,035,000	
Series 2001-C	5/14/08	186,350,000	4.50 to 5.75	7/01/19-29	178,735,000	c
Series 2003-A	1/30/03	234,805,000	5.00	7/01/28-34	100,000	c
Series 2003-B	1/30/03	172,945,000	5.00	7/01/2034	100,000	c
Series 2003-D	9/01/06	6,720,000	4.10 to 4.20	7/01/2016	235,000	
Series 2003-D	9/01/06	144,650,000	4.25 to 5.00	7/01/17-33	116,645,000	c
Series 2004-A	8/16/06	17,600,000	5.25	7/01/2016	4,710,000	
Series 2004-A	8/16/06	55,165,000	4.50 to 5.25	7/01/17-25	30,335,000	c
Series 2004-B	8/16/06	52,840,000	4.25 to 5.00	7/01/2016	5,105,000	
Series 2004-B	8/16/06	100,990,000	4.25 to 5.00	7/01/17-23	15,725,000	c
Series 2005-B	5/14/08	19,070,000	4.00 to 5.00	7/01/15-18	4,255,000	
Series 2005-B	5/14/08	175,830,000	4.75 to 5.00	7/01/19-35	148,085,000	c
Series 2006-A	8/16/06	42,795,000	5.00	7/01/2016	1,610,000	
Series 2006-A	8/16/06	237,205,000	5.00	7/01/17-34	119,445,000	c
Series 2006-B	4/01/09	900,000	4.00 to 5.00	7/01/16-19	300,000	
Series 2006-B	4/01/09	119,100,000	5.50 to 7.00	7/01/23-36	85,350,000	c
Series 2006-C	8/16/06	12,585,000	5.00	7/01/2016	3,205,000	
Series 2006-C	8/16/06	208,060,000	5.00	7/01/17-33	198,700,000	c
Series 2006-D	8/16/06	4,430,000	4.10 to 4.20	7/01/2016	15,000	
Series 2006-D	8/16/06	142,160,000	4.25 to 5.00	7/01/17-32	59,815,000	c
Series 2011-A	12/22/11	37,880,000	5.00	7/01/16-20	10,405,000	
Series 2011-A	12/22/11	341,710,000	5.00 to 5.75	7/01/27-41	289,605,000	c
Series 2011-B	12/22/11	7,455,000	3.607 to 5.00	7/01/16-21	2,875,000	
Series 2011-B	12/22/11	9,740,000	6.00	7/01/2033	2,295,000	c
Series 2011-C	12/22/11	3,925,000	5.00	7/01/2021	1,020,000	
Series 2011-C	12/22/11	99,965,000	4.50 to 5.25	7/01/23-41	74,125,000	c
Series 2014-A (D-1)	9/4/14	162,350,000	5.00	7/01/16-23	158,425,000	
Series 2014-A (D-1)	9/4/14	44,190,000	5.00	7/01/35-37	44,190,000	c
Series 2014-B (D-2)	9/4/14	51,530,000	5.00	7/01/23-24	51,530,000	
Series 2014-B (D-2)	9/4/14	136,925,000	5.00	7/01/25-28	136,925,000	c
Series 2014-C (D-3)	9/4/14	62,700,000	5.00	7/01/18-20	62,700,000	
Series 2014-D (D-4)	9/4/14	98,285,000	2.00 to 5.00	7/01/15-17	66,325,000	
Series 2014-D (D-4)	9/4/14	209,360,000	5.00	7/01/29-34	209,360,000	c
Series 2014-E (D-5)*	9/4/14	9,270,000	2.85	7/01/2019	9,270,000	
Series 2014-F (D-6)	9/4/14	21,735,000	5.00	7/01/19-24	21,735,000	
Series 2014-F (D-6)	9/4/14	43,690,000	5.00	7/01/25-36	43,690,000	c
Series 2014-G (D-7)	9/4/14	14,815,000	2.00 to 5.00	7/01/16-18	11,655,000	
Series 2015 (D-1)	12/15/15	20,155,000	3.00 to 5.00	7/1/17-22	20,155,000	
Series 2015 (D-1)	12/15/15	69,275,000	5.00	7/1/27-35	69,275,000	c
Series 2015 (D-2)	12/15/15	37,235,000	5.00	7/1/2034	37,235,000	c
Total revenue bonds payable					$ 2,296,300,000	

* Taxable bonds

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

For the 2014 and 2015 issues, principal and interest payments on these bonds are due July 1. The Department makes payment on those obligations before December 31 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 at December 31, 2015:

Issue	Bond date	Amount issued	Range of interest rates	Maturity date	Outstanding balance at December 31, 2015
Series 2005 SRF-1	9/22/05	$ 13,805,164	2.125%	10/01/16-26	$ 8,045,164
Series 2005 SRF-2	9/22/05	8,891,730	2.125	10/01/16-26	5,051,730
Series 2006 SRF-1	9/21/06	5,180,926	2.125	10/01/16-26	2,995,926
Series 2008 SRF-1	9/29/08	2,590,941	2.500	10/01/16-28	1,290,941
Total state revolving loans payable					$ 17,383,761

The state revolving loans are issued as part of the State of Michigan's Revolving Fund Loan Program. As the System draws additional amounts 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 December 31, 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 December 31:			
2016	$ 55,795,000	$ 114,512,001	$ 170,307,001
2017	61,660,000	115,551,101	177,211,101
2018	63,310,000	112,433,933	175,743,933
2019	68,185,000	109,293,644	177,478,644
2020	71,430,000	105,961,270	177,391,270
2021–2025	415,545,000	471,249,296	886,794,296
2026–2030	514,263,761	355,918,833	870,182,594
2031–2035	622,980,000	215,452,108	838,432,108
2036–2040	372,180,000	71,663,741	443,843,741
2041–2045	68,335,000	4,427,244	72,762,244
	$ 2,313,683,761	$ 1,676,463,171	$ 3,990,146,932

Bonds outstanding at December 31, 2015 include approximately $1.86 billion of bonds and loans callable at various dates after December 31, 2015. These bonds are callable at varying premiums, depending on the issue and length of time to maturity.

(a) Issuance of State Revolving Loans

No new loans were received from the State of Michigan Revolving Loan Fund during the six months ended December 31, 2015. At December 31, 2015, there were no bonds authorized and unissued.

(b) Issuance of Revenue Bonds

In December 2015, the Fund issued $126,665,000 in Revenue Bonds. The issue included $89,430,000 of senior lien, and $37,235,000 of second lien bonds with interest rates of 3% to 5%. The proceeds were used to refund bonds with a par value of $142,065,000. The proceeds of $145,748,375 including cash from the prior reserve fund and accrued interest equity contributions net of $2,049,495 in underwriting fees, insurance and other issuance costs were put in an escrow account to purchase U.S. government securities for refunding the remaining bonds in January and February 2016. The refunding resulted in an economic gain of $9,012,925 on the senior lien bonds and $3,990,248 on the second lien bonds, for a total economic gain of $13,003,173 or 9.153%.

(c) Defeased Debt

In December 2015, the Fund defeased bonds by placing proceeds of new revenue bonds in an irrevocable trust to provide for debt payments in January and February 2016. According, the trust account assets and the liability for the defeased bonds are not included in the Fund’s basic financial statements. At December 31, 2015, $142,065,000 of bonds previously outstanding are considered defeased.

(d) Pledges of Future Revenue

The Water Fund has pledged specific revenue streams to secure the repayment of the revenue bonds and State of Michigan revolving fund loans. The bonds and loans are paid solely from the net revenues of the System. A summary of the pledged revenue and the applicable debt as of December 31, 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 period ended December 31, 2015	Proportion of pledged revenue collected
Revenue Bonds and State of Michigan Revolving Fund Loans	All Water Fund operating revenue	Funding of various water treatment and and transmission capital improvements, refund certain water revenue bonds, pay termination amounts for interest rate swap agreements, and funding reserve requirements	Thru 2045	$3,990,146,932	$85,569,273	$145,408,345	169.9%

The fund has approximately $135 million in restricted cash and investments related to various bond indentures as of December 31, 2015.

(e) Debt Ratings

In November 2015, Standard & Poor's Rating Services increased the senior lien debt from BBB+ to A-.

Note 9 - 2014 Financial Recovery Bonds

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 percent per annum from December 10, 2014 to and including March 31, 2034 and 6.0 percent 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 (VEBA) 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 percent 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, and on the Effective Date.

The following is a schedule of the Water Fund's allocation of the Financial Recovery Bonds payable at December 31, 2015:

General Obligation Bonds - Limited Tax

Issue	Bond Date	Amount Issued	Range of Interest Rates	Maturity Date	Balance December 31, 2015
Series 2014-B(1)	12/10/2014	$ 26,540,080	4.00 to 6.00	4/1/25-44	$ 26,540,080
Series 2014-C	12/10/2014	3,829,794	5.00	6/1/17-12/10/26	3,696,123
Total General Obligation Bonds - Limited Tax					$ 30,236,203

As of December 31, 2015, aggregate debt service requirements of the Financial Recovery Bonds were as follows:

	Principal	Interest	Total requirements
Year(s) ending December 31:			
2016	$ 247,292	$ 715,165	$ 962,457
2017	259,657	1,234,045	1,493,702
2018	272,639	1,221,062	1,493,701
2019	286,271	1,207,430	1,493,701
2020	300,585	1,193,116	1,493,701
2021–2025	3,070,972	5,724,539	8,795,511
2026–2030	7,220,731	4,545,163	11,765,894
2031–2035	6,635,020	3,450,210	10,085,230
2036–2040	6,635,020	2,786,708	9,421,728
2041–2044	5,308,016	796,202	6,104,218
	$ 30,236,203	$ 22,873,640	$ 53,109,843

Note 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. 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 is also self-insured for losses such as workers' compensation, legal, disability benefits, and vehicular liabilities and does not purchase stop-loss insurance except for workers' compensation with a $7,000,000 specific retention.

The Fund, through the City, 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. The liabilities for workers' compensation current year claims are based on estimates and payments are based on actuals.

Changes in the balance of claim liabilities for the period ended December 31, 2015 and the year ended June 30, 2015 were as follows:

	December 31, 2015		June 30, 2015	
Balance at beginning of period	$	12,844,460	$	12,680,823
Current year claims and changes in estimates		1,219,422		6,146,000
Claims payments		(3,676,888)		(5,982,363)
Balance at end of period	$	10,386,994	$	12,844,460

Note 11 - Pension Plan

(a) Plan Administration

The Water Fund participates in the City of Detroit General Employees' Retirement System. 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 the System's 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 plans 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.

(b) Plan Membership

Membership of the plan at June 30, 2015 (measurement date) consisted of the following:

<u>Component II</u>	
Inactive plan members or beneficiaries currently receiving benefits	11,884
Inactive plan members entitled to but not yet receiving benefits (includes DROP members)	2,732
Active plan members	4,688
<u>Component I</u>	
Inactive plan members or beneficiaries currently receiving benefits	149
Inactive plan members entitled to but not yet receiving benefits	212
Active plan members	4,981

(c) Benefits Provided

Component II - Component II is the legacy plan, the original defined benefit plan for each system, 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 percent 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 on total pension liability for the systems as of the measurement date of June 30, 2015 because the assets held by the Income Stabilization Fund are not considered as being available to fund the normal retirement benefit provisions under the pension plan but instead are restricted to paying Income Stabilization Benefits and Income Stabilization Benefits Plus. No liability currently exists for these benefits.

Post-bankruptcy GRS Component II 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 10 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 1.5 percent of Average Final Compensation for the first 10 years of service and 1.63 percent for service in excess of 10 years.

(2) For members who retire on or after July 1, 1992 but prior to July 1, 1998, a membership service pension of 1.5 percent of Average Final Compensation for each year of service for the first 10 years, plus 1.7 percent of Average Final Compensation for each year of service in excess of 10 years up to 20 years of service, plus 1.9 percent of Average Final Compensation for each year of service in excess of 20 years. In no event shall benefits paid by the Retirement System exceed 90 percent 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 1.6 percent of Average Final Compensation for each year of service for the first 10 years, plus 1.8 percent of Average Final Compensation for each year of service in excess of 10 years, up to 20 years of service, plus 2 percent of Average Final Compensation for each year of service in excess of 20 years up to 25 years, plus 2.2 percent of Average Final Compensation for each year of service in excess of 25 years; plus, for service rendered after July 1, 2012 and prior to July 1, 2014, 1.5 percent of Average Final Compensation for each year of service; plus $12 for each year of City service not to exceed $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 1.5 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 90 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 percent 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

Component II

During fiscal year 2016, 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 amounts sourced from the sale of City-owned artwork with proceeds from the Foundation for Detroit's Future (the "Foundation") in the amount of $32,886,827 along with $4,005,830 from Unlimited Tax General Obligation bonds (UTGO) and $67,900,000 of contributions from the City and related entities. Employer contributions were also made into the Income Stabilization fund for $1,689,857 from the UTGO proceeds.

The Plan of adjustment specifies $2,500,000 in contributions toward administrative costs and annual plan contributions to be $42,900,000 per year in total for both water and sewer employees, until 2023. The portion allocable to the Water Fund is $18,447,000 payable by June 30, 2016. Subsequent to 2023, employer contributions will again be actuarially determined based on a 30-year level principal closed amortization.

Component I

Per Section 9.3 of the Combined Plan, commencing July 1, 2014 and ending June 23, 2023, the City is required to contribute 5% compensation. During fiscal year 2016, the City and related entities contributed $9,048,831.

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, 2016, there were minimal employee contributions into Component II, only related to military service credit, 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 percent of pay toward their defined benefit. Additionally, employees can make voluntary contributions of 3, 5, or 7 percent of annual pay. During fiscal year 2016, the plan received mandatory voluntary employee contributions of $12,559,259.

(e) Net Pension Liability of the City

As permitted by GASB 68, the City has chosen to use June 30, 2015 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 System's fiduciary net position as of June 30, 2015. The June 30, 2015 total pension liability was determined by an actuarial valuation performed as of June 30, 2014, which used update procedures to roll forward the estimated liability to June 30, 2015. Changes in the net pension liability for the General Employees Retirement System during the measurement year were as follows:

	Increase (Decrease)		
Component II Changes in Net Pension Liability	**Total pension liability**	**Plan net position**	**Net pension liability**
Balance at July 1, 2014	$ 3,801,649,071	$ 2,015,207,878	$ 1,786,441,193
Changes for the year:			
Service cost	-	-	-
Interest	263,007,329	-	263,007,329
Changes in benefit terms	(731,824,895)	-	(731,824,895)
Changes in assumptions	(101,559,893)	-	(101,559,893)
Differences between expected and actual experience	24,644,531	-	24,644,531
Contributions - Employer	-	189,282,095	(189,282,095)
Contributions - Employee	-	609,074	(609,074)
Net investment income	-	93,054,978	(93,054,978)
Benefit payments, including refunds	(297,538,990)	(297,538,990)	-
Administrative expenses	-	(7,556,822)	7,556,822
Other (includes ASF recoupment)	-	138,219,998	(138,219,998)
Net changes	(843,271,918)	116,070,333	(959,342,251)
Balance at June 30, 2015	$ 2,958,377,153	$ 2,131,278,211	$ 827,098,942

	Increase (Decrease)		
Component I Changes in Net Pension Liability	**Total pension liability**	**Plan net position**	**Net pension liability**
Balance at June 30, 2014	$ -	$ -	$ -
Changes for the year:			
Service cost	19,318,576	-	19,318,576
Interest	695,469	-	695,469
Changes in assumptions	(1,202,109)	-	(1,202,109)
Contributions - Employer	-	8,811,368	(8,811,368)
Contributions - Employee	-	6,970,544	(6,970,544)
Voluntary contributions	5,775,885	5,775,885	-
Net investment income	-	20,690	(20,690)
Administrative expenses	-	(1,481,590)	1,481,590
Net changes	24,587,821	20,096,897	4,490,924
Balance at June 30, 2015	$ 24,587,821	$ 20,096,897	$ 4,490,924

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

For the period ended December 31, 2015, the Water Fund recognized pension expense reduction of $123,356,206 for Component II, and pension expense of $484,432 for Component I. At December 31, 2015, the Fund reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Component I		Component II	
	Deferred outflows of resources	Deferred inflows of resources	Deferred outflows of resources	Deferred inflows of resources
Net difference between projected and actual earnings on pension plan investments	$ 50,721	$ -	$ 4,794,434	$ (16,805,259)
Assumption changes	-	(133,908)	-	(9,705,983)
Total	$ 50,721	$ (133,908)	$ 4,794,434	$ (26,511,242)

A total of $9,048,831 for the General Retirement System Component I and $104,792,657 for the General Retirement System Component II are 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 ending June 30, 2017. Included in those amounts are amounts sourced from the sale of City-owned artwork with proceeds from the Foundation for Detroit's Future as outlined in the POA (also referred to as "the Grand Bargain"). The deferred outflows of resources and deferred inflows of resources, for the Retirement System as a whole, 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 addition to or (a reduction of) pension expense as follows:

Year ending June 30	GRS - Component I	GRS - Component II
2017	$ (43,095)	$ (45,510,168)
2018	(43,095)	(19,450,443)
2019	(43,095)	(17,171,136)
2020	(43,095)	10,573,708
2021	(141,918)	-
Thereafter	(350,598)	-
	$ (664,896)	$ (71,558,039)

(g) Actuarial Assumptions

The significant actuarial assumptions used to measure the June 30, 2015 total pension liability were as follows:

Component II	
Inflation	NA
Salary increases	NA
Investment rate of return	7.61%
Component I	
Inflation	NA
Salary increases	2.0-3.0%
Investment rate of return	7.61%

The actuarial assumptions were based on an experience study from 2008-2013 issue in February 2015; the mortality table assumption was based on RP-2014 Blue Collar Annuitant Table for males and females. The tables are projected to be fully generational, based on two-dimensional sex distinct mortality scale MP-2014.

(h) Discount Rates

The discount rate used to measure the total pension liability as of June 30, 2015 was 7.61 percent; however, the single discount rate used at the beginning of the year was 7.2 percent for both plans (only the Component II plan existed at the prior measurement date). For the Component II plan, 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, including contributions sourced from the proceeds of the sale of artwork from the Foundation for Detroit's Future and from the State of Michigan, 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. For the Component I plan, the projection of cash flows used to determine the discount rates assumed that employee contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the difference between actuarially determined contribution rates and the employee rate. 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 geometric real rates of return as of June 30, 2015 for each major asset class including the pension plan's target asset allocation, as disclosed in the City's investment footnote, are summarized in the following table:

	Target Allocation	Long-term Expected Real Rate of Return
Global multi-sector fixed	6.0 %	2.7 %
Global equity	43.0	6.2
Long duration fixed	2.0	2.0
Absolute return fixed	4.0	2.3
Private equity	8.0	7.4
Cash	1.0	1.0
Real estate	10.0	4.4
Global asset allocation/risk parity/real assets	21.0	5.2
Hedge funds	5.0	4.7

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

The following presents the Fund's net pension calculated using the discount rate of 7.61 percent, as well as the Fund's proportionate share of the net pension liability if it were calculated using a discount rate that is 1 percentage point lower or 1 percentage point higher than the current rate.

	6.61% 1% Decrease	7.61% Current Discount Rate	8.61% 1% Increase
Net pension liability of GRS plan:			
Component II - Net pension liability of the Plan	$ 1,087,645,854	$ 827,098,942	$ 605,720,872
Component I - Net pension liability of the Plan	7,551,424	4,490,924	1,940,584
Net pension liability of the Water Fund:			
Component II - Net pension liability of the Plan	$ 136,923,453	$ 104,123,270	$ 76,254,043
Component I - Net pension liability of the Plan	1,043,101	620,345	268,059

Note 12 - Other Postemployment Benefits

In prior years, the 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 that were retired as of December 10, 2014.

The City continues to provide supplemental death benefits to its employees providing services after December 10, 2014.

(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 Supplemental 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. Employer and employee contributions of $91,222 and $75,517, respectively, were made subsequently, prior to June 30, 2016.

(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 Fund's annual OPEB cost for the year ended June 30, 2016, the amount actually contributed to the Employee Supplemental Death Benefit Plan, and changes in the Fund's net OPEB obligation for the Benefit Plan:

Supplemental Death Benefit Plan		
Annual required contributions (ARC)	$	33,451
Interest on net OPEB obligation		11,510
Adjustment to ARC		(10,097)
Annual OPEB cost (expense)		34,864
Contributions made		–
Changes in net OPEB obligation		34,864
Net OPEB obligation - Beginning of year		302,920
Net OPEB obligation - End of year	$	337,784

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

Supplemental and Death Benefit Plan

Year ended	Annual OPEB cost	Actual contributions	Percentage of annual OPEB cost contributed	Net OPEB obligation
June 30, 2016	$ 34,864	$ —	— %	$ 337,784
June 30, 2015	44,133	—	—	302,920
June 30, 2014	25,524	11,992	42.2	258,787

(d) Funded Status and Funding Progress

As of June 30, 2015, the most recent actuarial valuation date for the Supplemental Plan, the actuarial accrued liability for benefits related to all City employees was $6,517,394 and the actuarial value of assets was $3,840,000, resulting in an unfunded actuarial accrued liability (UAAL) of $2,677,394. The covered payroll (annual payroll of all active City employees covered by the plan) was $423,011,570 and the ratio of the UAAL to the covered payroll was 0.6 percent. Approximately 15% of this is allocable to the Water Fund, based on the current allocation of the plan's required contributions.

The preceding figures do not include the closed plan. The closed plan includes assets of approximately $30.4 million, which equals the actuarial accrued liability of the plan as of June 30, 2016.

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 multi-year 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, 2015 actuarial valuation, the individual entry age actuarial cost method was used. The actuarial assumptions included a 3.8 percent discount rate, which is the long-term municipal bond rate from Federal Reserve Release H.15 as of June 30, 2015. This also approximates a blend of the Board's assumed investment rate of return of 7.0 percent 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, 2015 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 percent of the RP 2000 combined male and 120 percent of the RP 2000 combined female table set back two years. For police and fire retirees, the City's plan used 105 percent of the RP 2000 combined male and 110 percent of the RP 2000 combined female table set back two years. The City's plan used an annual rate of retirement of 50 percent, initially, reduced to an ultimate rate of 20 percent after age 70 for General City. The City's plan used an annual rate of retirement of 25 percent, initially, increased to an ultimate rate of 100 percent after age 70 for police and 100 percent for fire for all ages.

Note 13 - Interfund Receivables and Payables

Balances 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 and for the reimbursement of expenditures. Related Interfund receivables and payables are classified as "due from other funds" or "due to other funds," respectively, on the balance sheet and statement of net position and will be settled within one year. Interfund receivables and payables at December 31, 2015 are as follows:

Due from other funds -		
Other governmental funds	$	3,115,225
Due to other funds:		
Fiduciary Fund	$	618,393
Other governmental funds		4,625,045
Total due to other funds	$	5,243,438

Note 14 - Capital Improvement Program and Construction Commitments

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 $651 million through fiscal year 2020. The Program is being primarily financed from revenues of the Fund and proceeds from the issuance of revenue bonds.

The total amount of construction contract commitments outstanding at December 31, 2015 was approximately $64.8 million.

Note 15 - Contingencies

The City is subject to various governmental environmental laws and regulations. GASB Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*, established accounting and financial reporting standards for pollution (including contamination) remediation obligations, which are obligations to address the current or potential detrimental effects of existing pollution by participating in pollution remediation activities such as site assessments and cleanups. The standard excludes pollution prevention or control obligations with respect to current operations, and future pollution remediation activities that are required upon retirement of an asset, such as landfill closure and postclosure care. The Fund determined that there were no estimated pollution remediation obligations to be recorded at December 31, 2015.

The Fund is also a defendant in numerous alleged claims, lawsuits, billing disputes, and other stated and pending demands. The Fund and the City's Legal Department have estimated a reserve, which is included in the accompanying basic financial statements, for the potential outcome of such claims or the amount of potential damages in the event of an unfavorable outcome for each of the above contingencies. The Fund's management and the City's Legal Department believe that any differences in reserved amounts and final 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.

Note 16 - Bankruptcy

On July 18, 2013, the City filed a petition in the United States Bankruptcy Court for the Eastern District of Michigan (the "Bankruptcy Court"), initiating its bankruptcy case, *In re City of Detroit, Michigan*, Case No. 13-53846 (Bankr. E.D. Mich.) (the "Bankruptcy Case"). On December 5, 2013, the Bankruptcy Court entered its (1) *Opinion Regarding Eligibility* (Docket No. 1945), finding the City eligible for bankruptcy relief; and (2) *Order for Relief Under Chapter 9 of the Bankruptcy Code* (Docket No. 1946), permitting the City to be a debtor under Chapter 9 of the Bankruptcy Code.

On October 22, 2014, the City filed its *Eighth Amended Plan for the Adjustment of Debts of the City of Detroit (October 22, 2014)* (the "Plan", Docket No. 8045). On November 12, 2014, the Bankruptcy Court entered an order confirming the Plan with minor modifications (the "Confirmation Order," Docket No. 8272). The Plan became effective on December 10, 2014 (the "Effective Date"). On that date, among other things, 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 in cash to various parties and escrow accounts; (3) assigned debt service payments on remaining 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 (Settlement Credits) totaling $25.0 million to insurers of the POCs; and (5) irrevocably transferred the assets of the Detroit Institute of Arts (DIA) to the DIA as trustee. The discharge of claims under the Plan provided the City $6.8 billion in aggregate debt relief.

In connection with the Plan, the City entered into various agreements, including the following: (1) the General Retirement System (GRS) and Police and Fire Retirement System pension settlements; (2) matters relating to the Great Lakes Water Authority (GLWA); (3) the Syncora Settlement, including the Syncora Development Agreement and the other Syncora Settlement Documents; and (4) the FGIC/POC Settlement, including the FGIC Development Agreement and the other FGIC/POC Settlement Documents.

The Plan of Adjustment may be obtained on the City's website via the following link:

http://www.detroitmi.gov/Portals/0/doc/EM/Bankruptcy@20Information/Detroit%20-%20Eighth%20Amendment%20Plan%20of%20Adjustment%208045.pdf?ver+2014-11-04-111305-127

Pension Settlements

On the Effective Date, 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 by 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 frozen plans. During November 2015, the actuary for each of the plans revised the calculation of the Unfunded Actuarial Accrued Liabilities (UAAL) for the frozen plans using updated mortality tables and other assumptions. The effect of the revised calculations was to increase the UAAL for the frozen plans by approximately $491 million. Beginning in 2024, the Plan assumed that the UAAL would be funded over 30 years and projected an annual General Fund contribution of $111 million beginning in fiscal year 2024. Based on the revised calculations, as of November 2015, the General Fund contribution was projected to be $194 million per year. In fiscal year 2016, the City began to set aside funds ($30 million in 2016 and $60 million in 2017) in a restricted fund for application to a portion of its annual General Fund contribution obligation to the plans beginning in fiscal year 2024 to allow the City to better manage its liability at that time.

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 2016	Contributions Through June 30, 2023	Beneficiary
Detroit Water and Sewerage Department	$ 45,400,000	$ 428,500,000	GRS
DIA	32,886,828	45,000,000	GRS
General Fund	20,000,000	92,100,000	GRS
Library	2,500,000	22,500,000	GRS
Stub UTGO Bond Millage Assignment to Income Stabilization Fund	4,005,830	31,700,000	GRS
Total GRS Contributions Through June 30, 2023	$ 104,792,658	$ 619,800,000	
Foundation for Detroit's Future	$ 18,300,000	$ 164,700,000	PFRS
DIA	19,487,744	45,000,000	PFRS
Total	$ 37,787,744	$ 209,700,000	

The net pension liability for both retirement systems decreased $1,326,824,448 ($786,592,176 for GRS and $540,232,272 for PFRS) because of the pension settlements.

Great Lakes Water Authority

On September 8, 2014, the Emergency Manager and the Mayor of 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 GLWA Board approved and the Mayor and GLWA 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 GLWA of water supply and sewage disposal services to City retail customers (the "Water and Sewer Services Agreement"). Under the Leases, which became effective on January 1, 2016, the City leased the Leased Facilities and assigned and transferred its interest in all revenue derived from the sale of sewage disposal and water supply services to the wholesale customers and the retail customers of the Systems to GLWA for an initial term of 40 years. The City conveyed to GLWA, for the term of the Leases, a leasehold interest in all of the City's right, title, and interest in and to the Leased Facilities in order to enable GLWA to operate the Leased Facilities. The City, through its Water and Sewerage Department, under the oversight of the Board of Water Commissioners, continues 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").

On December 17, 2015, the GLWA Board 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 GLWA began to operate the Regional Systems and all revenue of the Systems was assigned to GLWA.

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 of Water Commissioners under the City Charter, Section 7-1201 through 7-1204 and the power of the Board of Water Commissioners 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 GLWA. Further, the Court approved the transactions and arrangements contemplated by the Leases.

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). Syncora also insured certain interest rate swap agreements and UTGO debt ($34.4 million pre-petition balance).

The City and Syncora reached an agreement effecting a global settlement of all matters and litigation between the parties related to the Bankruptcy Case, as set forth in the Syncora settlement documents. Among other actions taken in connection with the agreement, the parties entered into the Syncora Development Agreement and the Syncora Option Agreement.

On December 8, 2015, Pike Pointe Holdings, LLC, a Syncora affiliate, notified the City that it was exercising its option under the Syncora Option Agreement 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, which period was formally extended to April 8, 2016, by agreement. As of the date of this report, no agreement has been reached between the two parties though the City and Syncora have agreed in good faith to continue discussions through June 1, 2017.

Syncora Development Agreement representatives of Syncora have presented to the Planning and Development Department (PDD) and the Detroit Economic Development Corporation (DEGC) an initial master plan and marketing booklet for the contiguous parcels at Atwater & Rivard.

The FGIC/COP Settlement

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 an agreement effecting a global settlement of all matters and litigation between the parties related to the Bankruptcy Case, as set forth in the FGIC/POC settlement documents. Among other actions taken in connection with the settlement agreement, the City and the Developer, for the benefit of FGIC and the FGIC POC Holders, entered into the FGIC Development Agreement. Representatives of FGIC presented PDD and DEGC with an initial development proposal. Based on some of the conditions presented in the plan, PDD and DEGC are working with FGIC and adjacent property owners to look at options for a more integrated development plan.

Settlement Credits

On the Effective Date, pursuant to the Syncora Settlement and the FGIC/COP Settlement, the City transferred Settlement Credits to a trustee on behalf of Syncora and FGIC in the aggregate amount of $25 million, which may be applied to 50 percent of the purchase price of certain eligible City assets, subject to the terms and conditions of those Settlement Credits. Syncora was credited with $6.0 million and FGIC was credited with $19.0 million of Settlement Credits. As of the date of this report, Syncora has redeemed $0 and FGIC has redeemed $0 of Settlement Credits.

Financial Review Commission

Michigan Public Act 181 of 2014, M.C.L. §§ 141.1631, *et seq.* (Act 181) established the Detroit Financial Review Commission (the "Commission") as of the Effective Date (December 10, 2014), to monitor the City's compliance with the Plan of Adjustment and Public Act 181 and to provide oversight of the City's financial activities. The Commission has broad authority 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, imposes further requirements, including that 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 three succeeding fiscal years (the "Financial Plan"). The Financial Plan must be consistent with the two-year budget adopted by the Emergency Manager pursuant to Act 436. The Financial Plan is the basis for the City's required budget under Act 2. The Financial Plan is 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 City's Financial Plan for fiscal years 2017-2020 on April 18, 2016.

Act 181 provides for the oversight of the City for no less than 13 years. However, if the City meets certain criteria, the nature of the oversight is scaled back. Those criteria include: the City's adoption and adherence to a balanced budget for three consecutive years; certification by the State Treasurer and the City's CFO that all debt obligations sold in the public market by or for the benefit of the City in the immediately preceding and current fiscal years satisfied the City's capital needs for those periods; the City's current four-year financial plan projects a balanced budget in each year of the plan; the Commission concurs that the City has sufficient ability to borrow in the capital markets; the City has not violated and is not in current violation of the Plan; and the State Treasurer confirms that the City is in compliance with the Uniform Budgeting and Accounting Act.

The City anticipates that by December 31, 2017, it will have satisfied these requirements. Once the City satisfies the foregoing criteria, the Commission must waive many of the requirements described above, but may rescind the waiver if it determines that there is a substantial likelihood that certain criteria will occur, including failure by the City to pay debt when due, the City incurs a budget deficit in any year in excess of 5 percent of expenditures in that year, or the City fails to comply with the revised municipal finance act or to obtain the prior approval of the Commission to issue debt. If the Commission waives the requirements for 10 consecutive years, the Commission is dissolved.

Note 17 - Subsequent Events

(a) Bankruptcy Appeals

A number of parties filed appeals of the Confirmation Order. Almost all of these appeals have been dismissed or otherwise resolved. Two sets of appellants filed petitions with the United States Supreme Court, seeking writs of certiorari (i.e., asking the Supreme Court to hear their appeal). One petition, filed February 9, 2017, was denied by the Supreme Court on April 17, 2017. The other petition, filed April 14, 2017, remains pending and involves the following cases and appellants:

1. Sixth Circuit Cases:
    a. *John Quinn v. City of Detroit, et al.*, U.S. Court of Appeals Docket No. 15-2337
    b. *Dennis Taubitz, et al. v. City of Detroit, et al.*, U.S. Court of Appeals Docket No. 15-2353
    c. *William Davis v. City of Detroit, MI, et al.*, U.S. Court of Appeals Docket No. 15-2379
2. Supreme Court Petition Docket No. 16-1236, *John P. Quinn, Dennis Taubitz, Irma Industrious, and William Davis, v. City of Detroit, Michigan, et al*.

(b) Progress on Resolution of Unsecured Bankruptcy Claims

After confirmation of the Plan, the City began working to resolve the approximately 3,900 filed proofs of claim. Of these, approximately 1,400 were claims related to litigation. The approximately 2,500 other proofs of claim include trade claims, labor-related claims, tax claims, pension-related claims, and others.

The City has resolved approximately 2,600 of the roughly 3,900 claims originally filed. The City has resolved 900 of the litigation claims and is litigating over 400 more. Also, more than half of the non-litigation unsecured claims have been resolved, including some of the largest. For example, certain unions filed claims against the City asserting a face value of nearly $9 billion in unsecured pre-petition obligations. These claims have been voluntarily resolved and allowed in face amounts totaling $110 million and, on that basis, will share pro rata in $20.6 million in B Notes along with other creditors holding allowed Class 14 claims. The $20.6 million in B Notes is a fixed amount, regardless of the total amount of allowed Class 14 claims.

(c) Great Lakes Water Authority

On January 1, 2016, the Leases and all of the transactions described above became effective. At any time GLWA issues bonds with a maturity date after the initial term of the Leases, the term of the Leases automatically extends to coincide with the date on which the last of the GLWA Bonds are required to be paid or at such time as they are defeased.

Rate Setting

Pursuant to the Leases, (i) GLWA has 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, GLWA has the exclusive right to charge and bill to and collect from such customers amounts from services constituting the revenue of the Systems, including the retail rates and charges. Under the Water and Sewer Services Agreement, GLWA delegated to the City's Board of Water Commissioners its rights to set rates and collect revenue with respect to retail customers of the City.

Lease Payments

Part of the consideration for the Leases is 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) 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 flow through the existing flow of funds under the related GLWA Master Bond Ordinance. The parties to the Leases anticipated that, due to efficiencies, restructuring opportunities, local and regional capital improvements underway or planned for the future, and other cost savings, funding of the Lease Payment would not increase the revenue requirements for the Regional Systems by more than 4 percent per year. Nothing in the Leases changes the obligation of GLWA 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 GLWA Bonds associated with such improvements, or the City's share of debt service on GLWA Bonds associated with common-to-all improvements. Any bonds to finance Regional System improvements or DWSD local infrastructure are now issued by GLWA and are secured by the net revenue (as defined in the Master Bond Ordinances).

Effective January 1, 2016, the City has leased the regional sewer system and regional water system to GLWA. The City, through the DWSD, continues to provide all services to customers located within the City of Detroit boundaries. The Leases assign all DWSD bonds to GLWA, and all capital assets used to provide services to the suburban customers. The annual debt service related to the portion of the DWSD bonds that were used to construct in-city capital assets has been and will continue to be allocated to DWSD directly as part of the rate structure. As part of this agreement, all collection of sewage disposal and water billings is deposited into accounts created by the GLWA Master Bond Ordinances, in order to provide continued protection to those bondholders.

As compensation, GLWA will make lease payments of $50 million per year, currently allocated at $27.5 million and $22.5 million for Sewage and Water, respectively, which will be deposited into the Improvement and Extension Fund, or used to fund DWSD's portion of debt service. The lease term is 40 years, and will be automatically extended to match the maturity of any GLWA bonds outstanding.

The DWSD has reported the consideration receivable at its net present value, using a discount rate of 3.677 percent. It has reported the allocation of all assets and liabilities based on management's best estimates available as of the date of the June 30, 2016 financial statements, May 26, 2017. DWSD has been negotiating with GLWA to come to specific agreement on some of the individual assets and liability allocations, including the allocation of debt related to the portion of the DWSD bonds that were used to construct in-city capital assets. We expect an agreement to be reached subsequent to the issuance of these financial statements. If there is a change in allocation of the assets and liabilities from the estimates used in these financial statements, it will be reflected in the financial statements for the year ending June 30, 2017.

As a result of this acquisition, the statement of revenue, expenses, and changes in net position reports revenue and expenses related to all regional water and sewage disposal activity for the first six months of the fiscal year, and only activity related to City retail customers for the second six months of the year.

As a result of the Leases mentioned above, which were effective January 1, 2016, the Water and Sewer Funds of the City were impacted by the resulting bifurcation of the balance sheet as of January 1, 2016. The difference between the consideration receivable and the net position allocated to GLWA at January 1, 2016 (considering assets, liabilities, deferred outflows, and deferred inflows, less the contractual obligation to GLWA for the portion of the debt used to construct in-city capital assets) has been reported as a Special Item.

The detail of this calculation is shown below.

	Water	Sewage
Present value of consideration received	$ 484,313,371	$ 591,938,565
Cash, cash equivalents, and Investments at 12/31/15	(349,833,408)	(462,883,499)
Receivables assumed by Great Lakes Water Authority	(67,167,538)	(248,776,115)
Assets leased to Great Lakes Water Authority	(1,386,073,421)	(2,295,028,738)
Bonds assumed by Great Lakes Water Authority	2,020,221,695	3,093,035,814
Other liabilities assumed by Great Lakes Water Authority	66,233,037	121,715,649
Day one cash	8,839,000	8,911,500
Total	$ 776,532,736	$ 808,913,176

Of the total operating revenue and expenses for the Water and Sewage Disposal Fund, the operations that were transferred to GLWA under the Leases had, for the first six months of the fiscal year, the following activity: for the Water fund, total operating revenue of approximately $160 million and total operating expenses of approximately $90 million and for the Sewage Disposal Fund, total operating revenue of approximately $130 million, and total operating expenses of approximately $100 million.

In addition, of the total nonoperating expenses for the Water and Sewage Disposal Fund, approximately $50 million and $65 million, respectively, represents the activity for the disposed operations.