| | |
|---|---|
| **NOT A NEW ISSUE** | **RATING:** Standard & Poor's: "A" |
| (Book-Entry Only) | See "Rating" herein |

*On December 10, 2014, Dickinson Wright PLLC, Bond Counsel and the Attorney General of the State of Michigan delivered their approving opinions in connection with issuance of the Bonds, which concluded that subject to compliance with certain requirements of the Internal Revenue Code of 1986, as amended, under existing law as presently interpreted, (i) interest on the Series 2014F-1 Bonds was excluded from gross income for federal income tax purposes except as described under "TAX MATTERS" herein and the Series 2014F-1 Bonds and the interest thereon were exempt from all taxation of the State of Michigan or a subdivision thereof, except estate taxes and taxes on gains realized from the sale, payment or other disposition of the Bonds and (ii) interest on the Series 2014F-2 Bonds was included in gross income for federal tax purposes and the Series 2014F-2 Bonds and the interest thereon were exempt from all taxation of the State of Michigan or a subdivision thereof, except estate taxes and taxes on gains received from the sale, payment or other disposition of the Bonds. See "TAX MATTERS."*

# $245,000,000
# MICHIGAN FINANCE AUTHORITY
## Local Government Loan Program Revenue Bonds, Series 2014F
## (City of Detroit Financial Recovery Income Tax Revenue and Refunding Local Project Bonds)

| $134,725,000 | $110,275,000 |
|---|---|
| **Local Government Loan Program Revenue Bonds, Series 2014F-1 (City of Detroit Financial Recovery Income Tax Revenue and Refunding Local Project Bonds)** | **Local Government Loan Program Revenue Bonds, Series 2014F-2 (City of Detroit Financial Recovery Income Tax Revenue and Refunding Local Project Bonds) (Federally Taxable)** |

**Initial Dated Date: December 10, 2014** **Due as shown on inside cover page**
**Conversion Date: September 1, 2015**

The Local Government Loan Program Revenue Bonds, Series 2014F (City of Detroit Financial Recovery Income Tax Revenue and Refunding Local Project Bonds) (the "Bonds") will be reissued by the Michigan Finance Authority (the "Authority") in fully registered form in denominations of $5,000 or any integral multiple thereof and are registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York, which will act as securities depository for the Bonds. The Bonds are being publicly reoffered by Barclays Capital Inc. ("Barclays" or the "Underwriter"), which purchased the Bonds on December 10, 2014. Bondowners will not receive certificates representing their ownership interest in the Bonds purchased. See "THE BONDS - Book-Entry-Only System." From and after the conversion date set forth above, interest on the Bonds will be payable at the fixed rates set forth on the inside cover hereof, semiannually on April 1 and October 1, commencing October 1, 2015.

The Bonds were issued under the Resolution (as defined herein) of the Authority to finance the purchase by the Authority of Municipal Obligations (as defined herein) issued by the City of Detroit, Michigan (the "City") and to pay the costs of issuance and reoffering of the Bonds. The City has used a portion of the proceeds of the Municipal Obligations to refund prior indebtedness (the "Prior City Bonds") of the City and has used and is using a portion of the proceeds of the Municipal Obligations (a) to finance the costs of certain reinvestment and revitalization incentive projects in the City (the "Additional Project Financing"), (b) to pay all or a portion of the City's obligations with respect to certain classes of claims (the "Claims") identified in the City's original bond authorizing order under the City's Eighth Amended Plan of Adjustment of the Debts of the City of Detroit (the "Plan of Adjustment") in Bankruptcy Case No. 13-53846 (the "Bankruptcy Case") in the United States Bankruptcy Court for the Eastern District of Michigan (the "Bankruptcy Court"), (c) to fund a debt service reserve account (the "City Debt Service Reserve Fund") and (d) to pay the costs of issuance of such Municipal Obligations.

The Bonds are payable solely from the revenue pledged as security for the Bonds in the Resolution, including the Municipal Obligations and the funds and accounts subject to a lien established under the Resolution for the benefit of the Bonds. The Municipal Obligations are payable from the revenue pledged as security therefor and subject to a statutory lien and trust thereon, including the pledge of certain income tax revenues collected by or on behalf of the City from a levy of an excise tax on income, which is paid to and held by UMB Bank, N.A. pursuant to the Income Tax Agreements (as defined herein), and the pledge of the City's limited tax full faith and credit, as a first budget obligation, including the proceeds of ad valorem taxes annually levied on all taxable property within the City, subject to applicable constitutional, statutory and charter tax rate limitations.

The Bonds are limited obligations of the Authority. The Bonds were issued as the Type: Financial Recovery Income Tax Revenue and Refunding Local Project Bonds. Under the Resolution, Bonds of each Type are separately secured from Bonds of other Types. The Depository and Trustee for the Bonds is UMB Bank, N.A.

**The Bonds shall not be in any way a debt or liability of the State of Michigan or of any political subdivision thereof and shall not create or constitute any indebtedness, liability or obligation of the State of Michigan or of any political subdivision thereof or be or constitute a pledge of the full faith and credit or the taxing power of the State of Michigan or of any political subdivision thereof. The Authority has no taxing power.**

The maturity schedule for the Bonds is set forth on the inside of this cover page.

The Bonds are subject to optional redemption prior to maturity. See "THE BONDS – Optional Redemption of the Series 2014F-1 Bonds" and "THE BONDS – Make-Whole Optional Redemption of the Series 2014F-2 Bonds." The Bonds are subject to Mandatory Redemption as provided herein. See "THE BONDS – Mandatory Redemption of the Bonds."

The reoffering is subject to withdrawal or modification of the offer without notice. It is expected that the Bonds in book-entry form will be available for delivery against payment therefor through the facilities of DTC on or about September 1, 2015.

This cover page contains certain information for quick reference only. It is not a summary of this issue. Investors must read the entire Reoffering Memorandum to obtain information essential to the making of an informed investment decision.

**Barclays**

Dated: August 19, 2015

**$245,000,000**
**Local Government Loan Program Revenue Bonds, Series 2014F**
**(City of Detroit Financial Recovery Income Tax Revenue and Refunding Local Project Bonds)**

**$134,725,000**
**Local Government Loan Program**
**Revenue Bonds, Series 2014F-1**
**(City of Detroit Financial Recovery Income Tax Revenue and Refunding Local Project Bonds)**

**$37,660,000 Serial Bonds**

| Maturity (October 1) | Principal Amount | Interest Rate | Price | CUSIP |
|---|---|---|---|---|
| 2020 | $2,000,000 | 3.400% | 100% | 59447T DU4 |
| 2021 | 2,000,000 | 3.600 | 100 | 59447T DV2 |
| 2022 | 2,000,000 | 3.800 | 100 | 59447T DW0 |
| 2023 | 15,375,000 | 3.875 | 100 | 59447T DX8 |
| 2024 | 16,285,000 | 4.000 | 100 | 59447T DY6 |

**$97,065,000 Term Bonds**

Due October 1, 2029, Interest Rate: 4.500%, Price 100% CUSIP† 59447T DZ3

**$110,275,000**
**Local Government Loan Program**
**Revenue Bonds, Series 2014F-2**
**(City of Detroit Financial Recovery Income**
**Tax Revenue and Refunding Local Project Bonds)**
**(Federally Taxable)**

**Term Bonds**

Due October 1, 2022, Interest Rate: 4.600%, Price 100% CUSIP† 59447T EA7

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† Registered trademark of American Bankers Association. CUSIP data herein is provided by Standard and Poor's CUSIP Service Bureau, a division of the McGraw Hill Companies, Inc. This data is not intended to create a database and does not serve in any way as a substitute for the CUSIP service. CUSIP numbers are provided for reference only. Neither the Authority, the Trustee nor the Underwriter take any responsibility for the accuracy of such numbers.

IN CONNECTION WITH THIS OFFERING, THE UNDERWRITER MAY OVERALLOT OR EFFECT TRANSACTIONS THAT STABILIZE OR MAINTAIN THE MARKET PRICES OF THE BONDS AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

THE UNDERWRITER MAY OFFER AND SELL THE BONDS TO CERTAIN DEALERS AND DEALER BANKS ACTING AS AGENT AT PRICES LOWER THAN THE PUBLIC OFFERING PRICES STATED ON THE COVER OF THIS OFFICIAL STATEMENT. SUCH PUBLIC OFFERING PRICES MAY BE CHANGED FROM TIME TO TIME BY THE UNDERWRITER.

No dealer, broker, salesperson or other person has been authorized by the Michigan Finance Authority or the Underwriter to make any representation other than as contained in this Reoffering Memorandum and, if given or made, such other information or representation must not be relied upon as having been authorized by the Authority or the Underwriter. The information set forth in this Reoffering Memorandum has been obtained from the Authority, the State, the City of Detroit, The Depository Trust Company ("DTC"), and other sources that are deemed to be reliable, but as to information from sources other than themselves, is not to be construed as a representation by the Authority, the State, the City of Detroit, DTC, or the Underwriter respectively. The Underwriter has reviewed the information in this Reoffering Memorandum in accordance with, and as part of, its responsibilities to investors under the federal securities laws as applied to the facts and circumstances of the transaction, but the Underwriter does not guarantee the accuracy or completeness of such information. The information and expressions of opinion herein are subject to change without notice, and neither the delivery of this Reoffering Memorandum nor the sale of the Bonds shall under any circumstances create any implication that there has been no change in the affairs of the Authority, the State, the City of Detroit, or DTC since the date of this Reoffering Memorandum. None of the information contained in this Reoffering Memorandum has been supplied or verified by the Depository or the Trustee, and the Depository and the Trustee make no representations, warranties or guarantee as to the accuracy or completeness of any information in this Reoffering Memorandum.

This Reoffering Memorandum does not constitute an offer to sell or the solicitation of an offer to buy, nor shall there by any sale of the Bonds by any person in any jurisdiction in which it is unlawful for such person to make such offer, solicitation or sale. This Reoffering Memorandum is not to be construed as a contract or agreement between the Authority and the purchasers or holders of any of the Bonds.

**IN MAKING AN INVESTMENT DECISION INVESTORS MUST RELY ON THEIR OWN EXAMINATION OF THE AUTHORITY AND THE TERMS OF THE OFFERING, INCLUDING THE MERITS AND RISKS INVOLVED. THESE SECURITIES HAVE NOT BEEN RECOMMENDED BY ANY FEDERAL OR STATE SECURITIES COMMISSION OR REGULATORY AUTHORITY. FURTHERMORE, THE FOREGOING AUTHORITIES HAVE NOT CONFIRMED THE ACCURACY OR DETERMINED THE ADEQUACY OF THIS DOCUMENT. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.**

Certain statements contained in this Reoffering Memorandum reflect not historical facts but forecasts and "forward-looking statements." In this respect, the words "estimate," "project," "anticipate," "expect," "intend," "believe," and similar expressions are intended to identify forward-looking statements. The achievement of certain results or other expectations contained in such forward-looking statements involves known and unknown risks, uncertainties and other factors that may cause actual results, performance or achievements described to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. All projections, forecasts, assumptions, expressions of opinions, estimates, and other forward-looking statements are expressly qualified in their entirety by the foregoing and the other cautionary statements set forth in this Reoffering Memorandum.

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# REOFFERING MEMORANDUM

## Relating to

**$245,000,000**
**MICHIGAN FINANCE AUTHORITY**
**Local Government Loan Program Revenue Bonds, Series 2014F**
**(City of Detroit Financial Recovery Income Tax Revenue and Refunding Local Project Bonds)**

| $134,725,000 Local Government Loan Program Revenue Bonds, Series 2014F-1 (City of Detroit Financial Recovery Income Tax Revenue and Refunding Local Project Bonds) | $110,275,000 Local Government Loan Program Revenue Bonds, Series 2014F-2 (City of Detroit Financial Recovery Income Tax Revenue and Refunding Local Project Bonds) (Federally Taxable) |
|---|---|

# INTRODUCTION

*The following introductory statement is subject in all respects to the more complete information set forth in this Reoffering Memorandum. The descriptions and summaries of various documents hereinafter set forth do not purport to be comprehensive or definitive and are qualified in their entirety by reference to each document. Capitalized terms used in this Reoffering Memorandum that are not otherwise defined herein have the meanings set forth in "APPENDIX I - SUMMARY OF CERTAIN PROVISIONS OF THE RESOLUTION AND THE SIXTH SUPPLEMENTAL INDENTURE" attached hereto.*

**Purpose of this Reoffering Memorandum**

This Reoffering Memorandum, including the cover pages and the Appendices hereto, is provided to furnish information in connection with the reoffering of the Michigan Finance Authority (the "Authority") Local Government Loan Program Revenue Bonds, Series 2014F (City of Detroit Financial Recovery Income Tax Revenue and Refunding Local Project Bonds), of the Type: Financial Recovery Income Tax Revenue and Refunding Local Project Bonds, in the aggregate principal amount of $245,000,000 (the "Bonds").

**The Authority**

The Michigan Finance Authority is an autonomous public body corporate, separate and distinct from the State. See "THE MICHIGAN FINANCE AUTHORITY" for more information about the Authority.

**Statutory Authority and the Resolution**

The Bonds were authorized, executed and delivered on December 10, 2014 (the "Original Issue Date"), and are secured in accordance with the Amended and Restated Resolution Establishing Michigan Finance Authority Local Government Loan Program and Providing for the Issuance of Local Government Program Revenue Bonds, adopted by the Authority on May 15, 2014 (collectively, the "General Resolution"), Supplemental Resolutions adopted by the Authority on September 25, 2014 and July 30, 2015 (collectively, the "Supplemental Resolution") and a Sixth Supplemental Indenture dated as of December 10, 2014 (the "Supplemental Indenture", together with the General Resolution and the Supplemental Resolution, the "Resolution"). The General Resolution authorizes the issuance and sale of bonds pursuant to supplemental resolutions and supplemental indentures, in any one or more of several

Types. Separate Series are so designated in supplemental resolutions and supplemental indentures. Bonds of each Type are separately secured but all Bonds of the same Type, regardless of their original issue date, are equally and ratably secured under the General Resolution. Pursuant to authority provided by the Resolution, the fixed interest rates and related bond terms are being established under a Certificate Approving Bond Details to be executed by an Authorized Officer of the Authority as of the Conversion Date.

**The City of Detroit**

The City of Detroit, Michigan is a home rule city organized under the Home Rule City Act, Act No. 279, Public Acts of Michigan, 1909, as amended ("Act 279"). The City emerged from Chapter 9 bankruptcy pursuant to an Eighth Amended Plan for the Adjustment of Debts of the City of Detroit dated October 22, 2014 (the "Plan of Adjustment"), as confirmed by final order of the United States Bankruptcy Court for the Eastern District of Michigan (the "Bankruptcy Court") entered on November 12, 2014 (the "Confirmation Order") in Bankruptcy Case No. 13-53846 (the "Bankruptcy Case"). See "THE CITY" for more information about the City. The Municipal Obligations were issued by the City to the Authority on December 10, 2014, pursuant to Act 279, the Plan of Adjustment, a bond authorizing Order No. 13 ("Order No. 13") executed by the Emergency Manager of the City on September 25, 2014, a resolution of the City Council dated September 15, 2014, an order of the Local Emergency Financial Assistance Loan Board dated September 26, 2014, the Confirmation Order, a sale order (the "Sale Order") of the Emergency Manager of the City dated December 10, 2014, and a Financial Recovery Bond Trust Indenture dated as of December 10, 2014 and a Financial Recovery Bond First Supplemental Indenture dated as of September 1, 2015, both between the City and UMB Bank, N.A., as trustee (together, the "City Trust Indenture").

**Use of Proceeds**

The Authority used the proceeds of the sale of the Bonds, to finance a portion of the purchase by the Authority of Municipal Obligations (as defined herein) issued by the City of Detroit (the "City") and to pay the Costs of Issuance and reissuance of the Bonds (as defined below). See "THE BONDS – Sources and Uses of Funds." The City has used a portion of the proceeds of the Municipal Obligations to refund prior indebtedness (the "Prior City Bonds") of the City and has used and is using the proceeds of the Municipal Obligations (a) to finance the costs of certain reinvestment and revitalization incentive projects in the City (the "Additional Project Financing"), (b) to pay all or a portion of the City's obligations with respect to certain classes of claims (the "Claims") under the Plan of Adjustment as identified in Exhibit A to Order No. 13, (c) to fund a debt service reserve account (the "City Debt Service Reserve Fund") and (d) to pay the costs of issuance of such Municipal Obligations. Effective on the Conversion Date, the City is redeeming a portion of its Municipal Obligations, resulting in a $30 million repayment of the Series 2014F-2 Bonds. Accordingly, only $110,275,000 of the Series 2014F-2 Bonds will remain outstanding and are being remarketed.

**Security and Sources of Payment for the Bonds**

The Bonds are payable solely from the revenue pledged as security for the Bonds in the Resolution, including the Municipal Obligations and the funds and accounts established under the Resolution for the benefit of the Bonds. The Municipal Obligations are payable from the revenue pledged as security therefor, including the pledge of certain income tax revenues collected by or on behalf of the City from a levy of an excise tax on income, which tax revenue is paid to and held by UMB Bank, N.A. pursuant to the Income Tax Agreements (as defined herein) and a pledge of the City's limited tax full faith and credit. See "SECURITY AND SOURCES OF PAYMENT FOR THE MUNICIPAL OBLIGATIONS."

**The Bonds are not a debt or liability of the State of Michigan or any agency or instrumentality of the State, other than the Authority as set forth in the Act and the Resolution. The Bonds do not create or constitute an indebtedness, liability or obligation of the State or constitute a pledge of the faith and credit of the State.**

**Trustee**

UMB Bank, N.A., serves as (i) the Trustee, Depository, Bond Registrar and Paying Agent for the Bonds, (ii) trustee under the City Trust Indenture pursuant to which the Municipal Obligations were issued (the "City Trustee"), and (iii) trustee under the Deposit Account Control Agreement dated December 10, 2014, with respect to the collection and application of certain Pledged Income Tax Revenues (as defined below). The obligations and duties of the Trustee are as described in the Resolution and the obligations of the City Trustee are as described in the City Trust Indenture. The Trustee has not evaluated the risks, benefits or propriety of any investment in the Bonds, and makes no representation, and has reached no conclusions, regarding the validity of the Bonds, the security therefor, the adequacy of the provisions for payment thereof or the tax status of the interest on the Bonds. The Trustee has relied upon the opinions of Bond Counsel, counsel to the Authority and counsel to City for the validity and tax status of the interest on the Bonds as well as with respect to the other matters set out in those opinions. Furthermore, the Trustee has no oversight responsibility, and is not accountable, for the use or application of the proceeds of the Bonds by the Authority or the City.

**Availability of Documents**

The descriptions and summaries of various documents set forth in this Reoffering Memorandum do not purport to be conclusive or definitive and reference is made to each such document for the complete details of all terms and conditions hereof. A summary of certain portions of the Resolution is set forth in APPENDIX I hereto. All references herein to the Bonds, the Resolution, the Municipal Obligations and the City Trust Indenture are qualified in their entirety by such documents. Copies of the Resolution, Order No. 13, the Sale Order, the City Trust Indenture and the Deposit Account Control Agreement may be examined or obtained at the expense of the person requesting the same at the corporate trust office of the Trustee.

## THE MICHIGAN FINANCE AUTHORITY'S LOCAL GOVERNMENT LOAN PROGRAM

Pursuant to the Act, the Authority's local government loan program has been established for the purpose of making loans to governmental units of the State of Michigan (the "State") for financing public improvements and for other municipal purposes. The Authority accomplishes this purpose by purchasing obligations issued by counties, cities, townships, villages, school districts, community colleges, public universities, authorities, districts or other political subdivisions of the State (the "Governmental Units").

**The Bonds are payable solely from the revenues pledged therefor, including payments on the Municipal Obligations and the funds and accounts established under the Resolution for the benefit of the Bonds. See "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS." The Bonds are not in any way a debt or liability of the State and do not constitute a pledge of the faith and credit or taxing power of the State.**

## THE BONDS

### General

The Bonds have been issued by the Authority and will mature on the dates and in the principal amounts set forth on the inside cover page of this Reoffering Memorandum. From and after September 1, 2015 (the "Conversion Date"), the Bonds will bear interest at fixed rates of interest until maturity or prior redemption, payable semiannually on April 1 and October 1 of each year commencing October 1, 2015, at the respective interest rates set forth on the inside cover of this Reoffering Memorandum. As of the Conversion Date, the Bonds will be issued as fully registered bonds in denominations of $5,000 and integral multiples thereof.

### Sources and Uses of Funds

| Sources: | 2014F-1 | 2014F-2[1] |
|---|---|---|
| Par Amount of the Bonds | $134,725,000.00 | $140,275,000.00 |
| Total Sources | $134,725,000.00 | $140,275,000.00 |
| Uses: | | |
| Deposit to Loan Account and further used under City Trust Indenture for payment of prior City Bonds | $ 61,353,637.50 | $ 58,751,362.50 |
| Deposit to Loan Account and further deposited under City Trust Indenture to Bond Proceeds Account[2] for Claims Payment | 0.00 | 37,969,926.26 |
| Deposit to Loan Account and further deposited under City Trust Indenture to Bond Proceeds Account[2] for Project Purposes | 58,064,834.10 | 27,619,889.64 |
| Deposit to Reserve Account[2] for the Municipal Obligations | 13,472,500.00 | 14,027,500.00 |
| Costs of Issuance and Underwriter's Fee[3] | 1,834,028.41 | 1,906,318.54 |
| Total Uses | $134,725,000.00 | $140,275,000.00 |

[1] The Authority originally issued $140,275,000 of Series 2014F-2 Bonds. Effective on the Conversion Date, $30,000,000 of the Series 2014F-2 Bonds are being redeemed, so only $110,275,000 are being remarketed.

[2] This account is established under the City Trust Indenture.

[3] Includes certain costs of issuance of the Authority with respect to the Bonds and of the City with respect to the Municipal Obligations (collectively, the "Costs of Issuance").

### Optional Redemption of Series 2014F-1 Bonds

The Series 2014F-1 Bonds maturing on October 1, 2029 are subject to redemption at the option of the Authority on any date on or after October 1, 2024 in whole or in part, and, if in part, in multiples of $5,000 from such maturities as the Authority determines, at par, plus accrued interest to the redemption date.

**Make-Whole Optional Redemption of the Series 2014F-2 Bonds**

The Series 2014F-2 Bonds maturing October 1, 2022 are subject to redemption at the option of the City, in whole or in part, on any Business Day upon 40 days prior written notice at a price (the "Make-Whole Redemption Price") equal to the greater of (i) 100% of the principal amount of such Series 2014F-2 Bonds to be redeemed, and (ii) the sum of the present value of the remaining scheduled payments of principal and interest to the maturity date of the 2014F-2 Bonds to be redeemed, not including any portion of those payments of interest accrued and unpaid as of the date on which the 2014F-2 Bonds are to be redeemed, discounted to the date on which the 2014F-2 Bonds are to be redeemed on a semi-annual basis, assuming a 360-day year consisting of twelve 30-day months, at the adjusted Treasury Rate plus 45 basis points, plus accrued interest on the 2014F-2 Bonds to be redeemed through the Redemption Date. For purposes of this subsection, "Treasury Rate" means the yield to maturity as of the Redemption Date of United States Treasury securities with a constant maturity (as compiled and published in the most recent Federal Reserve Statistical Release H.15 (519) that has become publicly available at least five (5) business days prior to the Redemption Date (excluding inflation indexed securities), (or if such Statistical Release is no longer published, any publicly available source of similar market data) most nearly equal to the period from the Redemption Date to the maturity date of the 2014F-2 Bonds to be redeemed; provided, however, that if the period from the Redemption Date to such maturity date is less than one year, the weekly average yield on actually traded United States Treasury securities adjusted to a constant maturity of one year will be used. The City shall provide a written direction to the Trustee and the Authority no less than five (5) Business Days prior to the date the Trustee is to provide notice to the Owners.

The Make-Whole Redemption Price of the 2014F-2 Bonds to be redeemed pursuant to the optional redemption provision described above will be determined by an independent accounting firm, investment banking firm or financial advisor retained by the City at the City's expense to calculate such Make-Whole Redemption Price. The Trustee, the Authority and the City may conclusively rely upon the determination of such Make-Whole Redemption Price by such independent accounting firm, investment banking firm or financial advisor, and the Trustee, the Authority, and the City will not be liable for such reliance.

**Mandatory Redemption of the Bonds**

The Series 2014F-1 Term Bonds are subject to mandatory redemption at a redemption price equal to the principal amount thereof in the principal amounts and on the dates set forth below:

$97,065,000 Series 2014F-1 Term Bonds Due October 1, 2029

| October 1 | Principal Amount |
|---|---|
| 2025 | $ 17,245,000 |
| 2026 | 18,265,000 |
| 2027 | 19,350,000 |
| 2028 | 20,495,000 |
| 2029* | 21,710,000 |

*Maturity Date

The Series 2014F-2 Bonds are subject to mandatory redemption at a redemption price equal to the principal amount thereof in the principal amounts and on the dates set forth below:

$110,275,000 Series 2014F-2 Term Bonds

| October 1 | Amount |
|---|---|
| 2018 | $13,425,000 |
| 2019 | 23,605,000 |
| 2020 | 22,950,000 |
| 2021 | 24,390,000 |
| 2022* | 25,905,000 |

*Maturity Date

The principal amounts of the Bonds to be redeemed in each year as set forth in the preceding table may be reduced through the earlier purchase or optional redemption thereof by the Authority, with any partial purchase or optional redemptions of such the Bonds credited against such future sinking fund requirements as the Authority shall determine.

**Redemption Procedures**

*Notice of Redemption*

Under the Resolution, the Bond Registrar and Paying Agent will mail, by first class mail, as specified in the Resolution, a notice of redemption to the Holders of the Bonds to be redeemed at least 40 and not more than 60 days prior to the redemption date. If any optional redemption is to be made under the Resolution with funds that the Authority expects to receive between the time of the giving of such notice and the redemption date, the notice will expressly condition such redemption on timely receipt of such funds. The failure of any Bondholder to receive any such notice or any defect in such notice with respect to any Bond or portion thereof will not affect the validity of any proceedings for the redemption of any the Bonds.

*Selection of Bonds to be Redeemed*

When Bonds are to be redeemed in part, the Authority shall specify to the Bond Registrar and Paying Agent the Series designation, maturity, Type and Original Issue Date of the Bonds from which Bonds or portions of Bonds to be redeemed shall be selected. Subject to the Authority's specification, the particular Bonds or portions of Bonds to be redeemed will be selected by the Bond Registrar and Paying Agent by lot or in such other manner as the Bond Registrar and Paying Agent in its discretion may deem fair, provided that (i) if only a portion of any Bond is to be redeemed, the principal amount of the portion remaining Outstanding will be equal to $5,000 or an integral multiple of $5,000 and (ii) in selecting the Bonds for redemption, the Bond Registrar and Paying Agent will treat each Bond as representing that number of the Bonds that is obtained by dividing the principal amount of such Bond by $5,000.

**Book-Entry-Only System**

The information in this section "Book-Entry-Only System" has been furnished by The Depository Trust Company ("DTC"). No representation is made by the Authority, the State, the Trustee or the Underwriter as to the completeness or accuracy of such information or as to the absence of material adverse changes in such information subsequent to the date hereof. No attempt has been made by the Authority, the State, the Trustee or the Underwriter to determine whether DTC is or will be financially or otherwise capable of fulfilling its obligations. Neither the Authority, the State nor the Trustee will have any responsibility or obligation to DTC Direct Participants, Indirect Participants (both as defined below) or the persons for which they act as nominees with respect to the Bonds, or for any principal, premium, if any, or interest payment thereof.

DTC will act as securities depository for the Bonds. The Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered certificate will be issued for each maturity of each Type of the Bonds, in the aggregate principal amount of such maturity, and will be deposited with DTC.

DTC, the world's largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has a Standard & Poor's rating of AA+. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com.

Purchases of the Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC's records. The ownership interest of each actual purchaser of each Bond ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interest in the Bonds, except in the event that use of the book-entry system for the Bonds is discontinued.

To facilitate subsequent transfers, all the Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of the Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such the Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of the Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Bonds, such as redemptions, tenders, defaults, and proposed amendments to the Security documents. For example, Beneficial Owners of the Bonds may wish to ascertain that the nominee holding the Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of the notices be provided directly to them.

Redemption notices shall be sent to DTC. If less than all of the Bonds within a maturity are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such maturity to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to the Bonds unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the Authority as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal and interest payments on the Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participant's accounts upon DTC's receipt of funds and corresponding detail information from the Authority or Trustee, on the payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC (nor its nominee), the Trustee, or the Authority, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal and interest to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Authority or the Trustee, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as securities depository with respect to the Bonds at any time by giving reasonable notice to the Authority or Trustee. Under such circumstances, in the event that a successor securities depository is not obtained, Bond certificates are required to be printed and delivered.

The Authority may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, Bond certificates will be printed and delivered.

The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that the Authority believes to be reliable, but the Authority takes no responsibility for the accuracy thereof.

**Replacement Bonds**

In the event that the book-entry-only system is discontinued, the Trustee will authenticate and make available for delivery replacement the Bonds in the form of fully registered bond certificates. In addition, the following provisions would apply: (i) principal of and redemption premium, if any, on the Bonds will be payable in lawful money of the United States of America at the corporate trust office of the Trustee or such other office as may be designated by the Authority; (ii) interest on the Bonds will be payable by check or draft mailed to the registered owners thereof or, upon five days written notice to the Bond Registrar and Paying Agent given by a Registered Owner of a the Bonds in an aggregate principal amount of at least $100,000, by wire transfer of funds to a bank account in the United States designated by such Registered Owner; and (iii) interest on the Bonds will be payable by check or draft to the Registered Owners whose names appear on the registration books of the Bond Registrar and Paying Agent as of the close of business on the fifteenth day of the calendar month immediately preceding the applicable interest payment date, all as provided more particularly in the Resolution.

## SECURITY AND SOURCES OF PAYMENT FOR THE BONDS

**The Bonds shall not be in any way a debt or liability of the State or any political subdivision thereof and shall not create or constitute any indebtedness, liability or obligations of the State or any political subdivision thereof, or be or constitute a pledge of the full faith and credit or the taxing power of the State or any political subdivision thereof. The Authority has no taxing power. The Bonds are limited obligations of the Authority, payable by the Authority solely from the revenues pledged therefor, including the Municipal Obligations issued to the Authority, as described herein and the funds and accounts held by the applicable Depository and Trustee under the Resolution for the benefit of the Bonds.**

### Pledge of Municipal Obligations

Pursuant to the Resolution, the Authority pledges and assigns to the Trustee, for the benefit of the Bondholders (i) the City of Detroit Financial Recovery Income Tax Revenue and Refunding Local Project Bond Fund established under the Supplemental Indenture and the City of Detroit Financial Recovery Income Tax Revenue and Refunding Local Project Bond Loan Account established under the Supplemental Indenture, and all moneys, instruments, and investment from time to time therein; and (ii) all of the Authority's rights and interest in the Municipal Obligations and the Collateral Documents pertaining to the Municipal Obligations, subject to reservation by the Authority of rights to indemnification and to make all determinations and approvals and receive all notices accorded to it under such Municipal Obligations and Collateral Documents.

The pledge made to the Trustee under the Resolution with respect to the Bonds is for the equal and ratable benefit of all of the Holders of the Bonds.

Debt service payments on the Municipal Obligations are scheduled at such times and in such amounts as will provide sufficient amounts, when combined with other funds available for use by the Authority, to make timely payments of interest on and principal of the Bonds.

### Sources of Payment for the Municipal Obligations

The principal of and interest on the Municipal Obligations are payable from and secured by the Pledged Income Tax Revenues as described herein. The Pledged Income Tax Revenues are subject to a statutory trust for the benefit of the City Trustee and the Municipal Obligations by any party that comes into possession of such revenues and are subject to a statutory lien paramount and superior to all other liens and interests of any kind. See "SECURITY AND SOURCES OF PAYMENT FOR THE MUNICIPAL OBLIGATIONS – General," "- State Law Trust and Statutory Lien Provisions" and "-Treatment of Statutory Provisions Under the Bankruptcy Code." In the event the Pledged Income Tax Revenues are insufficient to pay the principal of and interest on the Municipal Obligations, the Municipal Obligations are limited tax general obligations of the City, the principal of and interest on which is payable as a first budget obligation of the City from proceeds of ad valorem tax annually levied on all taxable property in the City, subject to applicable constitutional, statutory and charter tax rate limitations. The City Trust Indenture also establishes a reserve account for the benefit of the Municipal Obligations. See "CITY TRUST INDENTURE – Debt Service Reserve Requirement."

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## Debt Service on the Bonds

The following table sets forth the debt service due on the Bonds, which is to be paid from semi-annual payments on the Municipal Obligations made to the Trustee for the Bonds by the City Trustee for the Municipal Obligations in amounts scheduled at such times and in such amounts as to provide for timely payments of interest on and principal of the Bonds.

| | Series F-1 | | | | | Series F-2 | | | | Aggregate | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Date | Principal | Interest | Semiannual Debt Service | Fiscal Year Debt Service[1] | Date | Principal | Interest | Semiannual Debt Service | Fiscal Year Debt Service[1] | Semiannual Debt Service | Fiscal Year Debt Service[1] |
| 10/01/2015 | - | $ 485,926 | $ 485,926 | | 10/01/2015 | - | $ 422,721 | $ 422,721 | | $ 908,646 | - |
| 04/01/2016 | - | 2,915,553 | 2,915,553 | $ 3,401,479 | 04/01/2016 | - | 2,536,325 | 2,536,325 | $ 2,959,046 | 5,451,878 | $ 6,360,524 |
| 10/01/2016 | - | 2,915,553 | 2,915,553 | | 10/01/2016 | - | 2,536,325 | 2,536,325 | | 5,451,878 | - |
| 04/01/2017 | - | 2,915,553 | 2,915,553 | 5,831,106 | 04/01/2017 | - | 2,536,325 | 2,536,325 | 5,072,650 | 5,451,878 | 10,903,756 |
| 10/01/2017 | - | 2,915,553 | 2,915,553 | | 10/01/2017 | - | 2,536,325 | 2,536,325 | | 5,451,878 | - |
| 04/01/2018 | - | 2,915,553 | 2,915,553 | 5,831,106 | 04/01/2018 | - | 2,536,325 | 2,536,325 | 5,072,650 | 5,451,878 | 10,903,756 |
| 10/01/2018 | - | 2,915,553 | 2,915,553 | | 10/01/2018 | $ 13,425,000 | 2,536,325 | 15,961,325 | | 18,876,878 | - |
| 04/01/2019 | - | 2,915,553 | 2,915,553 | 5,831,106 | 04/01/2019 | - | 2,227,550 | 2,227,550 | 18,188,875 | 5,143,103 | 24,019,981 |
| 10/01/2019 | - | 2,915,553 | 2,915,553 | | 10/01/2019 | 23,605,000 | 2,227,550 | 25,832,550 | | 28,748,103 | - |
| 04/01/2020 | - | 2,915,553 | 2,915,553 | 5,831,106 | 04/01/2020 | - | 1,684,635 | 1,684,635 | 27,517,185 | 4,600,188 | 33,348,291 |
| 10/01/2020 | $ 2,000,000 | 2,915,553 | 4,915,553 | | 10/01/2020 | 22,950,000 | 1,684,635 | 24,634,635 | | 29,550,188 | - |
| 04/01/2021 | - | 2,881,553 | 2,881,553 | 7,797,106 | 04/01/2021 | - | 1,156,785 | 1,156,785 | 25,791,420 | 4,038,338 | 33,588,526 |
| 10/01/2021 | 2,000,000 | 2,881,553 | 4,881,553 | | 10/01/2021 | 24,390,000 | 1,156,785 | 25,546,785 | | 30,428,338 | - |
| 04/01/2022 | - | 2,845,553 | 2,845,553 | 7,727,106 | 04/01/2022 | - | 595,815 | 595,815 | 26,142,600 | 3,441,368 | 33,869,706 |
| 10/01/2022 | 2,000,000 | 2,845,553 | 4,845,553 | | 10/01/2022 | 25,905,000 | 595,815 | 26,500,815 | | 31,346,368 | - |
| 04/01/2023 | - | 2,807,553 | 2,807,553 | 7,653,106 | 04/01/2023 | - | - | - | 26,500,815 | 2,807,553 | 34,153,921 |
| 10/01/2023 | 15,375,000 | 2,807,553 | 18,182,553 | | 10/01/2023 | | | | | 18,182,553 | - |
| 04/01/2024 | - | 2,509,663 | 2,509,663 | 20,692,216 | 04/01/2024 | | | | | 2,509,663 | 20,692,216 |
| 10/01/2024 | 16,285,000 | 2,509,663 | 18,794,663 | | 10/01/2024 | | | | | 18,794,663 | - |
| 04/01/2025 | - | 2,183,963 | 2,183,963 | 20,978,625 | 04/01/2025 | | | | | 2,183,963 | 20,978,625 |
| 10/01/2025 | 17,245,000 | 2,183,963 | 19,428,963 | | 10/01/2025 | | | | | 19,428,963 | - |
| 04/01/2026 | - | 1,795,950 | 1,795,950 | 21,224,913 | 04/01/2026 | | | | | 1,795,950 | 21,224,913 |
| 10/01/2026 | 18,265,000 | 1,795,950 | 20,060,950 | | 10/01/2026 | | | | | 20,060,950 | - |
| 04/01/2027 | - | 1,384,988 | 1,384,988 | 21,445,938 | 04/01/2027 | | | | | 1,384,988 | 21,445,938 |
| 10/01/2027 | 19,350,000 | 1,384,988 | 20,734,988 | | 10/01/2027 | | | | | 20,734,988 | - |
| 04/01/2028 | - | 949,613 | 949,613 | 21,684,600 | 04/01/2028 | | | | | 949,613 | 21,684,600 |
| 10/01/2028 | 20,495,000 | 949,613 | 21,444,613 | | 10/01/2028 | | | | | 21,444,613 | - |
| 04/01/2029 | - | 488,475 | 488,475 | 21,933,088 | 04/01/2029 | | | | | 488,475 | 21,933,088 |
| 10/01/2029 | 21,710,000 | 488,475 | 22,198,475 | 22,198,475 | 10/01/2029 | | | | | 22,198,475 | 22,198,475 |
| Total | $134,725,000 | $65,336,076 | $200,061,076 | $200,061,076 | | $110,275,000 | $26,970,241 | $137,245,241 | $137,245,241 | $337,306,316 | $337,306,316 |

[1] Total debt service due in each fiscal year ending June 30th.

## SECURITY AND SOURCES OF PAYMENT FOR THE MUNICIPAL OBLIGATIONS

### General

The principal of and interest on the Municipal Obligations are payable from and secured by the Pledged Income Tax Revenues as described herein. The Pledged Income Tax Revenues are subject to a statutory trust for the benefit of the City Trustee and the Municipal Obligations by any party that comes into possession of such revenues and are subject to a statutory lien paramount and superior to all other liens and interests of any kind. The statutory trust and statutory lien arise by operation of law without further notice or act at the earliest time that the City has or acquires any rights in the Pledged Income Tax Revenues, in favor of the City Trustee and the Municipal Obligations. The Pledged Income Tax Revenues held in trust are exempt from being levied upon, taken, sequestered, or applied toward paying the debts or liabilities of the City other than those expressly specified in the City Trust Indenture and Order No. 13.

In the event the Pledged Income Tax Revenues are insufficient to pay the principal of and interest on the Municipal Obligations, the Municipal Obligations are limited tax general obligations of the City, the principal of and interest on which is payable as a first budget obligation of the City from proceeds of ad valorem tax annually levied on all taxable property in the City, subject to applicable constitutional, statutory and charter tax rate limitations. The City Trust Indenture also establishes a reserve account for the benefit of the Municipal Obligations. See "CITY TRUST INDENTURE – Debt Service Reserve Requirement."

"Pledged Income Tax Revenue" is defined by the City Trust Indenture to mean Income Tax Revenue, but shall not include that portion of Income Tax Revenue transferred into the budget of the City's police department at any time, to be used exclusively to retain and hire police officers, in an amount equal to the sum of 0.2% of the income tax rate levied on resident individuals and 0.1% of the income tax rate levied on non-resident individuals, for so long as bonds, obligations or other evidences of indebtedness of the City's Public Lighting Authority are outstanding and payable from taxes levied by the City under the Utility Users Tax Act, Act 100, Public Acts of Michigan, 1990, as amended, MCL 141.1151, *et seq.*

"Income Tax Revenue" is defined by the City Trust Indenture to mean revenues collected by or on behalf of the City from a levy of an excise tax on income pursuant to the City Income Tax Act, Act No. 284, Public Acts of Michigan, 1964, as amended ("Act 284") and any replacement or successor thereto, or pursuant to any other applicable State or local law.

### Act 17

In 2015, following the initial issuance of the Bonds, the Michigan Legislature adopted Public Act 17 of 2015 ("PA 17"). PA 17 amends the Home Rule City Act, providing for imposition of a state law trust and state law statutory lien on the Pledged Income Tax Revenues which secure the Municipal Obligations. See "State Law Trust and Statutory Lien Provisions" below for additional information

### The Income Tax and Pledged Income Tax Accounts

Two bank accounts have been established by the City for collection and administration of City income taxes. One for general collection purposes and one for segregation of Pledged Income Tax Revenues expected to be needed for debt service.

*The Income Tax Account*

The City Trust Indenture provides that for so long as the Municipal Obligations (or any portion thereof) remain outstanding, the City shall on a daily basis cause at least 75% of all Pledged Income Tax Revenue net of refunds to be deposited directly by the applicable taxpayers, or, in the case of employers, Income Tax Revenue withheld by such employers, or by the City if remitted by the taxpayers to the City, into a depository account in the name of the City and the City Trustee (the "Income Tax Account") at Comerica Bank or any successor thereto (the "Depository Bank"), which account collects solely Income Tax Revenue. The Income Tax Account is subject to a Deposit Account Control Agreement dated as of December 10, 2014 among the City, the Depository and the City Trustee (the "Deposit Account Control Agreement" and together with any other agreements from time to time governing the Income Tax Account or the Pledged Income Tax Account, the "Income Tax Agreements"), pursuant to which the City Trustee is granted exclusive control of the Income Tax Account and the Depository agrees to comply with instructions of the City Trustee and not of the City.

*The Pledged Income Tax Account*

The City Trust Indenture further provides that for so long as the Municipal Obligations (or any portion thereof) remain outstanding (a) the City shall maintain a separate depository account in the name of and under the exclusive control of the City Trustee (the "Pledged Income Tax Account") at the Depository and (b) that the City Trustee shall use commercially reasonable efforts to transfer on each day of each calendar month all Pledged Income Tax Revenue on deposit in the Income Tax Account into the Pledged Income Tax Account (the "Daily Transfer Obligation") until the Monthly Deposit Requirement (defined below) is met.

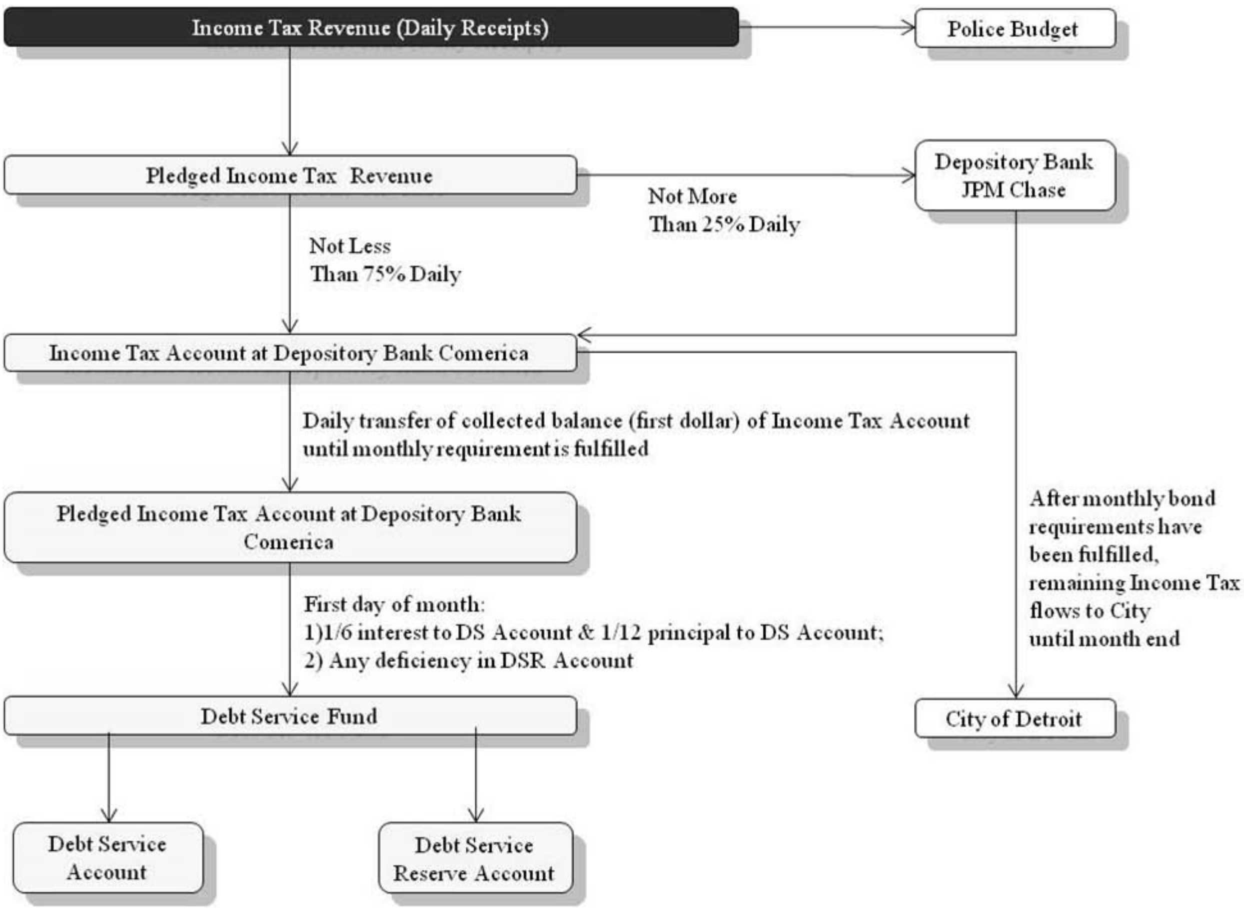
On the first Business Day of each calendar month that (a) there is no deficiency in the Debt Service Account balance or the Debt Service Reserve Account balance, in each case, as required under the City Trust Indenture, and (b) the City's obligation under the City's Trust Indenture to make fractional monthly interest and principal debt service deposits has been fully met for such calendar month as shown in the City Trust Indenture (the "Monthly Deposit Requirement"), the City Trustee shall transfer at the direction of the City from the Income Tax Account any Income Tax Revenue to one or more deposit accounts in the name of the City to be used by the City in its sole discretion, and neither the City nor the City Trustee shall have any Daily Transfer Obligation with respect to that portion of the Income Tax Revenue. Thereafter, the City Trustee shall discontinue the Daily Transfer Obligation until the last Business Day of such calendar month, whereupon the City Trustee will recommence the Daily Transfer Obligation on the first Business Day of the next calendar month. This cycle shall be repeated on a month-to-month basis until the Deposit Account Control Agreement is terminated.

*Deposits to Debt Service Fund Under City Trust Indenture*

Pledged Income Tax Revenues are deposited daily from the Pledged Income Tax Account into the Debt Service Account established under the City Trust Indenture in accordance with the terms of the City Trust Indenture. See "CITY TRUST INDENTURE - Debt Service Fund/Flow of Funds" below.

**Income Tax Revenue Flow of Funds**

As discussed above, Income Tax Revenue is generally deposited as set forth in the following diagram, and in accordance with the terms of the City Trust Indenture. See "CITY TRUST INDENTURE – Debt Service Fund/Flow of Funds" below.




**Income Tax Revenue**

Act 284 authorizes the governing body of a city, by a lawfully adopted ordinance that incorporates by reference the uniform city income tax ordinance set forth in the Income Tax Act, to levy, assess and collect an excise tax on income and earnings as provided in the ordinance. MCL 141.503(1). Taxes under Act 284 are imposed on individuals and on corporations, on residents and non-residents. Under Act 284, the tax basis is measured by (i) compensation, net profits, investments and other income of City residents, (ii) income earned in the City by non-residents, and (iii) corporate income earned in the City, with allocations generally based on property, sales and payroll. The City currently levies and assesses income taxes at the maximum rates permitted by law, 2.4% for residents, 1.2% for non-residents, and 2.0% for corporations. Act 284 provides that a city that forms a lighting authority is required to deposit an amount equal to the sum of the revenue collected from 0.2% of the rate levied on resident individuals and 0.1% of the rate levied on nonresident individuals directly into the budget of the city's police department for use exclusively to retain or hire police officers until all evidences of indebtedness issued by a lighting authority have been fully paid. These required deposits under Act 284 are excluded from the definition of Pledged Income Tax Revenues in the City Trust Indenture.

*Historical Income Tax Rates*

The following table sets forth ten years of historical income tax rates within the City.

**TABLE 1**
**HISTORICAL INCOME TAX RATES†**

| Fiscal Year | Resident Individuals | Non-Resident Individuals | Corporations |
|---|---|---|---|
| 2006-2007 | 2.500 | 1.25 | 1.00 |
| 2007-2008 | 2.500 | 1.25 | 1.00 |
| 2008-2009 | 2.500 | 1.25 | 1.00 |
| 2009-2010 | 2.500 | 1.25 | 1.00 |
| 2010-2011 | 2.500 | 1.25 | 1.00 |
| 2011-2012 | 2.500 | 1.25 | 2.00[1] |
| 2012-2013[2] | 2.400 | 1.20 | 2.00 |
| 2013-2014[2] | 2.400 | 1.20 | 2.00 |
| 2014-2015[2] | 2.400 | 1.20 | 2.00 |
| 2015-2016[2] | 2.400 | 1.20 | 2.00 |

† Source: The City

1 The City of Detroit's Corporate tax rate was increased to 2.00% effective January 1, 2012.

2 Represents the maximum rate permitted by law.

*Discussion of Historical Income Tax Rates*

Effective January 12, 1999, Act 500, Public Acts of Michigan, 1998 ("Act 500") required a reduction in both resident and non-resident City income taxes. The City's resident income tax rate of 3% was required to be reduced by 0.1% on each July 1, beginning July 1, 1999, until reaching 2%. The non-resident income tax rate was required to be reduced to maintain it at one-half of the resident income tax rate. Act 500 permitted this statutory rate reduction schedule to be suspended by the State under certain circumstances if at least three of the following four conditions existed: (1) funds were withdrawn from the City's Budget Stabilization Fund for two or more consecutive fiscal years or the City's Budget Stabilization Fund balance fell to zero; (2) the City's inflation adjusted income tax revenue growth rate over the prior year was 0.95% or less; (3) the City's tax base growth rate was 80% or less of the State-wide tax base growth over a two-year period; or (4) the City's unemployment rate was 10% or higher. If three of these four conditions existed, the next scheduled rate reduction was suspended until the following July 1, and the suspension was permitted to be extended if these conditions continued.

Act 500 also reduced the population threshold for levying local income taxes at rates in excess of 2% from 1,000,000 to 750,000. (Effective June 10, 2011, Act 56, Public Acts of Michigan 2011, further reduced the population threshold to 600,000.) At the end of calendar 1999, the then current Mayor proposed to City Council a phase-out of the corporate income tax over a 10 year period. The reduction of 0.2% became effective on January 1, 2000, with subsequent reductions on each January 1 following the scheduled July 1 reduction in the individual income tax rate, until the City's corporate income tax was to be eliminated by January 1, 2009 or such later date as was applicable. Under City ordinance, the income tax reduction for corporations is suspended whenever a suspension is granted by the State for resident and non-resident rates. Because of two successive one-year suspensions of the 0.1% resident income tax rate reduction granted to the City by the State pursuant to Act 400, the City corporate income tax rate for fiscal years 2004 and 2005 remained the same at 1.2%. The scheduled reduction for fiscal year 2005 was frozen and did not take effect. The City income tax rate for fiscal year 2005 and 2006 was 2.5% for residents and 1.25% for non-residents. In December 2006, the City received a fourth suspension of its income tax rate reduction, effective for the period July 1, 2007 through June 30, 2008. Act 209, Public Acts of Michigan, 2007, effective December 27, 2007, fixed income tax rates at the 2007 levels for calendar years 2008 and 2009. The City income tax rate for fiscal year 2010 and 2011 was 2.5% for residents and 1.25% for non-residents. As described above, under "SECURITY AND SOURCES OF PAYMENT FOR THE MUNICIPAL OBLIGATIONS - Income Tax Revenue", Act 284 was again amended in connection with authorization of public lighting authority bonds to fix income tax rates at 2.4% for residents and 1.2% for non-residents, with provisions for police department budget deposits as described above.

Payments related to withholding taxes (resident and non-resident), estimated tax payments for individuals and corporations and assessments are sent to lockboxes at the Depository Bank where over 90% of all income tax payments are received. Tax return filings for individuals, corporations, partnerships, estates and trusts, all income tax extensions and payments (except withholding) presented directly to the City are sent to lockboxes at J.P. Morgan Chase ("Chase"). Withholding payments sent directly to the City are transferred daily to the Income Tax Account at the Depository Bank. Effective no later than the Conversion Date, and until the Administration Agreement described below is fully implemented, the payments deposited in the Chase lockbox are also required to be transferred daily to the Income Tax Account at the Depository Bank. The City's obligations to cause daily transfers of Pledged Income Tax Revenues to the Income Tax Account are not modified by the Administration Agreement with the Michigan Department of Treasury described in greater detail below under "State Agreement to Administer City Income Tax". The table below depicts the due dates and timing of income tax payments. Under the City Trust Indenture, the City has covenanted that amounts deposited in lockboxes other than the Income Tax Account at the Depository Bank will not exceed 25% of all Pledged Income Tax Revenues net of refunds.

The Income Tax Division also collects delinquent amounts owed based on court judgments and payment agreements. Amounts related to these situations are deposited into a lockbox with the Depository Bank and transferred daily to the Income Tax Account.

*Income Tax Due Dates*

| **Description** | **Due Date** |
|---|---|
| Annual income tax payments | April 30th unless an extension was approved |
| First quarter estimated payment | April 30th |
| Second quarter estimated payment | June 30th |
| Annual income tax 3-month extension | July 31st |
| Third quarter estimated payment | September 30th |
| Annual income tax 6-month extension | October 31st |
| Fourth quarter estimated payment | January 31st |
| Payroll tax withholding | Due on the last day of the month following the payroll payment (e.g., payroll taxes related to payroll for the month of June is due by July 31st) |
| Corporate taxes | 4 months after year-end unless a 6-month extension was approved |

*Delinquent Income Tax Receivables*

The City of Detroit's Income Tax Division has entered into a contract with a third-party collection agency to collect past due receivables. The City will continue to retain ownership of the accounts receivable that are being collected by a third party. The collections on delinquent accounts are to be deposited in the Income Tax Account at the Depository Bank. Under the City Trust Indenture, the City has covenanted to cause at least 75% of all Pledged Income Tax Revenue net of refunds to be deposited directly by the applicable taxpayers, or by the City if remitted by the taxpayers to the City, into the Income Tax Account at the Depository Bank.

*Historical Income Tax Levies and Collection*

The following table sets forth ten years of historical aggregate levies and collections data for the City.

**TABLE 2**
**HISTORICAL INCOME TAX LEVIES AND COLLECTIONS[†1]**
**($ in thousands)**

| Fiscal Year | Levies[2,3] | Gross Collections[4] |
|---|---|---|
| 2003-2004 | | $322,591 |
| 2004-2005 | | 308,712 |
| 2005-2006 | | 304,672 |
| 2006-2007 | $305,977 | 300,032 |
| 2007-2008 | 306,666 | 301,032 |
| 2008-2009 | 269,013 | 262,856 |
| 2009-2010 | 242,918 | 236,566 |
| 2010-2011 | 252,603 | 245,758 |
| 2011-2012 | 258,430 | 250,326 |
| 2012-2013 | 269,871 | 267,030 |

† Source: The City

1 Aggregate figures not adjusted for Act 284 public lighting authority related transfers to the City police department budget. See "SECURITY AND SOURCES OF PAYMENT FOR THE MUNICIPAL OBLIGATIONS–Income Tax Revenues" above for more information.

2 Levies include amounts due based on income tax returns including amounts remaining outstanding. Data prior to 2006 is unavailable.

3 The City of Detroit's Corporate tax rate was increased to 2.0% effective January 1, 2012.

4 Data is prior to applicable refunds.

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*Historical Income Tax Revenues*

The following table sets forth ten years of historical income tax revenues for the City, by category.

**TABLE 3**
**HISTORICAL INCOME TAX REVENUE[†1]**
**($ in thousands)**

| Fiscal Year Ended June 30 | Individuals[2,3] | Businesses[3,4] | Total Revenue | Refunds | Net Revenue |
|---|---|---|---|---|---|
| 2005-2006 | $294,212 | $10,460 | $304,672 | $20,561 | $284,111 |
| 2006-2007 | 289,285 | 10,747 | 300,032 | 21,723 | 278,309 |
| 2007-2008 | 287,263 | 13,769 | 301,032 | 24,547 | 276,485 |
| 2008-2009 | 253,331 | 9,525 | 262,856 | 22,032 | 240,824 |
| 2009-2010 | 227,883 | 8,683 | 236,566 | 20,044 | 216,522 |
| 2010-2011 | 235,675 | 10,083 | 245,758 | 17,454 | 228,304 |
| 2011-2012 | 239,010 | 11,316 | 250,326 | 17,290 | 233,036 |
| 2012-2013 | 246,878 | 20,153 | 267,031 | 19,014 | 248,017 |
| 2013-2014 | 253,500 | 21,031 | 274,531 | 20,761 | 253,770 |
| 2014-2015[5] | 248,038 | 21,382 | 269,420 | 14,389 | 255,030 |

† Source: The City

1 Totals may not add due to rounding. Aggregate figures not adjusted for Act 284 public lighting authority related transfers to City police department budget. See “SECURITY AND SOURCES OF PAYMENT FOR THE MUNICIPAL OBLIGATIONS—Income Tax Revenue” above for more information.

2 Data for individual taxpayers is not delineated between resident and non-resident within the City’s current income tax software system (TAS).

3 Amounts noted above exclude interest due to taxpayers. City now uses “Businesses” instead of “Corporations”.

4 Corporations also include Partnerships, Estates and Trusts. A majority of estimated taxes relate to Corporations, however the City does not track separately from individuals. For purposes of this information, the City used historical analysis to estimate the Corporate tax revenue.

5 Preliminary results.

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# TABLE 4
# MONTHLY HISTORICAL INCOME TAX COLLECTIONS AND DISBURSEMENTS[†1]
# ($ in thousands)

**FY 2013[2]**

| **Month** | **Jul-12** | **Aug-12** | **Sep-12** | **Oct-12** | **Nov-12** | **Dec-12** | **Jan-13** | **Feb-13** | **Mar-13** | **Apr-13** | **May-13** | **Jun-13** | **FY13** |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Gross Income Tax receipts | $23,893 | $17,612 | $25,007 | $21,240 | $18,545 | $21,275 | $20,318 | $20,073 | $23,140 | $33,619 | $23,522 | $18,787 | **$267,031** |
| Income Tax Refunds | (2,014) | (2,729) | (581) | (339) | (1,482) | (967) | (581) | (267) | (719) | (2,028) | (1,813) | (5,494) | **(19,014)** |
| **Net Income Tax receipts** | $21,879 | $14,883 | $24,426 | $20,902 | $17,063 | $20,308 | $19,737 | $19,806 | $22,420 | $31,591 | $21,710 | $13,292 | **$248,017** |

**FY 2014[2]**

| **Month** | **Jul-13** | **Aug-13** | **Sep-13** | **Oct-13** | **Nov-13** | **Dec-13** | **Jan-14** | **Feb-14** | **Mar-14** | **Apr-14** | **May-14** | **Jun-14** | **FY14** |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Gross Income Tax receipts | $24,177 | $18,194 | $24,969 | $22,103 | $19,470 | $25,535 | $23,868 | $21,807 | $21,956 | $26,645 | $21,781 | $24,027 | **$274,531** |
| Income Tax Refunds | (2,641) | (1,046) | (1,293) | (2,082) | (953) | (436) | (544) | (307) | (641) | (3,997) | (572) | (6,250) | **(20,761)** |
| **Net Income Tax receipts** | $21,536 | $17,148 | $23,675 | $20,021 | $18,517 | $25,099 | $23,324 | $21,500 | $21,315 | $22,649 | $21,210 | $17,777 | **$253,770** |

**FY 2015[2,3]**

| **Month** | **Jul-14** | **Aug-14** | **Sep-14** | **Oct-14** | **Nov-14** | **Dec-14** | **Jan-15** | **Feb-15** | **Mar-15** | **Apr-15** | **May-15** | **Jun-15** | **FY15** |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Gross Income Tax receipts | $18,721 | $19,315 | $26,241 | $18,644 | $20,970 | $21,714 | $20,090 | $22,056 | $25,239 | $28,425 | $25,503 | $22,503 | **$269,420** |
| Income Tax Refunds | (839) | (1,432) | (785) | (313) | 0 | (23) | (225) | (371) | (781) | (481) | (1,169) | (7,969) | **(14,389)** |
| **Net Income Tax receipts** | $17,882 | $17,883 | $25,456 | $18,331 | $20,970 | $21,691 | $19,865 | $21,685 | $24,458 | $27,943 | $24,334 | $14,533 | **$255,030** |

† Source: The City

1 Totals may not add due to rounding. Aggregate figures not adjusted for Act 284 public lighting authority related transfers to City police department budget. See "SECURITY AND SOURCES OF PAYMENT FOR THE MUNICIPAL OBLIGATIONS—Income Tax Revenue" above for more information.

2 Amounts noted above exclude interest due to taxpayers.

3 Preliminary.

**Projected Pledged Income Tax Revenues**

The following table sets forth four years of projected Pledged Income Tax Revenues for the City, prepared by the City in accordance with the City's Financial Plan and based on the assumptions and estimates contained in the Financial Plan, described in greater detail below under "THE CITY – Bankruptcy Proceedings, Current Financial Plan and the Financial Review Commission" and "APPENDIX III – CERTAIN INFORMATION REGARDING THE CITY OF DETROIT, MICHIGAN". The projections set forth in the following table are intended as "forward-looking statements." The City cautions that projections, assumptions and estimates may and often do differ materially from actual results.

**TABLE 5**
**PROJECTED PLEDGED INCOME TAX REVENUE†**
**($ in thousands)**

| Fiscal Year Ending June 30 | Income Tax Revenue Less Refunds[1] | Less: Amount Dedicated to Police Budget[2] | Pledged Income Tax Revenue |
|---|---|---|---|
| 2015-2016 | $256,540 | $20,148 | $236,392 |
| 2016-2017 | 259,316 | 21,592 | 237,724 |
| 2017-2018 | 261,916 | 21,808 | 240,108 |
| 2018-2019 | 264,516 | 22,025 | 242,491 |

† Source: The City

1 Source: City Four Year Financial Plan; excludes effects of reinvestment initiatives. FY2016 reflects revenue estimating conference.

2 Source: City Four Year Financial Plan.

**State Law Trust and Statutory Lien Provisions**

The Municipal Obligations were issued pursuant to Section 36a(7) of Act 279. As of the date hereof, the City has received the approvals from the State Treasurer contemplated by Section 36a(8). Section 36a provides the framework under which authorized bonds may be issued. Section 36a also contemplates and creates, as a matter of state law, statutory trusts and statutory liens for the bonds issued pursuant to its provisions. Section 36a provides as follows with respect to the Pledged Income Tax Account and the Pledged Income Tax Revenues, respectively:

> If the city and a third party enter into an agreement providing for the direct payment of the revenues pledged by the city for the payment of prior bonds or bonds issued pursuant to this subsection to a trustee, a statutory lien and trust is created applicable to those revenues received from the third party by the trustee, and the revenues paid to a trustee for the purpose of paying the principal and interest on prior bonds or bonds issued pursuant to this subsection shall be subject to a lien and trust that is a statutory lien and trust paramount and superior to all other liens and interests of any kind, for the sole purpose of paying the principal and interest on the prior bonds of the city or bonds of the city issued pursuant to this subsection and related administrative costs and any other obligations issued by the city that are secured by those revenues. The lien and trust created under this subsection is perfected without delivery, recording, or notice. The revenues held by a trustee pursuant to an agreement shall be held in trust pursuant to this subsection and are exempt from being levied upon, taken, sequestered, or applied toward

paying the debts or liabilities of the city other than for payment of debt service on the obligations and related administrative costs to which the lien applies. [MCL 117.36a(7)] If a city with a population of more than 600,000 that is located in a county organized under 1966 PA 293, MCL 45.501 to 45.521, issues or has issued financial recovery bonds pursuant to subsection (7), and the city, as a specified condition of the issuance, has entered into an agreement with a trustee for the deposit of revenues pledged by the city into a trust account as provided in subsection (7) that is established for the sole purpose of paying principal of and interest on those bonds and related administrative expenses, and the city has received the approval of the state treasurer, then, at all times after the issuance of the bonds and before the deposit of the revenues of the city into that trust account, the revenues of the city to be deposited are held in trust for the benefit of the trustee and the bonds by any party that comes into possession of the revenues. The revenues are held in trust for the benefit of the trustee and the bonds regardless of whether the city directly collects the revenues, a third party collects the revenues on the city's behalf, or any other person comes into possession of the revenues, and the revenues remain subject to the trust regardless of subsequent transfer or transfers of the revenues until such time as the revenues are deposited into that trust account. To the extent that the city or any other person holds a residual or other interest in the revenues held in trust and to be deposited with the trustee in the trust account, the interest is subordinate to a lien on the revenues in favor of the trustee for the purpose of ensuring delivery of the revenues to the trust account. This lien arises by operation of law and without further act or notice of any kind at the earliest time that the city has or acquires any rights in the revenues pledged pursuant to the agreement, is and will remain paramount and superior to all other liens and interests of any kind, and is perfected without delivery, recording, or notice. The revenues held in trust and to be deposited into the trust account pursuant to this subsection are exempt from being levied upon, taken, sequestered, or applied toward paying the debts or liabilities of the city other than those expressly specified in the agreement described in this subsection and subsection (7). [MCL 117.36a(8)]

**Treatment of Statutory Provisions Under the Bankruptcy Code**

The Municipal Obligations are afforded two types of protection in connection with the pledge of the Pledged Income Tax Revenues under Order No. 13, the Sale Order and the City Trust Indenture. The first is a trust created by statute, and the second is a statutory lien.

*Statutory Trust*

Act 279 subjects the Pledged Income Tax Revenues to a statutorily-created trust. Miller, Canfield, Paddock & Stone, P.L.C. ("Bond Counsel to the City") has provided a reasoned opinion, dated as of the Conversion Date, that this trust should be enforceable in bankruptcy, and thus the Pledged Income Tax Revenues should be afforded protection from, and should not be reachable by, general creditors of the City or, except to the extent permitted under the City Trust Indenture, used for any general or other purpose (other than payment of the Municipal Obligations and associated costs), from the time the City first acquires an interest in them until the time the City Trustee receives them on behalf of the Municipal Obligations. The opinion of Bond Counsel to the City is based on reasoned conclusions that (i) whether property is held in trust should be determined by state law and Act 279 creates such a trust; (ii) property subject to such a trust should remain subject to such trust upon the filing by a municipal corporation for protection under the Bankruptcy Code; and (iii) except to the extent permitted under the City Trust Indenture, property held in such a trust should not be available to be used for purposes inconsistent with the purposes described in Act 279. The trust may be subject to (a) constitutional notice requirements for the imposition of trust obligations on third parties, (b) the potential application of a requirement for tracing the assets of the trust, and (c) the relevant agreements and written directions of the City.

*Statutory Liens Under the Bankruptcy Code*

In the event the City should have any residual interest in the Pledged Income Tax Revenues, Bond Counsel to the City has provided a reasoned opinion that this interest should be subject to a statutory lien created by Act 279 in favor of the holders of the Municipal Obligations. This lien may provide additional protection for holders of the Municipal Obligations. The opinion of Bond Counsel to the City is based on reasoned conclusions that (i) both pre-deposit and post-deposit liens are created by Act 279, (ii) the pre-deposit lien created by Act 279 arises automatically under Act 279 upon the occurrence of specified circumstances or conditions described in Act 279 and, consequently, should constitute a statutory lien as defined in the Bankruptcy Code, and (iii) the consensual actions of the City and third parties involved in execution of the trust agreement authorized by Section 36a(7) of Act 279 and approval by the state treasurer of the application of Section 36a(8) of Act 279 relate to the establishment of the applicable trust (and not to creation of the pre-deposit lien) and consequently constitute "specified circumstances or conditions" as that phrase is used in the definition of statutory lien under the Bankruptcy Code. The reasoned opinion of Bond Counsel to the City distinguishes this pre-deposit statutory lien under Act 279 from those created after deposit into the Pledged Income Tax Account, where such liens may arise under both Act 279 and related consensual agreements, concluding that although applicable case law is scant, multiple liens of different types may exist simultaneously, which liens should include a statutory lien.

This discussion of how the Pledged Income Tax Revenues would be treated in a future City bankruptcy is an expression of opinion and not a guaranty of treatment. Should the City file for bankruptcy protection, the bankruptcy court's decision regarding these matters would be based on its own analysis of the law and interpretation of the factual evidence before it. The bankruptcy court would not be bound by legal opinions other than binding precedent, and there currently is no binding precedent regarding these matters. Thus, the opinion of Bond Counsel to the City is not (and cannot be) a guaranty that the Pledged Income Tax Revenues would be treated as subject to a statutory trust or lien. Opinions on bankruptcy or other insolvency matters have additional inherent limitations that arise, for instance, from the expansive equitable powers that courts can exercise in these proceedings. These limitations may apply with greater force in the case of a municipal bankruptcy under chapter 9 of the Bankruptcy Code than in a bankruptcy case under another chapter of the Bankruptcy Code because of the scarcity of reported decisions under chapter 9, the relative infrequency of chapter 9 cases, and the substantial deference that a court may accord to the needs a governmental entity may have in protecting public health, safety, and welfare.

**State Agreement to Administer City Income Tax**

On January 5, 2015, the City and the Michigan Department of Treasury ("Treasury") entered into an Agreement to Administer the City Income Tax (the "Administration Agreement"). Pursuant to the Administration Agreement (a) beginning January 1, 2016, Treasury will process the City's individual income tax returns for the tax year beginning January 1, 2015, (b) beginning January 1, 2017, Treasury will process the City's corporate income tax returns, unincorporated business information returns, unincorporated business returns with an election to pay the tax under code section 18-10-6(c) and fiduciary income tax returns for tax years beginning on or after January 1, 2016, and (c) Treasury will process 2017 tax year employer returns and withholding payments due on employee compensation paid after December 1, 2016. The Administration Agreement has an initial ten year term and may only be terminated for cause during that initial period.

Under the Administration Agreement, Treasury will provide the City compliance and enforcement services and conduct enforcement initiatives similar to the services and initiatives conducted for the State of Michigan.

Under the Administration Agreement, Treasury will daily transfer the tax revenues due to the City to the Income Tax Account, net of the required minimum balance needed to maintain the City Income Tax Trust Fund at a required balance which varies by year from $2 million to $15.373 million, established to provide a mechanism for reimbursement of Treasury expenses and refunds. Pursuant to the provisions of Section 36a of Act 279, Pledged Income Tax Revenues received by the State under the Administrative Agreement are subject to the trust and statutory liens.

Nothing in the Administration Agreement modifies the provisions of the Bonds, the Municipal Obligations, the Resolution, the City Trust Indenture or the Deposit Account Control Agreement.

## CITY TRUST INDENTURE

### City Trust Indenture

The Municipal Obligations are issued under and secured by the City Trust Indenture. See also "APPENDIX II - SUMMARY Of CERTAIN PROVISIONS OF THE CITY TRUST INDENTURE."

### Debt Service Fund/Flow of Funds

The City Trust Indenture establishes a debt service fund and related accounts (within this section of the Reoffering Memorandum, the "Debt Service Account"), and provides that there shall be set aside and transferred from the Pledged Income Tax Account to the Debt Service Account on a first dollar basis on the first Business Day of each month for interest on the Municipal Obligations an amount which shall be the fractional amount of the total amount of interest on the Municipal Obligations next coming due on the next Interest Payment Date, derived from the number of months from the Conversion Date to the first Payment Date thereafter. Such transfers shall be reduced by amounts, including investment earnings, available in the Debt Service Account which are available for such purpose. Commencing with the Conversion Date, the amount set aside and transferred from the Pledged Income Tax Account to the Debt Service Account each month for interest on the Bonds shall be 1/6 of the total amount of interest on the Municipal Obligations next coming due. Commencing on the Conversion Date, there shall also be set aside and transferred from the Pledged Income Tax Account to the Debt Service Account each month for principal, the fractional amount of the total amount of principal on the Bonds next coming due on the next principal payment date, if any, by maturity or sinking fund redemption derived from the number of months from the Conversion Date to the first principal payment date. The amount set aside and transferred from the Pledged Income Tax Account to the Debt Service Account each month for principal payment commencing with the first principal payment date after the Conversion Date shall be 1/12 of the amount of principal next coming due by maturity or sinking fund redemption. The last such transfer preceding each Payment Date shall be reduced by amounts, including investment earnings, available in the Debt Service Account which are available for such purpose. If there is any deficiency in the amount previously set aside, that deficiency shall be added to the next succeeding monthly requirements. In each case of the above transfers for set asides of interest and principal on the Bonds the Debt Service Account shall be fully funded one month in advance of each Payment Date.

In the event that (i) thirty (30) days prior to any Payment Date, amounts on deposit in the Debt Service Account do not equal the Debt Service Requirement Amount owing with respect to the Municipal Obligations on such Payment Date, the City Trustee shall promptly notify the City in writing of such deficiency and the City shall, promptly after receiving such notice, cause to be deposited with the City

Trustee other available funds of the City for deposit to the Debt Service Account, in an amount necessary to make up the Debt Service Requirement Amount owing on such Payment Date. The City Trustee shall confirm in writing to the City the receipt of each additional payment of additional funds for deposit into the Debt Service Account.

The City Trustee, in its capacity as transfer agent and paying agent for the Municipal Obligations, shall withdraw from the Debt Service Account of the Debt Service Fund the amounts necessary to pay when due the Debt Service Requirement Amount for the Municipal Obligations on each Payment Date.

*Deposits and Withdrawals from Debt Service Fund upon Termination of the Deposit Account Control Agreement*

In the event that (i) the Depository Bank provides the City and the City Trustee written notice of termination of the Deposit Account Control Agreement and (ii) the City and the City Trustee have not entered into a new Deposit Account Control Agreement (the "Successor Account Control Agreement") on terms agreeable to the City and the City Trustee with a successor Depository Bank within seventy-five (75) days following such notice, or such longer period of time as may be agreed upon between the City and the City Trustee, then, the City and the City Trustee shall begin the implementation of the provisions described below. From the date of termination of the Deposit Account Control Agreement until the date the Successor Account Control Agreement is effective, the parties have agreed that:

(i) (A) the City shall establish a deposit account dedicated solely for the receipt of Pledged Income Tax Revenue (the "City Back-Up Income Tax Deposit Account") with, and shall enter into depository banking agreements with, UMB Bank, N.A., (or such other bank as may then be serving as trustee under the City Trust Indenture) as depository bank (the "Successor Depository Bank") for the City Back-Up Income Tax Deposit Account. Such City Back-Up Income Tax Deposit Account will be owned by and in the name of the City and under the exclusive control of the Trustee (or such other bank as may then be serving as trustee hereunder), and will incur the Depository Bank's then usual and customary fees for services rendered by the Depository Bank to the City Back-Up Income Tax Deposit Account and (B) the City shall cause at least 75% of all Pledged Income Tax Revenues net of refunds to be deposited directly by the applicable taxpayers, or the City if remitted by the taxpayers to the City, into such City Back-Up Income Tax Deposit Account on a daily basis. Nothing in the City Trust Indenture shall alter the manner in which deposits are made as provided in the City Trust Indenture.

(ii) In the event that the City Back-Up Income Tax Deposit Account is not established as of the termination date of the Deposit Account Control Agreement, then (A) the City Trustee shall establish a deposit account dedicated solely for the receipt of Pledged Income Tax Revenue (the "Trustee Back-Up Income Tax Deposit Account") with, and shall enter into depository banking agreements with, the Successor Depository Bank for the Trustee Back-Up Income Tax Deposit Account. Such Trustee Back-Up Income Tax Deposit Account will be owned by and in the name of the City Trustee and will incur the Successor Depository Bank's then usual and customary fees for services rendered by the Depository Bank to the Trustee Back-Up Income Tax Deposit Account, (B) the City shall cause at least 75% of all Pledged Income Tax Revenue net of refunds to be deposited directly by the applicable taxpayers, or the City if remitted by the taxpayers to the City, into such Trustee Back-Up Income Tax Deposit Account on a daily basis, all in compliance with applicable law, (C) the City Trustee shall instruct the Successor Depository Bank in writing (in such form and text as the Successor Depository Bank and the Trustee shall reasonably require) to transfer the balance of the Trustee Back-Up Income Tax Deposit Account each banking day to the Pledged Income Tax Account established by the City Trustee and such balance shall be remitted from the Pledged Income Tax Subaccount to the

City daily pursuant to the City Trust Indenture, and (D) the actions of the City Trustee under this subsection (ii) shall be compensable and are protected by the City Trust Indenture. Nothing in the City Trust Indenture shall alter the obligation to make deposits to the Pledged Income Tax Account consistent with the City Trust Indenture, which deposits shall be made under the City Trust Indenture from the Trustee Back-Up Income Tax Deposit Account.

(iii) in the event that (A) thirty (30) days prior to any Payment Date amounts on deposit in the Debt Service Account do not equal the Debt Service Requirement Amount owing with respect to the Bonds on such Payment Date, the City Trustee shall promptly notify the City in writing of such deficiency and the City shall, promptly after receiving such notice, cause to be deposited with the City Trustee other available funds of the City for deposit to the Debt Service Account, in an amount necessary to make up the Debt Service Requirement Amount owing on such Interest Payment Date. The City Trustee shall confirm in writing to the City the receipt of each additional payment of additional funds for deposit into the Debt Service Account.

**Debt Service Reserve Requirement**

The City Trust Indenture establishes a separate account in the Debt Service Fund to be known as the Debt Service Reserve Account (the "Debt Service Reserve Account"), which was funded, on December 10, 2014, at $27,500,000 in aggregate, the Reserve Requirement established under the City Trust Indenture, based on the original par amount of the Municipal Obligations, as described under "THE BONDS – Sources and Uses of Funds". Earnings from the investment of the Debt Service Reserve Account shall be transferred to the Debt Service Fund on a monthly basis so long as the Reserve Requirement remains in the Debt Service Reserve Account.

Except as otherwise provided in the City Trust Indenture, the moneys credited to the Debt Service Reserve Account shall be used solely for the payment of the principal (or Make Whole Redemption Price, as applicable) of, redemption premiums (if any) and interest on the Municipal Obligations as to which there would otherwise be a default. If at any time it shall be necessary to use moneys credited to the Debt Service Reserve Account for such payment, then the moneys so used shall be replaced from the Pledged Income Tax Revenue first received thereafter in the Pledged Income Tax Account which are not required for current principal and interest requirements until the amount on deposit equals the Reserve Requirement. If on any principal payment date the amount in the Debt Service Reserve Account exceeds the Reserve Requirement, the excess shall be transferred to the Debt Service Fund for payment of principal and interest on the Bonds due on that date.

**Issuance of Additional Obligations**

Under existing law the City has no power to issue additional debt secured by Pledged Income Tax Revenue. In the event that state law is enacted to permit additional debt, the City covenants under the City Trust Indenture that: (i) it will not create or permit the creation of or issue any additional indebtedness or interest rate exchange agreement which will be secured by a charge or lien on the Pledged Income Tax Revenue that has a lien or payment priority which is superior to the Municipal Obligations, and (ii) it will not create or permit the creation of or issue any additional parity indebtedness or interest rate exchange agreement which will be secured by a charge or lien on the Pledged Income Tax Revenue which is on parity with the Municipal Obligations unless (x) such bonds are issued pursuant to the City Trust Indenture and (y) the City has filed a certificate of an Authorized Officer with the City Trustee certifying (i) the Pledged Income Tax Revenue deposited to the Income Tax Account for a 12 consecutive month period of the immediately prior 15 months applicable to the Fiscal Year in which such additional parity indebtedness is to be issued and (ii) the maximum annual debt service that will be due on such additional parity indebtedness, the Municipal Obligations and any other outstanding parity indebtedness, in any subsequent Fiscal Year, and showing that the amount in clause (i) at least equals 2 times the amount in clause (ii); provided that if any such additional indebtedness is to be issued as variable rate debt, the maximum annual debt service with respect to such additional indebtedness shall, for purposes of the calculations set forth herein, be made at an assumed fixed rate equal to the greater of (x) 6.00% per annum and (y) in the case of proposed tax exempt variable rate debt the average of the SIFMA Municipal Swap Index plus a percentage reflective of the ratings assigned to such debt for the twelve months preceding the date of issuance, or in the case of proposed taxable variable rate debt the average of the 1 month LIBOR Rate plus a percentage reflective of the ratings assigned to such debt for the twelve months preceding the date of issuance; provided further that any outstanding variable rate indebtedness shall be assumed to bear interest at the weighted average of the actual rates on such variable rate debt for each day during the 365 consecutive days (or such lesser period as such debt has been outstanding) ending on the last day of the calendar month next preceding the computation. Any variable rate debt which is the subject of an interest rate exchange agreement shall be assumed to bear interest at the effective fixed rate resulting therefrom while such agreement remains in effect.

**Financial Covenants**

Under Section 708 of the City Trust Indenture, the City covenants that it shall at all times:

(a) each month deposit or cause to be deposited to the Income Tax Account at least 75% of all Pledged Income Tax Revenue net of refunds collected during such month; and

(b) (i) take such steps as shall be reasonably necessary to levy the taxes generating the Pledged Income Tax Revenue to satisfy the covenants set forth in the City Trust Indenture and (ii) take such steps as shall be reasonably necessary to collect the taxes generating the Pledged Income Tax Revenue to the maximum extent required by the City to comply with its covenants and obligations under the Financing Documents.

**Debt Service Covenant**

Under Section 710 of the City Trust Indenture, the City covenants that it will maintain income tax rates sufficient to generate on an annual basis deposits of Pledged Income Tax Revenue deposited to the Income Tax Account which are no less than 2.0X (two times) the aggregate maximum annual debt service on the Municipal Obligations and any outstanding indebtedness secured by a charge or lien on the Pledged Income Tax Revenue which is on parity with the Municipal Obligations. For purposes of making the foregoing calculation, with respect to variable rate indebtedness, the maximum annual debt service with respect to such indebtedness shall be calculated at an assumed fixed rate equal to the greater of (x) 6.00% per annum and (y) the weighted average of the actual rates on such variable rate debt for each day during the 365 consecutive days (or such lesser period as such debt has been outstanding) ending on the last day of the calendar month next preceding the computation. The City shall increase income tax rates in accordance with applicable law to the extent necessary to satisfy such requirement; provided, however, that to the extent that income tax rates in the City are set at the maximum rate allowed by law, the City shall not be in default if annual deposits of Pledged Income Tax Revenue to the Income Tax Account are less than 2.0X (two times) the aggregate maximum annual debt service on the Bonds and any outstanding indebtedness secured by a charge or lien on the Pledged Income Tax Revenue which is on parity with the Municipal Obligations.

**Events of Default**

The City Trust Indenture defines an event of default as (a) the failure of the City in making one or more payments of interest, principal (or Make Whole Redemption Price, as applicable) or premium if any, when due or (b) failure by the City to comply with the provisions of Sections 708(a) or Section 710 with respect to Pledged Income Tax Revenue in the Income Tax Account and such failure is not cured within two (2) Business Days.

If an event of default under the City Trust Indenture occurs and is continuing, the City Trustee with the consent of the Authority, as registered owner of the Municipal Obligations, may pursue any available remedy to collect the payment of principal of or interest on the Municipal Obligations or to enforce the performance of any provision of the Municipal Obligations, the City Trust Indenture or the Financing Documents. Furthermore, upon the occurrence of any Event of Default, each of the Municipal Obligations and the Bonds shall be subject to an interest rate increase equal to the rate of interest which is two percent (2.0%) above the stated interest rate on the Municipal Obligations and the Bonds, respectively.

Under the City Trust Indenture, all monies received by the City Trustee shall be applied first to the payment of the costs and expenses of the proceedings resulting in the collection of such moneys and expenses, liabilities, advances and charges incurred or made by the City Trustee.

## THE MICHIGAN FINANCE AUTHORITY

### Powers and Duties

The Michigan Finance Authority is an autonomous public body corporate and politic, separate and distinct from the State, created by Executive Order No. 2010-2 issued by the Governor on March 4, 2010 (the "Executive Order") and effective by its terms on May 30, 2010. Under the Executive Order, among other things, the Authority is the successor to the Michigan Municipal Bond Authority, which was created by statute in 1985 for the purposes of fostering and promoting the borrowing of money by governmental units within the State for financing public improvements and for other municipal purposes. In order to effectuate such purposes, the Authority is authorized to issue its bonds or notes and to make money available to governmental units by the purchase of their municipal obligations.

In addition to the Bonds, the Authority (including its various predecessor authorities under the Executive Order) has outstanding, and the Authority expects to issue in the future, short and long term obligations under other Authority programs. The Security for the Bonds does not serve as security for the Authority's other program obligations.

Under the Executive Order, the Authority is within the State Department of Treasury but exercises its powers, duties and functions independently of the State Treasurer (except for the State Treasurer's appointment of administrative staff and exercise of certain administrative functions related to staff, pursuant to the Governor's Executive Order 2002-12). The Authority's address is Richard H. Austin State Office Building, 430 West Allegan Street, Lansing, Michigan 48922, and its telephone number is (517) 335-0994.

### Membership

The Authority is governed by a board of directors (the "Board"). The State Treasurer serves as the Chairperson of the Board. The Authority is authorized to employ an Executive Director, legal and technical experts and other officers, agents or employees, permanent or temporary.

The members of the Board are appointed by the Governor of the State with the advice and consent of the State Senate. The members serve for various terms and continue to serve until successors are appointed and file the oath of office.

The members of the Board are:

| | |
|---|---|
| Nick A. Khouri, Chairperson | State Treasurer |
| MaryLee Davis | Senior Advisor to the Dean and Professor, College of Osteopathic Medicine, Michigan State University |
| Charlotte P. Edwards | Retired Banker |
| Don Gilmer | Retired Administrator, Kalamazoo County |
| Travis Jones | Senior Vice President and CFO, Greenstone Farm Credit Services |
| JulieAnn Karkosak | Vice President and General Counsel, Toyota Boshoku America, Inc. |
| Timothy Hoffman | Director of Regulatory Affairs, Consumers Energy |

The Resolution provides that the covenants, stipulations, promises, agreements and obligations of the Authority contained in the Resolution are those of the Authority and not of any member of the Board or any officer or employee of the Authority in his or her individual capacity and that no recourse shall be had for the payment of the principal of or interest on the Bonds or for any claim based thereon or on the Resolution against any member of the Board, any officer or employee of the Authority or any person executing the Bonds.

The Executive Director of the Authority is Mary G. Martin, Executive Director, Bureau of State and Authority Finance, Michigan Department of Treasury.

## THE CITY

Pursuant to the provisions of the State Constitution and Act 279, the City is a home rule city with significant independent powers. In accordance with the Charter, the governance of the City is organized into two branches: an Executive Branch, which is headed by the Mayor, and the legislative branch, which is comprised of the City Council and its agencies. The Mayor and the members of the City Council are elected every four years unless a special election is required as provided for in the Charter. The most recent regular election for the positions of Mayor and City Council members was on November 5, 2013, when Mike Duggan was elected for his first term as Mayor. For more information on the City, see "APPENDIX III – CERTAIN INFORMATION CONCERNING THE CITY OF DETROIT, MICHIGAN".

### Bankruptcy Proceedings, Current Financial Plan and the Financial Review Commission

The City emerged from Chapter 9 bankruptcy on December 10, 2014. A nine member Financial Review Commission (the "FRC") was created on November 12, 2014, to ensure that the City meets certain statutory requirements, to review and approve the City's four-year financial plan, and to establish programs and requirements for prudent fiscal management, among other roles and responsibilities. Statutorily required members of the FRC include State Treasurer Nick A. Khouri, who is to serve as Chairman and State Budget Director John Roberts, as designee of the Director of the State Department of Technology, Management and Budget. Also included by statute are Detroit Mayor Mike Duggan and City Council President Brenda Jones or their designees. The FRC is also comprised of five gubernatorial appointees.

Pursuant to Act 436, the Emergency Manager adopted a 2-year budget, including all contractual and employment agreements, for the City. The City Council is prohibited from amending the 2-year budget without the approval of the State Treasurer, and shall not revise any order or ordinance implemented by the Emergency Manager during his term prior to 1 year after the termination of receivership on the effective date of the City's emergence from Chapter 9 bankruptcy (the "Effective Date").

Effective June 20, 2014, Act 182, Public Acts of Michigan, 2014 ("Act 182") amended the Home Rule City Act, Act 279, Public Acts of Michigan, 1909, as amended ("Act 279"), to impose certain fiscal responsibility requirements on a qualified city. A qualified city is a city with a population more than 600,000 (a "Qualified City"); therefore, the City is a qualified city under Act 182. Pursuant to Act 182, the City and its officers, employees, agents, and contractors shall comply with the Michigan Financial Review Commission Act, Act 181, Public Acts of Michigan, 2014 ("Act 181").

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

On the Effective Date, the FRC became operational and began its oversight responsibilities. Act 181, Public Acts of Michigan, 2014, ("Act 181"), established the FRC to monitor the City's compliance with the Plan of Adjustment and Act 181, and provide oversight of the City's financial activities. The FRC 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. Act 182 imposes further requirements on the City, including requiring the adoption of a Financial Plan and appointment a CFO.

Compliance with Act 181 includes the following requirements for the City:

- Providing to the FRC any documents, records or other information requested of City officials by the FRC or its staff, including any documents, records or other information specifically required by Act 181.
- Appearing before the FRC to provide testimony, documents, records or other information as and when requested by the FRC or its staff.
- Providing to the FRC upon its request verification of compliance by the City with all of the following consistent with the requirements of Section 6(3) of Act 181:
  - A. Approving/disapproving the issuance of City debt (excluding the Municipal Obligations and other debt authorized by the Plan of Adjustment);
  - B. Approving/disapproving all contracts for goods and services exceeding $750,000 or with a term of more than two years, and any amendments to or new collective bargaining agreements; and
  - C. Approving/disapproving any effort to terminate the City's Chief Financial Officer. In addition, the FRC must approve/disapprove the appointment of a new Chief Financial Officer.
- Providing to the FRC the Financial Plan for review by March 23 of each year (100 days prior to the beginning of the fiscal year). Section 6(4) of Act 181 states- *"During the period of oversight, the commission shall review and approve that qualified city's 4-year financial plan required by section 4t of Act 279. A 4-year financial plan described in this subsection shall be submitted at least 100 days prior to the commencement of a qualified city's fiscal year."* The FRC shall approve or disapprove the plan within 30

days after receipt of the Financial Plan. The FRC, if it disapproves the Plan, shall receive from the City a revised Financial Plan that addresses the FRC's rationale for rejection within 15 days after disapproving the Financial Plan. The FRC shall approve or disapprove the revised Financial Plan no later than 15 days after receiving the revised Financial Plan from the City. If the revised Financial Plan is disapproved the FRC may adopt and impose a Financial Plan that satisfies all requirements.

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

On April 20, 2015, the FRC approved the Financial Plan for Fiscal Year 2016 to Fiscal Year 2019. For information on this plan, See "APPENDIX III – CERTAIN INFORMATION CONCERNING THE CITY OF DETROIT, MICHIGAN".

**Restructuring and Revitalization Projects**

Projects funded from the proceeds of the $120,000,000 City of Detroit, County of Wayne, Michigan Financial Recovery Bonds, Series 2014 dated April 8, 2014, which were refunded with the proceeds of the Municipal Obligations, together with a portion of the proceeds of the Municipal Obligations include blight removal, fleet (primarily public safety) replacements, information technology system (primarily the new ERP), infrastructure improvements (including public safety facilities), and reorganizational and training costs to increase efficiency and service delivery.

## RISK FACTORS

### Introduction

*In making a decision whether to purchase the Bonds, potential investors should consider certain risks and investment considerations which could affect the ability of the City to pay debt service on the Municipal Obligations that in turn secure the Authority's limited obligation to make payment of debt service on the Bonds and which could affect the marketability of or the market price for such Bonds. These risks and investment considerations are discussed throughout this Reoffering Memorandum. Certain of these risks and considerations are set forth in this section, but this section is not intended to be comprehensive or to be a compilation of all possible risks and investment considerations, nor a substitute for an independent evaluation of the information presented in this Reoffering Memorandum, which each investor should read in its entirety in order to make an informed investment decision. Additional risks and uncertainties not currently known by the City, or that the City does not currently consider to be material, or that are generally applicable to all municipalities and their ability to repay obligations, may exist. Any one or more of the factors discussed herein, and other factors not described herein, could lead to a decrease in the market value or liquidity of the Bonds. There can be no assurance that other risk factors not discussed below will not become material in the future. Prospective investors are advised to consider the following risk factors, among others, and to review the other information contained or incorporated by reference into this Reoffering Memorandum in evaluating an investment in the Bonds.*

### MFA Bonds are Limited Obligation Revenue Bonds

The Bonds are payable solely from the revenue pledged as security for the Bonds in the Resolution, including the Municipal Obligations and the funds and accounts established under the Resolution for the benefit of the Bonds. (See "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS.")

**Uncertainty of Future Income Tax Revenue**

The Income Tax Revenue is a primary source of revenue to pay debt service on the Municipal Obligations that in turn secure the payment of the Bonds. The debt service coverage provided by current income tax collections is significant, but Income Tax Revenue collections have declined materially in the past and may decline in the future for a variety of reasons. Factors that might adversely affect Income Tax Revenue collections include adverse economic conditions or declining population, wage and employment trends in the City's geographic area, deflation, and collection issues, among other factors.

**Limitation on Rate of Income Tax**

The Income Tax is levied at rates described herein. While the City is permitted to levy the tax at the described rates for so long as any obligations of the Public Lighting Authority are outstanding (currently to July 1, 2044), in the event the Income Tax Revenue generated is insufficient to pay debt service due on the Municipal Obligations securing the Bonds, the City does not have the ability to increase the income tax rates without an act of the Michigan legislature authorizing such higher rate. In those circumstances, there can be no assurance that the State legislature would take such authorizing action.

**Municipal Obligation Limited Tax Full Faith and Credit Pledge**

The Municipal Obligations are secondarily secured as limited tax general obligations. For information on the City's debt and tax limits under Michigan law, see APPENDIX III.

**Economic and Other Factors Affecting the Financial Condition of the City**

Although it is expected that Income Tax Revenue, in the aggregate, will be available in sufficient amounts to pay debt service on the Municipal Obligations, there can be no assurance that Income Tax Revenue will be sufficient to pay debt service on the Municipal Obligations. To the extent Income Tax Revenue are insufficient to pay debt service on the Municipal Obligations, the Municipal Obligations will be payable from other funds of the City legally available for such purpose including the proceeds of annual ad valorem property taxes which must, to the extent necessary, be levied on all taxable property within the boundaries of the City, subject to applicable constitutional, statutory and charter tax rate limitations.

Economic and other factors have in the past and may in the future adversely affect the City's revenues and expenses and, consequently, the City's ability to meet its operating expenses. Among the factors that could have such adverse effects are: decreases in property and income tax collections; increases in unemployment in the City and State; future labor negotiations with the City's unionized employees; the City's ability to access capital markets; adverse changes to State budgets and appropriations affecting critical revenue streams from the State to the City; and changes in demographic trends. The City cannot assess or predict the ultimate effect of these factors on its operations or on its ability to make debt service payments on the Municipal Obligations.

**Future Filing of Bankruptcy by the City**

The provisions of the Plan of Adjustment, and actions taken by the City of Detroit while in bankruptcy, are intended to alleviate many of the City of Detroit's most significant financial problems. However, there can be no assurance that the City of Detroit will not file another bankruptcy petition in the future pursuant to Chapter 9 of the Bankruptcy Code.

**Limitation on Remedies of Bondholders**

Certain remedies provided for in the Resolution or the City Trust Indenture may be unenforceable as a result of the application of principles of equity or of state and federal laws relating to bankruptcy, insolvency, other forms of debtor relief, and creditors' rights generally.

Bankruptcy proceedings, or the exercise of powers by the federal or State government, if initiated, could subject the owners of the Bonds to the exercise of judicial discretion and interpretation of their rights in bankruptcy or otherwise, and consequently might entail risks of delay, limitation or modification of their rights, and might have a material adverse effect on the City and its ability to pay the Municipal Obligations and to borrow money and issue additional obligations in the future. If the City were to again become a debtor under Chapter 9 of the U.S. Bankruptcy Code, such action could have significant adverse consequences affecting holders of the Bonds which are impossible to predict accurately, but might include immediately delaying for an indefinite period of time the payment of principal of and interest on the Municipal Obligations, modifying the maturity date, interest and payment terms on the Municipal Obligations and, conceivably, modifying the security for and the principal amount of the Municipal Obligations, as well as any impact the automatic stay may have on available remedies and rights of a holder of Bonds.

**Limitations on Opinions of Counsel – No Assurance as to Outcome of Litigation**

A court's decision regarding the matters upon which a lawyer is opining would be based on such court's own analysis, interpretation of the factual evidence before it, and interpretation of applicable legal principles. Thus, if a court reached a result different from that expressed in an opinion, it would not necessarily constitute reversible error or be inconsistent with that opinion. An opinion of counsel is not a prediction of what a particular court (including any appellate court) that reached the issue on the merits would hold, but, instead, is the opinion of such counsel as to the proper result to be reached by a court applying existing legal rules to the facts as properly found after appropriate briefing and argument and, in addition, is not a guarantee, warranty or representation, but rather reflects the informed professional judgment of such counsel as to specific questions of law. Opinions of counsel are not binding on any court or party to a court proceeding. The descriptions of the opinions set forth herein are summaries, do not purport to be complete and are qualified in their entirety by the opinions themselves.

**Forward-Looking Statements are Subject to Risks and Uncertainties**

If and when included in this Reoffering Memorandum, the words "may," "will," "should, "expects," "forecasts," "projects," "intends," "plans, "anticipates," "believes," "estimates," "predicts," "assumes," "potential," illustrate," "example," and "continue" and analogous expressions are intended to identify forward looking statements and any such statements inherently are subject to a variety of risks and uncertainties that could cause actual results to differ materially from those that have been projected. Such risks and uncertainties include, among others, general economic and business conditions, changes in political, social and economic conditions, regulatory initiatives and compliance with governmental regulations, litigation and various other events, conditions and circumstances, many of which are beyond the control of the Authority and the City. These forward-looking statements speak only as of the date of this Reoffering Memorandum. The parties disclaim any obligation or undertaking to release publicly any updates or revisions to any forward-looking statement contained herein to reflect any change since the Authority's or the City's expectations with regard thereto or any change in events, conditions or circumstances on which any such statement is based.

## LITIGATION

The Authority has not been served with any litigation, and to the best of the Authority's knowledge, there is no threatened litigation against the Authority seeking to restrain or enjoin the sale of the Bonds, affecting the security pledged therefor or questioning or affecting the validity of the proceedings or authority under which the Bonds were issued. Neither the creation, organization or existence of the Authority, nor the title of any of the present members or other officers of the Authority to their respective offices, is being contested. The Authority has not been served with any litigation and, to the best of the Authority's knowledge, there is no litigation threatened which in any manner questions the right of the Authority to adopt the Resolution or the Supplemental Resolution or to secure the Bonds in the manner provided in the Resolution, the Supplemental Resolution and the Act.

## LEGALITY OF THE BONDS FOR INVESTMENT AND DEPOSIT

Under the Act, the State, a public officer, a Governmental Unit and agencies of the State or Governmental Units, a bank, trust company, savings bank or institution, savings and loan association, investment company or other person carrying on a banking business, an insurance company, insurance association, or other person carrying on an insurance business and an executor, administrator, guardian, trustee or other fiduciary may legally invest a sinking fund, money, or other funds belonging to them or within their control in bonds or notes of the Authority issued under the Act. The Act also provides that the Authority's bonds and notes shall be authorized security for public deposits.

## TAX MATTERS

### The Series 2014F-1 Bonds

*General*

On December 10, 2014, the Attorney General of the State of Michigan and Dickinson Wright PLLC, Bond Counsel, delivered their approving opinions that based on their examination of the documents described in their opinions, under existing law as of the Original Issue Date, (a) the interest on the Series 2014F-1 Bonds was excluded from gross income for federal income tax purposes and (b) the interest on the Series 2014F-1 Bonds was not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations. It should be noted, however, that with respect to corporations (as defined for federal income tax purposes) such interest is taken into account in determining adjusted current earnings for the purpose of computing the alternative minimum tax imposed on such corporations. Their opinions in (a) above were subject to the condition that the Authority and the City comply with all requirements of the Internal Revenue Code of 1986, as amended (the "Code"), that must be satisfied subsequent to the issuance of the Bonds in order that interest thereon be (or continue to be) excluded from gross income for federal income tax purposes. These requirements include rebating certain earnings to the United States. Failure to comply with such requirements could cause the interest on the Bonds to be included in gross income retroactive to the date of issuance of the Series 2014F-1 Bonds. The Authority has covenanted to comply with all such requirements to the extent permitted by law.

The Attorney General and Bond Counsel expressed no opinion regarding other federal tax consequences arising with respect to the Series 2014F-1 Bonds and the interest thereon.

After the Original Issue Date of the Series 2014F-1 Bonds, Bond Counsel and the Attorney General did not and will not undertake to determine (or to so inform any person) whether any actions taken or not taken, or any events occurring or not occurring, or any other matters coming to their attention, may adversely affect the exclusion from gross income for federal income tax purposes of interest on the Series 2014F-1 Bonds or the market prices of the Series 2014F-1 Bonds.

The opinions of Bond Counsel and the Attorney General were based on current legal authority as of the Original Issue Date and cover certain matters not directly addressed by such authority. Such opinions represented their legal judgment as to the excludability of interest on the Series 2014F-1 Bonds from gross income for federal income tax purposes as of the Original Issue Date but are not guarantees of that conclusion. The opinions are not binding on the Internal Revenue Service ("IRS") or any court. Bond Counsel and the Attorney General cannot give and have not given any opinion or assurance about the effect of future changes in the Code, the applicable regulations, the interpretations thereof or the enforcement thereof by the IRS.

Prospective purchasers of the Series 2014F-1 Bonds should be aware that (i) interest on the Series 2014F-1 Bonds is included in the effectively connected earnings and profits of certain foreign corporations for purposes of calculating the branch profits tax imposed by Section 884 of the Code, (ii) interest on the Series 2014F-1 Bonds may be subject to a tax on excess net passive income of certain S corporations imposed by Section 1375 of the Code, (iii) interest on the Series 2014F-1 Bonds is included in the calculation of modified adjusted gross income for purposes of determining taxability of social security or railroad retirement benefits, (iv) the receipt of interest on the Series 2014F-1 Bonds by life insurance companies may affect the federal tax liability of such companies, (v) in the case of property and casualty insurance companies, the amount of certain loss deductions otherwise allowed is reduced by a specific percentage of, among other things, interest on the Series 2014F-1 Bonds, (vi) registered owners acquiring the Series 2014F-1 Bonds subsequent to initial issuance will generally be required to treat market discount recognized under Section 1276 of the Code as ordinary taxable income, (vii) the receipt or accrual of interest on the Series 2014F-1 Bonds may cause disallowance of the earned income credit under Section 32 of the Code, (viii) interest on the Series 2014F-1 Bonds is subject to backup withholding under Section 3406 of the Code in the case of registered owners that have not reported a taxpayer identification number and are not otherwise exempt from backup withholding, and (ix) registered owners of the Series 2014F-1 Bonds may not deduct interest on indebtedness incurred or continued to purchase or carry the Series 2014F-1 Bonds, and financial institutions may not deduct that portion of their interest expense allocated to interest on the Series 2014F-1 Bonds.

In the opinion of the Attorney General of the State of Michigan and in the opinion of Dickinson Wright PLLC, Bond Counsel, based on their examination of the documents described in their opinions, under existing law, on the Original Issue Date, the Series 2014F-1 Bonds and the interest thereon were exempt from all taxation of the State of Michigan or a subdivision thereof, except estate taxes and taxes on gains realized from the sale, payment or other disposition of the Series 2014F-1 Bonds.

*Tax Treatment of Accruals on Original Issue Discount*

For federal income tax purposes, the difference between the initial offering prices to the public (excluding bond houses and brokers) at which a substantial amount of the Series 2014F-1 Bonds initially sold at a discount as shown on the inside cover page hereof (the "Series OID Bonds") is sold and the amount payable at the stated redemption price at maturity thereof constitutes "original issue discount." Such discount on the Series OID Bonds is treated as interest excluded from federal gross income to the extent properly allocable to each registered owner thereof. The original issue discount accrues over the term to maturity of each such Series OID Bond on the basis of a constant interest rate compounded at the end of each six-month period (or shorter period from the date of original issue) with straight line interpolations between compounding dates. The amount of original issue discount accruing during each period is added to the adjusted basis of such Series OID Bonds to determine taxable gain upon disposition (including sale, redemption or payment on maturity) of such Series OID Bonds.

The Code contains certain provisions relating to the accrual of original issue discount in the case of registered owners of the Series OID Bonds who purchase such bonds after the initial offering of a substantial amount thereof. Registered owners who do not purchase such Series OID Bonds in the initial offering at the initial offering and purchase prices should consult their own tax advisors with respect to the tax consequences of ownership of such Series OID Bonds.

*Amortizable Bond Premium*

For federal income tax purposes, the difference between an original registered owner's cost basis of the Series 2014F-1 Bonds initially sold at a premium as shown on the inside cover page hereof (the "Series Original Premium Bonds") and the amounts payable on the Series Original Premium Bonds other than stated interest constitutes an amortizable bond premium. The same applies with respect to any Series 2014F-1 Bond, if a registered owner's cost basis exceeds the amounts payable thereon other than stated interest (collectively with the Series Original Premium Bonds held by the original registered owners, "Series Premium Bonds"). Such amortizable bond premium on the Series Premium Bonds is not deductible from gross income, but is treated for federal income tax purposes as an offset to the amount of stated tax-exempt interest paid on the Series Premium Bonds, which may affect liability for the branch profits tax imposed by Section 884 of the Code. The amount of amortizable bond premium allocable to each taxable year is generally determined on the basis of the registered owner's yield to maturity determined by using the registered owner's basis (for purposes of determining loss on sale or exchange) of such Series Premium Bonds and compounding at the close of each six-month accrual period. The amount of amortizable bond premium allocable to each taxable year is deducted from the registered owner's adjusted basis of such Series Premium Bonds to determine taxable gain upon disposition (including sale, redemption or payment at maturity) of such Series Premium Bonds.

**The Series 2014F-2 Bonds**

On December 10, 2014, the Attorney General of the State of Michigan and Dickinson Wright PLLC, Bond Counsel, delivered their approving opinions that based on their examination of the documents described in their opinions, under existing law, the interest on the Series 2014F-2 Bonds was *not* excluded from gross income for federal income tax purposes. The Attorney General and Bond Counsel expressed no opinion regarding other federal tax consequences arising with respect to the Series 2014F-2 Bonds and the interest thereon.

**Future Developments**

Except as described herein, Bond Counsel's engagement with respect to the Bonds ended with the issuance of the Bonds and, unless separately engaged, bond counsel is not obligated to defend the Authority in the event of an audit examination by the IRS. The IRS has a program to audit tax-exempt obligations to determine whether the interest thereon is includible in gross income for federal income tax purposes. If the IRS does audit the Series 2014F-1 Bonds, under current IRS procedures, the IRS will treat the Authority as the taxpayer and the beneficial owners of the Series 2014F-1 Bonds will have only limited rights, if any, to obtain and participate in judicial review of such audit.

NO ASSURANCE CAN BE GIVEN THAT ANY FUTURE LEGISLATION OR CLARIFICATIONS OR AMENDMENTS TO THE CODE, IF ENACTED INTO LAW, WILL NOT CONTAIN PROPOSALS WHICH COULD CAUSE THE INTEREST ON THE SERIES 2014F-1 BONDS TO BE SUBJECT DIRECTLY OR INDIRECTLY TO FEDERAL OR STATE OF MICHIGAN INCOME TAXATION, ADVERSELY AFFECT THE MARKET PRICE OR MARKETABILITY OF THE SERIES 2014F-1 BONDS, OR OTHERWISE PREVENT THE REGISTERED OWNERS FROM

REALIZING THE FULL CURRENT BENEFIT OF THE STATUS OF THE INTEREST THEREON. BOND COUNSEL AND THE ATTORNEY GENERAL EXPRESS NO OPINION REGARDING ANY PENDING OR PROPOSED FEDERAL OR STATE OF MICHIGAN TAX LEGISLATION.

## STATE NOT LIABLE ON THE BONDS

The Bonds are limited obligations of the Authority payable solely from the sources described herein and neither the faith and credit nor the taxing power of the State, any political subdivision thereof or the Authority is pledged to the payment of the principal or redemption price of, interest on, or the purchase price of the Bonds.

The sources of payment for the Bonds are limited to those provided by the Act, and the issuance of the Bonds is not directly or indirectly or contingently an obligation, moral or other, of the State, any political subdivision thereof or the Authority to levy or to pledge any form of taxation whatever therefor or to make any appropriation for their payment. The Authority has no taxing power.

## CERTAIN LEGAL MATTERS

The legality of the authorization, sale and delivery of the Bonds was subject to the approval of the Attorney General of the State and of Bond Counsel, whose approving opinions, substantially in the form attached as Appendix V to this Reoffering Memorandum, were delivered upon the issuance of the Bonds. The fees to be received by the Bond Counsel in connection with the issuance and reoffering of the Bonds were paid and will be paid from the proceeds of the Bonds and from investment earnings thereon.

Certain legal matters were passed upon for the City by its bond counsel, Miller Canfield, Paddock & Stone, P.L.C., Detroit, Michigan, and for the Underwriter by its counsel, McDermott Will & Emery LLP, Chicago, Illinois and Dykema Gossett PLLC, Detroit and Lansing, Michigan.

## RATING

Standard & Poor's Ratings Services, a division of The McGraw Hill Companies, Inc. ("S&P"), has assigned the Bonds rating of "A". Such rating reflects only the views of S&P and an explanation of the significance of such rating may be obtained from S&P. The Authority has furnished to S&P certain information and materials with respect to the Bonds. There is no assurance that the rating which has been assigned to the Bonds will continue for any given period of time or that it will not be revised or withdrawn entirely by S&P, if in the judgment of S&P circumstances so warrant. A downward revision or withdrawal of a rating may have an adverse effect on the market price of the Bonds. A securities rating is not a recommendation to buy, sell or hold securities and may be subject to revision or withdrawal at any time.

## UNDERWRITING

Barclays is currently reoffering the Bonds, which were initially acquired by it on December 10, 2014. The public offering prices of the Bonds may be changed from time to time by the Underwriter.

The Underwriter and its affiliates are full service financial institutions engaged in various activities, which may include securities trading, commercial and investment banking, financial advisory, investment management, principal investment, hedging, financing and brokerage activities. The Underwriter and its affiliates have, from time to time, performed, and may in the future perform, various investment banking services for the Authority for which they received or will receive customary fees and expenses.

In the ordinary course of their various business activities, the Underwriter and its affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (which may include bank loans and/or credit default swaps) for their own account and for the accounts of their customers and may at any time hold long and short positions in such securities and instruments. Such investment and securities activities may involve securities and instruments of the Authority.

## CONTINUING DISCLOSURE UNDERTAKINGS

The Authority will covenant for the benefit of the Holders and the Beneficial Owners of the Bonds (as such terms are defined in the Continuing Disclosure Undertaking which the Authority expects to execute on or before the date of delivery of the Bonds (the "Continuing Disclosure Undertaking")), to cause the City to enter into an undertaking to disclose certain financial information and operating data relating to the City, by not later than nine months following the end of the applicable fiscal year, commencing with the report for fiscal years ending on or after June 30, 2015 (the "Annual Financial Information") and to provide notices of the occurrence of certain enumerated events, if material. The Continuing Disclosure Undertaking requires that the Annual Financial Information be filed with the Municipal Securities Rulemaking Board ("MSRB") by electronic transmission through the Electronic Municipal Market Access ("EMMA") Dataport of the MSRB. The Continuing Disclosure Undertaking also requires that notices of material events be filed by the Authority with the MSRB by electronic transmission through the EMMA Dataport. The specific nature of the information to be contained in the Annual Financial Information or the notices of material events is set forth in "APPENDIX VI — FORMS OF CONTINUING DISCLOSURE UNDERTAKINGS."

Except as described in the Continuing Disclosure Undertaking the provisions of the Continuing Disclosure Undertaking will create no rights in any other person or entity. The obligation of the Authority to comply with the provisions of the Continuing Disclosure Undertaking is enforceable by any Beneficial Owner of outstanding bonds issued under the Resolution (all as defined in the Continuing Disclosure Undertaking). The right to enforce the provisions of the Continuing Disclosure Undertaking is limited to a right, by action in mandamus or for specific performance, to compel performance of the Authority's obligations under the Continuing Disclosure Undertaking. Any failure by the Authority to perform in accordance with the Continuing Disclosure Undertaking will not constitute a default or an Event of Default under the Resolution, and the rights and remedies provided by the Resolution upon the occurrence of a default or an Event of Default will not apply to any such failure.

The Authority is in compliance in all material respects with all previous undertakings with regard to the Rule to provide annual financial information or notices of material events pursuant to the Rule.

A failure by the Authority to comply with the undertaking must be reported by the Authority in accordance with Rule 15c2-12 (the "Rule") promulgated by the Securities and Exchange Commission and must be considered by any broker, dealer or municipal securities dealer before recommending the purchase or sale of the Bonds in the secondary market. Consequently, such failure may adversely affect the marketability and liquidity of the Bonds and the market price thereof.

The following subsections have been provided by the City, which is a Material Obligated Person with respect to the Bonds:

### Prior Continuing Disclosure Compliance by the City

The City has entered into a number of continuing disclosure undertakings required by the Rule promulgated by the Securities and Exchange Commission in connection with bonds previously issued by the City. During the past five years, the City has not complied in all material respects with its obligations under such continuing disclosure undertakings, including filings of its annual financial information and updates to certain financial and operating data.

Specifically, for Fiscal Year 2013 and Fiscal Year 2014, the City was unable to provide its annual financial information within the time periods specified in the applicable undertakings for its prior bonds, which range from 180 to 360 days after the City's Fiscal Year end. The audited financial statements and updates to the City's financial and operating data for Fiscal Year 2013 were filed on July 28, 2014. The audited financial statements of the City for Fiscal Year 2014 were filed on June 18, 2015. In addition, the City did not file its annual financial information in Fiscal Year 2012 within the 180 day deadline in its undertakings for the majority of its water and sewer bonds issued between 1995 and 2012. The annual financial information for Fiscal Year 2012 was filed four days late under the requirements of the water and sewer bonds, but was timely with respect to the remainder of the City's outstanding bonds. The City's water and sewer bonds also require the annual filing of separate water and sewer system financial statements (the "DWSD Financial Statements"). These DWSD Financial Statements were filed modestly late for Fiscal Years 2010 and 2012, on December 28, 2010 and January 27, 2013 respectively. The DWSD Financial Statements for Fiscal Year 2014 were filed on June 22, 2015.

While the City has provided updates to its financial and operating data as part of its comprehensive annual financial reports in a format different from the tables contained in the official statements which are the subject of the undertakings, in substance, the City has provided essentially the same information contemplated by the undertakings.

The City also did not post material event notices for a material event in 2010. On April 30, 2010, Fitch recalibrated the City's ratings to a global scale, improving the City's ratings by one notch. At the same time, the City disclosed this rating change in its official statements for the Distributable State Aid General Obligation Bonds (Limited Tax), Series 2010; MFA LGLP Revenue Bonds, Series 2010E (City of Detroit Unlimited Tax General Obligation Local Project Bonds) (Federally Taxable); and MFA LGLP Revenue Bonds, Series 2012C (City of Detroit Limited Tax General Obligation Local Project Bonds Third Lien).

The City has taken steps to improve its compliance with its continuing disclosure undertakings. It has retained consultants to assist in its internal accounting and Digital Assurance Certifications, LLC ("DAC") to assist in its filings with EMMA, as described below. The City's inability to file its annual continuing disclosure update on a timely basis for 2013 and 2014 was largely attributable to its having filed a petition for relief under Chapter 9 of the Bankruptcy Code in July 2013, which delayed the completion of its 2013 CAFR by over six months, and to its December 2014 exit from bankruptcy which delayed both the pension system audits and then the 2014 CAFR by almost six months. Now that it has exited bankruptcy, the City expects to be in a position to file its annual updates at least within nine months after its fiscal year end going forward.

**The City's Disclosure Dissemination Agent**

In order to provide continuing disclosure with respect to the Bonds, the City has entered into a Disclosure Dissemination Agent Agreement ("Disclosure Dissemination Agreement") with DAC, under which the City has designated DAC as Disclosure Dissemination Agent.

The Disclosure Dissemination Agent has only the duties specifically set forth in the Disclosure Dissemination Agreement. The Disclosure Dissemination Agent's obligation to deliver the information at the times and with the contents described in the Disclosure Dissemination Agreement is limited to the extent the City has provided such information to the Disclosure Dissemination Agent as required by the Disclosure Dissemination Agreement. The Disclosure Dissemination Agent has no duty with respect to the content of any disclosures or notice made pursuant to the terms of the Disclosure Dissemination Agreement. The Disclosure Dissemination Agent has no duty or obligation to review or verify any information in the Annual Financial Information, Audited Financial Statements, notice of the occurrence of reportable events or voluntary disclosures, or any other information, disclosures or notices provided to it by the City and shall not be deemed to be acting in any fiduciary capacity for the City, the Bondholders or any other party. The Disclosure Dissemination Agent has no responsibility for the City's failure to report to the Disclosure Dissemination Agent a Notice Event or a duty to determine the materiality thereof. The Disclosure Dissemination Agent shall have no duty to determine or liability for failing to determine whether the City has complied with the Disclosure Dissemination Agreement. The Disclosure Dissemination Agent may conclusively rely upon certifications of the City at all times.

## OTHER MATTERS

The summaries and explanations herein of provisions of the Act, the General Resolution, the Supplemental Resolution and other materials are brief summaries of certain provisions thereof. Such summaries do not purport to be complete and reference is made to such instruments, documents and other materials for full and complete statements of the provisions thereof.

The information contained in this Reoffering Memorandum has been compiled or prepared from sources deemed to be reliable and, while not guaranteed as to completeness or accuracy, is believed to be correct as of this date. Any statements involving matters of opinion, whether or not expressly so stated, are intended as such and not as representations of fact.

The attached Appendices are an integral part of this Reoffering Memorandum and must be read in their entirety together with all of the foregoing information.

The execution and delivery of this Reoffering Memorandum have been duly authorized by the Authority.

MICHIGAN FINANCE AUTHORITY

By: /s/ Mary G. Martin
Mary G. Martin
Executive Director

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## APPENDIX I

## SUMMARY OF CERTAIN PROVISIONS OF THE RESOLUTION AND THE SIXTH SUPPLEMENTAL INDENTURE

### General Resolution and Supplemental Resolution

The following is a brief summary of certain provisions of the Resolution, as amended and restated, and the Supplemental Resolution and does not purport to be complete. Reference is made to the Resolution and the Supplemental Resolution, copies of which are available from the Authority.

**Definitions**

The following are definitions of certain of the terms used in the Resolution and this Reoffering Memorandum. Capitalized terms appearing in this Reoffering Memorandum and not specifically defined herein have the meaning given to such terms in the Resolution.

**"Act"** means the Shared Credit Rating Act, Act No. 227 of the Public Acts of 1985 of the State, as from time to time amended.

**"Act 140"** means the State Revenue Sharing Act of 1971, Act No. 140 of the Public Acts of 1971 of the State, as from time to time amended.

**"AMBAC Assurance"** means AMBAC Assurance Corporation, a Wisconsin domiciled stock insurance company.

**"AMBAC Insurance Policy"** means a municipal bond insurance policy issued by AMBAC Assurance insuring the payment when due of the principal of and interest on any Bonds as provided therein.

**"AMBAC Insurance Program Municipal Obligations"** means Municipal Obligations purchased with the proceeds of AMBAC Insured Bonds.

**"AMBAC Insured Bonds"** means Bonds so designated from time to time by an Authorized Officer of the Authority, secured by a pledge of the Authority's interest in AMBAC Insurance Program Municipal Obligations and with respect to which an AMBAC Insurance Policy has been issued.

**"Authority"** means the Michigan Finance Authority, as successor to Michigan Municipal Bond Authority created by the Act and the Executive Order, or any board, body, commission, department or officer succeeding to the principal functions thereof or to whom the powers conferred upon the Authority by the Act and the Executive Order shall be given by law.

**"Authorized Denomination"** means $5,000, and integral multiples thereof or such other denominations which shall be specified in a Supplemental Resolution.

**"Authorized Officer"** means with respect to the Authority, any person who is an "Authorized Officer" as defined in the Authority's Resolution No. 2013-36 or other resolution of the Authority.

**"Available Amount"** means for Mandatory Purchase Bonds the amount on deposit in the Revenue Sharing Bond Account of the Revenue Fund not required to pay interest on or to pay the principal at maturity or the Redemption Price of Bonds, and which an Authorized Officer of the Authority directs to be used for the payment of the principal portion of the purchase price of Mandatory Purchase Bonds on any Mandatory Purchase Date, notice of which shall have been given to the Remarketing Agent by the Authority.

**"Bond Counsel"** means bond counsel as designated by the Authority in a Supplemental Resolution.

**"Bondholder"** or **"Owner"** or **"Holder"** or **"Holder of Bonds"** or **"Owner of Bonds"** means the registered owner of any Bond.

**"Bonds"** means the Authority's Local Government Loan Program Revenue Bonds issued pursuant to the Resolution and Supplemental Resolution.

**"Bond Registrar and Paying Agent"** means with respect to any Bond the Bond Registrar and Paying Agent appointed as such by a Supplemental Resolution and any successor thereto, and the Co-Paying Agent to the extent that the Bond Registrar and Paying Agent has delegated responsibilities under the Bond Resolution to the Co-Paying Agent.

**"Business Day"** means each weekday on which commercial banking institutions in the State and in the State of New York are not required or authorized by law or executive order to remain closed, and on which the New York Stock Exchange, Inc. is not closed.

**"Capital Appreciation Bonds"** means the Bonds so designated by an Authorized Officer of the Authority which bear interest from their date of issuance and delivery, which interest is compounded semi-annually on each June 1 and December 1 or such other dates as may be specified by an Authorized Officer of the Authority on or prior to the issuance of such Capital Appreciation Bonds, until paid at the maturity thereof.

**"Code"** means the Internal Revenue Code of 1986, as amended from time to time and any successor provision, act or statute, and the regulations from time to time promulgated or proposed thereunder.

**"Collateral Documents"** means such documents as may be required, and so designated by the Authority in a Supplemental Resolution, from a Governmental Unit, its incorporating or establishing municipality or other entity designated in a Supplemental Resolution, including without limitation if such Governmental Unit is a building authority incorporated under Act 31, Michigan Public Acts of 1948 (First Extra Session), as amended, or a tax increment finance authority created pursuant to Act 450, Michigan Public Acts of 1980, as amended, or a local development finance authority created pursuant to Act 281, Michigan Public Acts of 1986, as amended, the incorporating or establishing municipality in connection with the purchase by the Authority of Municipal Obligations, including with respect to Revenue Sharing Municipal Obligations and MBIA Insured Revenue Sharing Municipal Obligations, without limitation, the Revenue Sharing Pledge Agreement. Collateral Documents with respect to Municipal Obligations issued pursuant to the Municipal Lighting Authority Act, Act No. 392, Michigan Public Acts of 2012, may include a trust indenture that provides for the deposit of the proceeds of a city's utility users tax to secure such Municipal Obligations.

**"Commencement Date"** means the date when the term of the Municipal Obligation begins and the obligation of the Governmental Unit to make Loan Repayments accrues.

**“Compound Accreted Value”** means with respect to each Capital Appreciation Bond, as of the date of computation an amount equal to the principal amount of each Capital Appreciation Bond plus interest accrued and compounded on such Capital Appreciation Bond from its dated date to the June 1 or December 1 (or such other date or dates as may be specified by Supplemental Resolution or by an Authorized Officer of the Authority on or prior to the issuance of such Capital Appreciation Bond) immediately preceding the date of computation or to the date of computation if a June 1 or December 1 (or such other date or dates as may be specified by Supplemental Resolution or by an Authorized Officer of the Authority on or prior to the issuance of such Capital Appreciation Bond), as set forth in schedules of the Compound Accreted Value per $1,000 (or $5,000) maturity amount of each Capital Appreciation Bond on each June 1 or December 1 (or such other date or dates as may be specified by Supplemental Resolution or by an Authorized Officer of the Authority on or prior to the issuance of such Capital Appreciation Bond) prepared by an Authorized Officer of the Authority.

**“Co-Paying Agent”** means with respect to any Bond the Co-Paying Agent, if any, appointed as such by a Supplemental Resolution and any successor thereto.

**“Costs of Issuance”** means any administrative costs of the Authority or items of expense payable or reimbursable directly or indirectly by the Authority and related to the authorization, sale, and issuance of the Bonds, which items of expense shall include, but not be limited to, underwriter’s fees, printing costs, cost of reproducing documents, filing and recording fees, initial fees and charges of a Trustee, the initial fees of any liquidity facility issuer, if any, and fees or premiums of any credit facility issuer, if any, costs and expenses of verification agents, the Bond Registrar and Paying Agent, the Co-Paying Agent, the Depository, and the Authority, legal fees and charges, professional consultants’ fees, financial advisors’ fees, costs of credit ratings, fees and charges for execution, transportation and safekeeping of Bonds, the cost of any Reserve Account Security Instrument and other costs, charges and fees in connection with the foregoing, or designated as such in a Supplemental Resolution, and any other items of expense authorized by the Act.

**“Cost of Issuance Agreement”** means the agreements, if any, between the Authority and the Governmental Units regarding the payment or reimbursement of the Authority’s Costs of Issuance.

**“Costs of Issuance Fund”** means the Costs of Issuance Fund established and so designated by the Resolution.

**“Counsel”** means an attorney duly admitted to practice law before the highest court of any state.

**“Current Interest Bonds”** means the Bonds so designated by an Authorized Officer of the Authority which bear interest from their date of issuance and delivery payable semi-annually on such dates as may be specified by an Authorized Officer of the Authority prior to the issuance of such Current Interest Bonds.

**“Depository”** means with respect to any Bond the Trustee or such other Depository (including without limitation the State Treasurer) appointed as such by a Supplemental Resolution.

**“Distributable Aid”** means the payments that a Governmental Unit, or if such Governmental Unit is a building authority incorporated under Act 31, Michigan Public Acts of 1948 (First Extra Session), as amended, the incorporating municipality, or if such Governmental Unit is a tax increment finance authority created pursuant to Act 450, Michigan Public Acts of 1980, as amended, or a local development finance authority created pursuant to Act 281, Michigan Public Acts of 1986, as amended, the establishing municipality is eligible to receive from the State under Act 140 or successor thereto serving the same purpose and which may otherwise be lawfully pledged as security for Municipal Obligations.

**"Distributable Aid Ratio"** means, with respect to any Governmental Unit and annual distribution period under Act 140, the ratio of the amount of all payments of Distributable Aid that the Governmental Unit, or if such Governmental Unit is a building authority incorporated under Act 31, Michigan Public Acts of 1948 (First Extra Session), as amended, the incorporating municipality, or if such Governmental Unit is a tax increment finance authority created pursuant to Act 450, Michigan Public Acts of 1980, as amended, or a local development finance authority created pursuant to Act 281, Michigan Public Acts of 1986, as amended, the establishing municipality is eligible to receive in such annual period, to the estimated maximum annual principal and interest requirements for the Municipal Obligation, expressed as a decimal equivalent.

**"Distributable Sales Tax Ratio"** means, with respect to any Governmental Unit and annual distribution period under Act 140, the ratio of the amount of all payments of state sales tax revenues that the Governmental Unit or, if such Governmental Unit is a building authority incorporated under Act 31, Michigan Public Acts of 1948 (First Extra Session), as amended, the incorporating municipality, or if such Governmental Unit is a tax increment finance authority created pursuant to Act 450, Michigan Public Acts of 1980, as amended, or a local development finance authority created pursuant to Act 281, Michigan Public Acts of 1986, as amended, the establishing municipality is eligible to receive under Act 140 in such annual period to the estimated maximum annual principal and interest requirements for the Municipal Obligation expressed as a decimal equivalent.

**"Eligible Investment"** means, except as otherwise provided in a Supplemental Resolution, such of the following as shall mature, or shall be subject to redemption by the holder thereof at the option of such holder, not later than the respective dates when the moneys will be required for the purposes intended: (i) Governmental Obligations, (ii) certificates of deposit issued by any bank or trust company whose deposits are insured by the Federal Deposit Insurance Corporation, provided that such certificates of deposit shall be secured by Governmental Obligations with a market value equal to the principal amount thereof over the amount guaranteed by the Federal Deposit Insurance Corporation, (iii) debentures or notes issued by any of the following Federal agencies: Banks for Cooperatives, Federal Intermediate Credit Banks, Federal Loan Banks, Export-Import Bank of the United States, Government National Mortgage Association, Federal National Mortgage Association, Federal Home Loan Mortgage Corporation or, Federal Home Loan Banks, Federal Land Banks (including participation certificates issued by such agencies) and all other obligations issued or in the opinion of the Attorney General of the United States unconditionally guaranteed as to principal and interest by any agency or person controlled or supervised by and acting as an instrumentality of the United States of America pursuant to authority granted by the Congress, (iv) an Investment Agreement, (v) obligations the interest on which is excluded from gross income for purposes of federal income tax under the Code and, which have received from all Rating Agencies rating the Bonds, a rating in a Rating Category at least as high as the rating on any Bonds secured by such investment, (vi) commercial paper that has received from all Rating Agencies rating the Bonds, a rating at least as high as the rating on any Bonds secured by such investment, (vii) any other investment permitted by Act and approved by resolution of the Authority which has received from all Rating Agencies rating the Bonds a rating in a Rating Category at least as high as the rating on any Bonds secured by such investment, and (viii) with respect to the AMBAC Insured Bond Account within the Revenue Fund, any investment which is legal for the Authority and which has been approved in writing by AMBAC Assurance.

**"Event of Default"** means an Event of Default specified under the Resolution.

**"Excess Funds"** means with respect to the Revenue Account for each Type of Bonds the amount by which the funds on deposit therein exceeds the amount required for the purposes of the Resolution (including future payments of principal and interest on the Bonds of such Type), as certified by an Authorized Officer of the Authority.

**"Executive Order"** means Executive Order No. 2010-2 issued by the Governor of the State on March 4, 2010 and effective by its terms on May 30, 2010.

**"Fees and Charges"** means all fees and charges collected by the Authority in connection with Municipal Obligations purchased pursuant to the Resolution.

**"Fully Marketable Form"** shall have the same meaning under the Resolution as in the Act.

**"Government Obligations"** means, except as otherwise provided in a Supplemental Resolution, direct general obligations of, or obligations the timely payment of the principal of and interest on which are fully and unconditionally guaranteed by, the United States of America.

**"Governmental Unit"** means a "governmental unit" as defined in the Act which qualifies as "a governmental unit within the meaning of Section 103(b)(3)(a) of the Internal Revenue Code of 1954, as amended, and Sections 141(b)(6)(A) and 141(c)(1) of the Code and, if the context so requires, which has been received a Loan from the Authority from the proceeds of the Bonds.

**"Group"** shall have the meaning, if any, given in a Supplemental Resolution.

**"Interest Payment Date"** means, except to the extent otherwise provided in any Supplemental Resolution, (in which case such provision shall govern): (i) with respect to the Transportation Fund Bonds the first February 1 or August 1 which occurs at least 3 months after the original issue date of such Bond, and each February 1 and August 1 thereafter, and (ii) with respect to all other Bonds the first May 1 or November 1 which occurs at least 3 months after the original issue date of such Bond and each May 1 and November 1 thereafter.

**"Interest Period"** means except as otherwise provided in any Supplemental Resolution, with respect to any Mandatory Purchase Bond, each period during which the interest rate on such Bond is not subject to change in accordance with the provisions of the Resolution, which shall be determined as provided in the Resolution.

**"Investment Agreement"** means any agreement for the investment of funds held under the terms of the Resolution which will not result in a reduction or withdrawal of any existing rating on any of the Bonds.

**"Liquidation Proceeds"** means amounts received by the Authority in connection with enforcement of any of the remedies under a Municipal Obligation or Collateral Document after the occurrence of a default which has not been waived or cured.

**"Loan"** means a loan made by the Authority to a Governmental Unit pursuant to the provisions of the Resolution or a Supplemental Resolution.

**"Loan Account"** means with respect to each Type of Bonds the Loan Account, for such Type of Bonds within the Loan Fund established and so designated by the Resolution or a Supplemental Resolution.

**“Loan Fund”** means the Loan Fund established and so designated by the Resolution.

**“Loan Repayments”** means the payments of principal of and interest on a Municipal Obligation and any other amounts payable by a Governmental Unit pursuant to its Municipal Obligation.

**“Local Project Bonds”** means Bonds so designated from time to time by an Authorized Officer of the Authority of one or more Types (each Local Project Bond to be of a Type so designated by such Authorized Officer), the Bonds of each such Type being secured by a pledge of the Authority’s interest in one or more Local Project Municipal Obligations.

**“Local Project Municipal Obligations”** means Municipal Obligations so designated from time to time by an Authorized Officer of the Authority.

**“Local Project Bond Reserve Account”** means with respect to each Type of Local Project Bonds the account or accounts within the Reserve Fund established and so designated by the Resolution, by a Supplemental Resolution or by an Authorized Officer for each Type of Local Project Bond, if any.

**“MBIA”** means the Municipal Bond Investors Assurance Corporation and its successors.

**“MBIA Insurance Program Revenue Sharing Municipal Obligations”** means Municipal Obligations purchased with the proceeds of MBIA Insured Revenue Sharing Bonds.

**“MBIA Insured Revenue Sharing Bonds”** means Bonds so designated from time to time by an Authorized Officer of the Authority, secured by a pledge of the Authority’s interest in MBIA Insurance Program Revenue Sharing Municipal Obligations, and with respect to which a Municipal Bond Guaranty Insurance Policy has been issued.

**“MBIA Insured Revenue Sharing Bond Reserve Account”** means the account within the Reserve Fund established and so designated by the Resolution, if any.

**“Mandatory Purchase Bonds”** means Revenue Sharing Bonds so designated by an Authorized Officer of the Authority.

**“Mandatory Purchase Date”** means, except to the extent otherwise provided in any Supplemental Resolution, (in which case such provision shall govern), and exclusive of the maturity date, the last day of any Interest Period.

**“Mandatory Purchase Notice”** means the notice of any Mandatory Purchase Date required to be given by the Bond Registrar and Paying Agent pursuant to the Resolution.

**“Mandatory Redemption”** shall mean any mandatory redemption made pursuant to the Resolution.

**“Moody’s”** means Moody’s Investors Service, Inc., a corporation organized and existing under the laws of the State of Delaware, its successors and assigns, and, if such corporation is dissolved or liquidated or no longer performs the functions of a securities rating agency, “Moody’s” will be deemed to refer to any other nationally recognized securities rating agency designated by the Authority by notice to the Trustee.

**“Municipal Obligation”** means an obligation of a Governmental Unit purchased by the Authority with proceeds of the Bonds.

**"Municipal Obligation Closing Date"** means, with respect to any Municipal Obligation, the date on which such Municipal Obligation is purchased by the Authority, which date shall be specified in writing by an Authorized Officer of the Authority.

**"Non-Arbitrage And Tax Compliance Certificate"** means a Non-Arbitrage And Tax Compliance Certificate executed by an Authorized Officer of the Authority relating to the use of the proceeds of the Bonds and compliance with the applicable provisions of the Code and regulations promulgated thereunder. It is anticipated that a separate Non-Arbitrage And Tax Compliance Certificate may be executed with respect to each Group or Series of Bonds. All Non-Arbitrage And Tax Compliance Certificates executed by an Authorized Officer of the Authority with respect to any Bond, as such certificates may be amended or supplemented from time to time are collectively referred to as the "Non-Arbitrage And Tax Compliance Certificate".

**"Notice of Election to Retain"** means a notice of election to retain Mandatory Purchase Bonds given by the Owner thereof prior to a Mandatory Purchase Date pursuant to the Resolution.

**"Notice Parties"** means the Authority, the Trustee, the Bond Registrar and Paying Agent, the Co-Paying Agent, the Depository, MBIA with respect to MBIA Insured Revenue Sharing Bonds, and any other party so designated by a Supplemental Resolution.

**"Original Issue Date"** means with respect to each Bond the date on which the Bond is delivered to the original purchasers thereof or other date specified in a Supplemental Resolution.

**"Outstanding Bonds"** or **"Bonds Outstanding"** means all Bonds which have been authenticated and delivered by the Bond Registrar and Paying Agent under the Resolution or a Supplemental Resolution, except:

(a) Bonds canceled after purchase in the open market because of payment;

(b) Bonds deemed paid under the Resolution; and

(c) Bonds in lieu of which other Bonds have been authenticated under the Resolution.

**"Pledge Agreement"** or **"School Aid Pledge Agreement"** means a pledge agreement between a Governmental Unit and the Authority regarding the pledge and payment of a Governmental Unit's school aid pursuant to section 17a of Act 94 of the Public Acts of Michigan of 1979, as amended.

**"Pledged Funds"** means and includes with respect to each Type of Bond, the appropriate accounts within the Loan Fund, the Reserve Fund, the Revenue Fund, and all moneys, instruments and investments from time to time therein. Pledged Funds does not include the Rebate Fund or the Cost of Issuance Fund.

**"Preliminary Rate Determination Date"** means the Business Day selected by the Remarketing Agent which is at least three Business Days prior to any Mandatory Purchase Date.

**"Purchase Amount"** means with respect to any Mandatory Purchase Date the aggregate principal amount of Mandatory Purchase Bonds subject to mandatory purchase on such date and for which no Notice of Election to Retain has been given.

**"Qualified School Bonds"** means Bonds so designated from time to time by an Authorized Officer of the Authority and secured by a pledge of the Authority's interest in the Qualified School Municipal Obligations.

**"Qualified School Municipal Obligations"** means Municipal Obligations fully qualified for participation in the State School Bond Loan Fund pursuant to the provisions of Article IX, Section 16 of the State Constitution and Act No. 108 of the Public Acts of 1961 of the State, as from time to time amended.

**"Rate Determination Date"** means, with respect to any Interest Period for any Bond the Business Day selected by the Remarketing Agent and acceptable to the Authority, that is not fewer than one nor more than 20 Business Days prior to the first day of such Interest Period and at least one Business Day after the last day on which a Notice of Election to Retain may be given by any Owner of a Bond to which such Interest Period applies.

**"Rate Indication"** shall have the meaning given to such term in the Resolution.

**"Rating Agency"** means Moody's or S&P or such other Rating Agency so designated in a Supplemental Resolution.

**"Rating Category"** means one of the generic rating categories of Moody's or S&P or other Rating Agency without regard to any refinement or graduation of such rating category by a numerical modifier or otherwise.

**"Rebate Fund"** means the special fund so designated and established by the Resolution.

**"Rebate Payments"** means the payments required to be deposited to the credit of the Rebate Fund pursuant to the Non-Arbitrage and Tax Compliance Certificate.

**"Record Date"** means the 15$^{th}$ day of the calendar month immediately preceding any Interest Payment Date, or as otherwise specified in a Supplemental Resolution.

**"Redemption Price"** means, with respect to any Bond or any portion thereof, the principal amount of such Bond or such portion thereof and any premium thereon payable upon redemption thereof pursuant to the Resolution or a Supplemental Resolution.

**"Remarketing Agent"** means the remarketing agent or agents for any Bonds appointed by the Supplemental Resolution authorizing such Bonds and any replacement, successor or additional remarketing agent or agents appointed from time to time by the Authority.

**"Remarketing Agreement"** means any Remarketing Agreement for the bonds entered into by the Authority and a Remarketing Agent as amended, modified or supplemented from time to time.

**"Remarketing Amount"** means with respect to any Mandatory Purchase Date, the Purchase Amount minus the Available Amount.

**"Reserve Account"** means, with respect to each Type of Bonds, the Reserve Account, if any, for such Type of Bonds, within the Reserve Fund, established and so designated by the Resolution or a Supplemental Resolution. No Reserve Account has been established for Transportation Fund Bonds, Qualified School Bonds or AMBAC Insured Bonds unless otherwise provided for in a Supplemental Resolution.

**“Reserve Account Requirement”** means (unless a different Reserve Account Requirement is established with respect to such Type of Bonds by a Supplemental Resolution) with respect to each Type of Bonds for which a reserve account is established, the maximum annual principal and interest requirement (for the then current or any subsequent year) on all Bonds of such Type from time to time Outstanding; provided, that such Requirement shall not exceed the lower of 125% of the average annual principal and interest requirements on such Bonds or 10% of the net proceeds of such Bonds; and provided further, that for Bonds other than Bonds bearing interest at rates fixed until their maturity or mandatory redemption dates, annual interest requirements shall be estimated by using the weighted average of the interest rates for Bonds of such Type for which the interest rates are so fixed, if any, or by such other method as shall be provided in a Supplemental Resolution. The Reserve Account Requirement for any Reserve Account may be satisfied by delivery to the Trustee of a Reserve Account Security Instrument. Notwithstanding the foregoing, the Authority in a Supplemental Resolution may reduce or eliminate the Reserve Account Requirement with respect to any Type or Types of Bond at any time if such reduction or elimination would not result in the reduction or withdrawal of any rating applicable to such Bonds, and in such event such Reserve Account Requirement shall be deemed to be so reduced or eliminated.

**“Reserve Account Security Instrument”** means a letter of credit, line of credit, policy of insurance, surety bond or similar instrument which will provide for the payment of all or part of the amounts required to be disbursed from a Reserve Account; provided that the Reserve Account Security Instrument shall not result in a reduction of any rating on the Bonds and provided further that with respect to the MBIA Insured Revenue Sharing Bond Reserve Account, the Reserve Account Security Instrument shall be approved in writing by MBIA.

**“Reserve Fund”** means the Reserve Fund (including therein the Revenue Sharing Bond Reserve Account, the Local Project Bond Reserve Accounts, and the MBIA Insured Revenue Sharing Bond Reserve Account and any other Reserve Accounts established by a Supplemental Resolution) and so designated by the Resolution.

**“Resolution”** means the Bond Resolution of the Authority adopted and so designated by the Authority, as the same may be supplemented or amended pursuant to the terms thereof.

**“Revenue Fund”** means the fund established and so designated by the Resolution.

**“Revenue Sharing Bonds”** means Bonds so designated from time to time by an Authorized Officer of the Authority and secured by the pledge of the Authority’s interest in the Revenue Sharing Municipal Obligations. Revenue Sharing Bonds does not include MBIA Insured Revenue Sharing Bonds.

**“Revenue Sharing Bonds Reserve Account”** means the account established and so designated by the Resolution.

**“Revenue Sharing Municipal Obligations”** means Municipal Obligations so designated by an Authorized Officer of the Authority, secured in part by a pledge of the Governmental Unit’s Distributable Aid, or if such Governmental Unit is a building authority incorporated under Act 31, Michigan Public Acts of 1948 (First Extra Session), as amended, a pledge of the incorporating municipality’s Distributable Aid, or if such Governmental Unit is a tax increment finance authority created pursuant to Act 450, Michigan Public Acts of 1980, as amended, or a local development finance authority created pursuant to Act 281, Michigan Public Acts of 1986, as amended, a pledge of the establishing municipality’s Distributable Aid. Revenue Sharing Municipal Obligations does not include MBIA Insurance Program Revenue Sharing Municipal Obligations.

**"Revenue Sharing Pledge Agreement"** means the Revenue Sharing Pledge Agreement between a Governmental Unit, or if such Governmental Unit is a building authority Incorporated under Act 31, Michigan Public Acts of 1948 (First Extra Session), as amended, the incorporating municipality, or if such Governmental Unit is a tax increment finance authority created pursuant to Act 450, Michigan Public Acts of 1980, as amended, or a local development finance authority created pursuant to Act 281, Michigan Public Acts of 1986, as amended, the establishing municipality, and the Authority regarding the pledge and payment of a Governmental Unit's, or Incorporating municipality's or establishing municipality's, Distributable Aid.

**"Revenues"** means all income derived for the period for which the calculation is being made by or for the account of the Authority from the Municipal Obligations or under the Resolution, including (i) Loan Repayments, (ii) Liquidation Proceeds, and (iii) income from the investment of all funds and accounts created by or pursuant to the Resolution.

**"S&P"** means Standard & Poor's Ratings Services, a corporation organized and existing under the laws of the State of New York, its successors and assigns, and, if such corporation is dissolved or liquidated or no longer performs the functions of a securities rating agency, "S&P" will be deemed to refer to any other nationally recognized securities rating agency designated by the Authority, by notice to the Trustee.

**"School Aid"** means the payments that a Governmental Unit is eligible to receive from the State under the School Aid Act.

**"School Aid Act"** means the State School Aid Act of 1979, Act 94 of the Public Acts of 1979 of the State, as from time to time amended.

**"School Program Bonds"** means Bonds so designated from time to time by an Authorized Officer of the Authority and secured by a pledge of the Authority's interest in School Program Municipal Obligations.

**"School Program Municipal Obligations"** means Municipal Obligations so designated by an Authorized Officer of the Authority, secured in part by a pledge of the Governmental Unit's school aid pursuant to a School Aid Pledge Agreement.

**"Security"** means the Pledged Funds, and other funds, properties and rights of the Authority described in the Resolution as security for the payment of the Bonds.

**"Serial Bonds"** means Bonds so designated in or pursuant to a Supplemental Resolution authorizing their issuance.

**"Series of Bonds"** or **"Bonds of a Series"** means a Series of Bonds, if any, authorized and so designated by or pursuant to a Supplemental Resolution.

**"State"** means the State of Michigan.

**"State Qualified School Bonds"** means Bonds so designated by an Authorized Officer of the Authority secured by a pledge of the Authority's interest in the State Qualified School Municipal Obligations.

**“State Qualified School Municipal Obligations**” means Municipal Obligations fully qualified for participation in the State School Bond Loan Fund pursuant to the provisions of Article IX, Section 16 of the State Constitution and Act No. 92 of the Public Acts of 2005 of the State, as from time to time amended, or under former Act No. 108 of the Public Acts of 1961 of the State, and which are purchased with proceeds of State Qualified School Bonds.

**“State Treasurer”** means the Treasurer of the State.

**“Supplemental Indenture”** means an indenture supplemental to or amendatory to the Resolution authorized by resolution of the Authority and entered into by the Authority and a Trustee in accordance with the Resolution. Except as otherwise expressly provided in the Resolution, all provisions of the Resolution applicable to Supplemental Resolution also apply to Supplemental Indentures.

**“Supplemental Resolution”** means a resolution supplemental to or amendatory to the Resolution, adopted by the Authority in accordance with the Resolution. The term Supplemental Resolution shall also mean and include a Supplemental Indenture.

**“Term Bonds”** means Bonds so designated in or pursuant to a Supplemental Resolution authorizing their issuance.

**“Transportation Fund Bonds”** means Bonds so designated from time to time by an Authorized Officer of the Authority and secured by a pledge of the Authority’s interest in the Transportation Fund Municipal Obligations.

**“Transportation Fund Municipal Obligations”** means Municipal Obligations secured in part by a pledge of a Governmental Unit’s State Transportation Fund or Motor Vehicle Highway Fund revenues and issued pursuant to Act 143 of the Public Acts of Michigan of 1943, Act 51 of the Public Acts of Michigan of 1951, Act 175 of the Public acts of Michigan of 1952, or Act 283 of Public Acts of Michigan of 1909, all as from time to time amended.

**“Trustee”** shall mean, with respect to each Type of Bond, the Trustee appointed in a Supplemental Resolution, and its respective successor.

**“Type”** means, with respect to any Bond, the category of Bonds including such Bond that is equally and ratably secured with each other under the Resolution. The Types of Bonds authorized to be issued under the Resolution are AMBAC Insured Bonds, MBIA Insured Revenue Sharing Bonds, Qualified School Bonds, Revenue Sharing Bonds, School Program Bonds, State Qualified School Bonds, Transportation Fund Bonds, and separately designated Types of Local Project Bonds, each such separately designated Type of Local Project Bonds to constitute a Type. Serial or Group designations for Bonds may be made in the Supplemental Resolution authorizing the issuance of the Bonds. Additional Types of Bonds may be authorized to be issued by a Supplemental Resolution. “Type” means with respect to any Municipal Obligation the Type designated of the corresponding Bonds.

**Pledge and Establishment of Funds and Accounts**

*Pledge*

The Pledged Funds with respect to each Type of Bonds under the Resolution, including the moneys deposited therein, investments thereof and the proceeds of such investments, if any, are pledged to the Trustee for such Type of Bonds for the payment of the principal of, and interest on, each Type of Bonds in accordance with the terms and provisions of the Resolution. This pledge shall be valid and binding from and after the date of adoption of the Resolution and the Pledged Funds shall immediately be subject to the lien of such pledge without any physical delivery thereof, recordation of the Resolution, or further act, and the lien of such pledge shall be valid and binding as against all parties having claims of any kind in tort, contract or otherwise against the Authority, irrespective of whether such parties have notice thereof.

Any amounts deposited into the Costs of Issuance Fund and the Rebate Fund, are not Pledged Funds and the Holders of Bonds shall not have any lien thereon.

*Establishment of Funds*

The following special funds and accounts shall be established maintained and held by the Trustee, the Authority or the Depository pursuant to the provisions of the Resolution.

(1) Revenue Fund — Michigan Finance Authority, Local Government Loan Program; and within the Revenue Fund separate accounts designated as the Qualified School Bond Account, the Transportation Fund Bond Account, the Revenue Sharing Bond Account, one or more Local Project Bond Accounts (each to be separately designated by an Authorized Officer of the Authority from time to time for each separately designated Type of Local Project Bonds), the MBIA Insured Revenue Sharing Bond Account, and such additional accounts as shall be created by Supplemental Resolution. The Revenue Fund and all accounts therein shall be held in trust by the Trustee, or at the written direction of an Authorized Officer of the Authority, by the Depository.

(2) Loan Fund — Michigan Finance Authority, Local Government Loan Program; and within the Loan Fund separate accounts designated as the Qualified School Bond Loan Account, the Revenue Sharing Bond Loan Account, the Transportation Fund Bond Loan Account, the MBIA Insured Revenue Sharing Bond Loan Account, the School Program Bond Loan Account, the AMBAC Insured Bond Loan Account, the State Qualified School Bond Loan Account, and one or more Local Project Bond Accounts (each to be separately designated by an Authorized Officer of the Authority from time to time for each separately designated Type of Local Project Bonds) and such additional accounts as shall be created by Supplemental Resolution. The Loan Fund and all accounts therein shall be held in trust by the Trustee, or at the written direction of the Authority, by the Depository.

(3) Costs of Issuance Fund — Michigan Finance Authority, Local Government Loan Program. The Costs of Issuance Fund shall be held by the Authority, or at the written direction of the Authority, by the Depository, or the Trustee.

(4) Reserve Fund — Michigan Finance Authority Local Government Loan Program; and within the Reserve Fund separate accounts designated as the Revenue Sharing Bond Reserve Account, the MBIA Insured Revenue Sharing Bond Reserve Account, and one or more Local Project Bond Reserve Accounts (to be separately designated by an Authorized Officer of the Authority from time to time for each Type of Local Project Bonds). The Reserve Fund and all accounts therein shall be held in trust by the Trustee, or at the written direction of the Authority, by the Depository.

(5) Rebate Fund — Michigan Finance Authority, Local Government Loan Program; and within the Rebate Fund separate accounts designated by a Supplemental Resolution or by a Non-Arbitrage and Tax Compliance Certificate. The Rebate Fund and all accounts therein shall be held by the Authority or at the written direction of the Authority, by the Depository, or the Trustee.

An Authorized Officer of the Authority is authorized by the Resolution to establish and maintain such other accounts and subaccounts in the aforesaid funds and accounts as may be necessary, convenient or required to provide for the Authority's compliance with the covenants of the Authority described below under "Covenants of the Authority."

An Authorized Officer is authorized to direct the Trustee or the Depository in writing to close any fund, account or subaccount established by or pursuant to the Resolution to the extent such fund, account or subaccount is determined by an Authorized Officer to be unnecessary and thereafter to reopen and reclose such fund, account or subaccount as an Authorized Officer shall determine.

*Application of Bond Proceeds*

The net proceeds of each Series of Bonds shall be deposited by the Authority as follows:

(a) In the Costs of Issuance Fund, the sum specified by an Authorized Officer of the Authority; and

(b) In the Revenue Fund, to the credit of the appropriate account, amounts received as accrued interest, if any, on the corresponding Type of Bonds and amounts specified by an Authorized Officer of the Authority to provide for payment of capitalized interest on Bonds; and

(c) In the Reserve Fund, to the credit of the appropriate account, amounts equal to the Reserve Account Requirement or sufficient to purchase a Reserve Account Security Instrument; and

(d) In the Loan Fund, to the credit of the appropriate account, the balance of the proceeds received from the sale of such Series of Bonds.

*Loan Fund*

(a) Moneys in each Loan Account of the Loan Fund shall be transferred to the corresponding Reserve Account, if any, to the extent required by the Resolution and shall be disbursed to Governmental Units upon the purchase by the Authority of Municipal Obligations from Governmental Units. Such transfers and disbursements shall be made by the Authority, or by the Trustee or the Depository only upon the written direction of an Authorized Officer of the Authority; and

(b) All earnings on moneys in any Loan Account of the Loan Fund shall be transferred, as received, to the Revenue Fund, the Costs of Issuance Fund or remain in the Loan Fund as directed in writing by the Authority as received.

*Costs of Issuance Fund*

Bond proceeds including moneys in the Costs of Issuance Fund, shall be used to pay the Costs of Issuance or to the extent not needed for such purpose transferred to the Revenue Fund pursuant to the written direction of an Authorized Officer of the Authority.

*Revenue Fund*

All Loan Repayments, moneys transferred from the Loan Fund to provide for payment of capitalized interest on Bonds, Fees and Charges and Liquidation Proceeds held or collected by or on behalf of the Authority shall be deposited upon receipt in the appropriate account of the Revenue Fund as directed in writing by an Authorized Officer of the Authority. There shall also be deposited in the appropriate account of the Revenue Fund any other moneys made available by the Authority for the purposes of such account from any other source. Moneys (including the proceeds of sale of Investments) from time to time in the Revenue Fund shall be paid out and applied in the following order of priority; provided, however that in each case only amounts on deposit in the account established for a particular Type of Bond shall be used to make payments with respect to such Type of Bonds or transfers to the Reserve Account established for such Type of Bond, and only moneys on deposit in the account corresponding to Bonds of each Type shall be used to make payments with respect to such Bonds or transfers to the Reserve Account of the Reserve Fund corresponding to such Type of Bonds:

(1) At such times as are necessary, to pay the principal of and interest and redemption premium, if any, on any Bonds when due, whether at maturity or upon redemption, redeemed pursuant to the Resolution;

(2) At such times as are necessary to: (i) pay the fees and expenses of the Trustee, the Authority (including costs of issuing Bonds if insufficient amounts are on hand in the Costs of Issuance Fund), the Bond Registrar and Paying Agent, the Co-Paying Agent, the issuer of any Reserve Account Security Instrument, the financial advisors to the Authority and any transfer agent, co-paying agent or independent accountants employed to provide or verify cash flow projections and (ii) any rebate required under the Resolution; provided that an Authorized Officer may authorize the payment of any such fees or expenses prior to the payment of principal or interest on the Bonds;

(3) At such times as are necessary, to reimburse the Reserve Accounts in amounts sufficient to maintain the Reserve Account Requirements or reimburse the issuers of Reserve Account Security Instruments;

(4) Not more often than semiannually, to the extent certified by an Authorized Officer of the Authority as Excess Funds, to the Authority free and clear of the lien of the Resolution, provided however that notwithstanding the foregoing or any other provision of the Resolution Excess Funds may be paid out and applied as otherwise provided in a Supplemental Resolution and provided further, however, that notwithstanding the foregoing or any other provision of the Resolution, Excess Funds in accounts for Bonds with respect to which MBIA has issued a Reserve Account Security Instrument or a Municipal Bond Guaranty Insurance Policy shall first be paid to MBIA to the extent of any reimbursement obligation owing to MBIA thereunder, and Excess Funds in accounts for Bonds with respect to which AMBAC Assurance has issued an AMBAC Insurance Policy shall first be paid to AMBAC Assurance to the extent of any reimbursement obligation owing to AMBAC Assurance thereunder.

Notwithstanding the foregoing, moneys and investments in the Revenue Fund which have been allocated to the redemption of Bonds as to which notice of redemption has been given in accordance with the requirement of the Resolution shall be applied only to such redemption in accordance with the requirements of the Resolution.

In the event a payment on a Municipal Obligation is received and deposited into the Revenue Fund and due to the untimeliness of its tendering, moneys have previously been transferred from a Reserve Account to account for such untimely payment, such payment on a Municipal Obligation up to the amount so transferred shall be deposited in the appropriate Reserve Account to the extent necessary to increase the amount on deposit in such Reserve Account to the Reserve Account Requirement for such Reserve Account, and provided further that notwithstanding any provision of the Resolution in the event a payment on a Municipal Obligation is received and deposited into the Revenue Fund and due to the untimeliness of its tendering, moneys have previously been paid from a Reserve Account Security Instrument to account for such untimely payment, such payment on a Municipal Obligation shall immediately be deposited directly in any account for which a Reserve Account Security Instrument has been issued, as applicable, to the extent necessary to fully reimburse the issuer of the applicable Reserve Account Security Instrument in accordance with its terms and with the terms of any financial guaranty agreement or reimbursement agreement delivered in connection therewith.

*Reserve Fund*

There shall be deposited in and credited to the Reserve Accounts all moneys transferred from the Revenue Fund as described above under "The Revenue Fund".

Amounts in the Reserve Fund shall be paid out and applied by the Authority, the Trustee or the Depository solely to pay the items enumerated in paragraphs (1), (2), (but only to the extent of any rebate required by the Resolution), and (4) above under "Revenue Fund" in that order of priority, to the extent insufficient amounts are available to pay such items in the Revenue Fund, provided that the Trustee shall pay, and is authorized to pay, to the extent of any reimbursement obligation owing to the issuer of any Reserve Account Security Instrument securing any Bonds, all moneys in the Reserve Account for such Bonds directly to the issuer of the applicable Reserve Account Security Instrument. Any earnings on moneys deposited in the Reserve Fund shall, to the extent such earnings cause the amount credited to the Reserve Fund to exceed the applicable Reserve Account Requirement, be transferred as received to the Revenue Fund; provided, however, that amounts on deposit in each Reserve Account shall be transferred and applied only with respect to the corresponding Type of Bonds, and amounts on deposit in the MBIA Insured Revenue Sharing Bond Reserve Account shall be transferred and applied for the purposes enumerated in paragraph 2 above under "Revenue Fund" only with the consent of MBIA. Notwithstanding any other provision of the Resolution, the delivery of a Reserve Account Security Instrument as replacement for an existing cash deposit in any Reserve Account is authorized. The Trustee is hereby authorized and directed (i) to deliver a demand for payment under any Reserve Account Security Instrument issued by MBIA in accordance with the terms of such Reserve Account Security Instrument at least one day prior to the date on which funds are required to be paid under such Reserve Account Security Instrument, and (ii) to maintain adequate records (such records to be verified to the Trustee by MBIA) as to the amount available to be drawn at any given time under each Reserve Account Security Instrument issued by MBIA and held by the Trustee, and as to the amounts of any reimbursement obligation thereunder, or under the financial guaranty insurance agreement between MBIA and the Authority, paid and owing to MBIA.

*Revenue Sharing Pledge Agreements or Pledge Agreements*

The Authority shall cause the State Treasurer to agree, pursuant to the applicable Revenue Sharing Pledge Agreement or Pledge Agreement, to immediately transfer to the appropriate Bond Account of the Revenue Fund, available Distributable Aid (including in the case of a Governmental Unit which is a building authority incorporated under Act 31, Michigan Public Acts of 1948 (First Extra Session), as amended, available Distributable Aid of the incorporating municipality, and in the case of a Governmental Unit which is a tax increment finance authority established under Act 450, Michigan Public Acts of 1980, as amended, or a local development finance authority established under Act 281, Michigan Public Acts of 1986, as amended, available Distributable Aid of the establishing municipality) or state school aid, respectively, with respect to a Governmental Unit which has failed to pay any Loan Repayment when due under the applicable Municipal Obligation, and thereafter to continue to make such transfers to the extent provided by such Revenue Sharing Pledge Agreement or Pledge Agreement. The Authority, the Depository, or the Trustee, as the case may be, shall notify the State Treasurer in each case if a Governmental Unit (a) fails to pay at least five Business Days prior to the date when due any payments required to be made pursuant to any MBIA Insurance Program Revenue Sharing Municipal Obligation; (b) fails to pay at least two days prior to the date when due, any payments required to be made pursuant to any Revenue Sharing Municipal Obligation or (c) fails to pay at least five Business Days prior to the date when due any payments required to be made pursuant to any School Program Municipal Obligation. Such notice shall contain a request that the State Treasurer immediately transfer payments pursuant to the applicable Revenue Sharing Pledge Agreement or Pledge Agreement.

*Rebate Fund*

All Rebate Payments shall be deposited into the Rebate Fund. The Amounts in the Rebate Fund shall be held in trust and applied as provided in the Resolution and in the Non-Arbitrage and Tax Compliance Certificate.

*Amounts Remaining in Funds and Accounts*

Any amounts remaining in any Fund or account after full payment of the Bonds secured by such Fund or account or provision for payment thereof and all fees, charges and expenses have been paid shall be distributed by the Depository or the Trustee to the Authority, or as otherwise provided in a Supplemental Resolution; provided, however, that any amounts owing to MBIA and payable from such Fund or account shall first be paid to MBIA and any amounts owing to AMBAC Assurance and payable from such Fund or account shall be first paid to AMBAC Assurance.

**Investment of Funds**

*Investment of Funds and Accounts Held*

Unless otherwise provided in a Supplemental Resolution, moneys in the Loan Fund, the Costs of Issuance Fund, the Reserve Fund, the Rebate Fund and the Revenue Fund shall be invested by the Authority, or at the direction of the Authority by the Trustee or the Depository in Eligible Investments, the maturity, redemption date or purchase date at the option of the holder of which shall coincide as nearly as practicable with the times at which moneys are received by the Authority for the purposes of such fund. Notwithstanding the foregoing, moneys in the MBIA Insured Revenue Sharing Bond Account of the Revenue Fund, the MBIA Insured Revenue Sharing Bond Loan Account of the Loan Fund or the MBIA Insured Revenue Sharing Bond Reserve Account of the Reserve Fund shall be invested only in those Eligible Investments which are designated to the Trustee in writing by an Authorized Officer of the Authority and approved in writing by MBIA; provided that such designation may be changed from time to time by an Authorized Officer of the Authority with the written approval of MBIA.

Obligations purchased as an investment of moneys in any fund or account held by the Authority, the Depository or the Trustee under the provisions of the Resolution shall be deemed at all times to be a part of such fund or account; provided that the income or interest earned by, or increment to, any fund or account shall be transferred as provided in the Resolution.

In computing the amount in any fund or account held by the Authority, the Depository or the Trustee under the provisions of the Resolution, obligations purchased as an investment of moneys therein shall be valued at the lower of market or cost as adjusted by amortization of the discount or premium paid upon purchase of such obligations ratably to their respective maturities.

The Authority, the Depository or the Trustee shall sell at the best price obtainable, or present for redemption, any obligation purchased by it as an investment whenever it shall be necessary in order to provide moneys to meet any payment or transfer from the fund or account for which such investment was made. The Depository and the Trustee shall advise the Authority in writing, on or before the 15th day of each calendar month, of the details of all investments held for the credit of each fund and account in its custody under the provisions of the Resolution as of the end of the preceding month or such other interval as directed in writing by an Authorized Officer of the Authority.

*Liability of Trustee, Depository and Authority for Investments*

Neither the Depository, the Trustee nor the Authority shall be liable or responsible for the making of any investment authorized by the provisions of the Resolution, in the manner therein provided, or for any loss resulting from any such investment so made.

**The Trustee and the Depository**

The Trustee and the Depository with respect to the Bonds shall file with the Authority its acceptance of the trusts and obligations imposed upon it by the Resolution and agrees to perform such trusts and obligations, but only upon and subject to, among others, the following express terms and conditions:

(1) The Trustee, prior to the occurrence of an Event of Default and after the curing of all Events of Default which may have occurred, undertakes to perform such duties and only such duties as are specifically set forth in the Resolution. In case an Event of Default has occurred (which has not been cured or waived) the Trustee shall exercise such of the rights and powers vested in it by the Resolution (and, with respect to the MBIA Insured Revenue Sharing Bonds only, use the same degree of care and skill in their exercise as a prudent corporate trustee would exercise or use in the circumstances in the conduct of that corporate trustee's own affairs).

(2) The Trustee may execute any of the trusts or powers of the Resolution and perform any of its duties by or through attorneys, agents, receivers or employees, and shall be entitled to act upon the opinion or advice of its counsel concerning all matters thereof, and may in all cases be reimbursed under the Resolution for reasonable compensation paid to all such attorneys, agents, receivers and employees as may reasonably be employed in connection with the trust thereof. The Trustee may act upon an opinion of counsel and shall not be responsible for any loss or damage resulting from any action or nonaction by it taken or omitted to be taken in good faith in reliance upon such opinion of Counsel.

(3) The permissive right of the Trustee to do things enumerated in the Resolution shall not be construed as a duty and the Trustee shall not be answerable for other than its gross negligence or willful default. The immunities and exceptions from liability of the Trustee shall extend to its officers, directors, employees and agents.

(4) Before taking any action under the Resolution, whether permissive or mandatory, the Trustee may require that reasonable security and/or a reasonably satisfactory indemnification be furnished for the reimbursement of all reasonable expenses to which it may be put and to protect it against all liability, except liability which is adjudicated to have resulted from its gross negligence or willful misconduct.

**Covenants of the Authority**

Under the Resolution, the Authority covenants and agrees with the Bondholders as follows:

(1) The Authority shall duly and punctually pay or cause to be paid the principal or Redemption Price of every Bond and the interest, if any, thereon, at the dates and places and in the manner provided in the Bond, according to the true intent and meaning thereof.

(2) The Authority is duly authorized pursuant to law to issue the Bonds and to adopt the Resolution and to pledge the Pledged Funds, and other moneys, securities, funds and property pledged by the Resolution in the manner and to the extent provided by the Resolution or a Supplemental Resolution. The Pledged Funds, Security, and other moneys, securities, funds and property so pledged are and will be free and clear of any pledge, lien, charge or encumbrance thereon or with respect thereto prior to, or of equal rank with, the pledge created by the Resolution except as otherwise provided in the Resolution or a Supplemental Resolution, and all action on the part of the Authority to that end will be duly and validly taken. The Bonds and the provisions of the Resolution are and will be the valid and legally enforceable obligations of the Authority in accordance with their terms and the terms of the Resolution and the Supplemental Resolution providing for the issuance of Bonds. The Authority shall at all times, to the extent permitted by law, defend, preserve and protect the pledge of the Pledged Funds, Security, and other moneys, securities, funds and property pledged under the Resolution and all the rights of the Bondholders and the Trustee under the Resolution against all claims and demands of all persons whomsoever.

(3) The Authority shall keep proper books of record and account in which complete and correct entries shall be made of its transactions relating to all Municipal Obligations, payments thereof and all funds and accounts established by the Resolution, which shall, except as otherwise provided by law, at all reasonable times be subject to the inspection by the Trustee, MBIA and the owners of an aggregate of not less than fifty-one percent (51%) in principal amount of the Bonds Outstanding or their representatives duly authorized in writing.

(4) The Authority shall not at any time insist upon or plead in any manner whatsoever, or claim or take the benefit of any stay or extension law now or at any time hereafter in force which may affect the covenants and agreements contained in the Resolution, or in the Bonds, and all benefit or advantage of any such law or laws is expressly waived by the Authority.

(5) The Authority shall not hereafter create or permit the creation of or issue any obligations or create any additional indebtedness, other than the Bonds, secured by a charge and lien on the Pledged Funds, and other moneys, securities, funds and property pledged by the Resolution except as provided in the Resolution or Supplemental Resolution.

(6) The Authority shall diligently take all reasonable steps, actions and proceedings necessary for the enforcement of all terms covenants and conditions of purchases made by the Authority which shall affect the prompt collection of payments under the Municipal Obligations including the enforcement of the Municipal Obligations. Whenever it shall be necessary in order to protect and enforce the rights of the Authority under a Municipal Obligation and to protect and enforce the rights and interests of Bondholders under the Resolution the Authority shall commence proceedings against the Governmental Unit in default under the provisions of Municipal Obligations in protection and enforcement of its rights under such Municipal Obligations and bring appropriate action to collect any unpaid balance due on the Municipal Obligations.

(7) Notwithstanding any other provision of the Resolution, the Authority shall not permit at any time or times any of the proceeds of the Bonds or any other funds of the Authority to be used directly or indirectly to acquire any investment property, the acquisition of which would cause any of the Bonds to be an "arbitrage bond" as defined in Section 148(a) of the Code. The Authority covenants and agrees that to the extent permitted by law, it shall take all actions within its control necessary to maintain and shall not take any actions the taking of which would adversely affect the exclusion of the interest on the Bonds from gross income for federal income tax purposes including but not limited to, actions relating to the rebate of arbitrage earnings and the expenditure and investment of Bond proceeds and money deemed to be Bond proceeds, all as more fully set forth in the Non-Arbitrage and Tax Compliance Certificate. Amounts required to be deposited in the Rebate Fund shall be determined by or at the direction of the

Authority at such times as are required by the Non-Arbitrage And Tax Compliance Certificate. To the extent the Authority determines that there are excess moneys in the Rebate Fund, such excess moneys shall be paid to the Authority.

Without limitation to the foregoing, the Authority covenants and agrees to pay to the United States (but only to the extent of moneys available therefor under the Resolution) any amount required to be paid by the Authority to the United States pursuant to Section 148(f) of the Code, at the times, in the amounts and at the places required thereby in order to maintain the exclusion of the interest on the Bonds from gross income for purposes of federal income taxation.

(8) The Authority shall not permit at any time or times any of the proceeds of the Bonds or any other funds of the Authority to be used directly or indirectly in a manner which would result in the exclusion of the Bonds from the treatment afforded by Section 103(a) of the Code for any reason including without limitation by reason of the classification of such Bonds as "private activity bonds" within the meaning of Section 141(a) of the Code, or as federally guaranteed bonds as provided in Section 149(b) of the Code.

**Supplemental Resolutions**

*Supplemental Resolutions Not Requiring Consent of Bondholders*

The Authority may, without the consent of or notice to any of the Bondholders and for any one or more of the following purposes, adopt at any time any Supplemental Indenture or Indentures, which shall be effective upon execution and delivery by the Trustee and the Authority, or any Resolution or Supplemental Resolution, which shall become effective in accordance with its terms upon the filing with the Trustee of a copy thereof, certified by an Authorized Officer of the Authority:

(a) to cure any ambiguity or formal defect or omission in the Resolution;

(b) to grant to or confer upon the Trustee for the benefit of the Bondholders any additional benefits, rights, remedies, powers or authorities that may lawfully be granted to or conferred upon the Bondholders or the Trustee;

(c) to subject to the Resolution additional revenues, properties or collateral;

(d) to modify, amend or supplement the Resolution or any resolution supplemental thereto in such manner as to permit the qualification thereof under the Trust Indenture Act of 1939 or any similar federal statute hereafter in effect or to permit the qualification of the Bonds for sale under the securities laws of the United States of America or of any of the states of the United States of America, and, if they so determine, to add to the Resolution or any resolution supplemental thereto such other terms, conditions and provisions as may be permitted by said Trust Indenture Act of 1939 or similar federal statute;

(e) to evidence the appointment of a separate or the succession of a new Trustee, Bond Registrar and Paying Agent, Co-Paying Agent or Depository under the Resolution;

(f) to satisfy the requirements of Moody's or S&P or other national rating agencies rating the Bonds in order to obtain, maintain or improve the rating on any of the Bonds;

(g) to provide for the orderly sale of Bonds or purchase of Municipal Obligations;

(h) to maintain the exclusion of interest on the Bonds from gross income for federal income tax purposes, to prevent interest on the Bonds from being subject to any alternative minimum tax (other than an alternative minimum tax which applies to all tax-exempt bonds generally) and to maintain the exemption of the Bonds and the interest thereon from State taxation;

(i) to provide for additional or different Types of Bonds;

(j) to issue refunding bonds pursuant to the Resolution;

(k) to reduce or eliminate the Reserve Account Requirement with respect to any Type of Bonds if such reduction or elimination is otherwise permitted under the Resolution;

(l) to provide for the issuance of any Series or Group of Bonds and to prescribe the terms and conditions pursuant to which such Bonds may be issued, paid or redeemed;

(m) to provide for the issuance of Bonds of any Type bearing interest at variable interest rates, or with variable interest periods or subject to mandatory purchase at the option of the Owner thereof;

(n) to provide for the purchase of bond insurance or other credit or liquidity support for any Bond;

(o) to provide for the purchase or acquisition of one or more Reserve Account Security Instruments;

(p) to effect any other changes in the Resolution which, in the judgment of the Trustee, are not to the prejudice of the Trustee or the Bondholders; and

(q) to accomplish, implement, or give effect to any other action which is authorized or required by the Resolution.

*Supplemental Resolutions Requiring Consent of Bondholders*

The owners of not less than two-thirds in aggregate principal amount of the Bonds Outstanding which are affected shall have the right, from time to time, anything contained in the Resolution to the contrary notwithstanding, to consent to and approve the adoption by the Authority and the acceptance by the Trustee of such other supplemental resolution or resolutions and Supplemental Indentures as shall be deemed necessary and desirable by the Trustee for the purpose of modifying, altering, amending, adding to or rescinding, in any particular, any of the terms or provisions affecting or relating to such Type of Bonds contained in the Resolution or in any Supplemental Resolution; provided, however, that there shall not be permitted, other than in accordance with the Resolution and the terms of the Bonds with respect to each Type of Bonds (1) without the consent of the owners of all then Outstanding Bonds of such type, (a) an extension of the maturity date of the principal of or the interest Payment Date for interest on any Bond of such type, or (b) a reduction in the principal amount of any Bond of such type or the rate of interest thereon, or (c) a privilege or priority of any Bond or Bonds of a Type over any other Bond or Bonds of the same Type, or (d) a reduction in the aggregate principal amount of the Bonds required for consent to such Supplemental Resolution, or (e) the creation of any lien other than a lien ratably securing all of the Bonds of the same Type at any time Outstanding under the Resolution, or (2) any modification of the trusts, powers, rights, obligations, duties, remedies, immunities and privileges of the Trustee or Depository without the written consent of the Trustee or the Depository, respectively.

If at any time the Authority shall request the Trustee to accept any such Supplemental Resolution, the Trustee shall, upon being satisfactorily indemnified with respect to expenses, cause notice of the proposed Supplemental Resolution to be mailed by registered or certified mail to MBIA and each owner of a Bond at the address shown on the registration books. Such notice shall briefly set forth the nature of the proposed Supplemental Resolution and shall state that copies thereof are on file at the principal corporate trust office of the Trustee for inspection by all Bondholders. If, within 60 days, or such longer period as shall be prescribed by the Authority, following the mailing of such notice, the owners of not less than two-thirds in aggregate principal amount of the Bonds of each Type affected by such Supplemental Resolution Outstanding at the time of the execution of any such Supplemental Resolution shall have consented to and approved the adoption thereof as provided in the Resolution, no owner of any Bond shall have any right to object to any of the terms and provisions contained in such proposed Supplemental Resolution, or the operation thereof, or in any manner to question the propriety of the execution thereof, or to enjoin or restrain the Trustee or the Authority from executing the same or from taking any action pursuant to the provisions thereof. Upon the adoption of any such Supplemental Resolution, the Resolution shall be and be deemed to be modified, supplemented and amended in accordance therewith.

*Notice of Amendments*

Promptly after the adoption by the Authority of any Supplemental Resolution, the Trustee shall mail a notice, setting forth in general terms the substance thereof, to any Bondholder requesting the same in writing and each Rating Agency then rating the affected Bonds. Any failure to give such notice, or any defect therein, shall not, however, in any way impair or affect the validity of any such Supplemental Resolution.

*Supplemental Non-Arbitrage and Tax Compliance Certificates*

The Authority may, from time to time and at any time, amend, supplement or modify the Non-Arbitrage and Tax Compliance Certificate, to the extent permitted by law, to maintain the exclusion of the interest on the Bonds from gross income for purposes of federal income taxation under the Code; provided however the Authority shall receive the opinion of Bond Counsel stating that such amendment, supplement or modification is necessary or desirable to maintain such exclusion of the interest on the Bonds (or the exclusion of the interest on the Municipal Obligations) prior to amending, supplementing or modifying the Non-Arbitrage and Tax Compliance Certificate.

*Consent of MBIA*

Notwithstanding any other provision of the Resolution, for so long as any Reserve Account is funded in whole or in part by a Reserve Account Security Instrument issued by MBIA or a Municipal Bond Guaranty Insurance Policy is in effect and MBIA is not in default of payment obligations thereunder, the Authority shall not amend or approve the amendment of (i) any provision of the Resolution relating to the Bonds secured thereby, (ii) any corresponding Municipal Obligation, (iii) any Collateral Document relating to a corresponding Municipal Obligation, or (iv) any Revenue Sharing Pledge Agreement or Pledge Agreement relating to a corresponding Municipal Obligation, without the prior written consent of MBIA.

**Defaults and Remedies**

*Events of Default*

Each of the following events is an “Event of Default” under the Resolution:

(a) Default in the payment of the principal of or interest on any Bond after the same shall become due, whether at maturity, stated date of payment or upon call for redemption, provided that an Event of Default shall be deemed to exist only with respect to those Bonds of the same Type as the Bond with respect to which such failure occurred and provided further that for purposes of determining whether an Event of Default has occurred or is continuing under this paragraph (a), payments by AMBAC Assurance under any AMBAC Insurance Policy shall not be taken into account; or

(b) With respect to each Type of Bonds, the Authority shall default in the performance or observance of any other of the covenants, agreements or conditions on its part in the Resolution, or in the Bonds of such Type contained and continuance of such default for a period of ninety (90) days after written notice thereof by the Trustee or the owners of not less than fifty-one percent (51%) in principal amount of the Outstanding Bonds of such Type, or in the case of MBIA Insured Revenue Sharing Bonds, MBIA, or in the case of AMBAC Insured Bonds, AMBAC Assurance, provided, however, that an Event of Default shall not be deemed to exist under the provisions of this clause (b) so long as the Authority shall be provided with or have moneys sufficient in amount to pay the principal of and interest on all Bonds of such Type and expenses authorized to be paid under the Resolution as the same shall become due.

*Remedies*

With respect to each Type of Bonds:

(a) Upon the happening and continuance of any Event of Default, then, and in each such case the Trustee may (and in the case of MBIA Insured Revenue Sharing Bonds, with the written consent of MBIA) (and in the case of AMBAC Insured Bonds, with the prior written consent of AMBAC Assurance) proceed, and upon the written request of the Holders of not less than fifty-one percent (51%) in principal amount of the Outstanding Bonds, or, in the case of MBIA Insured Revenue Sharing Bonds, MBIA (provided that if both MBIA and the Holders of not less than fifty-one percent (51%) in principal amount of the Outstanding Bonds make such written request, the request of not less than fifty-one percent (51%) in principal amount of the Outstanding Bonds shall control) or, in the case of AMBAC Insured Bonds, AMBAC Assurance (provided that if both AMBAC Assurance and the Holders of not less than fifty-one percent (51%) in principal amount of the Outstanding Bonds make such written request, the request of not less than fifty-one percent (51%) in principal amount of the Outstanding Bonds shall control), shall proceed, in its own name, to protect and enforce its rights and the rights of the Bondholders by such of the following remedies as the Trustee shall deem most effectual to protect and enforce such rights at the direction and with the consent of MBIA (in the case of MBIA Insured Revenue Bonds) and at the direction and with the consent of AMBAC Assurance (in the case of AMBAC Insured Bonds):

(1) by mandamus or other suit, action or proceedings at law or in equity, to enforce the rights of the Bondholders; and to require the Authority to carry out any other agreement with Bondholders and to perform its duties under the Act and the Executive Order;

(2) by bringing suit upon the Bonds;

(3) by action or suit, requiring the Authority to account as if it were the trustee of an express trust for the Holders of Bonds;

(4) by action or suit in equity, enjoin any acts or things which may be unlawful or in violation of the rights of the Holders of Bonds;

(5) by requiring the Authority to enforce the rights of the Authority under Municipal Obligations or, if not prohibited by Supplemental Resolution, to sell the Municipal Obligations;

(6) by bringing an action or suit to obtain any other remedy available at law or equity;

(7) if not prohibited by Supplemental Resolution, by declaring all Bonds, of the Type or Types with respect to which an Event of Default is deemed to exist, due and payable; and if all defaults shall have been cured, then, with the written consent of the Holders of not less than fifty-one percent (51%) in principal amount of the Outstanding Bonds of such Type (and in the case of AMBAC Insured Bonds, the prior written consent of AMBAC Assurance) to annul such declaration and its consequences; and provided that in the case of MBIA Insured Revenue Sharing Bonds, no acceleration shall be declared pursuant to this clause without the prior written consent of MBIA, and provided further that in the case of AMBAC Insured Bonds, no acceleration shall be declared pursuant to this clause without the prior written consent of AMBAC Assurance.

(b) The Trustee shall give notice of any Event of Default to the Authority and MBIA with respect to MBIA Insured Revenue Sharing Bonds and AMBAC Assurance with respect to AMBAC Insured Bonds, in the event of default as promptly as practicable after the occurrence of an Event of Default becomes known to the Trustee, and shall give notice in writing to the Governor of the State, the State Treasurer, the Attorney General of the State and the Authority not less than thirty days prior to declaring the principal of the Bonds due and payable after an Event of Default.

(c) In the enforcement of any remedy under the Resolution, the Trustee shall be entitled to sue for, enforce payment on and receive any and all amounts then or during any default becoming, and any time remaining, due from the Authority for principal, interest or otherwise, under any provision of the Resolution or of the Bonds, and unpaid, together with any and all costs and expenses of collection and of all proceedings thereunder and under the Bonds, without prejudice to any other right or remedy of the Trustee or of the Bondholders, and to recover and enforce judgment or decree against the Authority for any portion of such amounts remaining unpaid, with interest, costs and expenses, and to collect from Pledged Funds, in any manner provided by law, the moneys adjudged or decreed to be payable.

*Application of Moneys*

(a) With respect to Bonds of each Type all moneys received by the Trustee pursuant to any right given or action taken upon an Event of Default, including by virtue of action taken under provisions of any Bond or Municipal Obligation, shall, after payment of the reasonable costs and expenses of the proceedings resulting in the collection of such moneys and of the reasonable expenses, liabilities and advances incurred or made by the Trustee, be applied, along with any other moneys available for such purposes, unless the principal of all the Bonds of such Type shall have become due and payable:

FIRST—To the payment to the persons entitled thereto of installments of interest in the order of maturity of the installments of such interest and, if the amount available shall not be sufficient to pay in full any particular installment of interest, then to the payment ratably, according to the amounts due on such installment to the persons entitled thereto, without any discrimination or privilege;

SECOND—To the payment to the persons entitled thereto of the unpaid principal of any of the Bonds which shall have become due at stated maturity or pursuant to a call for redemption (other than Bonds called for redemption for the payment of which moneys are held pursuant to the other provisions of the Resolution), in the order of their due dates and, if the amount available shall not be sufficient to pay in full Bonds due on any particular date, then to the payment ratably, according to the amount of principal due on such date, to the persons entitled thereto without any discrimination or privilege;

THIRD—To be held as provided under the heading "Pledge and Establishment of Funds and Accounts" above for the payment to the persons entitled thereto as the same shall become due of the amounts payable pursuant to the Resolution; provided, that payments made under a Municipal Bond Guaranty Insurance Policy shall only be used for payments of principal of and interest on the MBIA Insured Revenue Sharing Bonds in accordance with the terms of the Municipal Bond Guaranty Insurance Policy; and provided further that payments made under an AMBAC Insurance Policy issued with respect to the AMBAC Insured Bonds shall only be used for payments of principal and interest on the AMBAC Insured Bonds in accordance with the terms of the AMBAC Insurance Policy.

(b) If the principal of all the Bonds of any Type shall have become due, all such moneys shall be applied to the payment of the principal and interest then due and unpaid upon such Bonds and amounts payable as described in paragraphs (2) through (4) under "The Revenue Fund" under this caption, with principal and interest to be paid first without preference or priority of principal over interest or of interest over principal, or of any installment of interest over any other installment of interest, or of any Bond over any other Bond, ratably, according to the amounts due respectively for principal and interest, to the persons entitled thereto without any discrimination or privilege, and then amounts payable as described in paragraphs (2) through (4) under "The Revenue Fund" under this caption to be paid second.

Whenever moneys are to be applied by the Trustee pursuant to the provisions described above, such moneys shall be applied by the Trustee at such times, and from time to time, as the Trustee in its sole discretion shall determine (provided, however, that in the case of AMBAC Insured Bonds such determination shall only be made with the prior written consent of AMBAC Assurance), having due regard to the amount of such moneys available for application and the likelihood of additional money becoming available for such application in the future; the deposit or otherwise setting aside such moneys in trust for the proper purpose, shall constitute proper application by the Trustee; and the Trustee shall incur no liability whatsoever to the Authority, to any Bondholder or to any other person for any delay in applying any such moneys, so long as the Trustee acts with reasonable diligence, having due regard for the circumstances, and ultimately applies the same in accordance with such provisions of the Resolution as may be applicable at the time of application by the Trustee. Whenever the Trustee shall exercise such discretion in applying such moneys, it shall fix the date upon which such application is to be made and upon such date interest on the amounts of principal to be paid on such date shall cease to accrue. The Trustee shall give such notice as it may deem appropriate for the fixing of any such date. The Trustee shall not be required to make payment of principal to any Bondholders unless such Bond shall be presented to the Trustee.

*Termination of Proceedings*

In case any proceeding taken by the Trustee on account of any Event of Default shall have been discontinued or abandoned for any reason or determined adversely to the Trustee, then in every such case the Authority, the Trustee, MBIA, AMBAC Assurance, and the Bondholders shall be restored to their former positions and rights under the Resolution, respectively, and all rights, remedies, powers and duties of the Trustee, the Authority, MBIA, AMBAC Assurance, and the Bondholders shall continue as though no such proceeding had been taken.

*Bondholders' Direction of Proceedings*

Anything in the Resolution to the contrary notwithstanding, the Holders of fifty-one percent (51%) in principal amount of the Bonds Outstanding of any Type, and, in the case of MBIA Insured Revenue Sharing Bonds (but only if no inconsistent direction is given by the Owners of not less than fifty-one percent (51%) in principal amount of MBIA Insured Revenue Sharing Bonds), MBIA, and, in the case of AMBAC Insured Bonds (but only if no inconsistent direction is given by owners of not less than fifty-one percent (51%) in principal amount of AMBAC Insured Bonds), AMBAC Assurance, shall have the right, by an instrument or concurrent instruments in writing executed and delivered to the Trustee, to direct the time, method and place of conducting all remedial proceedings with respect to Bonds of such Type to be taken by the Trustee under the Resolution, provided that such direction shall not be otherwise than in accordance with law and the provisions of the Resolution and any applicable Supplemental Resolution, and that the Trustee shall have the right to decline to follow any such direction which in the opinion of the Trustee would be unjustly prejudicial to Bondholders not parties to such direction.

*Limitation on Rights of Bondholders*

With respect to Bonds of any Type, no Holder of any Bond shall have any right to institute any suit, action or other proceeding under the Resolution, or for the protection or enforcement of any right thereunder or any right under law unless such Bondholder shall have given to the Trustee written notice of the Event of Default or breach of duty on account of which such suit, action or proceeding is to be taken, and unless the Holders of not less than fifty-one percent (51%) in principal amount of the Bonds Outstanding of such Type, with the consent of MBIA with respect to the MBIA Insured Revenue Sharing Bonds, and with the consent of AMBAC Assurance with respect to AMBAC Insured Bonds, shall have made written request of the Trustee after the right to exercise such powers or right of action, as the case may be, shall have accrued, and shall have afforded the Trustee a reasonable opportunity either to proceed to exercise the powers granted in the Resolution or granted under the law or to institute such action, suit or proceeding in its name and unless, also, there shall have been offered to the Trustee reasonable security and indemnity against the costs, expenses and liabilities to be incurred therein or thereby, and the Trustee shall have refused or neglected to comply with such request within a reasonable time; and such notification, request and offer of indemnity are thereby declared in every such case, at the option of the Trustee, to be conditions precedent to the execution of the powers under the Resolution or for any other remedy thereunder or under law. It is understood and intended that no one or more Bondholders thereby secured shall have any right in any manner whatever by his or their action to affect, disturb or prejudice the security of the Resolution, or to enforce any right thereunder or under law with respect to the Bonds or the Resolution, except in the manner therein provided, and all proceedings shall be instituted, had and maintained in the manner therein provided and for the benefit of all Holders of the Outstanding Bonds of each Type. Notwithstanding the foregoing provisions, the obligation of the Authority shall be absolute and unconditional to pay the principal of and interest on the Bonds to the respective Holders thereof at the respective due dates thereof and nothing in the Resolution shall affect or impair the right of action, which is absolute and unconditional, of such Holders to enforce such payment.

Each Holder of any Bond by his acceptance thereof shall be deemed to have agreed that any court in its discretion may require, in any suit for the enforcement of any right or remedy under the Resolution or any Supplemental Resolution, or in any suit against the Trustee for any action taken or omitted by it as Trustee, the filing by any party litigant in such suit of an undertaking to pay the reasonable costs of such suit, and that such court may in its discretion assess reasonable costs, including reasonable attorneys' fees, against any party litigant in any such suit, having due regard to the merits and good faith of the claims or defenses made by such party litigant; but the provisions of this paragraph shall not apply to any suit instituted by the Trustee, to any suit instituted by any Bondholder, or group of Bondholders, holding at least fifty-one percent (51%) in principal amount of the Bonds Outstanding of the Type to which such suit relates, or to any suit instituted by any Bondholder for the enforcement of the payment of the principal or interest on any Bond on or after the respective due date thereof expressed in such Bond.

*Possession of Bonds by Trustee Not Required*

All rights of action under the Resolution or under any of the Bonds, enforceable by the Trustee, may be enforced by it without the possession of any of the Bonds or the production thereof on the trial or other proceeding relative thereto, and any such suit, action or proceeding instituted by the Trustee shall be brought in its name for the benefit of all the Holders of such Bonds, subject to the provisions of the Resolution.

*Remedies Not Exclusive*

No remedy conferred upon or reserved to the Trustee or to the Holders of the Bonds or MBIA with respect to MBIA Insured Revenue Sharing Bonds, or AMBAC Assurance with respect to AMBAC Insured Bonds, is intended to be exclusive of any other remedy or remedies, and each and every such remedy shall be cumulative and shall be in addition to any other remedy given under the Resolution or thereafter existing at law or in equity or by statute.

*No Waiver of Default*

No delay or omission of the Trustee or of any Holder of the Bonds or MBIA with respect to MBIA Insured Revenue Sharing Bonds, or AMBAC Assurance with respect to AMBAC Insured Bonds, to exercise any right or power accruing upon any default shall impair any such right or power or shall be construed to be a waiver of any such default or an acquiescence therein; and every power and remedy given by the Resolution to the Trustee, and the Holders of the Bonds, MBIA, or AMBAC, respectively, may be exercised from time to time and as often as may be deemed expedient.

*Notice of Event of Default*

With respect to the Bonds of each Type, the Trustee shall give to the Owners of such Bonds notice of each Event of Default respecting such Bonds known to the Trustee as soon as reasonably practicable after knowledge of the occurrence thereof, unless such Event of Default shall have been remedied or cured before the giving of such notice. Each such notice of Event of Default shall be given by the Trustee by mailing written notice thereof by first class mail to all registered owners of such Bonds, as the names and addresses of such owners appear upon the books for registration and transfer of Bonds as kept by the Bond Registrar and Paying Agent.

**Defeasance**

Any Bond will be deemed to be paid within the meaning of the Resolution when (a) payment of the principal of such Bond, plus interest thereon to the due date thereof (whether such due date is by reason of maturity or upon redemption), either (i) has been made or caused to be made in accordance with the terms thereof, or (ii) has been provided for by irrevocably depositing with the Depository or the Trustee in trust and irrevocably setting aside exclusively for such payment sufficient moneys to make such payment and/or Government Obligations maturing as to principal and interest in such amounts and at such times as will insure the availability of sufficient moneys to make such payments, and (b) all necessary and proper fees, premiums, compensation and expenses of the Trustee, the Depository, Bond Registrar and Paying Agent, Co-Paying Agent, the Authority, and any co-registrar or transfer agent pertaining to the Bonds with respect to which such deposit is made have been paid or the payment thereof provided for to the satisfaction of the Trustee. At such times as a Bond is deemed to be paid under the Resolution, as aforesaid, such Bond will no longer be secured by or entitled to the benefits of the Resolution, except with respect to provisions relating to the payment of the principal of and interest on such Bond from such moneys or Government Obligations and the related duties of the Depository, Bond Registrar and Paying Agent or the Trustee.

Notwithstanding the foregoing paragraph, no deposit described under clause (a) (ii) of such paragraph will be deemed a payment of such Bonds (1) until the Authority has given the Trustee, in form satisfactory to the Trustee, irrevocable instructions: (i) stating the date when the principal or each such Bonds is to be paid, whether at maturity or on a redemption date, (ii) to call for redemption pursuant to the Resolution any Bonds to be redeemed prior to maturity and (iii) if all the Bonds to be redeemed are not to be redeemed within 30 days, to mail, as soon as practicable, in the manner prescribed by the Resolution for notices of redemption, a notice to the owners of such Bonds that the deposit required by (a)(ii) has been made with the Depository or the Trustee and that said Bonds are deemed to have been paid and stating the maturity or redemption date upon which moneys are to be available for the payment of the principal or Redemption Price, if applicable, on said Bonds; and (2) if any Bonds are to be redeemed within the next 30 days, until proper notice of redemption of those Bonds shall have been given.

Notwithstanding any other provision described under this subheading, in the event that the principal and/or interest due on any MBIA Insured Revenue Sharing Bonds shall be paid by MBIA pursuant to a Municipal Bond Guaranty Insurance Policy, such Bonds shall continue to exist and MBIA shall be subrogated to the rights of such registered owners.

Notwithstanding any other provision under this subheading, in the event that the principal and/or interest due on any AMBAC Insured Bonds shall be paid by AMBAC Assurance pursuant to an AMBAC Insurance Policy, such AMBAC Insured Bonds, shall remain Outstanding, not by reason of such payment be considered defeased or paid by the Authority and the assignment and pledge of the Security and all covenants, agreements and other obligations of the Authority to the registered owners of such AMBAC Insured Bonds shall continue to exist and AMBAC Assurance shall be subrogated to the rights of such registered owners.

Notwithstanding the foregoing paragraph, (a), no deposit under (ii) of clause (a) above will be deemed a payment of AMBAC Insured Bonds unless (A) the sufficiency of the escrowed cash and non-callable Government Obligations to provide for the payment of debt service on such AMBAC Insured Bonds has been verified in full (the "Verification") by an independent nationally recognized certified public accountant and (B) AMBAC Assurance has been provided a copy of the Verification, an executed copy of the escrow agreement and an opinion of Bond Counsel to the effect that such Bonds are no longer "Outstanding" under the Resolution, each of which shall be in form and substance acceptable to AMBAC Assurance.

**Provisions Relating to AMBAC Insured Bonds**

Any provision of the Bond Resolution expressly recognizing or granting rights in or to AMBAC Assurance may not be amended in any manner which affects the rights of AMBAC Assurance hereunder without the prior written consent of AMBAC Assurance.

Unless otherwise provided in this Section, AMBAC Assurance's consent shall be required in addition to Bondholder consent, when required, for the following purposes: (i) execution and delivery of any supplemental resolution or any amendment, supplement or change to or modification of the Bond Resolution affecting the AMBAC Insured Bonds; (ii) removal of the Trustee or paying Agent for the AMBAC Insured Bonds and selection and appointment of any successor trustee or paying agent for the AMBAC Insured Bonds; and (iii) initiation or approval of any action not described in (i) or (ii) above which requires Bondholder consent.

To the extent permitted by law, anything in the Bond Resolution to the contrary notwithstanding, upon the occurrence and continuance of an event of default as defined herein with respect to the AMBAC Insured Bonds, AMBAC Assurance shall be entitled to control and direct the enforcement of all rights and remedies granted to the Bondholders or the Trustee for the benefit of the Bondholders under the Bond Resolution, including, without limitation: (i) the right to accelerate the principal of the AMBAC Insured Bonds as described in the Bond Resolution and (ii) the right to annul any declaration of acceleration with respect to the AMBAC Insured Bonds, and AMBAC Assurance shall also be entitled to approve all waivers of events of default with respect to the AMBAC Insured Bonds.

Upon the occurrence of an event of default, the Trustee may, with the consent of AMBAC Assurance, and shall, at the direction of AMBAC Assurance or 51% of the Bondholders with the consent of AMBAC Assurance, by written notice to the Authority and AMBAC Assurance, declare the principal of the AMBAC Insured Bonds to be immediately due and payable, whereupon that portion of the principal of the AMBAC Insured Bonds thereby coming due and the interest thereon accrued to the date of payment shall, without further action, become and be immediately due and payable, anything in the Bond Resolution or in the AMBAC Insured Bonds to the contrary notwithstanding.

While the AMBAC Insurance Policy is in effect, the Authority or the Trustee [as appropriate] shall furnish to AMBAC Assurance:

(a) as soon as practicable after the filing thereof, a copy of any financial statement of the Authority and a copy of any audit and annual report of the Authority;

(b) a copy of any notice to be given to the registered owners of the AMBAC Insured Bonds, including, without limitation, notice of any redemption or defeasance of AMBAC Insured Bonds, and any certificate rendered pursuant to this Bond Resolution relating to the security for the AMBAC Insured Bonds; and

(c) such additional information it may reasonably request.

The Trustee or Authority [as appropriate] shall notify AMBAC Assurance of any failure of the Authority to provide relevant notices, certificates, etc.

The Authority will permit AMBAC Assurance to discuss the affairs, finances and accounts of the Authority or any information AMBAC Assurance may reasonably request regarding the security for the AMBAC Insured Bonds with appropriate officers of the Authority. The Trustee or Authority [as appropriate] will permit AMBAC Assurance to have access to and to make copies of all books and records relating to the AMBAC Insured Bonds at any reasonable time except as otherwise provided by law.

AMBAC Assurance shall have the right to direct an accounting at the Authority's expense, and the Authority's failure to comply with such direction within thirty (30) days after receipt of written notice of the direction from AMBAC Assurance shall be deemed a default hereunder; provided, however, that if compliance cannot occur within such period, then such period will be extended so long a compliance is begun within such period and diligently pursued, but only if such extension would not materially adversely affect the interests of any registered owner of the AMBAC Insured Bonds.

Notwithstanding any other provision of the Bond Resolution, the Trustee or Authority as appropriate shall immediately notify AMBAC Assurance if at any time there are insufficient moneys to make any payments of principal and/or interest at required and immediately upon the occurrence of any event of default hereunder.

As long as the AMBAC Insurance Policy shall be in full force and effect, the Authority, the Trustee and any Paying Agent agree to comply with the following provisions:

> (a) At least one (1) day prior to all Interest Payment Dates the Trustee or Paying Agent, if any, will determine whether there will be sufficient funds in the Funds and Accounts to pay the principal of or interest on the AMBAC Insured Bonds on such Interest Payment Date. If the Trustee or Paying Agent, if any, determines that there will be insufficient funds in such Funds or Accounts, the Trustee or Paying Agent, if any, shall so notify AMBAC Assurance. Such notice shall specify the amount of the anticipated deficiency, the AMBAC Insured Bonds to which such deficiency is applicable and whether such AMBAC Insured Bonds will be deficient as to principal or interest, or both. If the Trustee or Paying Agent, if any, has not so notified AMBAC Assurance at least one (1) day prior to an Interest Payment Date, AMBAC Assurance will make payments of principal or interest due on the AMBAC Insured Bonds on or before the first ($1^{st}$) day next following the date on which AMBAC Assurance shall have received notice of nonpayment from the Trustee or Paying Agent, if any.
>
> (b) The Trustee or Paying Agent, if any, shall, after giving notice to AMBAC Assurance as provided in (a) above, make available to AMBAC Assurance and, at AMBAC Assurance's direction, to the United States Trust Company of New York, as insurance trustee for AMBAC Assurance or any successor insurance trustee (the "Insurance Trustee"), the registration books of the Authority maintained by the Trustee or Paying Agent, if any, and all records relating to the Funds and Accounts for the AMBAC Insured Bonds maintained under the Bond Resolution.
>
> (c) The Trustee or Paying Agent, if any, shall provide AMBAC Assurance and the Insurance Trustee with a list of registered owners of AMBAC Insured Bonds entitled to receive principal or interest payments from AMBAC Assurance under the terms of the AMBAC Insurance Policy, and shall make arrangements with the Insurance Trustee (i) to mail checks or drafts to the registered owners of AMBAC Insured Bonds entitled to receive full or partial interest payments from AMBAC Assurance and (ii) to pay principal upon AMBAC Insured Bonds surrendered to the Insurance Trustee by the registered owners of AMBAC Insured Bonds entitled to receive full or partial principal payments from AMBAC Assurance.
>
> (d) The Trustee or Paying Agent, if any, shall, at the time it provides notice to AMBAC Assurance pursuant to (a) above, notify registered owners of AMBAC Insured Bonds entitled to receive the payment of principal or interest thereon from AMBAC Assurance (i) as to the fact of such entitlement, (ii) that AMBAC Assurance will remit to them all or a part of the interest payments next coming due upon proof of Bondholder entitlement in form satisfactory to the Insurance Trustee, of an appropriate assignment of the registered owner's right to payment, (iii) that should they be entitled to

receive full payment of principal from AMBAC Assurance, they must surrender their AMBAC Insured Bonds (along with an appropriate instrument of assignment in form satisfactory to the Insurance Trustee to permit ownership of such AMBAC Insured Bonds to be registered in the name of AMBAC Assurance) for payment to the Insurance Trustee, and not the Trustee or Paying Agent, if any, and (iv) that should they be entitled to receive partial payment of principal from AMBAC Assurance, they must surrender their AMBAC Insured Bonds for payment thereon first to the Trustee or Paying Agent, if any, who shall note on such AMBAC Insured Bonds the portion of the principal paid by the Trustee or Paying Agent, if any, and then, along with an appropriate instrument of assignment in form satisfactory to the Insurance Trustee, to the Insurance Trustee, which will then pay the unpaid portion of principal.

(e) In the event that the Trustee or Paying Agent, if any, has noticed that any payment of principal of or interest on an AMBAC Insured Bond which has become Due for Payment and which is made to a Bondholder by or on behalf of the Authority has been deemed a preferential transfer and theretofore recovered from its registered owner pursuant to the United States Bankruptcy Code by a trustee in bankruptcy in accordance with the final, nonappealable order of a court having competent jurisdiction, the Trustee or Paying Agent, if any, shall, at the time AMBAC Assurance is notified pursuant to (a) above, notify all registered owners that in the event that any registered owner's payment is so recovered, such registered owner will be entitled to payment from AMBAC Assurance to the extent of such recovery if sufficient funds are not otherwise available, and the Trustee or Paying Agent, if any, shall furnish to AMBAC Assurance its records evidencing the payments of principal of and interest on the AMBAC Insured Bonds which have been made by the Trustee or Paying Agent, if any, and subsequently recovered from registered owners and the dates on which such payments were made.

(f) In addition to those rights granted AMBAC Assurance under the Bond Resolution, AMBAC Assurance shall, to the extent it makes payment of principal of or interest on AMBAC Insured Bonds, become subrogated to the rights of the recipients of such payments in accordance with the terms of the AMBAC Insurance Policy, and to evidence such subrogation (i) in the case of subrogation as to claims for past due interest, the Trustee or Paying Agent, if any, shall note AMBAC Assurance's rights as subrogee on the registration books of the Authority maintained by the Trustee or Paying Agent, if any, upon receipt from AMBAC Assurance of proof of the payment of interest thereon to the registered owners of the AMBAC Insured Bonds, and (ii) in the case of subrogation as to claims for past due principal, the Trustee or Paying Agent, if any, shall note AMBAC Assurance's rights as subrogee on the registration books of the Authority maintained by the Trustee or Paying Agent, if any, upon surrender of the AMBAC Insured Bonds by the registered owners thereof together with proof of the payment of principal thereof.

1. The Trustee (or Paying Agent) may be removed at any time at the request of AMBAC Assurance, for any breach of the trust set forth herein.

2. AMBAC Assurance shall receive prior written notice of any Trustee (or Paying Agent) resignation.

3. Every successor Trustee appointed pursuant to this Section shall be a trust company or bank in good standing located in or incorporated under the laws of the State, duly authorized to exercise trust powers and subject to examination by federal or state authority, having a reported capital or surplus

of not less than $75,000,000 and acceptable to AMBAC Assurance. Any successor Paying Agent, if applicable, shall not be appointed unless AMBAC Assurance approves such successor in writing.

4. Notwithstanding any other provision of the Bond Resolution in determining whether the rights of the Bondholders will be adversely affected by any action taken pursuant to the terms and provisions of the Bond Resolution, the Trustee (or Paying Agent) shall consider the effect on the Bondholders as if there were no AMBAC Insurance Policy.

5. Notwithstanding any other provision of the Bond Resolution, no removal, resignation or termination of the Trustee (or Paying Agent) shall take effect until a successor, acceptable to AMBAC Assurance, shall be appointed.

Nothing in the Bond Resolution expressed or implied is intended or shall be construed to confer upon, or to give to, any person or entity, other than the Authority, the Trustee, AMBAC Assurance, the Paying Agent, if any, and the registered owners of the AMBAC Insured Bonds any right, remedy or claim with respect to the AMBAC Insured Bonds under or by reason of this Bond Resolution or any covenant, condition or stipulation hereof, and all covenants, stipulations, promises and agreements in this Bond Resolution contained with respect to the AMBAC Insured Bonds by and on behalf of the Authority shall be for the sole and exclusive benefit of the Authority, the Trustee, AMBAC Assurance, the Paying Agent, if any, and the registered owners of the AMBAC Insured Bonds.

**Provisions Relating to Mandatory Purchase Bonds**

Except as otherwise provided, each Mandatory Purchase Bond is subject to mandatory purchase, and the Authority shall purchase or cause to be purchased each Mandatory Purchase Bond, on each Mandatory Purchase Date applicable to such Mandatory Purchase Bond at a price equal to the principal amount thereof plus accrued interest, if any, thereon.

The Bond Registrar and Paying Agent shall mail to each holder of a Mandatory Purchase Bond notice of each Mandatory Purchase Date applicable to Mandatory Purchase Bonds at least 30 days or if 30 days is not practicable on the earliest practicable date before any Mandatory Purchase Date applicable to such Bonds, such notice to include the Mandatory Purchase Price and any Bonds which have been designated for Mandatory Purchase.

The registered owner of any Mandatory Purchase Bond may irrevocably elect to retain such Bond or any portion thereof on any Mandatory Purchase Date if such Bond or portion thereof is in a denomination authorized to be outstanding after such Mandatory Purchase Date by providing written notice to the Bond Registrar and Paying Agent or the Co-Paying Agent of such election. Such Notice of Election to Retain shall be irrevocable and, shall affirmatively acknowledge such matters as shall be specified in the applicable Mandatory Purchase Notice and shall contain the irrevocable agreement by the registered owner of the Bond with respect to which, or a portion of which, such Notice of Election to Retain is given not to tender such Bond, or such portion thereof for purchase pursuant to the provisions of this Resolution on or before the applicable Mandatory Purchase Date except as provided in the following paragraph.

Each Mandatory Purchase Bond (other than a Bond with respect to which a Notice of Election to Retain has been properly given) shall be tendered for purchase on each Mandatory Purchase Date applicable to such Bond at the time referred to in the applicable Mandatory Purchase Notice on the Mandatory Purchase Date, to the Bond Registrar and Paying Agent with an instrument of transfer satisfactory to the Bond Registrar and Paying Agent executed in blank by the registered owner or his attorney or legal representative with the signature guaranteed by a bank, trust company or member firm of the New York Stock Exchange.

**Determination of Interest Rates and Interest Periods for Mandatory Purchase Bonds.** (a) Except as otherwise provided, each Mandatory Purchase Bond shall bear interest during each Interest Period applicable to such Mandatory Purchase Bond at the rate determined by the Remarketing Agent on the Rate Determination Date for such Interest Period to be the minimum rate that, in the judgment of the Remarketing Agent, would enable such Remarketing Agent to sell each of the Mandatory Purchase Bonds to which such Rate Determination Date applies, on the first day of such Interest Period, at a price equal to the principal amount thereof plus accrued interest, if any, thereon. Different interest rates may be determined for Mandatory Purchase Bonds having identical or different Interest Periods, and the interest rates may be determined separately for each Series of Bonds. Notwithstanding the foregoing provisions of this paragraph or anything to the contrary in the Resolution:

(A) the interest rate borne by Mandatory Purchase Bonds may not exceed the maximum rate permitted by law;

(B) if any payment of the principal or Redemption Price of or interest on, or the purchase price of, any Mandatory Purchase Bond shall not be made when due, such Mandatory Purchase Bond and all other Mandatory Purchase Bonds with the same Mandatory Purchase Date shall bear interest at the last interest rate borne by such Mandatory Purchase Bonds until such payment is made as provided in the Resolution, and in such Mandatory Purchase Bonds and the interest rate will not be adjusted as provided in this Section; and

(C) if on any Rate Determination Date for the Mandatory Purchase Bonds the Remarketing Agent does not determine the interest rate for any Interest Period applicable to a Mandatory Purchase Bond as provided in this Section, the interest rate for such Rate Determination Date shall be equal to the interest rate determined on the immediately preceding Rate Determination Date applicable to such Mandatory Purchase Bond for the Interest Period determined on such Rate Determination Date; and

(D) on each Preliminary Rate Determination Date the Remarketing Agent shall determine the rate or rates or range of rates (the "Rate Indication") which in its judgment would be the rate determined by the Remarketing Agent under this subsection, if such date were the next Rate Determination Date. The Remarketing Agent shall give notice of each Rate Indication for any Bond to the Authority and the Bond Registrar and Paying Agent, on each Preliminary Rate Determination Date. The Bond Registrar and Paying Agent shall give each registered owner of a Mandatory Purchase Bond written notice of each Rate Indication affecting such registered owner no later than three Business Days prior to each Rate Determination Date.

(b) The Remarketing Agent shall give notice of each interest rate determined for any Mandatory Purchase Bond in accordance with subsection (a) of this Section to the Authority, the Bond Registrar and Paying Agent and the Co-Paying Agent. The Bond Registrar and Paying Agent shall give written notice of each such interest rate to the Trustee and the holders of the Mandatory Purchase Bonds (other than Mandatory Purchase Bonds which, due to the failure to deliver a Notice of Election to Retain, are required to be tendered to the Bond Registrar and Paying Agent or the Co-Paying Agent on the first day of the Interest Period to which such interest rate applies) to which such interest rate will be applicable.

(c) The determination of the interest rates on the Mandatory Purchase Bonds by the Remarketing Agent as provided in this Section shall be conclusive and binding on the Holders of such Bonds, the Authority, the Trustee, the Co-Paying Agent and the Bond Registrar and Paying Agent.

(d) Interest on the Mandatory Purchase Bonds shall be calculated on the basis of a year consisting of 360 days divided into twelve 30-day months.

(e) The Interest Periods for Mandatory Purchase Bonds shall begin on the original issuance date of the Bonds or on the day after the last day of the preceding Interest Period, and each Interest Period shall end on the last calendar day of a month.

**Remarketing of Mandatory Purchase Bonds.** The Bond Registrar and Paying Agent shall notify the Remarketing Agent of the Remarketing Amount on the Business Day after the last day on which a Notice of Election to Retain may be given with respect to any Mandatory Purchase Date.

Unless the Authority otherwise directs, the Remarketing Agent shall offer for sale, and use its best efforts to sell for delivery, on each Mandatory Purchase Date at a price equal to the principal amount thereof plus accrued interest, if any, thereon to such Mandatory Purchase Date, Mandatory Purchase Bonds in an aggregate principal amount equal to the Remarketing Amount. The Remarketing Agent shall notify the Bond Registrar and Paying Agent of the aggregate principal amount of Bonds expected to be sold by the Remarketing Agent on such Mandatory Purchase Date. The Bond Registrar and Paying Agent shall calculate the amount of Bonds not remarketed and notify the Authority and the Trustee, of the aggregate principal amount of Bonds expected to be purchased on such Mandatory Purchase Date by the Bond Registrar and Paying Agent which shall be equal to the Purchase Amount less the sum of (i) any Available Amount and (ii) the aggregate principal amount of Bonds that will be remarketed by the Remarketing Agent on such Mandatory Purchase Date.

On each Mandatory Purchase Date the Remarketing Agent shall (i) pay to the Bond Registrar and Paying Agent proceeds from the remarketing of Bonds and all other amounts required to be so transferred by any supplemental remarketing agreement, and (ii) give notice to the Bond Registrar and Paying Agent of the purchasers of the Bonds to be purchased on such date and the denominations of Bonds to be delivered to each such purchaser. In the event that the Remarketing Agent does not provide such information or pay for the Remarketed Bonds at such time, the Bond Registrar and Paying Agent shall notify the Trustee of the portion of the Remarketing Amount not remarketed and request such funds.

**Procedure for Purchase of Mandatory Purchase Bonds.** The Mandatory Purchase Bonds to be purchased on each Mandatory Purchase Date shall be purchased by the Bond Registrar and Paying Agent at a purchase price equal to the principal amount thereof, plus accrued interest, if any, to such Mandatory Purchase Date, from the following sources and in the following order of priority:

(i) Bonds resold by the Remarketing Agent shall be purchased from remarketing proceeds made available to the Bond Registrar and Paying Agent; and

(ii) any Available Amount in the Revenue Sharing Bond Account of the Revenue Fund; and

(iii) to the extent moneys are not made available to purchase Mandatory Purchase Bonds on a Mandatory Purchase Date from the sources immediately preceding, from amounts on deposit in the Revenue Sharing Bond Account of the Revenue Fund.

Notwithstanding anything to the contrary contained herein, if there shall be on deposit in the appropriate accounts of the Revenue Fund, or if there shall be made available to the Bond Registrar and Paying Agent by the Remarketing Agent funds in an amount sufficient to pay the purchase price of Mandatory Purchase Bonds on any Mandatory Purchase Date applicable to such Bonds, such Bonds shall be deemed purchased with such moneys on such Mandatory Purchase Date, shall cease to bear interest as of such Mandatory Purchase Date whether or not such Bonds are tendered to the Bond Registrar and Paying Agent on such date, and the registered owners of such Mandatory Purchase Bonds shall have no rights with respect thereto or under this Bond Resolution except to receive the purchase price of such Bonds and when received by the Bond Registrar and Paying Agent such Bonds shall be canceled.

If the funds available for purchase of Mandatory Purchase Bonds are inadequate for the purchase of all Mandatory Purchase Bonds tendered on any Mandatory Purchase Date, all Bonds subject to such purchase shall continue to bear interest until paid at the interest rate last determined for such Bonds. In such event, the Bond Registrar and Paying Agent shall immediately: (i) return all tendered Bonds to the holders thereof, (ii) return all moneys received for the purchase of such Bonds to the persons providing such moneys, and (iii) notify all Bondholders in writing (A) as to whether an event has occurred which is or may become an Event of Default, and (B) of the rate of interest on such Bonds.

**Disposition of Purchased Bonds.** Mandatory Purchase Bonds tendered to the Bond Registrar and Paying Agent on any Mandatory Purchase Date in accordance with the provisions of this Section shall be delivered by the Bond Registrar and Paying Agent as follows:

(i) Bonds resold by the Remarketing Agent shall be exchanged for other Bonds, as necessary to correspond to the denominations, and Types in which such Bonds have been sold by the Remarketing Agent, shall be registered in the names of the purchasers thereof and shall be delivered to such purchasers in accordance with the directions of the Remarketing Agent; and

(ii) Bonds the principal amount of which shall have been paid by the Bond Registrar and Paying Agent from amounts on deposit in any Fund or Account in accordance with clauses (ii) or (iii) under Procedure for Purchase of Mandatory Purchase Bonds above (other than amounts needed to compensate for original issue discount) shall be canceled by the Bond Registrar and Paying Agent.

If any Mandatory Purchase Bond (other than a Bond with respect to which a Notice of Election to Retain has been properly given) is not delivered to the Bond Registrar and Paying Agent on any Mandatory Purchase Date applicable to such Bond and such Bond was resold by the Remarketing Agent on such date, the Bond Registrar and Paying Agent shall register the transfer of such Bond to the purchaser thereof and the Authority shall execute and the Bond Registrar and Paying Agent shall authenticate and deliver a new Bond or Bonds and deliver the same in accordance with the provisions of the first paragraph of this Section, notwithstanding such non-delivery.

**Resolution Constitutes Contract of Authority; No Recourse Against Members, Officers or Employees**

In consideration of the purchase and acceptance by any and all of the Bonds issued under the Resolution, the Resolution shall be deemed to be and shall constitute a contract between the Authority and the Bondholders and the pledges made in the Resolution and the covenants and agreements therein set forth to be performed by the Authority shall be for the benefit, protection and security of (i) the Owners of any and all of each Type of the Bonds all of which, without regard to the time or times of their issue or maturity, shall be of equal rank without preference, priority or distinction of any of the Bonds of any Type over any other Bonds of the same Type, except as expressly provided in or permitted by the Resolution, (ii) on a subordinate basis in connection with the MBIA Insured Revenue Sharing Bonds, of MBIA, and (iii) on a subordinate basis in connection with the AMBAC Insured Bonds, of AMBAC Assurance.

All covenants, stipulations, promises, agreements and obligations of the Authority contained in the Resolution shall be deemed to be the covenants, stipulations, promises, agreements and obligations of the Authority and not of any member, officer or employee of the Authority in his individual capacity, and no recourse shall be had for the payment of the principal or interest on the Bonds or for any claim based thereon or on the Resolution against any member, officer or employee of the Authority or any person executing the Bonds.

## Sixth Supplemental Indenture

The following is a brief summary of certain provisions of the Sixth Supplemental Indenture between the Michigan Finance Authority and UMB Bank, N.A., as trustee, with respect to the Michigan Finance Authority Local Government Loan Program Revenue Bonds, Series 2014F (City of Detroit Financial Recovery Income Tax Revenue and Refunding Local Project Bonds), dated December 10, 2014 (the "Sixth Supplemental Indenture"), and does not purport to be complete. Reference is made to the Sixth Supplemental Indenture, copies of which are available from the Authority.

The Sixth Supplemental Indenture supplements the Amended and Restated Resolution Establishing Michigan Finance Authority Local Government Loan Program and Providing for the Issuance of Local Government Program Revenue Bonds adopted by the Authority on May 15, 2014 (the *"Program Resolution"*), and certain Supplemental Resolutions including the Supplemental Resolution adopted by the Authority on September 25, 2014 (the *"Supplemental Resolution"*), pursuant to which the Authority has created its Local Government Loan Program and authorized the issuance of Local Government Loan Program Revenue Bonds pursuant to Supplemental Resolution to provide funds to purchase municipal obligations. The Sixth Supplemental Resolution supplements the Program Resolution and shall be treated the same as Supplemental Resolution under the terms of the Program Resolution.

### Definitions

**"Account Control Agreement"** means that certain Deposit Account Control Agreement dated as of the Closing Date, by and among the City, the Municipal Trustee, and the Depository Bank, in favor of the Municipal Trustee with respect to the Income Tax Account.

**"Authorized Denominations"** means with respect to Bonds of a subseries, $5,000 and any integral multiple thereof.

**"Business Day"** means any day other than (i) a Saturday, Sunday or legal holiday, (ii) a day on which the Trustee (at its office which is primarily responsible for the administration of the Indenture) or banks and trust companies in New York, New York are authorized or required to remain closed, (iii) a day on which the New York Stock Exchange is closed, or (iv) a day on which the Federal Reserve is closed.

**"Collateral Documents"** means the Account Control Agreement, the Municipal Obligation, the Municipal Indenture, and any other document which provides additional security for the payment and performance of the Municipal Obligation.

**"Depository Bank"** means Comerica Bank.

**"Indenture"** means the Sixth Supplemental Indenture together with any amendments and supplements thereto.

**"Interest Payment Date"** means the following dates upon which interest is payable on Bonds of a subseries: (a) the stated Maturity Date; (b) any Redemption Date; and (c) each April 1 and October 1.

**"Interest Period"** means the period of time that any interest rate remains in effect, which period shall be the period from and including the Conversion Date to and including the stated Maturity Date or date of redemption prior to the stated Maturity Date.

**"Maximum Rate"** means eighteen percent (18%) per annum or such higher rate of annual interest as permitted by applicable law.

**"Municipal Indenture"** means the Financial Recovery Bond Trust Indenture dated as of the Closing Date between the City and the Municipal Trustee pursuant to which the Municipal Obligation is issued.

**"Municipal Obligation"** means collectively the City's Financial Recovery Income Tax Revenue and Refunding Bonds, Series 2014, issued in one or more series, each series bearing a letter designation as determined in the sale order issued by the City and acquired by the Authority with the proceeds of the Bonds.

**"Municipal Trustee"** means UMB Bank, N.A. as trustee under the Municipal Indenture, and any successor trustee thereunder.

**"Record Date"** means with respect to each Interest Payment Date (a) with respect to the first Interest Payment Date following the Conversion Date, (x) the close of business on the Conversion Date, if the Conversion Date occurs after the 15th day of the calendar month immediately preceding such Interest Payment Date or (y) the close of business on the fifteenth (15th) day of the calendar month immediately preceding such Interest Payment Date if the Conversion Date occurs on or before the 15th day of a calendar month immediately preceding such Interest Payment Date, and (b) with respect to each Interest Payment Date thereafter, the close of business on the 15th day of the calendar month immediately preceding such Interest Payment Date, regardless of whether such day is a Business Day.

**"Redemption Date"** means each date upon which Bonds of a subseries are to be called for redemption, in whole or in part, pursuant to the Indenture.

**"Redemption Price"** means, with respect to any Bond, as applicable, either the principal amount thereof plus the applicable premium, if any, payable upon redemption thereof pursuant to the Indenture.

**"Security"** means the revenues (including payments on the Municipal Obligation), funds, rights and interests specified in the Indenture and described below.

**"Trustee"** means initially, UMB Bank, N.A., as trustee, as bond registrar, transfer agent and paying agent for the Bonds and any successor in trust or assignees pursuant to Section 7.03 hereof.

**Sources of Payment and Security for the Bonds**

The Bonds, together with interest thereon and redemption premium with respect thereto, are limited obligations of the Authority secured by the Security, are and shall always be payable solely from the Security (except to the extent paid out of moneys attributable to proceeds of the Bonds or the income from the temporary investment thereof), are and shall always be a valid claim of the holders thereof only against the Security, which Security shall be used for no other purpose than to pay the principal installments of, redemption premium, if any, and interest on the Bonds, except as may be expressly authorized otherwise in the Indenture. The Bonds and the obligation to pay interest thereon and redemption premiums with respect thereto do not now and shall never constitute an indebtedness or an obligation of the Authority or the State, within the purview of any constitutional limitation or provision, or a charge against the general credit of the Authority or the general credit or taxing powers of the State, but shall be secured by the Security, and shall be payable solely from the Security. No owner of the Bonds shall have the right to compel the exercise of the taxing power, if any, of the State to pay any principal installment of, premium, if any, or interest on the Bonds. The Authority has no taxing power.

**Establishment of Funds**

The following special accounts are established, maintained and held by the Trustee pursuant to the Resolution and the Indenture.

(1) Bond Fund - City of Detroit Financial Recovery Income Tax Revenue and Refunding Local Project Bond Fund, is a subaccount of the Revenue Fund established by the Resolution.

(2) Loan Account - City of Detroit Financial Recovery Income Tax Revenue and Refunding Local Project Bond Loan Account, within the Loan Fund established by the Resolution.

**Application of Bond Proceeds**

The net proceeds from the sale of the Bonds shall be deposited into the Loan Account and in the Cost of Issuance Fund established by, and as provided in, the Resolution.

**Bond Fund**

There shall be deposited in the Bond Fund (a) any accrued interest received on the sale of the Bonds; (b) all payments on the Municipal Obligation, including all proceeds resulting from the enforcement of the Security or the Collateral Documents; and (c) any other moneys received by the Trustee with directions for deposit in the Bond Fund. Under the Indenture, the Authority authorizes and directs the Trustee, and the Trustee agrees, to withdraw sufficient funds (to the extent available) from the Bond Fund to pay the principal of, premium, if any, and interest on the Bonds as the same become due and payable.

**Covenants and Agreements of the Authority**

The Authority represents and warrants that (i) it is duly authorized under the Constitution and laws of the State to issue the Bonds, and to execute, deliver and perform the terms of the Indenture; (ii) all action on its part for the issuance of the Bonds and execution and delivery of the Indenture have been duly taken; (iii) the Bonds upon issuance and authentication, and the Indenture upon delivery, shall be valid and enforceable against the Authority in accordance with their terms, except as enforceability may be limited by bankruptcy, insolvency or other similar laws affecting creditors' rights and by general principles of equity; (iv) it has not heretofore conveyed, assigned, pledged, granted a security interest in or otherwise disposed of the Security; (v) it has not received any payments under the Municipal Obligation and the entire principal balance remains outstanding; (vi) it has no knowledge of any defense or counterclaim to payment or performance of the terms or conditions of the Municipal Obligation, and (vii) the execution, delivery and performance of the Indenture is not in contravention of law or any agreement, instrument, indenture or other undertaking to which it is a party or by which it is bound.

The Authority covenants that it will cooperate to the extent necessary with the City and the Trustee in their defenses of the Security against the claims and demands of all persons, and will do, execute, acknowledge and deliver or cause to be done, such indentures supplemental hereto and such further acts, instruments and transfers as the Trustee may reasonably require for the better pledging of the Security. The Authority shall not cause or permit to exist any amendment, modification, supplement, waiver or consent with respect to the Municipal Obligation without the prior written consent of the Trustee.

The Authority covenants that except as otherwise provided herein, it will not sell, convey, mortgage, encumber or otherwise dispose of any portion of the Security.

**Security for the Bonds**

The Bonds and the interest and any premium thereon shall be a limited obligation of the Authority as provided in Sixth Supplemental Indenture and shall be secured by and payable only from the following:

(a) the City of Detroit Financial Recovery Income Tax Revenue and Refunding Local Project Bond Fund established under the Sixth Supplemental Indenture and the City of Detroit Financial Recovery Income Tax Revenue and Refunding Local Project Bond Loan Account established under the Sixth Supplemental Indenture, and all moneys, instruments, and investment from time to time therein; and

(b) all of the Authority's right, title and interest in the Municipal Obligation and the Collateral Documents relating thereto subject to reservation by the Authority of the right to indemnification and to make all determinations and approvals and receive all notices accorded to it under such Municipal Obligation and Collateral Documents.

The foregoing are collectively the "Security." In consideration of the purchase of the Bonds and to secure payment of the principal of, premium, if any, and interest on the Bonds and any other cost or pecuniary liability of the Authority relating to the Bonds or any proceeding, document or certification incidental to the issuance of the Bonds, and to secure performance and observance of all covenants, terms and conditions upon which the Bonds are to be issued, including without limitation the Indenture, the Authority, without warranty, pursuant to law conveys, assigns and pledges all of its right, title and interest in, and grants a security interest in, the Security to the Trustee, and its successors and assigns, in trust for the benefit of the Bondholders.

**Payment of Bonds and Performance of Covenants**

The Authority shall promptly pay, but only out of the Security, the principal of, premium, if any, and interest on the Bonds at the place, on the dates and in the manner provided in the Bonds. The Authority shall promptly perform and observe all covenants, undertakings and obligations set forth in the Sixth Supplemental Indenture or the Bonds on its part to be performed or observed. The Authority agrees that the Trustee in its name or in the name of the Authority may enforce against the City or any Person any rights of the Authority under or arising from the Bonds or the Municipal Obligation whether or not the Authority is in default hereunder. The Authority shall fully cooperate with the Trustee in the enforcement by the Trustee of any such rights.

**Default Interest Rate; No Acceleration Rights**

Upon the occurrence of an Event of Default, the Bonds shall be subject to an interest rate increase equal to the rate of interest which is two percent (2.0%) above the stated interest rate on the Bonds, but in no event to a rate higher than the Maximum Rate.

The Bonds and related Municipal Obligation are not subject to acceleration.

## APPENDIX II

## SUMMARY OF CERTAIN PROVISIONS OF THE CITY TRUST INDENTURE

The following is a brief summary of certain provisions of the Financial Recovery Bond Trust Indenture between the City of Detroit and UMB Bank with respect to the City's Financial Recovery Income Tax Revenue and Refunding Bonds, Series 2014, dated December 10, 2014 (the "City Trust Indenture"), and does not purport to be complete. Reference is made to the City Trust Indenture, copies of which are available from the City.

**Definitions**

The following are definitions of certain terms used in the City Trust Indenture. Capitalized terms appearing in this Reoffering Memorandum and not specifically defined herein have the meaning given to such terms in the City Trust Indenture.

"***Account***" means any of the trust funds and accounts created and established by, or pursuant to, the City Trust Indenture.

"***Account Control Agreement***" means that certain Deposit Account Control Agreement dated as of December 10, 2014, by and among the City, the Trustee, and the Depository Bank in favor of the Trustee with respect to the Income Tax Account and the Pledged Income Tax Account.

"***Act 279***" means Act No. 279, Public Acts of Michigan, 1909, as amended.

"***Act 284***" means Act No. 284, Public Acts of Michigan, 1964, as amended, and any replacement or successor thereto.

"***Act 436***" means Act No. 436, Public Acts of Michigan, 2012.

"***Authorized Officer***" means (i) the Emergency Manager or his designee or successor, or if the City is no longer operating under a financial emergency pursuant to Act 436, the Mayor or Finance Director of the City, (ii) if the City is operating under a financial emergency pursuant to Act 436, but no Emergency Manager (or successor thereto) has been appointed, any person or entity with legal authority to act on behalf of the City or (iii) any other person authorized by a Certificate of an Authorized Officer issued to the Trustee to act on behalf of or otherwise represent the City in any legal capacity, which such Certificate shall be delivered, if at all, in the City's sole discretion.

"***Bankruptcy Case***" means the City's Bankruptcy Case No. 13-53846 in the U.S. Bankruptcy Court for the Eastern District of Michigan.

"***Bond***" or "***Bonds***" means the Series 2014 Bonds.

"***Bondowner***", "***Owner***" or "***Registered Owner***" means, with respect to any Bond, the person in whose name such Bond is registered in the Bond Registry under Section 305, and shall be the MFA.

"***Bond Authorizing Order***" means that Order of the Emergency Manager dated September 25, 2014 authorizing the issuance of the Bonds for the purposes set forth therein.

"***Bond Counsel***" means Miller, Canfield, Paddock and Stone, P.L.C., attorneys of Detroit, Michigan, or such other nationally recognized firm of attorneys experienced in matters pertaining to municipal bonds and appointed to serve in such capacity by the City with respect to the Bonds.

"***Bond Orders***" means collectively the Bond Authorizing Order and the Sale Order.

"***Bond Proceeds Fund***" means the fund established pursuant to Section 505 of the City Trust Indenture by the Trustee and pursuant to the Bond Orders in which, on the Date of Original Issue, the proceeds of the Bonds shall be deposited.

"***Bond Purchase Contract***" means that certain Purchase Contract by and between the MFA and the City dated as of December 10, 2014 with respect to the Series 2014 Bonds.

"***Bond Registry***" means the books for the registration of Bonds maintained by the Trustee.

"***Business Day***" means any day other than (i) a Saturday, Sunday or legal holiday, (ii) a day on which the Trustee (at its office primarily responsible for the administration of the City Trust Indenture) or banks and trust companies in New York, New York are authorized or required to remain closed, (iii) a day on which the New York Stock Exchange is closed, or (iv) a day on which the Federal Reserve is closed.

"***Certificate***" means (i) a signed document either attesting to or acknowledging the circumstances, representations or other matters therein stated or set forth or setting forth matters to be determined pursuant to the City Trust Indenture or (ii) the report of an Authorized Officer as to audits or other procedures called for by the City Trust Indenture, as the case may be.

"***Closing Date***" means the Date of Original Issue.

"***City***" means the City of Detroit, County of Wayne, Michigan.

"***Code***" means the Internal Revenue Code of 1986, as amended.

"***Costs of Issuance Fund***" means the fund established under Section 503 of the City Trust Indenture, as summarized herein for the payment of the costs of issuance of the Bonds.

"***Date of Original Issue***" means the date upon which all conditions precedent set forth in the Bond Purchase Contract to the transactions contemplated therein and in the City Trust Indenture have been satisfied and the Bonds have been issued to the MFA.

***"Debt Service Account"*** means the Account established within the Debt Service Fund for the benefit of the Series 2014 Bonds pursuant to Section 501 of the City Trust Indenture, as summarized herein.

"***Debt Service Fund***" means the Debt Service Fund established under Section 501 of the City Trust Indenture, as summarized herein, for the payment of principal of and interest on the Bonds.

"***Debt Service Requirement Amount***" means, as applicable, an amount equal to (i) the interest and principal (or Redemption Price, as applicable), if any, due on the Bonds on the next succeeding Interest Payment Date plus if such Payment Date is also a Redemption Date, premium owing on such Redemption Date, if any, or (ii) the amount equal to the interest, premium, if any, and principal due on the Bonds on the Stated Maturity Date, plus any fees or expenses for which the Trustee is entitled to be paid from the Debt Service Fund.

***"Debt Service Reserve Account"*** means the Account established within the Debt Service Fund pursuant to Section 502 of the City Trust Indenture, as summarized herein.

"***Depository Bank***" means Comerica Bank and any successor thereto.

***"DTC"*** means The Depository Trust Company, New York, New York and its successors and assigns

"***Emergency Manager***" has the meaning set forth in the recitals of the City Trust Indenture.

"***Event of Default***" has the meaning attributed to it in Section 901 of the City Trust Indenture, as summarized herein.

***"Favorable Opinion"*** means a Bond Counsel's Opinion to the effect that the action proposed to be taken is authorized or permitted by the City Trust Indenture and will not, in and of itself, adversely affect the exclusion from gross income for federal income tax purposes of interest on the Tax-Exempt Bonds which are subject of such opinion.

"***Financing Documents***" means the City Trust Indenture, the Bond Purchase Contract, the Account Control Agreement, the Series 2014 Bonds, the Bond Orders and any other document related to the issuance, sale or delivery of the Bonds.

"***Fiscal Year***" means the period from July 1 to and including June 30 of the immediately succeeding calendar year or such other fiscal year of the City as in effect from time to time.

***"Fitch***" means Fitch Ratings, Inc., and its successors.

***"Governmental Obligations"*** means non-callable (a) direct obligations of the United States of America for the full and timely payment of which the full faith and credit of the United States of America is pledged, (b) obligations issued by a person controlled or supervised by and acting as an instrumentality of the United States of America, the payment of the principal of, premium, if any, and interest on which is fully guaranteed as a full faith and credit obligation of the United States of America (including any securities described in (a) or (b) issued or held in book-entry form on the books of the Department of Treasury of the United States of America or any Federal Reserve Bank, and (c) securities which represent an interest in the obligations described in (a) and (b) above.

"***Income Tax Account***" means that certain bank account in the City's name, established at Comerica Bank, Account No. 1850706191, that collects solely Income Tax Revenues.

"***Income Tax Revenues***" means revenues collected by or on behalf of the City from a levy of an excise tax on income pursuant to Act 284 or pursuant to any other applicable State or local law.

"***Indenture***" means this City Trust Indenture, dated as of December 10, 2014, as may be amended or supplemented from time to time.

***"Interest Payment Date"*** means the following dates upon which interest is payable on Bonds of a subseries:

(a) the Stated Maturity Date, the Conversion Date or any Redemption Date;

(b) with respect to the Variable Rate Mode, the first Business Day of the first calendar month after the issuance of such Bonds and the first Business Day of each calendar month thereafter;

(c) with respect to the Fixed Rate Mode, each April 1 and October 1.

***"Interest Period"*** means the period of time that any interest rate remains in effect, which period:

> (i) with respect to Tax-Exempt Bonds in the Variable Rate Mode, shall be the period from and including the Closing Date to but excluding the following SIFMA Reset Date and thereafter commencing on and including each SIFMA Reset Date to but excluding the earlier of the next succeeding SIFMA Reset Date or the Conversion Date or the Maturity Date;
>
> (ii) with respect to Taxable Bonds in the Variable Rate Mode, shall be the period from and including the Closing Date to but excluding the first Business Day of the following calendar month and thereafter commencing on and including the first Business Day of each calendar month to but excluding the earlier of the first Business Day of the following calendar month or the Conversion Date or the Maturity Date; and
>
> (iii) with respect to Bonds of a subseries in the Fixed Rate Mode, shall be the period from and including the Conversion Date to and including the Stated Maturity Date or date of redemption prior to the Stated Maturity Date.

***"Make-Whole Redemption Price"*** has the meaning set forth in Section 310(c) of the City Trust Indenture.

***"Maturity Date"*** or ***"Stated Maturity Date"*** means for the Tax-Exempt Bonds no later than the 15th anniversary of the Date of Original Issue, and for the Taxable Bonds no later than the 8th anniversary of the Date of Original Issue, as set forth in the Sale Order.

***"Maximum Rate"*** means eighteen percent (18%) per annum or such higher rate of annual interest as permitted by applicable law.

"***MFA***" means the Michigan Finance Authority, as successor to the Michigan Municipal Bond Authority.

**"*MFA Bonds*"** means the Michigan Finance Authority, Local Government Loan Program, Series 2014F (City of Detroit Local Project Bonds) issued pursuant to the Sixth Supplemental Indenture (Local Government Loan Program) dated the date of the City Trust Indenture between the MFA and UMB Bank., N.A., as Trustee.

***"Monthly Deposit Requirement"*** has the meaning set forth in Section 501(c) of the City Trust Indenture, as summarized herein.

***"Moody's"*** means Moody's Investors Service.

"***Non-Arbitrage and Tax Compliance Certificate***" means the Non-Arbitrage and Tax Compliance Certificate of the City, dated the date of issuance of the Bonds, regarding rebate requirements and other tax responsibilities of the City relating to the Tax-Exempt Bonds.

***"Notice Parties"*** means the City, the Trustee and the Calculation Agent.

"***Outstanding***" when used with respect to the Bonds, means, as of the date of determination, the Bonds theretofore authenticated and delivered pursuant to the Bond Orders and the City Trust Indenture, except:

(A) Bonds theretofore canceled by the Trustee or delivered to such Trustee for cancellation;

(B) Bonds for whose payment money in the necessary amount has been theretofore irrevocably deposited with the Trustee in trust for the registered owners of such Bonds;

(C) Bonds delivered to the Trustee for cancellation in connection with (i) the exchange of such Bonds for other bonds or (ii) the transfer of the registration of such Bonds;

(D) Bonds alleged to have been destroyed, lost or stolen which have been paid or replaced pursuant to the Bond Orders or otherwise pursuant to law; and

(E) Bonds deemed paid as provided in Section 801 of the Bond Authorizing Order.

"***Payment Date***" means each Interest Payment Date, Maturity Date and Redemption Date.

"***Permitted Investments***" means those investments specified in Article VI of the City Trust Indenture, as summarized herein.

***"Person"*** means a natural person, firm, joint venture, limited liability company, corporation, partnership, association, joint stock company, trust, any unincorporated organization or a governmental unit or political subdivision thereof.

"***Petition Date***" has the meaning set forth in the recitals of the City Trust Indenture.

"***Pledged Income Tax Account***" means that certain bank account in the name of and in exclusive control of the Trustee, on behalf of the holders of the Bonds, established at the Depository Bank, into which Pledged Income Tax Revenue is remitted and deposited by the Depository Bank pursuant to the Account Control Agreement.

"***Pledged Income Tax Revenue***" means the Income Tax Revenues, but shall not include that portion of Income Tax Revenues transferred into the budget of the City's police department at any time, to be used exclusively to retain and hire police officers, in an amount equal to the sum of 0.2% of the income tax rate levied on resident individuals and 0.1% of the income tax rate levied on non-resident individuals, for so long as bonds, obligations or other evidences of indebtedness of the City's Public Lighting Authority are outstanding and payable from taxes levied by the City under the Utility Users Tax Act, Act 100, Public Acts of Michigan, 1990, as amended, MCL 141.1151, *et seq*.

"***Prior Bonds***" means the City's $120,000,000 Financial Recovery Bonds, Series 2014.

"***Prior Bonds Refunding Fund***" means the fund so designated and established under Section 504 of the City Trust Indenture, as summarized herein.

"***Prior Bonds Trustee***" means UMB Bank, N.A., in its capacity as trustee for the Prior Bonds.

"***Projects***" means those certain reinvestment and revitalization incentive projects determined by the Emergency Manager or Authorized Officer to be financed with the proceeds of the Series 2014 Bonds constituting the Additional Project Financing.

"***Purchaser***" means Barclays Capital Inc. as the initial purchaser of the MFA Bonds.

***"Rating Agencies"*** means S&P, Moody's, Fitch or such other nationally recognized securities rating agencies selected by the City.

***"Rating"*** or ***"Ratings"***, plural, means a long term unenhanced debt rating assigned by one or more than one of the Rating Agencies to the MFA Bonds at the time of the consummation of the Public Offering of the MFA Bonds.

"***Redemption Date***" means each date upon which Bonds of a subseries are to be called for redemption, in whole or in part, pursuant to the City Trust Indenture.

"***Redemption Price***" means, with respect to any Bond, as applicable, either the principal amount thereof plus the applicable premium, if any, or the Make Whole Redemption Price, in each case payable upon redemption thereof.

***"Reserve Percentage"*** means, relative to any day of interest period, the maximum aggregate (without duplication) of the rates (expressed as a decimal fraction) of reserve requirements (including all basic, emergency, supplemental, marginal and other reserves and taking into account any transitional adjustment or other scheduled changes in reserve requirements) under any regulations of the Board of Governors of the Federal Reserve System (the "Board") or other governmental authority having jurisdiction with respect thereto as issued from time to time and then applicable to assets or liability consisting of "Eurocurrency Liabilities", as currently defined in Regulation D of the Board, having a term approximately equal or comparable to such interest period.

"***Reserve Requirement***" means the amount required to be on deposit in the Debt Service Reserve Account pursuant to Section 502 of the City Trust Indenture, as summarized herein, equal to the lesser of (1) the maximum annual debt service due on the Bonds at such time; (2) 125% of the average annual debt service due on the Bonds at such time, or (3) 10% of the original principal amount of the Bonds, each as determined on the Closing Date based on an assumed fixed interest rate of 6.00% per annum and on the Conversion Date based on the actual Fixed Rates.

***"S&P"*** means Standard & Poor's Ratings Services, a division of The McGraw-Hill Companies, Inc., and its successors.

"***Sale Order***" means that order of an Authorized Officer dated December 10, 2014 authorizing the final sale and issuance of the Bonds for the purposes set forth therein.

"***Series 2014 Bonds***" means the City's Financial Recovery Income Tax Revenue and Refunding Bonds, Series 2014, issued in connection with the City Trust Indenture, in two or more series, each series bearing a letter designation as determined and confirmed by an Authorized Officer in the Sale Order.

***"SIFMA Municipal Swap Index"*** means, on any date, a rate determined on the basis of the seven-day high grade market index of tax-exempt variable rate demand obligations, as produced by Municipal Market Data and published or made available by the Securities Industry and Financial Markets Association ("SIFMA"), or any Person acting in cooperation with or under the sponsorship of SIFMA and acceptable to the Trustee, and effective from such date.

***"SIFMA Reset Date"*** means every Thursday or if any Thursday is not a U.S. Government Securities Business Day, the next succeeding U.S. Government Securities Business Day, except that the initial SIFMA Reset Date shall be the Closing Date.

***"Sinking Fund Installment"*** means the amount of principal required to be paid by the City on a certain future date for the retirement of Outstanding Bonds which mature after said future date, but does not include any amount payable by the City by reason of the maturity of a Bond or by call for redemption at the election of the City.

"***State***" means the State of Michigan.

"***State Treasurer***" means the Treasurer of the State of Michigan.

***"Successful Public Offering"*** means (i) if at the time of the Public Offering, the MFA Bonds carry at least one long-term public credit rating from either Moody's or S&P in the investment grade category, a Public Offering in which the MFA Bonds are sold to the market at a price, in the aggregate equal to par and (ii) if at the time of the Public Offering, the MFA Bonds do not carry at least one long-term public credit rating from either Moody's or S&P in the investment grade category, a Public Offering in which the MFA Bonds are sold to the market at a price, in the aggregate, equal to par plus an amount equal to $2.50 per $1,000 bonds. For the avoidance of doubt, the Purchaser may retain the proceeds of the Public Offering, representing par plus any such premium of $2.50/$1,000.

"***Supplemental Indenture***" means any indenture supplemental to or amendatory of the City Trust Indenture, executed by the City and the Trustee and effective in accordance with the city Trust Indenture.

***"Taxable Bonds"*** means those Bonds, the interest on which is not excludable from gross income for federal tax purposes as of the Closing Date.

"***Tax-Exempt Bonds***" means those Bonds, the interest on which is excluded from gross income for federal tax purposes as of the Closing Date.

"***Trustee***" means initially, UMB Bank, N.A., as trustee, as bond registrar, transfer agent and paying agent for the Bonds and any successor in trust or assignees pursuant to Section 803 of the City Trust Indenture, as summarized herein.

"***Trust Estate***" shall have the meaning set forth in this summary under the heading "Pledge of Indenture; Sources of Payment and Security for the Bonds."

**Pledge of Indenture; Sources of Payment and Security for the Bonds**

**The Bonds; Pledge of Indenture; Grant of Security Interest**. The City grants a valid, binding, enforceable, non-avoidable, continuing security interest in, assigns, transfers, pledges, grants, conveys and hypothecates unto the Trustee and its successors and assigns, on behalf of the Bondowners, forever, on a first priority lien basis, all of the right, title and interest of the City in all of the following described property (collectively, the "Trust Estate"):

(a) All rights and interests of the City in the Pledged Income Tax Revenue (the "Collateral").

(b) Amounts on deposit from time to time in the Accounts summarized herein subject to the provisions of the City Trust Indenture permitting the application thereof for the purposes and on the terms and conditions set forth in the City Trust Indenture, as summarized herein.

The Bonds are also limited tax general obligations of the City, which will be payable from ad valorem taxes annually levied on all taxable property within the City, subject to applicable constitutional, statutory and charter tax rate limitations.

To the fullest extent provided by applicable laws, the money and property pledged shall immediately be subject to the lien of such pledge without any physical delivery thereof, without the necessity of the execution, recordation of filings by the City of financing statements, notices of liens, control agreements or other security documents or the possession or control by the Trustee over any of the Trust Estate, or further act and such lien shall be valid and binding against all parties having claims in tort, contract or otherwise against the City, irrespective of whether such parties have notice of the claim. Neither the Bond Orders authorizing the Bonds nor the City Trust Indenture nor any Supplemental Indenture need be recorded.

**Creation of Liens**. In order to further implement the liens on the Collateral in favor of the holders of the Bonds, the City and the Trustee each covenant to enter into the Account Control Agreement with the Depository Bank, and the Trust Estate shall include the Trustee's rights thereunder in and to the Income Tax Account and the Pledged Income Tax Account and all amounts deposited therein.

**Establishment of Funds and Accounts; Flow of Funds**

**Debt Service Fund and Accounts**. A single trust fund designated the "Financial Recovery Income Tax Revenue and Refunding Bonds, Debt Service Fund" (hereinafter referred to as the "Debt Service Fund") is created and established with the Trustee under the City Trust Indenture.

An account designated the "Financial Recovery Income Tax Revenue and Refunding Bonds, Series 2014 – Debt Service Account" (hereinafter referred to as the "Debt Service Account") is created and established with the Trustee within the Debt Service Fund.

**Income Tax Account**. For so long as the Bonds (or any portion thereof) remain outstanding, the City shall on a daily basis cause at least 75% of all Pledged Income Tax Revenue net of refunds to be deposited directly by the applicable taxpayers, or by the City if remitted by the taxpayers to the City, into the Income Tax Account heretofore created in the name of the City and the Trustee and under the exclusive control of the Trustee at the Depository Bank.

**Pledged Income Tax Account**. The Trustee shall use commercially reasonable efforts to transfer on each day of each calendar month all Pledged Income Tax Revenue on deposit in the Income Tax Account into the Pledged Income Tax Account (the "Daily Transfer Obligation") until the Monthly Deposit Requirement (as defined below) is met.

On the first Business Day of each calendar month that (a) there is no deficiency in the Debt Service Account balance or the Debt Service Reserve Account balance and (b) the City's obligation to make fractional monthly interest and principal debt service deposits has been fully met for such calendar month, the Trustee shall transfer at the direction of the City from the Income Tax Account any Income Tax Revenues to one or more deposit accounts in the name of the City to be used by the City in its sole discretion, and neither the City nor the Trustee shall have any Daily Transfer Obligation with respect to that portion of the Income Tax Revenue. Thereafter, the Trustee shall discontinue the Daily Transfer Obligation until the last Business Day of such calendar month, whereupon the Trustee will recommence the Daily Transfer Obligation on the first Business Day of the next calendar month. This cycle shall be repeated on a month-to-month basis until the Account Control Agreement is terminated.

**Deposits to Debt Service Fund**. There shall be set aside and transferred from the Pledged Income Tax Account to the Debt Service Account on a first dollar basis on the first Business Day of each month for interest on the Bonds equal to 1/6 of the total amount of interest on the Bonds next coming due. There shall also be set aside and transferred from the Pledged Income Tax Account to the Debt Service Account each month for principal, a fractional amount equal to 1/12 of the total amount of principal on the Bonds next coming due on the next principal payment date, if any, by maturity or sinking fund redemption. The last such transfer preceding each Payment Date shall be reduced by amounts, including investment earnings, available in the Debt Service Account which are available for such purpose. If there is any deficiency in the amount previously set aside, that deficiency shall be added to the next succeeding monthly requirements. In each case of the above transfers for set asides of interest and principal on the Bonds the Debt Service Account shall be fully funded one month in advance of each Payment Date.

In the event that, thirty (30) days prior to any Payment Date during the Fixed Rate Mode, amounts on deposit in the Debt Service Account do not equal the Debt Service Requirement Amount owing with respect to the Bonds on such Payment Date, the Trustee shall promptly notify the City in writing of such deficiency and the City shall, promptly after receiving such notice, cause to be deposited with the Trustee other available funds of the City for deposit to the Debt Service Account, in an amount necessary to make up the Debt Service Requirement

Amount owing on such Payment Date. The Trustee shall confirm in writing to the City the receipt of each additional payment of additional funds for deposit into the Debt Service Account.

The Trustee, in its capacity as transfer agent and paying agent for the Bonds, shall withdraw from the Debt Service Account of the Debt Service Fund the amounts necessary to pay when due the Debt Service Requirement Amount for the Bonds on each Payment Date.

**Deposits and Withdrawals from Debt Service Fund upon Termination of the Account Control Agreement**. In the event that (i) the Depositary Bank provides the City and the Trustee written notice of termination of the Account Control Agreement and (ii) the City and the Trustee have not entered into a new Account Control Agreement (the "Successor Account Control Agreement") on terms agreeable to the City and the Trustee with a successor Depositary Bank within seventy-five (75) days following such notice, or such longer period of time as may be agreed upon between the City and the Trustee, then, the City and the Trustee shall begin the implementation of this Section. From the date of termination of the Account Control Agreement until the date the Successor Account Control Agreement is effective, the parties agree that:

(i) (A) the City shall establish a deposit account dedicated solely for the receipt of Pledged Income Tax Revenue (the "City Back-Up Income Tax Deposit Account") with, and shall enter into depositary banking agreements with, UMB Bank, N.A., (or such other bank as may then be serving as trustee hereunder) as depositary bank (the "Successor Depositary Bank") for the City Back-Up Income Tax Deposit Account. Such City Back-Up Income Tax Deposit Account will be owned by and in the name of the City and under the exclusive control of the Trustee (or such other bank as may then be serving as trustee hereunder), and will incur the Depositary Bank's then usual and customary fees for services rendered by the Depositary Bank to the City Back-Up Income Tax Deposit Account and (B) the City shall cause at least 75% of all Pledged Income Tax Revenues net of refunds to be deposited directly by the applicable taxpayers, or the City if remitted by the taxpayers to the City, into such City Back-Up Income Tax Deposit Account on a daily basis. Nothing described in this paragraph shall alter the manner in which deposits are made into the Pledged Income Tax Account;

(ii) in the event that the City Back-Up Income Tax Deposit Account is not established as of the termination date of the Account Control Agreement, then (A) the Trustee shall establish a deposit account dedicated solely for the receipt of Pledged Income Tax Revenue (the "Trustee Back-Up Income Tax Deposit Account") with, and shall enter into depositary banking agreements with, the Successor Depositary Bank for the Trustee Back-Up Income Tax Deposit Account. Such Trustee Back-Up Income Tax Deposit Account will be owned by and in the name of the Trustee, and will incur the Successor Depositary Bank's then usual and customary fees for services rendered by the Depositary Bank to the Trustee Back-Up Income Tax Deposit Account, (B) the City shall cause at least 75% of all Pledged Income Tax Revenue net of refunds to be deposited directly by the applicable taxpayers, or the City if remitted by the taxpayers to the City, into such Trustee Back-Up Income Tax Deposit Account on a daily basis, all in compliance with applicable law, (C) the Trustee shall instruct the Successor Depositary Bank in writing (in such form and text as the Successor Depositary Bank and the Trustee shall reasonably require) to transfer the balance of the Trustee Back-Up Income Tax Deposit Account each banking day to the Pledged Income Tax Account established by the Trustee and such balance shall be remitted from the Pledged Income Tax Subaccount to the City daily pursuant to the City Trust Indenture, as summarized herein, and (D) the actions of the Trustee described under this paragraph shall be compensable and are protected by the City Trust Indenture, as summarized herein. Nothing described in this paragraph shall alter the obligation to make deposits to the Pledged Income Tax Account consistent with Section 501(c), which deposits shall be made as described in this paragraph from the Trustee Back-Up Income Tax Deposit Account;

(iii) in the event that (A) thirty (30) days prior to any Payment Date during the Fixed Rate Mode or (B) four (4) Business Days prior to any Payment Date during the Variable Rate Mode, amounts on deposit in the Debt Service Account do not equal the Debt Service Requirement Amount owing with respect to the Bonds on such Payment Date, the Trustee shall promptly notify the City in writing of such deficiency and the City shall, promptly after receiving such notice, cause to be deposited with the Trustee other available funds of the City for deposit to the Debt Service Account, in an amount necessary to make up the Debt Service Requirement Amount owing on such Interest Payment Date. The Trustee shall confirm in writing to the City the receipt of each additional payment of additional funds for deposit into the Debt Service Account.

**Debt Service Reserve Account**. (a) There is established a separate account in the Debt Service Fund to be known as the Debt Service Reserve Account (the "Debt Service Reserve Account"). There shall be deposited in the Debt Service Reserve Account from the initial proceeds of the Bonds, the Reserve Requirement. Earnings from the investment of the Debt Service Reserve Account shall be transferred to the Debt Service Fund on a monthly basis so long as the Reserve Requirement remains in the Debt Service Reserve Account.

(b) Except as otherwise described in this Section, the moneys credited to the Debt Service Reserve Account shall be used solely for the payment of the principal (or Make Whole Redemption Price, as applicable) of, redemption premiums (if any) and interest on the Bonds as to which there would otherwise be a default. If at any time it shall be necessary to use moneys credited to the Debt Service Reserve Account for such payment, then the moneys so used shall be replaced from the Pledged Income Tax Revenue first received thereafter in the Pledged Income Tax Account which are not required for current principal and interest requirements until the amount on deposit equals the Reserve Requirement. If on any principal payment date the amount in the Debt Service Reserve Account exceeds the Reserve Requirement, the excess shall be transferred to the Debt Service Fund for payment of principal and interest on the Bonds due on that date.

**Costs of Issuance Fund**. There is hereby created and established with the Trustee pursuant to the Bond Orders and the City Trust Indenture, a trust fund designated the "Financial Recovery Income Tax Revenue and Refunding Bonds Costs of Issuance Fund" (the "Costs of Issuance Fund"). Upon the issuance of the Bonds, there first shall be deposited in the Costs of Issuance Fund, a portion of the proceeds of the Bonds, in an amount as necessary to pay the costs of issuance of the Bonds, as directed in writing by the City. Moneys on deposit in the Costs of Issuance Fund shall be used by the Trustee to pay the costs related to the issuance of the Bonds, as directed in writing by the City.

**Prior Bonds Refunding Fund**. There is hereby created and established with the Trustee pursuant to the Bond Orders and the City Trust Indenture, a trust fund designated the "Financial Recovery Income Tax Revenue and Refunding Bonds, Refunding Fund" (the "Prior Bonds Refunding Fund"). There shall be deposited into the Prior Bonds Refunding Fund an amount sufficient to pay in full the Prior Bonds, as directed in writing by the City; and the Trustee shall promptly transfer such amount to the Prior Bonds Trustee on the Date of Original Issue, as directed in writing by the City.

**Bond Proceeds Fund**. (a) There is hereby created and established with the Trustee pursuant to the Bond Orders and the City Trust Indenture, a trust fund designated the "Financial Recovery Income Tax Revenue and Refunding Bonds, Bond Proceeds Fund" (the "Bond Proceeds Fund").

(b) There is hereby created and established with the Trustee in the Bond Proceeds Fund, pursuant to the Bond Orders and the City Trust Indenture, an account designated the "Financial Recovery Income Tax Revenue and Refunding Bonds, Series 2014 – Bond Proceeds Account" (hereinafter referred to as the "Bond Proceeds Account"). There shall be deposited into the Bond Proceeds Account the remainder of the net proceeds of the Bonds after the deposits of amounts as specified in the Bond Orders. Moneys on deposit in the Bond Proceeds Account shall be used only to pay for the Projects all in such amounts and for such Projects as directed by an Authorized Officer in a form acceptable to the Trustee (upon which the Trustee may conclusive rely), provided, however, that the City shall not be required to seek the Trustee's approval for Project expenditures and shall not be required to keep any funds on deposit in the Bond Proceeds Account following the date or dates on which Project expenditures are made. Any balance remaining in such Account after the Maturity Date shall be deposited in the Debt Service Account.

(c) There is hereby created and established with the Trustee, pursuant to the Bond Orders and the City Trust Indenture, a separate account within the Bond Proceeds Fund designated the "Financial Recovery Income Tax Revenue and Refunding Bonds, Series 2014 – Prior Bond Proceeds Account" (hereinafter referred to as the "Prior Bond Proceeds Account"). The Trustee is directed to transfer remaining funds in the Financial Recovery Bonds, Bond Proceeds Fund for the Prior Bonds to the Prior Bond Proceeds Account to be used only to pay for the quality of life projects financed with the Prior Bonds in such amounts and for such projects as directed by an Authorized Officer in a form acceptable to the Trustee (upon which the Trustee may conclusively rely), provided, however, that the City shall not be required to seek the Trustee's approval for Project expenditures and shall not be required to keep any funds on deposit in the Bond Proceeds Account following the date or dates on which Project expenditures are made. Any balance remaining in such Account after the Maturity Date shall be deposited in the Debt Service Account.

**Investment of Funds**

**Permitted Investments**. All money held by the Trustee pursuant to the City Trust Indenture shall be invested by the Trustee in accordance with written instructions from the City in Permitted Investments for the funds of the City. If the Trustee does not receive written investment direction from the City, the Trustee shall invest all money held by it as provided in subsection (f) hereof. "Permitted Investments" shall mean and include any of the following, as may be further restricted in each Sale Order or Supplemental Indenture for the related series of Bonds:

(a) bonds, securities, and other obligations of the United States or an agency or instrumentality of the United States;

(b) certificates of deposit, savings accounts, deposit accounts, or depository receipts of a financial institution having a long term rating of not less than A2/A/A;

(c) commercial paper rated at the time of purchase within the highest classifications (A-1/P-1/F1) established by not less than 2 standard rating services and that matures not more than 90 days after the date of purchase (but in any event no later than when the funds are required);

(d) repurchase agreements consisting of instruments listed in subdivision (a);

(e) Bankers' acceptances of United States banks rated at least A2/A/A;

(f) mutual funds registered under the investment company act of 1940, title I of chapter 686, 54 Stat. 789, 15 USC 80a-1 to 80a-3 and 80a-4 to 80a-64, with authority to purchase only investment vehicles that are legal for direct investment by a public corporation, however, a mutual fund is not disqualified as a permissible investment solely by reason of one of the following:

(i) the purchase of securities on a when-issued or delayed delivery basis,

(ii) the ability to lend portfolio securities as long as the mutual fund receives collateral at all times equal to at least 100% of the value of the securities loaned, or

(iii) the limited ability to borrow and pledge a like portion of the portfolio's assets for temporary or emergency purposes;

(g) obligations described in subdivisions (a) through (f) if purchased through an interlocal agreement under the Urban Cooperation Act of 1967, Act 7, Public Acts of Michigan, 1967 (Ex Sess), as amended, MCL 124.501 to 124.512;

(h) investment pools organized under the Surplus Funds Investment Pool Act, Act 367, Public Acts of Michigan, 1982, as amended, MCL 129.111 to 129.118;

(i) the investment pools organized under the Local Government Investment Pool Act, Act 121, Public Acts of Michigan, 1985, MCL 129.141 to 129.150; and

The Trustee may conclusively rely on the written directions from the City as to whether any investment is a “Permitted Investment” and shall not be liable or responsible for any losses incurred on any investment directed by the City.

**Valuation and Sale of Investments**. In computing the amount in any Account, obligations purchased as an investment of moneys therein shall be valued at their Value, as hereinafter defined, plus accrued interest in each case. “Value” means the value of any investments calculated as follows:

(a) as to investments the bid and asked prices of which are published on a regular basis in The Wall Street Journal (or, if not there, then in The New York Times): the average of the bid and asked prices for such investments so published on or most recently prior to the time of determination;

(b) as to investments the bid and asked prices of which are not published on a regular basis in The Wall Street Journal or The New York Times: the average bid price at such time of determination for such investments by any two nationally recognized government securities dealers (selected by the Trustee in its absolute discretion) at the time making a market in such investments or the bid price published by a nationally recognized pricing service;

(c) as to certificates of deposit and banker's acceptances: the face amount thereof, plus accrued interest, if any; and

(d) as to any investment not specified above: the value thereof established by prior agreement between the City and the Trustee or any other valuation method customarily used by the Trustee.

Except as otherwise provided herein, the Trustee shall sell, or present for redemption, any Permitted Investment whenever it shall be requested in writing by an Authorized Officer to do so or whenever it shall be necessary in order to provide moneys to meet any payment or transfer from any Account held by it in accordance with the terms of the City Trust Indenture. As set forth hereunder a Permitted Investment may be credited on a pro rata basis to more than one Account and need not be sold in order to provide for the transfer of amounts from one Account to another.

**Covenants of the City**

**Payment of Bonds**. The City shall duly and punctually pay or cause to be paid, the principal or Redemption Price of every Bond and the interest, if any, thereon, at the dates and places and in the manner stated in the Bonds, according to the true intent and meaning thereof.

**Power to Issue Bonds and Pledge Revenues, Funds and Other Property**. The City is duly authorized to issue the Bonds and to enter into, execute and deliver the City Trust Indenture and to pledge the assets and revenues purported to be pledged hereby in the manner and to the extent herein provided. The assets and revenues so pledged are and will be free and clear of any pledge, lien, charge or encumbrance thereon, or with respect thereto, and all corporate or other action on the part of the City to that end has been and will be duly and validly taken. The Bonds and the provisions of the City Trust Indenture are and will be the valid and legally enforceable obligations of the City in accordance with their terms and terms of the City Trust Indenture. The City shall at all times, to the extent permitted by law, defend, preserve and protect the pledge of the Trust Estate and other assets and revenues, including rights therein pledged under the City Trust Indenture, and all the rights of the Bondowners against all claims and demands of all persons whomsoever. Except as otherwise provided herein, the City shall not, without the prior consent of the Trustee, sell, transfer, encumber or hypothecate the Pledged Income Tax Revenue or any City receivables of levies of excise taxes on income pursuant to applicable law that would otherwise become Pledged Income Tax Revenue.

**Maintenance of Perfected Security Interests; Further Assurances; Notices of Default**. At any and all times the City shall, so far as it may be authorized by law, pass, make, do, execute, acknowledge and deliver, all and every such further resolutions, acts, deeds, conveyances, assignments, transfers and assurances as may be reasonably necessary or desirable to convey, grant, pledge and perfect to the Trustee for the benefit of the Bondowners first priority security interests in the Trust Estate. The City shall notify the Trustee immediately upon becoming aware of any Event of Default or occurrence of an event that, with the passage of time, will become an Event of Default hereunder, including, for the avoidance of doubt, any failure to comply with Section 708 of the City Trust Indenture, as summarized herein.

**Tax Covenants**. The City shall at all times do and perform all acts and things necessary or desirable in order to assure that interest paid on Tax-Exempt Bonds shall, for the purposes of federal income taxation, be excludable from the gross income of the recipients thereof and exempt from such taxation under Section 103 of the Code, or any successor provisions thereto. The City shall comply with all requirements of any Non-Arbitrage and Tax Compliance Certificate delivered by the City in connection with a Series of Tax-Exempt Bonds. The Trustee shall not be responsible for monitoring any yield restriction or arbitrage rebate requirements or any expenditure or use by the City of the proceeds of any Bonds.

**Accounts and Reports**. The City shall keep, or cause to be kept, proper books of record and account in which complete and accurate entries shall be made of all of its transactions relating to the Bonds or the Trust, the Pledged Income Tax Account and all Accounts established by the City Trust Indenture which shall at all reasonable times be subject to the inspection of the Trustee. The City shall report, or cause to be reported, on a monthly basis balances in the Pledged Income Tax Account.

**Issuance of Additional Obligations**. (a) The City hereby covenants that as long as the Bonds are outstanding, the City will not create or permit the creation of or issue any additional indebtedness or interest rate exchange agreement which will be secured by a charge or lien on the Pledged Income Tax Revenue that has a lien or payment priority which is superior to the Bonds. The issuance of any series of bonds under the City Trust Indenture, other than the Bonds and other than as permitted by (c) below, shall require compliance with the requirements of the City Trust Indenture, as summarized herein.

(b) Prior to the Public Offering Date, the City will not create or permit the creation of or issue any additional indebtedness or interest rate exchange agreement which will be secured by a charge or lien on the Pledged Income Tax Revenue which is on parity with the Bonds.

(c) Following the Public Offering Date, the City will not create or permit the creation of or issue any additional parity indebtedness or interest rate exchange agreement which will be secured by a charge or lien on the Pledged Income Tax Revenue which is on parity with the Bonds except that the City may issue additional bonds secured by a charge or lien on the Pledged Income Tax Revenue which is on a parity with the Bonds provided that (x) such bonds are issued pursuant to the City Trust Indenture and (y) the City has filed a certificate of an Authorized Officer with the Trustee certifying (i) the Pledged Income Tax Revenue deposited to the Income Tax Account for a 12 consecutive month period of the immediately prior 15 months applicable to the Fiscal Year in which such additional parity indebtedness is to be issued and (ii) the maximum annual debt service that will be due on such additional parity indebtedness, the Bonds and any other outstanding parity indebtedness, in any subsequent Fiscal Year, and showing that the amount in clause (i) at least equals 2 times the amount in clause (ii); provided that if any such additional indebtedness is to be issued as variable rate debt, the maximum annual debt service with respect to such additional indebtedness shall, for purposes of the calculations set forth herein, be made at an assumed fixed rate equal to the greater of (x) 6.00% per annum and (y) in the case of proposed tax exempt variable rate debt the average of the SIFMA Municipal Swap Index plus a percentage reflective of the ratings assigned to such debt for the twelve months preceding the date of issuance, or in the case of proposed taxable variable rate debt the average of the 1 Month LIBOR Rate plus a percentage reflective of the ratings assigned to such debt for the twelve months preceding the date of issuance; provided further that any outstanding variable rate indebtedness shall be assumed to bear interest at the weighted average of the actual rates on such variable rate debt for each day during the 365 consecutive days (or such lesser period as such debt has been outstanding) ending on the last day of the calendar month next preceding the computation. Any variable rate debt which is the subject of an interest rate exchange agreement shall be assumed to bear interest at the effective fixed rate resulting therefrom while such agreement remains in effect.

**Income Tax Revenues and Accounts**. The City shall at all times:

(a) each month deposit or cause to be deposited to the Income Tax Account at least 75% of all Pledged Income Tax Revenue net of refunds collected during such month.

(b) (i) take such steps as shall be reasonably necessary to levy the taxes generating the Pledged Income Tax Revenue to satisfy the related covenants set forth in the City Trust Indenture and (ii) take such steps as shall be reasonably necessary to collect the taxes generating the Pledged Income Tax Revenue to the maximum extent required by the City to comply with its covenants and obligations under the Financing Documents.

(c) Nothing in the City Trust Indenture shall preclude the City from entering into an arrangement with another party, including, but not limited to, the State, to collect Income Tax Revenues on behalf of the City, provided that no such arrangement shall diminish or otherwise limit the City's obligations under the City Trust Indenture with respect to the covenants of the City related to the collection of the Income Tax Revenues.

**Contesting Enforceability**. The City covenants that it will not seek to invalidate or refute the enforceability of any Financing Document, notwithstanding the dismissal of the Bankruptcy Case.

**Debt Service Covenant**. The City will maintain income tax rates sufficient to generate on an annual basis deposits of Pledged Income Tax Revenue deposited to the Income Tax Account which are no less than 2.0X (two times) the aggregate maximum annual debt service on the Bonds and any outstanding indebtedness secured by a charge or lien on the Pledged Income Tax Revenue which is on parity with the Bonds. For purposes of making the foregoing calculation, with respect to variable rate indebtedness, the maximum annual debt service with respect to such indebtedness shall be calculated at an assumed fixed rate equal to the greater of (x) 6.00% per annum and (y) the weighted average of the actual rates on such variable rate debt for each day during the 365 consecutive days (or such lesser period as such debt has been outstanding) ending on the last day of the calendar month next preceding the computation. The City shall increase income tax rates in accordance with applicable law to the extent necessary to satisfy such requirement; provided, however, that to the extent that income tax rates in the City are set at the maximum rate allowed by law, the City shall not be in default if annual deposits of Pledged Income Tax Revenue to the Income Tax Account are less than 2.0X (two times) the aggregate maximum annual debt service on the Bonds and any outstanding indebtedness secured by a charge or lien on the Pledged Income Tax Revenue which is on parity with the Bonds.

**Events of Default and Remedies on Default**

**Events of Default**. Any one or more of the following events shall be deemed an "Event of Default" hereunder:

(a) The failure of the City to pay, when due, any interest on any or all of the Bonds on any date when such interest is due and payable;

(b) The failure of the City to pay, when due, any principal (or Make Whole Redemption Price, as applicable) or premium, if any, on any or all Bonds on any date when such principal (or Make Whole Redemption Price, as applicable) or premium is due and payable; or

(c) The failure by the City to comply with the provisions of the City Trust Indenture with respect to Pledged Income Tax Revenue in the Income Tax Account and such failure is not cured within two (2) Business Days.

**Remedies**. (a) *General*. Upon the occurrence of an Event of Default, the Trustee may pursue any remedy permitted by law to enforce the performance of or compliance with the provisions of the City Trust Indenture.

(b) *Enforcement.* Upon the occurrence and continuation of an Event of Default, subject to Section 1108, the Trustee may and shall, at the direction of the Registered Owners holding 25% of the Outstanding amount of the Bonds, proceed in its own name, to protect or enforce the rights of the Trustee and the holders of the related Bonds by mandamus or other suit, action or proceedings at law or in equity, to (i) enforce the rights of the Registered Owners and the obligations of the City under the City Trust Indenture and the Financing Documents, (ii) enjoin any act or thing which may be unlawful or in violation of the rights of Registered Owners; and (iii) enforce the rights of Registered Owners in and to the Trust Estate.

(c) *Owner Right of Action*. If the Registered Owners holding at least 25% of the Outstanding amount of the Bonds shall have complied with all conditions prerequisite to the requiring of action on the part of the Trustee and said Trustee shall refuse to act, then one or more of the Owners of the Bonds shall have the right to bring any action or actions as the Trustee might have instituted for and on behalf of the Owners of all Outstanding Bonds.

**Waiver of Default**. Following an Event of Default, the Trustee shall at the direction of the Registered Owners holding at least 51% of the Outstanding amount of the Bonds, waive an Event of Default and annul its consequences. No such waiver shall extend to or affect any subsequent Event of Default or shall impair any right consequent thereon.

**Possession of Bonds by Trustee Not Required**. All rights of action under the City Trust Indenture enforceable by the Trustee may be enforced by it without the possession of any of the Bonds or the production thereof at any proceedings relative thereto. Any action instituted by the Trustee shall be brought in its name for the benefit of all the holders of the related Bonds, subject to the provisions of the City Trust Indenture.

**Remedies Cumulative**. The rights and remedies of the Trustee and the holders of Bonds shall be cumulative, and any failure on its or their part to act shall not constitute a waiver of any right or remedy to which it or they may be entitled to hereunder or under applicable law or in equity.

**Knowledge by Trustee of an Event of Default**. The Trustee shall not be deemed to have knowledge of any Event of Default arising from a failure to comply with the required monthly deposit of Pledged Income Tax Revenue into the Income Tax Account or the City's Debt Service Covenant unless and until an officer responsible for the administration of the City Trust Indenture shall have actual knowledge thereof, or shall have received written notice thereof from any Owner. Except as otherwise expressed herein, the Trustee shall not be bound to ascertain or inquire as to the performance or observance of any of the terms, conditions, covenants or agreements herein or of any of the documents executed in connection with the Bonds, or as to the existence of an Event of Default hereunder.

**Application of Monies**. All moneys received by the Trustee and deposited in the Debt Service Fund or other Account pursuant to any right given or action taken under the provisions addressing Events of Default and Remedies on Default shall be applied first to the payment of the costs and expenses of the proceedings resulting in the collection of such moneys and expenses, liabilities, advances and charges incurred or made by the Trustee.

**Supplemental Indentures and Amendments to the City Trust Indenture**

**Modifications and Amendments Not Requiring Consent**. Any provision of the City Trust Indenture may be amended at any time by the parties hereto, without the consent of the holders of the Bonds, for any one or more of the following purposes:

(a) To cure any ambiguity or formal defect or omission in the City Trust Indenture or in any supplemental agreement.

(b) To grant to or confer upon the Trustee for the benefit of the holders of Bonds any additional rights, remedies, powers, authority or security that may lawfully be granted to or conferred upon such holders or the Trustee.

(c) To accomplish, implement or give effect to any other action which is expressly authorized or required by the City Trust Indenture.

(d) To comply with the requirements of the Internal Revenue Code of 1986, as amended, applicable to the Bonds.

(e) To appoint separate or successor trustees, paying agents or bond registrars.

(f) To implement changes in connection with any Public Offering of the MFA Bonds by the Purchaser consistent with the terms of the Commitment Letter of the Purchaser, dated September 17, 2014 and the Term Sheet attached thereto as Exhibit A.

(g) To make any other change which, in the judgment of the Trustee, is not to the material prejudice of holders of the Bonds, based upon the opinion of Bond Counsel or other professionals.

Within thirty (30) days after the execution of any supplement pursuant to this Section 1001, the Trustee shall cause notice thereof to be mailed, postage prepaid to all owners of Bonds at their addresses as they appear on the registration books. The notice shall briefly set forth the nature of the supplement and shall state that copies thereof are on file at the corporate trust office of the Trustee for inspection by all such holders. Any such supplement so executed shall be valid and binding notwithstanding any failure of the Trustee to mail the notice herein required and notwithstanding any objections which may be received pursuant to any mailed notice.

Upon the execution of any supplement pursuant to the provisions of this Section, the City Trust Indenture shall be deemed to be modified and amended in accordance therewith and the respective rights, duties and obligations under the City Trust Indenture of the City, the Trustee and all holders of outstanding Bonds shall thereafter be determined, exercised and enforced hereunder, subject in all respects to such modifications and amendments.

**Amendments Requiring Consent**. In addition to those amendments that do not require consent, any provision of the City Trust Indenture may be amended at any time by written agreement of the parties hereto, but, except as provided in this section, no such amendment made after the issuance of any Bonds shall become effective until approved in writing by the holders of a majority of the principal amount of all outstanding Bonds, other than those in the possession of the City or under its control; provided, however, no such amendment may (i) extend the maturity or due date of the principal of or the interest on any Bonds or (ii) reduce the principal amount of any Bonds or the rate of interest thereon, or (iii) grant a privilege or priority of any Bonds over any other Bonds of the same series, or (iv) reduce the aggregate principal amount of the Bonds required for consent to such supplemental or amendatory indenture unless approved by the holders of all outstanding Bonds.

If at any time the City shall request the Trustee to execute any supplement for any of the purposes of this section, the Trustee shall cause notice of the proposed supplement to be mailed, postage prepaid to all applicable owners of registered Bonds at their addresses as they appear on the registration books. The notice shall briefly set forth the nature of the proposed supplement and shall state that copies thereof are on file at the principal corporate trust office of the Trustee for inspection by any holders of Bonds. The Trustee shall not, however, be subject to any liability to any holder of Bonds by reason of its failure to mail this notice, and any such failure shall not affect the validity of such supplement when executed.

Whenever, at any time within one year after the date of the first mailing of such notice, the City shall deliver to the Trustee an instrument or instruments in writing purporting to be executed by the holders of not less than a majority in aggregate principal amount of the Bonds outstanding, which instrument or instruments shall refer to the proposed supplement described in such notice and shall specifically consent to and approve the acceptance thereof in substantially the form of the copy thereof referred to in such notice, the Trustee may, thereupon, but not otherwise, execute such supplement, without liability or responsibility to any holder of any Bond, whether or not such holder shall have consented thereto. If the holders of not less than a majority in aggregate principal amount of the Bonds outstanding at the time of the acceptance of such supplement shall have consented to and approved the acceptance thereof as herein provided, no holder of any Bonds shall have any right to object to the acceptance of said supplement, or to object to any of the terms and provisions contained therein or the operation thereof, or in any manner to question the propriety of the acceptance thereof or to enjoin or restrain the Trustee from executing the same or from taking any action pursuant to the provisions thereof.

Upon the execution of any supplement pursuant to the provisions of this Section, the City Trust Indenture shall be modified and amended in accordance therewith, and the respective rights, duties and obligations under the City Trust Indenture of the City, the Trustee and all holders of Bonds outstanding shall thereafter be determined, exercised and enforced hereunder, subject in all respects to such modifications and amendments.

**Consent of Trustee**. Prior to executing any amendment to the City Trust Indenture that does not require consent, the Trustee shall be entitled to receive and shall be fully protected in relying upon a certificate of the City as proof of the necessity or desirability of any such amendment and an opinion of counsel for the City that such amendment complies with the provisions of the city Trust Indenture.

The Trustee may in its discretion, but shall not be obligated to, enter into any such supplement to the City Trust Indenture authorized thereunder which adversely affects the Trustee's own rights, duties or immunities under the City Trust Indenture or otherwise.

**General Provisions Relating to Supplemental Indentures**. The City Trust Indenture shall not be modified or amended in any respect except in accordance with and subject to the provisions of the City Trust Indenture related to Supplemental Indentures and amendments to the City Trust Indenture as summarized above. Article X thereof.

It shall be a prerequisite of every Supplemental Indenture entered into pursuant to the City Trust Indenture that a Bond Counsel's Opinion be delivered to the Trustee stating that such Supplemental Indenture has been duly and lawfully adopted in accordance with the provisions of the City Trust Indenture, is authorized or permitted by the City Trust Indenture, is valid and binding upon the parties to the Supplemental Indenture and enforceable in accordance with its terms and, in the case of Bonds the interest upon which is excludable from gross income for federal income tax purposes, stating that such Supplemental Indenture will not adversely affect the exclusion from gross income for federal income tax purposes of the interest on such Bonds.

**Termination**

The City Trust Indenture shall terminate following delivery of written direction from the City to the Trustee to so terminate, together with written notice: (1) that all Bonds have been paid in full at maturity or defeased (and for each series of Bonds that have been or are to be defeased prior to termination, such notice shall include written certification by an independent verification agent for the City that sufficient cash or obligations necessary to defease such Bonds in accordance with the applicable defeasance requirements are on deposit with the Trustee as of the date of the City's notice), and (2) that all fees and expenses owed to the Trustee have been paid in full. Upon termination of the City Trust Indenture, any money remaining on deposit in the funds and accounts created and established hereunder shall be paid to the City.

**Defeasance**

Bonds of each series shall be deemed to be paid in full upon the deposit in trust of cash or direct obligations of, or obligations the principal of and interest on which are unconditionally guaranteed by, the United States of America, or any combination thereof, not redeemable at the option of the issuer thereof, the principal and interest payments upon which, without reinvestment thereof, will come due at such times and in such amounts, as to be fully sufficient to pay when due, the principal of such Bonds and interest to accrue thereon, as confirmed by a verification report prepared by an independent certified public accountant; provided, that if any of such Bonds are to be called for redemption prior to maturity, irrevocable instructions to call such Bonds for redemption shall be given to the Trustee. Such cash and securities representing such obligations shall be deposited with a bank or trust company and held for the exclusive benefit of the Registered Owners of such Bonds. After such deposit, such Bonds shall no longer be entitled to the benefits of the City Trust Indenture (except for any rights of transfer or exchange of Bonds as therein or herein provided for) and shall be payable solely from the funds deposited for such purpose and investment earnings, if any, thereon, and the lien of the City Trust Indenture for the benefit of such Bonds shall be discharged.

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# APPENDIX III

# CERTAIN INFORMATION CONCERNING THE CITY OF DETROIT, MICHIGAN

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APPENDIX III

INFORMATION CONCERNING THE CITY OF DETROIT, MICHIGAN

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# CITY OF DETROIT DISCLOSURE STATEMENT

## GOVERNMENTAL STRUCTURE

Pursuant to the provisions of the Constitution of the State of Michigan (the "State"), the City is a home rule city with significant independent powers. In accordance with the City Charter (the "Charter"), the governance of the City is organized in two branches: the Executive Branch, which is headed by the Mayor, and the Legislative Branch, which is composed of the City Council and its agencies. The Mayor and the members of the City Council are elected every four years unless a special election is required as provided for in the Charter. In January 2014, the Mayor and the newly constituted City Council commenced their terms. On February 17, 2015, the City Council appointed Janee' Ayers to replace Saunteel Jenkins who resigned from the City Council in November, 2014. Councilwoman Ayers will serve the remainder of Ms. Jenkins term. There are no limits as to the number of terms that may be served by City elected officials. The Charter provides that the voters of the City reserve the power to enact City ordinances by initiative and to nullify ordinances enacted by the City by referendum. However, these powers do not extend to the budget or any ordinance for the appropriation of money, and the referendum power does not extend to an emergency ordinance. In addition, the City is responsible for certain duties relating to the 36th District Court. See "GOVERNMENTAL STRUCTURE - District Court."

The current Charter became effective on January 1, 2012, upon the approval by City residents in November 2011. The new Charter included three major groups of revisions. The first group involves ethics and corruption. The Charter adopts aggressive ethical standards of conduct that include removal of elected officials, appointees, and employees for serious violations. Also, the Charter creates the Office of the Inspector General, an office designed to identify and investigate waste, abuse, and fraud/corruption in city government. A second group of major revisions focuses on economic and community growth, including measures to focus the City's resources on growth in the areas of: (1) community planning; (2) business development and attraction; (3) international trade and emerging industries opportunities; (4) recycling; and (5) green initiatives and technologies revolution. Lastly, the new Charter focuses on quality of life issues. The Charter requires city officials to systematically explore supporting or sponsoring an automobile and property insurance program for residents. Other revisions seek to improve government operations, achieve fiscal efficiency, and provide greater and meaningful citizen influence and participation in city government policy-making. Following is a description of the duties and responsibilities of the branches of the City government.

### Emergency Manager

In March, 2013, Governor Richard Snyder declared the City to be in a state of emergency, and appointed Kevyn D. Orr as Emergency Financial Manager (the "EFM") to assume certain financial responsibilities on behalf of the Mayor and City Council of the City of Detroit. The EFM became the Emergency Manager (the "Emergency Manager") by operation of law on March 28, 2013. Pursuant to the Local Financial Stability and Choice Act, Act 436, Public Acts of Michigan, 2012 ("Act 436"), the Emergency Manager exercised broad powers in the City's receivership to rectify the financial emergency and to assure the fiscal accountability of the City and the City's capacity to provide or cause to be provided necessary governmental services essential to the public health, safety, and welfare. On July 18, 2013, the Emergency Manager filed a petition on behalf of the City pursuant to Chapter 9 of the Bankruptcy Code, and subsequently filed a Plan for the Adjustment of Debts of the City of Detroit and multiple amendments to such plan. On November 12, 2014, the Bankruptcy Court entered an order confirming the City's Eighth Amended Plan for the Adjustment of Debts of the City of Detroit (the "Plan of Adjustment"). The City set the effective date of the Plan of Adjustment on December 10, 2014 (the "Effective Date").

On September 25, 2014, consistent with Section 9(6)(c) of Act 436, the City, through the City Council and the Mayor, took action to remove the Emergency Manager as of the Effective Date. On September 25, 2014, the Emergency Manager issued Order No. 42, regarding the conclusion of his tenure and transition of City operations to the Mayor and City Council. Under this Order, the powers and authority of the Mayor and City Council that were previously exercised by the Emergency Manager were restored, and the Emergency Manager retained responsibility for the restructuring and bankruptcy through the Effective Date. The Emergency Manager retained certain powers relating to the management of the Bankruptcy Case and implementation of the Plan of Adjustment, including all transactions necessary to facilitate the various settlements with creditors and settlements relating to the City's Department of Water and Sewerage ("DWSD") and the creation of the Great Lakes Water Authority ("GLWA"). On the Effective Date, the City's receivership and the Emergency Manager's term under Act 436 ended and all powers were restored to the Mayor and the City Council, subject to oversight of the Financial Review Commission described below.

**Executive Branch**

***Mayor***

The Mayor is the chief executive of the City and has control of and is accountable for the Executive Branch of City government. The Charter grants the Mayor broad managerial powers, including the authority to appoint all department directors and deputy directors. The Charter also delegates the responsibility for the implementation of most programs, services and activities solely to the Executive Branch.

**Michael E. Duggan, Mayor**, became Detroit's 63rd Mayor on January 1, 2014. He has an extensive record of managing large-scale financial and operational turnarounds in the private and public sector. Duggan previously served as President and CEO of the Detroit Medical Center, Deputy Wayne County Executive and as the elected Prosecuting Attorney in Wayne County. He also led the turnaround of the SMART regional bus system in the early 1990's, contributing to the system's continued viability to this day.

The Mayor is the chief executive of the City and leads the Executive Branch of City government. The Charter grants the Mayor broad managerial powers, including the authority to appoint all department directors and deputy directors. The Charter also delegates the responsibility for the implementation of most programs, services and activities solely to the Executive Branch. Upon taking office, Mayor Duggan was granted day-to-day operational control of the City by the Emergency Manager, and assumed the full authority of the Mayor under the City Charter on September 25, 2014 except for those matters retained by the Emergency Manager until the Effective Date related to the management of the bankruptcy proceeding and implementation of the Plan of Adjustment. Throughout the term of Mayor Duggan's administration, the Mayor and City Council have demonstrated historic levels of cooperation and collaboration. Mayor Duggan is focusing on improving the quality of life of Detroit residents while assuring the long term economic sustainability of the City.

**Isaiah McKinnon, Deputy Mayor**, was appointed Deputy Mayor in January 2014, after having served as an associate professor of education at the University of Detroit Mercy. Dr. McKinnon served in the Detroit Police Department, eventually serving as Chief of Police from 1994 to 1998. Dr. McKinnon holds a doctorate in higher education administration from Michigan State University, a master's degree in criminal justice from Mercy College of Detroit, and a bachelor's degree in history and law enforcement from the University of Detroit.

**Carol O'Cleireacain, Deputy Mayor for Economic Policy, Planning & Strategy**, was appointed in October 2014. She came to the City from the Brookings Institute, where she served as a nonresident Senior Fellow. Dr. O'Cleireacain also serves as a member of the Council on Foreign Relations. Ms. O'Cleireacain previously served as Deputy Treasurer of the State of New Jersey, and Budget Director of the City of New York. Dr. O'Cleireacain holds a Ph.D. in Economics from the London School of Economics and an MA and BA with distinction in Economics from the University of Michigan.

**John Hill, C.P.A., Chief Financial Officer**, has served as the City's chief financial officer (the "CFO") and a member of Kevyn Orr's restructuring team since November 2013. Mr. Hill is the former CEO of the non-profit Federal City Council in Washington, D.C. and was the Partner-In Charge of Anderson Consulting's State and Local practice. Mr. Hill previously served as the Executive Director of the D.C. Control Board, in which capacity he was responsible for restructuring D.C.'s financial and operational management system and improving the delivery of District services.

**Alexis Wiley, Chief of Staff,** was appointed in May 2014, shortly after joining the administration in February 2014 as Director of Community Engagement. In her role as Chief of Staff, Ms. Wiley is responsible for hiring top level administration officials and leading many of the Mayor's key initiatives. Prior to joining city government, Ms. Wiley was a reporter and anchor for Fox 2 News in Detroit, where she reported regularly on issues that affected Detroit residents. Ms. Wiley is a graduate of Northwestern University's Medill School of Journalism. She was born and raised in Los Angeles, California and now lives in Detroit.

**Gary Brown, Group Executive for Operations**, was appointed in June 2013 by the Emergency Manager after serving as President Pro Tem of the City Council. In his current position, Mr. Brown is responsible for ensuring the continued improvement of city operations and services. Brown previously served as deputy chief of the Detroit Police Department's Professional Accountability Bureau. His career with the police department spanned 26 years.

**Tom Lewand, Group Executive for Jobs and Economic Growth**, was appointed in January 2014. His team creates initiatives and opportunities to put Detroiters to work and grow the City's economy. Previously, he was chairman of the Michigan Democratic Party and a law partner at Bodman, PLC. Lewand is noted for helping to negotiate the Ford Field construction agreement between the City of Detroit, Wayne County and the Detroit Lions. He has served on the boards of the Michigan Economic Development Corporation and Wayne County Economic Development Corporation.

**Beth Niblock, Chief Information Officer,** was appointed in February 2014, after serving 11 years as Chief Information Officer for Louisville Metro, the combined local government for the City of Louisville and Jefferson County, Kentucky. Prior to becoming Detroit's CIO, she was a member of the technology team led by the White House Office of Science & Technology Policy that visited the City in 2013 to identify ways to grow and improve City services through the use of information technology.

**Denise Starr, Human Resources Director**, was appointed in October, 2014, after having served in various roles with Compuware Corporation. At Compuware, Ms. Starr served in management and administrative management positions, and played a lead role in building the company's workforce.

### Legislative Branch

The City Council, composed of seven members elected by district and two members elected at large for four-year terms, is the City's legislative body. The City Council has the power to override the Mayor's veto of City Council changes to the annual budget with a two-thirds majority of its members. The three agencies that aid the City Council in the performance of its duties are described below.

The Auditor General is appointed for a term of ten years by a majority of City Council members and may be removed for cause by a two-thirds majority. Any person who has held the position of Auditor General is not eligible for reappointment. By Charter, the principal duty of the Auditor General is to audit the financial transactions of all City agencies. However, since 1980 the City has retained independent accounting firms to perform that function. As required by State law, audits are performed annually; they are only required every two years by the Charter. The Auditor General may investigate the administration and operation of any City agency and prepares various reports, including an annual analysis for the City Council of the Mayor's proposed budget.

The Ombudsman is appointed for a term of ten years by a two-thirds majority of City Council members for the purpose of investigating any official act of any agency (except elected officers) which aggrieves any person.

The City Planning Commission, consisting of nine members appointed by the City Council for three-year terms, advises the City Council on such matters as the annual capital agenda, certain development or renewal projects and proposals for the demolition, disposition or relinquishment of, or encroachment upon, public real property or public interests in real property.

### District Court

The 36th District Court is responsible for adjudicating certain legal matters that arise within the City, including State felony arraignments and preliminary examinations, State misdemeanor and City ordinance violations, civil litigation for claims of $25,000 or less, and landlord/tenant disputes. The City is responsible for all funding of the 36th District Court in excess of fines collected by the Court, except for judicial salaries, which are funded by the State.

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**Principal Governmental Services and Workforce**

The following table sets forth the City's full time equivalent budgeted employee positions for fiscal years 2011 through 2015, according to those positions that are tax-supported and those positions that are supported by other revenues.

**Table 1 – City of Detroit FTE**

| | Fiscal Year Ended or Ending, June 30, | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 2011* | | 2012* | | 2013* | | 2014* | | 2015** | |
| | Number | % | Number | % | Number | % | Number | % | Number | % |
| Tax Supported: | | | | | | | | | | |
| General City | 3,590 | 30.4% | 2,946 | 28.0% | 2,468 | 27.7% | 1,871 | 21.3% | 3,000 | 33.4% |
| Police and fire | 4,213 | 35.6% | 3,898 | 37.0% | 3,387 | 38.0% | 3923 | 44.7% | 3,189 | 35.5% |
| Library | 371 | 3.1% | 334 | 3.2% | 344 | 3.9% | 301 | 3.4% | 314 | 3.5% |
| Total tax supported | 8,174 | 69.1% | 7,178 | 68.2% | 6,199 | 69.6% | 6,095 | 69.4% | 6,503 | 72.5% |
| Revenue supported: | | | | | | | | | | |
| Buildings & Safety | 235 | 2.0% | 204 | 1.9% | 183 | 2.1% | 178 | 2.0% | 185 | 2.1% |
| Transportation | 1,292 | 10.9% | 1,131 | 10.7% | 809 | 9.1% | 951 | 10.8% | 919 | 10.2% |
| Water / Sewage[1] | 2,123 | 18.0% | 2,012 | 19.1% | 1,721 | 19.3% | 1,560 | 17.8% | 1,365 | 15.2% |
| Total revenue supported | 3,650 | 30.9% | 3,347 | 31.8% | 2,713 | 30.4% | 2,689 | 30.6% | 2,469 | 27.5% |
| Total | 11,824 | 100% | 10,525 | 100% | 8,912 | 100% | 8,784 | 100% | 8,972 | 100% |

SOURCE: * City of Detroit Comprehensive Annual Financial Report for the Fiscal Year-Ended June 30, 2014, page 244 "Schedule 16: Operating Information - Full-time Equivalent City Government Employees by Function/Program; Last Ten Fiscal Years (Unaudited)."

** City of Detroit Human Resources Department, Headcount Roll June 30, 2015.

(1) On June 12, 2015, the City executed leases (the "Leases") of the regional assets of its water supply system and sewage disposal system, as well as an assignment of all revenues of each system, to the Great Lakes Water Authority ("GLWA"). The City also entered into an agreement for the provision of water supply and sewage disposal services by GLWA to the City (the "WSSA"). The Leases and the WSSA will become effective upon the occurrence of certain conditions precedent. Under these agreements, the DWSD will continue to be the retail service provider for customers within the City of Detroit and will continue to operate, maintain and develop the City's local system. GLWA employees will operate, maintain and develop the regional facilities. It is expected that most current DWSD employees will have an opportunity to remain employed by DWSD or to apply for positions with GLWA (but not both). Employees hired by GLWA will be offered a fair initial wage and benefit package. See "RECENT FISCAL SITUATION – Exit from Bankruptcy."

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The following table sets forth the departmental budgeted appropriations as a percentage of total General Fund appropriations for fiscal years 2011 through 2015.

**Table 2 – Departmental Appropriations**

| | Fiscal Year Ended or Ending June 30, | | | | |
|---|---|---|---|---|---|
| | **2011** | **2012** | **2013** | **2014** | **2015** |
| Police | 29% | 31% | 28% | 36% | 21% |
| Fire | 13 | 14 | 13 | 17 | 8 |
| Public works (sanitation and streets) | 0 | 0 | 0 | 0 | 0 |
| Public lighting | 4 | 4 | 5 | 6 | 3 |
| Health (1) | 6 | 6 | 1 | 1 | 0 |
| Recreation | 2 | 1 | 1 | 1 | 1 |
| Planning and development | 0 | 0 | 0 | 0 | 1 |
| Other departments | 18 | 17 | 15 | 18 | 13 |
| Non-departmental: | | | | | |
| Enterprise fund contributions (2) | 5 | 5 | 4 | 7 | 5 |
| Other | 24 | 20 | 32 | 14 | 48 |
| General agency budget (millions) | $1,384.2 | $1,299.3 | $1,187.4 | $1,033.9 | $1,356.9 |

SOURCE: City's Adopted Budgets for fiscal years 2011 through 2014 and Fiscal Year 2015 Budget of the Emergency Manager. Totals may not add up to 100 % due to rounding. See "FINANCIAL OPERATIONS – Revenues and Expenditures of the General Fund" herein.

(1) Includes self-supported and General Fund only. Grant funding transitioned to independent agency.

(2) Includes contributions to the Transportation Fund.

**Related City Entities**

Other entities have been established by the City, in certain cases with the County of Wayne (the "County") and with the City of Highland Park, or by the State, principally for the purpose of providing capital financing (normally through the sale of bonds or through special tax levies) for various improvements, services or major construction projects. See "INDEBTEDNESS OF THE CITY AND RELATED ENTITIES - Statement of Direct Tax - Supported and Revenue Indebtedness" and "-Overlapping Debt." Below is a description of certain entities and their functions.

***Detroit Brownfield Redevelopment Authority ("DBRA").*** The DBRA was created by a City Council resolution and approved by the Mayor in April 1998, under the provisions of Act 381, Public Acts of Michigan, 1996. The DBRA was established to create Brownfield redevelopment zones and promote the revitalization, redevelopment, and reuse of certain property, including, but not limited to, tax-reverted, blighted or functionally obsolete property.

***Detroit Building Authority ("DBA").*** The DBA was incorporated for the purpose of acquiring, developing, and maintaining properties and facilities to be used by the City for any legitimate public purpose. The DBA is a legally separate entity; however, the City appoints the DBA board. The DBA is primarily funded through contracts with the City.

***Detroit Employment Solutions Corporation ("DESC").*** The DESC was established to be the administrative and fiscal agency responsible for providing workforce programs and services to the citizens and businesses of the City. The DESC is a legally separate entity. However, the City appoints the voting majority of the board members. The DESC is primarily funded by grants.

***Detroit Land Bank Authority ("DLBA")***. The DLBA was created to stimulate neighborhood stabilization and economic growth through the acquisition, management and disposition of tax-reverted and acquired properties by working collaboratively with community stakeholders, developers, and other governmental agencies in a transparent and fiscally responsible manner to promote conscientious stewardship of land. The DLBA is a legally separate entity. However, the City appoints the voting majority of the board members. The DLBA is primarily funded through federal and local grants.

***Detroit Public Library ("DPL").*** The DPL is a statutory body created by the State. The DPL was created to provide reference materials, research information, and publications to residents of the City and the County. Funding is provided by an *ad valorem* tax of 4.6307 mills in real and personal property taxes in the City. In addition, DPL receives grants and endowments from private organizations. The City Council is responsible for approving DPL's annual budget.

***Downtown Development Authority ("DDA").*** The DDA was created to promote and develop economic growth in the City's downtown business district. Funding is provided by an *ad valorem* tax of 1.0 mill on real and personal property in the downtown development district, a levy on the increased assessed value of the tax increment district, and issuance of revenue and tax increment bonds.

***Eastern Market Corporation ("EMC")***. The EMC was established to develop, maintain, and promote the Eastern Market district of the City. The EMC manages the market in the City known as Eastern Market. The EMC is a legally separate entity. However, the City appoints the voting majority of the board members. The EMC is primarily funded by means of private grants and contributions.

***Economic Development Corporation ("EDC").*** The EDC was established to create and implement project plans for designated project areas within the City, and thus encourage the location and expansion of industrial and commercial enterprises within the City. The EDC is primarily funded by means of grants from the City.

***Eight Mile/Woodward Corridor Improvement Authority ("EMWCIA")***. The EMWCIA was established to correct and prevent deterioration in the Eight Mile/Woodward area. The EMWCIA is a legally separate entity. However, the City appoints the voting majority of the board members. The EMWCIA is primarily funded by the first $100,000 of Tax Increment Capture.

***Greater Detroit Resource Recovery Authority ("GDRRA").*** The GDRRA was established by the cities of Detroit and Highland Park for the acquisition, construction, and operation of a waste-to-energy facility. The GDRRA is a legally separate entity. However, City appointees comprise the voting majority of the board members. Operating revenues consist of tipping fees received from the City of Detroit used for the hauling and disposal of municipal solid waste at the waste-to-energy facility, which is owned by Michigan Waste Energy, which has been indirectly owned by Detroit Renewable Energy and its parent, Atlas Holdings since 2009.

***Detroit Housing Commission ("DHC").*** The DHC was established in 1933 under the authority of the Housing Facilities Act, Act 18, Public Acts of Michigan, 1933 (Ex. Sess.)("Act 18"). Section 2 of Act 18 provided that any city or incorporated village with a population of over 500,000 was authorized "to purchase, acquire, construct, maintain, operate, improve, extend, and/or repair housing facilities and to eliminate housing conditions which are detrimental to the public peace, health, safety, morals, and/or welfare." While formerly a department of the City, the DHC is now an autonomous enterprise, separate from the City.

***Local Development Finance Authority ("LDFA").*** The LDFA was created to finance certain improvements for local public roads in the vicinity of the Chrysler Jefferson Avenue Assembly Plant. Incremental portions of the City and the County property taxes funded LDFA.

***Charles H. Wright Museum of African American History ("MAAH").*** The MAAH was created to provide research, compilation, presentation, publication, and dissemination of knowledge relating to the history, growth, development, heritage and culture of people of African descent and the human struggle for freedom. The MAAH is primarily funded by means of private grants and grants from the City.

***Tax Increment Finance Authority ("TIFA").*** The TIFA was created to acquire property and provide financing for residential and commercial development programs through issuance of long-term debt secured by tax increment financing. The City has satisfied its debt obligation associated with the tax increment financing and no longer levies taxes under this authority beginning with the fiscal year 2010 budget.

***Detroit Transportation Corporation ("DTC").*** The DTC was created by the City and the Southeastern Michigan Transportation Authority in 1985 to oversee construction and operation of the Central Automated Transit System (People Mover) in downtown Detroit. The DTC is primarily funded by means of grants from the City.

***Public Lighting Authority ("PLA")***. The PLA was incorporated by the City, which appoints its board, in January 2013 to finance and oversee the refurbishment of the City's street lighting system. The financing was provided by two transactions, an initial $60 million private placement bond issue, and a subsequent $184 million public bond issue, which repaid the initial transaction. The PLA is on schedule to complete the overhaul of the street lighting system by the end of calendar year 2015. The bond financing is secured by $12.5 million annually from the utility users' tax authorized under Act 100, Public Acts of Michigan, 1990, as amended. An additional $8.1 million is provided annually to the PLA by the City to cover the costs of operating and maintaining the refurbished street lighting system.

**Other Governmental Entities**

Services are provided to residents and businesses of the City by other governmental entities such as the Charter County of Wayne, Michigan, Wayne County Community College District, and the Wayne County Regional Education Service Agency. Each of these entities is funded through its own taxing powers and other sources independent of the City.

## FINANCIAL PROCEDURES

**Generally**

Financial operations of the City of Detroit are carried out through the office of the Chief Financial Officer ("CFO"). The Finance Director and Budget Director each report directly to the CFO. The Finance Director oversees most financial functions of the City, including coordinating debt issuance activities, collecting and disbursing funds, investing City funds (excluding pensions), directing accounting procedures and financial reporting, purchasing goods and services, and assessing property in the City. The Budget Director is responsible for monitoring and reporting on the expenditure of funds and assisting the Mayor in the preparation of the City's annual budget and long-term capital agenda.

**Accounting System**

The City's fiscal year begins on July 1 and ends on June 30. The City currently uses a computer software financial management system which provides general ledger, purchasing, accounts payable, accounts receivable, fixed assets and project accounting applications. These core financial applications are integrated with third-party software providers for budget preparation, work order and inventory applications to provide a complete financial reporting system. The City is in the process of utilizing proceeds from the City's Financial Recovery Bonds, Series 2014 (the "Series 2014 Bonds") and the Financial Recovery Income Tax Revenue and Refunding Bonds, Series 2014A/B (the "2014 Income Tax Bonds"), which in part refunded the Series 2014 Bonds, to modernize its information technology infrastructure. As part of this process, the City has contracted with several information technology providers and consultants to design and implement a customized Human Resources Information System ("HRIS") and Enterprise Resource Planning ("ERP") platform which will include a core financial management system intended to centralize the City's financial and operational management and reporting system. In addition, the HRIS and ERP systems, which are expected to be rolled out in the current and next succeeding fiscal year, will streamline the City's budget, staffing and procurement processes. The City has appropriated $24.9 million to provide funding for the implementation of these systems, which are expected to be operational by the end of the third quarter of Fiscal Year 2016.

**Independent Auditors**

The basic financial statements of the City, as of and for the fiscal year ended June 30, 2014, included in Appendix IV to the Reoffering Memorandum have been audited by KPMG LLP, independent auditors.

**Accounting Methods**

The City's financial statements are prepared in conformity with accounting principles generally accepted in the United States of America. The government-wide, proprietary, and fiduciary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flow takes place. Nonexchange transactions, in which the City gives (or receives) value without directly receiving (or giving) equal value in exchange, include income taxes, sales taxes, property taxes, grants, entitlements, and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year in which the taxes are levied. Revenue from self-assessed taxes, including income taxes and sales tax, is recognized in the fiscal year in which the underlying exchange transaction occurs. Revenue from grants, entitlements, and similar items is recognized in the fiscal year for which all eligibility requirements imposed by the provider have been met. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted; matching requirements, in which the City must provide local resources to be used for a specified purpose; and expenditure requirements, in which the resources are provided to the City on a reimbursement basis.

Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal year, except for grants and trade receivables, which are 180 and 90 days, respectively. Expenditures generally are recorded when the liability is incurred, as under accrual accounting. However, principal and interest on general long-term debt, claims and judgments, compensated absences, and other long-term obligations are recorded only when payment is due. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources. Significant revenue sources that are susceptible to accrual include property taxes, income taxes, utility taxes, state-shared revenue, state gas and weight tax revenue, interest, and certain grants associated with the current fiscal period. All other revenue sources are considered to be measurable and available only when cash is received.

**Cash Management**

The City maintains one bank account primarily for General Fund receipts and disbursements, but also maintains and utilizes multiple lockbox and controlled disbursement accounts in order to segregate certain receipts, disbursements, and restricted funds. Bond obligations are typically funded via restricted trustee managed defeasance accounts and Capital Projects Funds are similarly segregated in restricted trustee managed accounts.

All funds are invested in accordance with State law. The City may invest in direct obligations of the U.S., obligations of an agency or instrumentality of the U.S., certain grades of commercial paper, bankers' acceptances of U.S. banks, certificates of deposit, savings accounts or depository receipts of savings and loan associations or member banks of the Federal Deposit Insurance Corporation, and certain municipal bonds.

The City's investment policy is to provide for effective cash management. The goal of the City's investment policy is to maintain and protect invested principal while striving to maximize total return on the portfolio consistent with limitations pursuant to guidelines set forth in Act 20, Public Acts of Michigan, 1943, as amended ("Act 20"). As of June 30, 2015, the composition of the General Fund's investment portfolio consisted of 100% in pooled investment funds (permitted investments only).

**Budget Process**

The Uniform Budgeting and Accounting Act, Act 2, Public Acts of Michigan, 1968, as amended ("Act 2"), imposes certain budgetary requirements on the City, including the requirement that the City adopt a balanced budget whereby expenditures do not exceed anticipated revenues.

Pursuant to Act 436, the Emergency Manager adopted a 2-year budget, including all contractual and employment agreements, for the City. The City Council is prohibited from amending the 2-year budget without the approval of the State Treasurer, and shall not revise any order or ordinance implemented by the Emergency Manager during his term prior to 1 year after the termination of receivership on the Effective Date.

Effective June 20, 2014, Act 182, Public Acts of Michigan, 2014 ("Act 182") amended the Home Rule City Act, Act 279, Public Acts of Michigan, 1909, as amended ("Act 279"), to impose certain fiscal responsibility requirements on a qualified city. A qualified city is a city with a population more than 600,000 (a "Qualified City"); therefore, the City is a qualified city under Act 182. Pursuant to Act 182, the City and its officers, employees, agents, and contractors shall comply with the Michigan Financial Review Commission Act, Act 181, Public Acts of Michigan, 2014 ("Act 181").

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

**Financial Review Commission and the Financial Plan**.

On the Effective Date, the Commission became operational and began its oversight responsibilities. Act 181, Public Acts of Michigan, 2014, ("Act 181"), established the Commission to monitor the City's compliance with the Plan of Adjustment and Act 181, and 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. Act 182 imposes further requirements on the City, including requiring the adoption of a Financial Plan and appointment a CFO.

The Commission consists of the following nine members:

(a) Nick Khouri, the State Treasurer;

(b) John Roberts, State Budget Director, as the nominee for the director of the Department of Technology, Management, and Budget;

(c) Michael E. Duggan, Mayor of Detroit;

(d) Brenda Jones, President of the Detroit City Council;

(e) Darrell Burks, CPA, a former senior partner at PricewaterhouseCoopers;

**(f)** Stacy Fox, currently serves as Senior Vice President and General Counsel of DuPont Chemical, she formerly served as deputy emergency manager for the City of Detroit, and founder and principal of the Roxbury Group;

(g) Lorron James, vice president of business affairs and serves on the Board of Advisors for James Group International;

(h) Bill Martin, is the founder and current chairman of the Bank of Ann Arbor. Mr. Martin was formerly the Athletic Director for the University of Michigan and was the founder of First Martin Corp., a real estate construction, development, and management firm he founded in 1968; and

(i) Tony Saunders, most recently a director at Conway MacKenzie, Inc. and former emergency manager for the City of Benton Harbor, MI, Mr. Saunders currently serves as the Chief Restructuring Officer of the Charter County of Wayne, Michigan.

Compliance with Act 181 includes the following requirements for the City:

- Providing to the Commission any documents, records or other information requested of City officials by the Commission or its staff, including any documents, records or other information specifically required by Act 181.
- Appearing before the Commission to provide testimony, documents, records or other information as and when requested by the Commission or its staff.
- Providing to the Commission upon its request verification of compliance by the City with all of the following consistent with the requirements of Section 6(3) of Act 181:

  A. Section 8 of Act 152, Public Acts of Michigan, 2011, as amended, the Publicly Funded Health Insurance Contribution Act ("Act 152");

  B. Sections 4i, 4p, 4s, and 4t of Act 279;

  C. Act 34, Public Acts of Michigan, 2001, as amended, the Revised Municipal Finance Act ("Act 34"); and

D. Act 2.

- Approving/disapproving the issuance of City debt (excluding Exit Financing and other debt authorized by the POA)
- Approving/disapproving all contracts for goods and services exceeding $750 thousand or with a term of more than two years, and any amendments to or new collective bargaining agreements
- Approving/disapproving any effort to terminate the City's CFO. In addition, the FRC must approve/disapprove the appointment of a new CFO

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

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On April 20, 2015, the Commission approved the following Financial Plan for Fiscal Year 2016 to Fiscal Year 2019.

**City of Detroit 2016 - 2019 Financial Plan (All Funds)**

Revenues and Expenditures by Major Classification

*$ in millions*

| **Revenue Source** | **2015 - 2016** | **2016 - 2017** | **2017 - 2018** | **2018 - 2019** |
|---|---|---|---|---|
| Taxes, Assessments and Interest | $705.4 | $744.5 | $747.9 | $750.0 |
| Licenses, Permits and Inspection Charges | 27.5 | 28.1 | 27.5 | 28.1 |
| Fines, Forfeits and Penalties | 27.4 | 27.5 | 27.6 | 27.6 |
| Revenues from Use Of Assets | 19.2 | 16.2 | 16.0 | 16.0 |
| Grants, Shared Taxes and Revenues | 285.8 | 289.6 | 223.2 | 225.2 |
| Sales and Charges for Services | 1,181.8 | 1,215.0 | 1,211.5 | 1,210.8 |
| Sales of Assets and Compensation for Losses | 11.6 | 6.2 | 6.3 | 5.9 |
| Contributions and Transfers | 169.5 | 108.2 | 104.6 | 102.8 |
| Miscellaneous* | 376.5 | 185.6 | 182.4 | 169.9 |
| **Total** | $2,804.8 | $2,621.0 | $2,547.0 | $2,536.2 |

* Miscellaneous revenues primarily consist of revenues related to reinvestment initiatives, Public Lighting Department, and DWSD debt proceeds

| **Expenditures by Major Object** | **2015 - 2016** | **2016 - 2017** | **2017 - 2018** | **2018 - 2019** |
|---|---|---|---|---|
| Salaries and Wages | $508.1 | $520.2 | $523.2 | $527.9 |
| Employee Benefits | 217.1 | 223.7 | 224.9 | 229.8 |
| Professional and Contractual Services | 232.9 | 239.4 | 217.5 | 217.7 |
| Operating Supplies | 106.1 | 108.8 | 106.5 | 106.5 |
| Operating Services | 310.5 | 316.7 | 315.5 | 315.6 |
| Capital Equipment | 485.6 | 309.0 | 307.5 | 307.3 |
| Fixed Charges | 593.9 | 600.1 | 608.2 | 605.7 |
| Other Expenses* | 350.5 | 303.0 | 243.7 | 225.7 |
| **Total** | $2,804.8 | $2,621.0 | $2,547.0 | $2,536.2 |

* Other expenses primarily consist of expenditures related to reinvestment initiatives, Public Lighting Department, PLD decommissioning, Planning & Development, and subsidies/transfers

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**City of Detroit 2016 - 2019 Financial Plan (General Fund)**

Revenues and Expenditures by Major Classification - General Fund

*$ in millions*

| Revenue Source | 2015 - 2016 | 2016 - 2017 | 2017 - 2018 | 2018 - 2019 |
|---|---|---|---|---|
| Taxes, Assessments and Interest | $564.6 | $593.8 | $595.7 | $599.7 |
| Licenses, Permits and Inspection Charges | 9.2 | 9.4 | 9.4 | 9.4 |
| Fines, Forfeits and Penalties | 25.2 | 25.3 | 25.3 | 25.3 |
| Revenues from Use Of Assets | 1.2 | 0.9 | 1.1 | 1.1 |
| Grants, Shared Taxes and Revenues | 198.5 | 204.9 | 206.7 | 208.6 |
| Sales and Charges for Services | 115.2 | 116.8 | 114.7 | 114.5 |
| Sales of Assets and Compensation for Losses | 11.6 | 5.9 | 6.3 | 5.9 |
| Contributions and Transfers | 89.7 | 31.7 | 31.6 | 31.4 |
| Miscellaneous* | 56.2 | 66.6 | 65.0 | 52.6 |
| **Total** | $1,071.5 | $1,055.4 | $1,055.9 | $1,048.6 |

* Miscellaneous revenues primarily consist of revenues related to reinvestment initiatives and Public Lighting Department

| Expenditures by Major Object | 2015 - 2016 | 2016 - 2017 | 2017 - 2018 | 2018 - 2019 |
|---|---|---|---|---|
| Salaries and Wages | $331.2 | $338.7 | $346.9 | $353.1 |
| Employee Benefits | 146.0 | 150.0 | 153.4 | 157.0 |
| Professional and Contractual Services | 51.0 | 53.5 | 56.5 | 56.9 |
| Operating Supplies | 21.3 | 22.7 | 22.8 | 23.0 |
| Operating Services | 153.9 | 159.2 | 158.4 | 158.1 |
| Capital Equipment | 3.1 | 3.3 | 3.0 | 2.7 |
| Capital Outlays | 0.3 | 0.4 | 0.4 | 0.4 |
| Fixed Charges | 83.5 | 81.0 | 101.4 | 101.4 |
| Other Expenses* | 281.1 | 246.6 | 213.1 | 196.1 |
| **Total** | $1,071.5 | $1,055.4 | $1,055.9 | $1,048.6 |

* Other expenses primarily consist of expenditures related to reinvestment initiatives, Public Lighting Department, PLD decommissioning, and subsidies/transfers

Note: The City retains flexibility to amend its budget in the event revenues and expenditures vary from projections contained in the Financial Plan by adjusting restructuring and revitalization spending up or down.

**Revenue Estimating Conference**

The City is required to hold a revenue estimating conference in the second week of September and in the third week of February of each year. A revenue estimating conference shall be subject to all of the following:

(a) The principals of a conference shall be the CFO of the City, the State Treasurer or his or her designee from within the Department of Treasury, and a person affiliated with another public entity, including a state institution of higher education, with experience in economic forecasting and revenue projection selected by the CFO and the State Treasurer.

(b) A conference shall establish an official economic forecast of major variables of the national, state, and local economies. A conference also shall establish a forecast of anticipated revenues of the City as the conference determines.

(c) The official forecast of economic and revenue variables of the conference shall be determined by consensus among the conference principals and shall be for the fiscal year in which the conference is being held and the succeeding 2 fiscal years. The conference also shall forecast general fund revenue trendline projections for the City for an additional 2 fiscal years. Conference forecasts of revenues and expenditures shall be based upon the assumption that current law and administrative procedures will remain in effect for the forecast period.

(d) The conference may request and shall receive from officers, departments, agencies, and authorities of the City the assistance and data needed to enable the conference to fulfill its duties.

(e) The principals of the conference shall determine procedures to be used by the conference including procedures for conference sessions and presentations by persons, except that any final action establishing an official forecast shall require the unanimous support of all principals. A conference shall complete its work within a period of not more than 5 days unless extended by consensus of the principals.

(f) Meetings of a conference are subject to the Open Meetings Act, Act 267, Public Acts of Michigan, 1976, as amended.

(g) A principal shall preside over conference sessions, convene conference sessions, and specify topics to be included on the conference agenda. The responsibility of presiding over sessions of the conference shall be rotated annually among the principals, with the initial chairperson being elected by the principals. The chairperson presiding over a conference is responsible for setting the conference date and preparing and distributing the necessary documents before the conference, including comparisons between alternative information where a comparison is warranted. Upon the written request of a principal, a conference shall be convened by the chairperson.

(h) A writing prepared, owned, used, in the possession of, or retained by the conference in the performance of an official function is subject to the Freedom of Information Act, Act 442, Public Acts of Michigan, 1976, as amended.

(i) A conference shall distribute its economic and revenue forecasts ("Consensus Estimates") to the Mayor, the City Council, and, if subject to Act 181, the Commission. The City shall publish the Consensus Estimates on its website.

(j) If the City is subject to Act 181, the City may be required to amend its revenue estimates pursuant to an order or directive of the Commission.

Act 182 grants the Mayor a line-item veto right in any appropriations ordinance. Further, Act 182 requires that, if, during a fiscal year, expenditures for the City exceed revenues, the Mayor may, subject to the approval of the City Council, authorize by executive order the reduction of line-item expenditures during that fiscal year.

**Finance Department Restructuring**

On September 25, 2014, the Emergency Manager issued Order No. 41, which established a centralized financial management organization, under the direction of the CFO. Order No. 41 places under the CFO all of the authority and responsibilities of the Finance Director under Sections 6-301 and 6-302 of the City Charter and of the Budget Director under Section 6-101, as well as the additional duties and responsibilities outlined below:

- The CFO is directed to establish a centralized financial management organizational structure, to be called the Office of the Chief Financial Officer ("Office of the CFO"). The Office of the CFO will provide management oversight, control, and direction to the existing Budget Department, Finance Department and all their subordinate components, and all finance, budget, and grant related components of other City departments, divisions, and agencies. The Office of the CFO shall oversee, control, direct, and coordinate the City's activities relating to budgets, financial plans, financial management, grants management, financial reporting, financial analysis, and compliance with the budget and financial plan of the City.
- The Office of the CFO is comprised of the following organizational components which shall be considered to be "Divisions" of the Office of the CFO:

  A. Office of the Assessor (Assessments Division);

  B. Office of the Treasury (Treasury Division);

  C. Office of the Controller (Accounts Division);

  D. Office of Contracting and Procurement (Purchasing Division);

E. Office of Grants Management (Grants Management Department);

F. Office of Budget (Budget Department); and

G. Office of Financial Planning & Analysis.

- All finance, budget, and grants management related positions in each of the City's departments, divisions, and agencies report to the CFO. Each department, division, and agency will include in their annual budgets the full funding of all finance, budget, and grant related positions performing financial and/or budget management functions. The CFO may transfer finance, budget, and grant related position and their full funding into the Office of the CFO from any department, division, and agency. The CFO will seek input from each department, division, and agency in the selection of the finance, budget, and grant related positions that will be housed in a department, division, and agency and will seek input from such entities in the management of those positions.
- The CFO has the authority to write-off accounts receivable without City Council approval if such accounts receivable: (a) are older than the statute of limitations; (b) have been absolved by a legal proceeding such as the confirmed Plan of Adjustment; or (c) are older than one year provided that the CFO obtains the written approval of the Mayor.
- Notwithstanding any City or human resources rule, regulation, policy, agreement, ordinance or practice to the contrary, including, but not limited to, the City's Civil Service Rules, in consultation with the Human Resource Department, the CFO shall create a new classification and compensation system for the positions under the authority of the CFO.
- The CFO shall have the authority to create compensation and salary schedules and to change said schedules based on future needs and compensation surveys to ensure competitive salaries for City finance and related positions. In all events, the CFO shall comply with the terms of applicable collective bargaining agreements and provide required notices to impacted employees and labor unions, if applicable.

To date, the following actions have been taken with respect to the Office of the CFO:

- A new organizational structure has been created based on benchmarking of best run cities in the US and leading practices.
- New job specifications and standard job descriptions have been created based on job analysis and benchmarking studies. Focus on local and national markets and key municipalities and counties.
- New compensation system has been created.
- Executive level appointments are complete and new performance expectation plans are in place.
- Recruitment has begun for the management supervisory service, ensuring strong middle management core. Hiring to begin in mid-late July.
- Recruitment for professional positions – Accountants, Appraisers, Auditors, Budget Analysts, Contract and Procurement Specialists, Economists, Financial Analysts – to begin in mid-late July with hiring to begin in late August.
- On July 27, 2015, the Financial Review Commission approved a budget amendment which reallocated funds from other departments to the Office of the CFO reflecting the consolidation of financial management functions in that office.

## FINANCIAL OPERATIONS

### Overview

This section contains a detailed description of various important financial matters.

### Revenue Estimating Consensus

The February 2015 Consensus Estimate for General Fund revenues from ongoing sources for fiscal year 2015 is $986.9 million, a 32.6 million decrease from fiscal year 2014 collections. This decrease is primarily due to a decrease in departmental revenues. Fiscal year 2015 revenues reflect anticipated increased collections in State Revenue sharing and other general fund revenues with income taxes and wagering taxes remaining flat. Property Tax and Utility Users' Taxes reflect a decline from fiscal year 2014 collections. The February 2015 Consensus Estimate for fiscal year 2016 was $1,003.1 million, a 1.7% increase from the fiscal year 2015 baseline estimate.

The City of Detroit has five major types of revenue streams that represent over 60% of general fund revenues: income tax, property tax, state revenue sharing, wagering tax (casinos) and utility users' tax revenues. The first step of the conference participants was to estimate these revenues for the current Fiscal Year 2015, and project revenues for Fiscal year 2016 and 2017. Using financial system reports, department sub-ledger reports, current operational analysis and local economic data, the participants individually determined their forecasts. All other revenues of the general fund were discussed in conference, primarily consisting of departmental revenues resulting from Sales and Charges for Services. Revenues from funds that have a general fund impact were also considered. Other Non- general fund - Enterprise Agencies considered were those that have a general fund subsidy, contribution, advance, or current general fund operations. A review of revenues was conducted for the following enterprise agencies: Airport, Building and Safety, DDOT, and Municipal Parking. Also, reviewed were the risk management and the solid waste funds. Several meetings were held to review the forecasts and reach a consensus. Non-general fund grant revenues; unlimited tax general obligation bond millage revenues and proceeds from bond sales are not included in the Consensus Estimate presented in herein.

**Revenues and Expenditures of the General Fund**

The following tables set forth a comparison of revenues, expenditures and other financing sources and uses of the general fund by major classification.

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## Table 3 – Revenues and Expenditures of the General Fund

| | 2010 | 2011 | 2012 | 2013 | 2014 |
|---|---|---|---|---|---|
| **REVENUES**: | | | (in millions) | | |
| Taxes, assessments, interest and penalties: | | | | | |
| Property taxes[1] | $143.0 | $182.7 | $147.8 | $132.8 | $129.4 |
| Municipal income tax | 216.5 | 228.3 | 233.0 | 248.0 | 253.8 |
| Utility users tax | 44.2 | 44.6 | 39.8 | 35.3 | 42.4 |
| Wagering taxes | 183.3 | 176.9 | 181.4 | 174.6 | 167.9 |
| Other taxes and assessments | 11.3 | 12.6 | 13.1 | 11.7 | 6.5 |
| Interest and penalties on taxes | 9.3 | 7.5 | 4.3 | 0.9 | 0.9 |
| Total taxes, assessments, interest and penalties | $607.6 | $652.6 | $619.4 | $603.3 | $600.9 |
| Licenses, permits and inspection charges | 8.7 | 8.6 | 7.4 | 10.7 | 8.7 |
| Shared taxes: | | | | | |
| State revenue sharing | 263.1 | 239.3 | 172.7 | 182.5 | 189.8 |
| Other shared taxes | 0.6 | 0.0 | 0.6 | 0.6 | 0.6 |
| Total shared taxes | $263.7 | $239.3 | $173.3 | $183.1 | 190.4 |
| Grants: | | | | | |
| Total grants | 77.6 | 76.0 | 80.9 | 53.7 | 64.3 |
| Sales and charges for services | 154.1 | 154.9 | 149.2 | 138.6 | 157.4 |
| Other revenues | 76.2 | 88.8 | 72.1 | 53.9 | 88.7 |
| Total revenues | $1,188.0 | $1,220.2 | $1,102.3 | $1,043.3 | 1,110.2 |
| **OTHER FINANCING SOURCES:** | | | | | |
| Debt and capital lease proceeds | 251.6 | - | - | 143.5 | 120.0 |
| Transfer from Community Development Block Grants | - | - | - | - | - |
| Transfer from Major & Local Street Funds | 17.6 | 9.0 | 9.0 | 9.3 | 9.0 |
| Transfer from Capital Projects Funds | - | - | - | - | - |
| Transfer from Trust and Agency Funds | - | - | - | - | - |
| Transfer from Component Units | - | - | - | - | - |
| Total Other Financing Sources | 269.2 | 9.0 | 9.0 | 152.8 | 129.0 |
| **TOTAL REVENUES AND OTHER FINANCING SOURCES** | $1,457.2 | $1,229.2 | $1,111.3 | $1,196.1 | $1,239.2 |
| Property taxes | 9.8% | 14.9% | 13.3% | 11.1% | 10.4% |
| Municipal income tax | 14.9 | 18.6 | 21.0 | 20.7 | 20.5 |
| Utility users tax | 3.0 | 3.6 | 3.6 | 3.0 | 3.4 |
| Wagering taxes | 12.6 | 14.4 | 16.3 | 14.6 | 13.5 |
| State shared revenues | 18.1 | 19.5 | 15.5 | 15.3 | 15.4 |
| Sales and charges for services | 10.6 | 12.6 | 13.4 | 11.6 | 12.7 |
| Other revenue, grants and financing sources | 31.1 | 16.5 | 16.9 | 23.8 | 24.1 |
| Total | 100.0% | 100.0% | 100.0% | 100.0% | 100.0% |

SOURCE: Derived by the Finance Department from audited financial statements.

(1) Beginning in fiscal year 2014, the City has undertaken a comprehensive reassessment of residential property values in the City. Upon completion of this reassessment, the City expects that approximately three-quarters of the City's 220,000 residential properties will see a reduction of 10-20% of their properties' assessed value. The Plan of Adjustment accounted for a roughly 12% reduction in property tax revenue for fiscal year 2015. The City anticipates that more accurate assessments will increase the number of property owners timely paying property taxes.

| | 2010 | 2011 | 2012 | 2013 | 2014 |
|---|---|---|---|---|---|
| **EXPENDITURES:** | | | **(in millions)** | | |
| Executive agencies: | | | | | |
| Public Works [(1)] | $13.8 | $11.6 | $10.5 | $8.0 | $0.7 |
| Fire | 168.5 | 191.0 | 185.0 | 130.0 | 116.7 |
| Health | 86.4 | 73.0 | 73.7 | 32.7 | 46.4 |
| Police | 379.8 | 448.0 | 397.0 | 280.7 | 272.0 |
| Public Lighting | 56.0 | 60.4 | 60.6 | 60.3 | 58.9 |
| Recreation | 18.2 | 18.2 | 17.0 | 13.1 | 16.0 |
| All other | 234.9 | 203.2 | 180.5 | 170.5 | 228.1 |
| Total executive agencies | $957.6 | $1,005.4 | $924.3 | $695.3 | 738.8 |
| Legislative agencies | 33.0 | 27.9 | 27.8 | 25.0 | 19.9 |
| Judicial agencies | 45.0 | 43.3 | 37.7 | 29.9 | 28.6 |
| Non-departmental [(2)] | 33.3 | (6.4) | 6.6 | 41.1 | 156.5 |
| Total expenditures | $1,068.9 | $1,070.2 | $996.4 | $791.3 | 943.8 |
| **OTHER FINANCING USES:** | | | | | |
| Transfer to Community Dev. Block Grant Fund | - | - | - | - | - |
| Transfer to Construction Code Fund | 8.9 | 7.5 | 5.5 | - | - |
| Transfer to Detroit Building Authority | 1.0 | 0.9 | 1.0 | - | - |
| Transfer to Human Services Fund | 0.9 | 0.3 | 0.2 | - | - |
| Transfer to Solid Waste Fund | - | - | - | - | - |
| Transfer to Sidewalk Assessment Fund [(1)] | - | - | - | 0.8 | - |
| Transfer to Debt Service Funds | 53.6 | 57.6 | 61.2 | 69.5 | - |
| Transfer to POC Service Funds[(3)] | 71.0 | 76.2 | 80.9 | 85.3 | 89.6 |
| Transfer to Airport Fund [(4)] | 0.8 | 0.8 | 0.5 | 0.3 | 0.6 |
| Transfer to Transportation Fund [(4)] | 73.8 | 72.6 | 87.2 | 47.2 | 57.2 |
| Transfer to Municipal Parking Fund [(5)] | - | - | - | 5.2 | 4.1 |
| Transfer to Public Lighting Authority[(6)] | - | - | - | - | 17.5 |
| Total Other Financing Uses | 210.0 | 215.9 | 236.5 | 208.3 | 169.1 |
| **TOTAL EXPENDITURES AND OTHER FINANCING USES** | $1,278.9 | $1,286.1 | $1,232.9 | $999.6 | 1,112.8 |
| | | | | | |
| Fund balance (deficit) at beginning of year | $(266.7) | $(91.1) | $(148.1) | $(269.5) | $(73.0) |
| Revenues and other financing sources | 1,457.2 | 1,229.2 | 1,111.3 | 1,196.1 | 1,239.2 |
| Expenditures and other financing uses | (1,278.9) | (1,286.1) | (1,232.9) | (999.6) | (1,112.8) |
| Increase (decrease) in reserve for other assets | (2.7) | (0.1) | 0.2 | - | 0.0 |
| Fund balance (deficit) at end of year | $(91.1) | $(148.1) | $(269.5) | $(73.0) | $53.4 |

SOURCE: Derived by the Finance Department from 2010 through 2014 audited financial statements. Totals may not add up exactly due to rounding.

(1) The general fund wrote off the $850,000 advance from the Sidewalk Assessment Fund because of the lack of cash in the fund for the year ended June 30, 2013.

(2) Non-departmental includes items such as payment of damage claims, self-insurance fund contributions and other expenses that are not allocated on a departmental basis.

(3) See “RETIREMENT SYSTEMS – Pension-Related Certificates of Participation.”

(4) The City has made transfers to certain enterprise funds for operating purposes. See “FINANCIAL OPERATIONS - Other Funds of the City - Enterprise Funds.”

(5) The Municipal Parking Fund received a $4.1 million transfer from the general fund for the year ended June 30, 2014 to eliminate the advance payable from the Parking Fund because of the inability to collect it.

(6) The Public Lighting Authority was incorporated by the City in January 2014.

**General Fund Revenue Categories**

The following is a description of the major General Fund revenue sources of the City.

***Municipal Income Taxes***

As authorized under Act 284, Public Acts of Michigan, 1964, as amended ("Act 284"), the City levies an income tax on income from all sources with minimum exemptions. Income tax revenue includes withholding, annual and quarterly payments. More than 80% of income tax actual collections are derived from withholding. The current tax rate is 2.4% for residents, 1.2% for non-residents and 2.0% for corporations. Municipal income tax revenues were $228.3 million in fiscal year 2011, $233.0 million in fiscal year 2012, $248.0 million in fiscal year 2013, $253.8 million in fiscal year 2014, and $255.0 million in fiscal year 2015 (projected results). The City's Financial Plan assumes income tax revenues will grow during the next four years, peaking at $264.3 million in fiscal year 2019. On the Effective Date, the City issued its $275,000,000 Financial Recovery Income Tax Revenue and Refunding Bonds, Series 2014 A/B (the "2014 Income Tax Bonds"), the payment of principal of and interest on is secured by a statutory lien and trust on City income tax revenues and a pledge of the City's full faith and credit. See "CURRENT FISCAL SITUATION – Effective Date Financings."

On January 5, 2015, the City and the Michigan Department of Treasury ("Treasury") entered into an Agreement to Administer the City Income Tax (the "Administration Agreement"). Pursuant to the Administration Agreement (a) beginning January 1, 2016, Treasury will process the City's individual income tax returns for the tax year beginning January 1, 2015, (b) beginning January 1, 2017, Treasury will process the City's corporate income tax returns, unincorporated business information returns, unincorporated business returns with an election to pay the tax under code section 18-10-6(c) and fiduciary income tax returns for tax years beginning on or after January 1, 2016, and (c) Treasury will process 2017 tax year employer returns and withholding payments due on employee compensation paid after December 1, 2016. The Administration Agreement has an initial ten year term and may only be terminated for cause during that initial period. Under the Administration Agreement, Treasury will provide the City compliance and enforcement services and conduct enforcement initiatives similar to the services and initiatives conducted for the State of Michigan. Treasury will remit income taxes collected pursuant to the Administration Agreement to the City Trust Indenture trustee daily.

***Property Taxes***

The City reports revenue from real and personal property taxes when measurable and available. Available is defined as "due and receivable within the current period, and collected within the current period or expected to be collected within sixty days thereafter."

As shown on Table 7 below, "State Equalized Valuations and Taxable Valuations," the City's Taxable Value (defined in "ASSESSED VALUATION AND PROPERTY TAXES - Property Valuation and Tax Rate" below) has decreased an average of 3.5% during each of the last five fiscal years ending June 30, 2015. Taxable valuations for Fiscal Year 2015 decreased 8.9% from Fiscal Year 2014.

Beginning March 1, 2004, the County began collection of the City's delinquent real property taxes. Act 246, Public Acts of Michigan, 2003, effective December 29, 2003, allows for the Treasurer of a city with a first class school district to return (transfer) all uncollected delinquent taxes levied on real property after December 31, 2004 to the County Treasurer on the March 1st immediately following the year in which the taxes are levied. In June 2004, the City began receiving annual payments from the County for the General Fund and the Debt Service Fund which represent 2003 and later real property taxes that had been turned over to the County as delinquent. Taxes which remain uncollected are ultimately charged to the City as an offset against future payments and are reserved in accordance with City management estimates. See "ASSESSED VALUATION AND PROPERTY TAXES - Tax Levies and Collections." Since 1994, the State Legislature has enacted various statutes pertaining to assessments and assessment procedures which changes have restricted the rate of growth on Taxable Value of property throughout the State. See "ASSESSED VALUATION AND PROPERTY TAXES."

***Utility Users Tax***

Act 100, Public Acts of Michigan, 1990 authorizes a city to levy a 5% excise tax on utility bills within the city (the "Utility Users Tax"). Act 56, Public Acts of Michigan, 2011, set the population limit on an eligible city at 600,000, effective January 1, 2011.

The Utility Users Tax has a long history of collections dating back to 1970. The Utility Users Tax is levied at 5% on electricity, gas, and local phone services. The utilities are responsible for collecting the Utility Users Tax from individual residential and commercial accounts. Taxes are collected monthly and the strong enforcement mechanisms are the same as for non-payment of the utility bill (i.e. shut-off). Delinquent amounts are subject to interest accruing at 0.5% per month and a penalty of 1% per month or fraction thereof, with the total penalty not to exceed 25% of the unpaid tax. The utilities' filing of regular tax returns, both annual and monthly interims, helps to further reinforce timely payments and monitoring of the Utility Users Tax.

The City recognizes Utility Users Tax revenues collected during the fiscal year and accrues cash received within 60 days of the fiscal year end, which is related to utility usage during the fiscal year. Utility Users' Tax revenues were $44.6 million in fiscal year 2011, $39.8 million in fiscal year 2012, $35.3 million in fiscal year 2013, $42.4 million in fiscal year 2014, and $29.5 million (projected results) in 2015. The Consensus Estimate projects revenues to decrease to $28.0 million Fiscal year 2016.

Consistent with Act 392, the City is required to direct $12.5 million of the Utility Users Tax to the PLA annually. Act 100 requires that all other Utility Users Tax revenues shall be used to hire and retain police officers.

***Wagering Taxes***

The City is authorized to levy a tax on the adjusted gross receipts of a gaming licensee under Initiated Law 1 of 1996, as amended by Act 306, Public Acts of Michigan, 2004 ("Act 306"). The current tax rate in effect is 10.9% for the casinos operating in Detroit. The City receives additional revenues from the casinos as specified in the casinos' operating agreements.

There currently are three casino licensees operating casinos in the City. As permitted by Act 69, Public Acts of Michigan, 1997 ("Act 69"), in November 1997 the City's voters approved the imposition of a local tax of 9.9% on adjusted gross receipts from casino operations ("AGR") in the City. Also pursuant to Act 69, the City has imposed a municipal service fee of 1.25% of AGR, or $4 million per licensee, whichever is greater, to pay for the provision of municipal services. Act 306 has resulted in an additional wagering tax of 1% of AGR for the City. Thus, the City currently collects a total of 10.9% on AGR as the wagering taxes in addition to such municipal service fee. Effective January 1, 2006, pursuant to an agreement with the three casinos in the City, an additional payment to the City of 1% of each casino's AGR was imposed on the casinos. Also pursuant to the same agreement, an additional payment to the City of 1% of AGR was imposed on casinos that achieve at least $400 million in annual AGR.

City revenues from gaming facilities (exclusive of municipal service fees) were $176.9 million in fiscal year 2011, $181.4 million in fiscal year 2012, $174.6 million in fiscal year 2013, $167.9 million in fiscal year 2014, and $168.2 million (projected results) in fiscal year 2015.

On November 3, 2009, voters in the State of Ohio approved a constitutional amendment to allow one casino within each of the cities of Cincinnati, Cleveland, Columbus and Toledo (the "Four Ohio Casinos"). The casinos in Cleveland and Toledo opened in May 2012. The Columbus casino opened in October 2012 and Cincinnati's casino opened in March 2013. The Toledo casino is located approximately 60 miles from downtown Detroit. Although Detroit's casino revenues did not decline to levels predicted by some, a decline of 3.8% was experienced FY 2014 over FY 2013 revenues, FY 2015 revenues are expected to increase slightly over FY 2014, and FY 2016 revenues are expected to increase slightly over FY 2015.

***Distributable State Aid (Revenue Sharing)***

The City receives revenue sharing payments from the State of Michigan under the State Constitution and the State Revenue Sharing Act of 1971, as amended. The revenue sharing payments are composed of two components – a constitutional distribution and a statutory distribution.

The constitutional distribution is mandated by the State Constitution and distributed on a per capita basis to townships, cities and villages. The amount of the constitutionally mandated revenue sharing component distributed to the City can vary depending on the population of the City and the receipt of sales tax revenues by the State.

The statutory distribution is authorized by legislative action and distribution is subject to annual State appropriation by the State Legislature. Statutory distributions may be reduced or delayed by Executive Order during any State fiscal year in which the Governor, with the approval of the State Legislature's appropriations committees, determines that actual revenues will be less than the revenue estimates on which appropriations were based.

On June 18, 2015, Governor Snyder signed into law the budget for fiscal year 2016. The budget continues the incentive-based revenue sharing program known as the City, Village, and Township Revenue Sharing (or "CVTRS") program begun in fiscal year 2015, similar to the Economic Vitality Incentive Program ("EVIP") that from fiscal year 2012 through fiscal year 2014 distributed revenue sharing to municipalities that complied with certain "best practices" such as increasing transparency. The fiscal year 2016 budget includes an increased constitutional revenue sharing distribution to cities, villages and townships of 3.1% from the fiscal year 2015 distribution to approximately $788,500,000. Under the fiscal year 2016 budget, approximately $243 million, a reduction of 2.3% from fiscal year 2015 amounts, has been appropriated for revenue sharing to cities, villages and townships that meet requirements for accountability and transparency, including making a citizen's guide to its finances, a performance dashboard, a debt service report and a two-year budget projection available for public viewing.

The fiscal year 2016 budget eliminates the one-time per capita payment distributed in fiscal year 2015, but continues, with a reduction from fiscal year 2015 amounts of $8 million to $5 million, the revenue sharing grant first distributed in fiscal year 2015 to financially distressed communities across Michigan, which the City did not receive any portion of. The City received $140.5 million in CVTRS in Fiscal Year 2015 (projected results) and expects to receive $140.5 in Fiscal Year 2016. Any future portion of the CVTRS payment that the City would be eligible to receive would be subject to certain benchmarks that the City would need to meet, and there can be no assurance of what amount, if any, the City would receive under the CVTRS program.

As permitted by State law, from time to time the City has secured certain debt obligations with a pledge of its Distributable State Aid, such as its $249,000,000 Distributable State Aid General Obligation Limited Tax Bonds, Series 2010 (the "2010 Senior Bonds"), which are secured by a statutory first priority lien on Distributable State Aid, and its $100,000,000 Distributable State Aid Second Lien Bonds (Unlimited Tax General Obligation), Series 2010(A) (the "2010(A) Second Lien Bonds"), which are secured by the unlimited tax full faith and credit of the City and are additional secured by and payable from a second lien on Distributable State Aid. The City's $38,865,000 Self-Insurance Distributable State Aid Third Lien Bonds (Limited Tax General Obligation), Series 2012(A2), its $30,730,000 Self-Insurance Distributable State Aid Third Lien Refunding Bonds (Limited Tax General Obligation), Series 2012(B2), its $6,405,000 General Obligation Distributable State Aid Third Lien Capital Improvement Refunding Bonds (Limited Tax), Series 2012(B) and its $53,520,000 Self-Insurance Distributable State Aid Third Lien Bonds (Limited Tax General Obligation), Series 2012(A2-B) (the "2012A/B Third Lien Bonds") also are secured by and payable from Distributable State Aid received or to be received by the City, on a third lien basis to the statutory first lien on Distributable State Aid pledged for the payment of the 2010 Senior Bonds and subordinate to the pledge of Distributable State Aid for the City's 2010(A) Second Lien Bonds. The City's $287,560,790 Distributable State Aid Fourth Lien Restructured Bonds (Unlimited Tax General Obligation), Series 2014 (the "2014 UTGO Bonds") are also secured by and payable from Distributable State Aid received or to be received by the City on a fourth lien basis to the statutory first lien on Distributable State Aid pledged for the payment of the 2010 Senior Bonds, the statutory second lien on Distributable State Aid for the payment of the 2010 (A) Second Lien Bonds and the statutory third lien on Distributable State Aid pledged for the repayment of the 2012A/B Third Lien Bonds. The 2010 Senior Bonds, the 2010(A) Second Lien Bonds, the 2012 A/B Third Lien Bonds and the 2014 UTGO Bonds are collectively called the "DSA Secured Obligations. "See "INDEBTEDNESS OF THE CITY AND RELATED ENTITIES."

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The table below shows actual Distributable State Aid payments allocated to the City during State fiscal years 2011 through 2015, and projected payments for fiscal year 2016.

**Table 4 – Distributable State Aid**

| | 2011 | 2012 | 2013 | 2014 | 2015* | 2016* |
|---|---|---|---|---|---|---|
| Revenue sharing | | | | | | |
| Sales tax-Constitutional Distribution | $ 48.1 | $51.1 | $52.2 | $53.5 | $55.0 | $56.7 |
| Sales tax-Statutory Distribution | 192.1 | 121.4 | 130.0 | 136.3 | 140.5 | 140.5 |
| Total State revenue sharing | $240.2 | $172.5 | $182.3 | $189.8 | $195.4 | $197.2 |

SOURCES:
2011 – 2014 actual data: Michigan Department of Treasury Finance Department, Bimonthly Estimated Payments for Local Governments; https://treas-secure.state.mi.us/apps/findrevshareinfo.asp.
* Estimated amounts.

In connection with the issuance by the City of its Distributable State Aid Fourth Lien Restructured Bonds (Unlimited Tax General Obligation), Series 2014 Bonds, the City, the State Treasurer, the Michigan Finance Authority and the U.S. Bank National Association, as Master Trustee (the "Master Trustee") amended an Agreement to Deposit Distributable State Aid, effective on December 10, 2014, (the "Distributable State Aid Agreement"), whereby the State Treasurer agreed to provide for the deposit of Distributable State Aid payments directly into accounts held by the Master Trustee and agreed that, so long as the DSA Secured Obligations are outstanding, if future installments of Distributable State Aid due the City are delayed or withheld, the State Treasurer shall not delay or withhold deposit with the Trustee of any portions of the City's Distributable State Aid necessary to meet the City's set-aside obligations on debt service for the DSA Secured Obligations to the extent such Distributable State Aid is due and owing to the City and unless required to do so by applicable law.

***Sales and Charges for Services***

Receipts for sales and charges for services include such items as maintenance and construction charges, electrical fees, recreation fees, property tax collection fees and personal service fees. Receipts for sales and charges were $154.9 million for fiscal year 2011, $149.2 million for fiscal year 2012, $138.6 million for fiscal year 2013, $157.4 million for fiscal year 2014, and $79.8 million (projected results) for fiscal year 2015.

***Other Revenue, Grants and Other Financing Sources***

Other revenue and other financing sources generally consist of fines, inspection fees, interest on investments, real estate rentals, sales of property and transfers.

General Fund expenditures include the federal share of the cost of services for personnel employed in various General Fund agencies, Community Development Block Grants, and a small amount under the Job Training Partnership Act fund the federal share.

The grants listed under "Other Grants" (which are usually for health-related activities or community development projects) are generally received on a drawdown basis. Increases or decreases in expenditures would not have a direct effect on fund balances, since revenues would likewise be increased or decreased. The annual budget contains the full amount of an expected grant even though total expenditures may not be realized.

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The following table compares budgeted and actual revenues and expenditures for certain major General Fund categories for fiscal years 2011 through 2014. Also included are the estimated amounts for fiscal year 2015 and fiscal year 2016.

**Table 5 – Comparison of Major Budget Classifications-General Fund**

| | 2011 | | 2012 | | 2013 | | 2014 | | 2015 | 2016 |
|---|---|---|---|---|---|---|---|---|---|---|
| Category | Budget | Actual | Budget | Actual | Budget | Actual | Budget | Actual | Budget | Budget |
| **Revenues** | | | | | | | | | | |
| Property tax ... | 147.9 | 182.7 | 137.8 | 147.8 | 124.3 | 132.8 | 117.4 | 129.4 | 102.6 | 100.8 |
| Municipal income tax ... | 215.0 | 228.3 | 250.0 | 233.0 | 228.0 | 248.0 | 275.8 | 253.8 | 264.8 | 268.4 |
| State revenue sharing ... | 233.4 | 239.3 | 165.6 | 172.7 | 171.8 | 182.5 | 183.7 | 189.8 | 195.3 | 197.4 |
| Utility Users Tax ... | 50.0 | 44.6 | 42.0 | 39.8 | 42.0 | 35.3 | 34.3 | 42.4 | 17.0 | 15.9 |
| Wagering taxes ... | 173.4 | 176.9 | 197.8 | 181.4 | 171.0 | 174.6 | 170.0 | 167.9 | 168.2 | 169.0 |
| State equity grant ... | - | - | - | - | - | - | - | - | - | - |
| Total ... | 819.7 | 871.8 | 793.2 | 774.7 | 737.1 | 773.2 | 781.2 | 783.3 | 747.8 | 751.5 |
| Total General Fund Revenues and Other Financing Sources ... | 1,384.2 | 1,229.2 | 1,299.3 | 1,111.3 | 1,187.4 | 1,196.1 | 1,033.9 | 1,239.2 | 1,356.9 | 1,067.8 |
| % of Total General Fund") | 59.2% | 70.9% | 61.0% | 69.7% | 62.1% | 64.6% | 75.6% | 63.2% | 55.1% | 70.4% |
| **Expenditures** | | | | | | | | | | |
| Police ... | 404.7 | 448.0 | 403.7 | 397.0 | 338.4 | 280.7 | 368.9 | 272.0 | 283.3 | 310.1 |
| Department of Public Works ... | 5.3 | 11.6 | 4.4 | 10.5 | 2.2 | 8.0 | 1.9 | 0.7 | 1.4 | 1.5 |
| Fire ... | 173.2 | 191.0 | 183.4 | 185.0 | 160.0 | 130.0 | 176.8 | 116.7 | 107.5 | 142.5 |
| Public Lighting ... | 53.5 | 60.4 | 53.2 | 60.6 | 56.7 | 60.3 | 56.9 | 58.9 | 41.2 | 38.8 |
| Recreation ... | 21.6 | 18.2 | 19.2 | 17.0 | 12.1 | 13.1 | 12.2 | 16.0 | 15.9 | 19.5 |
| Total ... | 658.3 | 729.2 | 664.0 | 670.1 | 557.2 | 492.1 | 616.7 | 464.3 | 449.3 | 512.4 |
| Total General Fund Expenditures and Other Financing Uses ... | 1,384.2 | 1,286.1 | 1,299.3 | 1,232.9 | 1,187.4 | 999.6 | 1,033.9 | 1,112.9 | 1,356.9 | 1,067.8 |
| % of Total General Fund" ... | 47.6% | 56.7% | 51.1% | 54.4% | 47.9% | 49.2% | 59.6% | 41.7% | 33.1% | 48.0% |

SOURCE: Budget Department and Finance Department.

(1) % of Total General Fund is the total of Revenues divided by Total General Fund Revenues and Other Financing Sources. This is the same for Expenditures % of Total General Fund.

**City Two-Year Budget Summary (FY 16 and FY 17)**

The following table shows a summary of the City's FY 2016 and FY 2017 Budget.

**Two-Year Budget Summary**
*$ in actuals*

| | Budget | | | |
|---|---|---|---|---|
| | FY16[1] | | FY17[2] | |
| **Estimated Beginning GF Surplus / (Deficit)** | | - | | - |
| **Budget Activity** | | | | |
| GF Revenues | $ | 1,018,863,832 | $ | 1,055,412,427 |
| GF Appropriations | $ | (1,067,848,037) | $ | (1,055,412,427) |
| Budget Reserve | $ | 48,984,205 | | - |
| **Net Annual Surplus/(Deficit)** | | - | | - |
| **Projected FY15 Ending Surplus/(Deficit)** | | - | | - |
| | | | | |
| **Budget Reserve** | **FY16** | | **FY17** | |
| Beginning Balance | $ | 111,264,397 | $ | 62,280,192 |
| Transfers In / (Out) | $ | (48,984,205) | | - |
| **Ending Balance** | **$** | **62,280,192** | **$** | **62,280,192** |
| ***Memo: Minimum Balance (5% of appropriations)*** | ***$*** | ***53,392,402*** | ***$*** | ***52,770,621*** |
| ***Cushion above 5%*** | ***$*** | ***8,887,790*** | ***$*** | ***9,509,571*** |

(1) Source: Emergency Manager Two-year Budget
(2) Source: Four-Year Financial Plan

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## RECENT FISCAL SITUATION

On July 18, 2013, Emergency Manager Kevyn Orr filed a petition for relief under chapter 9 of the United States Bankruptcy Code on behalf of the City in the U.S. Bankruptcy Court for the Eastern District of Michigan ("Bankruptcy Court"). Pursuant to multiple settlement agreements with certain City creditors, and the City's Plan of Adjustment, as defined earlier, the City has implemented a massive realignment of City debt and operations. See "CURRENT FISCAL SITUATION – Bankruptcy."

The City's largest revenue streams (Distributable State Aid, municipal income taxes, property taxes and wagering taxes) are each susceptible, in varying degrees, to downturns in the economy and increasing levels of unemployment.

In recent prior Fiscal Years, significant uncertainties have arisen in the economic environment that had and will continue to affect the City. Recessionary conditions at the City, State, national and global levels have increased the risk to provide the current level of funding in support of daily operations and services historically offered by the City. The City and State, in general, have suffered from increased unemployment rates, depressed personal incomes, a rising level of mortgage delinquencies, continued contraction in the automotive industry and persistent softness in the regional housing market. Locally and throughout the State, the economic conditions remain recessionary. As a result of the recessionary economic environment, the City continues to be challenged by unprecedented unemployment levels leading to continued reductions in personal income tax revenues. Higher resident home foreclosures and delinquent property tax levels represent another sign of financial concern.

### Bankruptcy

On July 18, 2013, in accordance with Act 436 and the approval of the Governor, the Emergency Manager filed on behalf of the City a petition for relief pursuant to Chapter 9 of title 11 of the United States Code, 11 U.S.C. Sections 101-1532 in the United States Bankruptcy Court for the Eastern District of Michigan. The Emergency Manager filed the Plan of Adjustment on behalf of the City in the Bankruptcy Court to provide for the adjustment of the debts of the City pursuant to and in accordance with Chapter 9 of the Bankruptcy Code. The Bankruptcy Court entered an Eligibility Order on December 5, 2013.

The Bankruptcy Court confirmed the Plan of Adjustment issuing an oral ruling on November 7, 2014. The Confirmation Order was entered by the Bankruptcy Court on November 12, 2014. The Plan of Adjustment comprises a series of settlements with parties in interest as more fully set forth in the Confirmation Order. The Confirmation Order provided that, as of December 10, 2014 (the "Effective Date"), and except as otherwise provided in the Confirmation Order or the Plan of Adjustment, all debts of the City were discharged, and such discharge voided any judgment obtained against the City at any time, to the extent that such judgment relates to a discharged debt. Additionally, on the Effective Date, all entities that were or may have been holders of Claims against the City, among others, were permanently enjoined from taking actions against or affecting the City or its property, among others, with respect to such Claims, as more delineated in the Confirmation Order.

Eight timely appeals of the Confirmation Order were filed and docketed in the United States District Court for the Eastern District of Michigan (one of which has been dismissed on procedural grounds). Seven appeals remain pending. Six of the pending appeals of the Confirmation Order arise from the Plan's treatment of Pension and OPEB Claims and the ASF Recoupment program and are identified by the following case numbers: (1) No. 14-14872, (2) No. 14-14910, (3) No. 14-14917, (4) No. 14-14920, (5) No. 15-10036 and (6) No. 14-14899. The seventh pending appeal (No. 14-14919) concerns the unrelated issue of the Plan's treatment of claims arising under 42 U.S.C. § 1983. The Confirmation Order was not stayed pending any of the appeals, including the Pending Confirmation Order Appeals, and remains in full force and effect.

The provisions of the Plan of Adjustment are intended to alleviate many of the City's most significant financial problems. However, there can be no assurance that the City will not file another bankruptcy petition in the future pursuant to Chapter 9 of the Bankruptcy Code.

### Exit from Bankruptcy

#### *Effect of Plan of Adjustment on City General Fund Obligations*

The following table depicts the City's pre- and post-bankruptcy General Fund debt obligations:

| | Pre-Petition Balance | Reduction of Claim $ | Reduction of Claim % | Cash Distributions for Claim | Pro Forma Obligation[1] |
|---|---|---|---|---|---|
| Debt Obligations | | | | | |
| COPs Swap | $290 [2] | ($205) | 71% | $(85) | $- |
| COPs | 1,473 | (1,287) | 87% | - | 186 [3] |
| HUD Notes | 90 | - | - | - | 90 |
| UTGO (2010-A DSA)[4] | 100 | - | - | (2) [5] | 98 |
| UTGO (Pre-Petition Non DSA) | 388 | (57) | 15% | - | 331 [6] |
| LTGO (2010 & 2012-C DSA)[4] | 379 | - | - | (11) [5] | 369 |
| LTGO (Non DSA) | 164 | (92) | 56% | (55) | 17 |
| Downtown Development Authority Claim | 34 | (30) | 89% | - | 4 [7] |
| Other Unsecured Liabilities | 156 | (140) | 87% | - | 21 |
| Exit Financing | - | - | - | - | 275 |
| **Total Debt Obligations** | **$3,074** | **($1,807)** | **59%** | **($153)** | **$1,390** |
| Retiree Obligations | | | | | |
| Pension | $3,129 | ($1,682) | 54% | - | $1,447 [8] |
| OPEB | 4,303 | (3,790) | 88% | (20) | 493 |
| **Total Retiree Obligations** | **$7,432** | **($5,472)** | **74%** | **($20)** | **$1,940** |
| **Total Obligations** | **$10,506** | **($7,279)** | **69%** | **($173)** | **$3,330** |

Note: Capitalization table was prepared in accordance with the Plan of Adjustment and will differ from amounts in the CAFR due to timing and GASB accounting differences. Totals may not add due to rounding.
Source: City of Detroit Plan of Adjustment

(1) Funded obligation amounts represented face value of obligations.
(2) Claim amount as of settlement date April 15, 2014.
(3) Portion of Financial Recovery Bonds, Series 2014B and Financial Recovery Bonds, Series 2014.
(4) Secured by Distributable State Aid.
(5) Reflected November 1, 2014 principal payment of $1.9 million for UTGO DSA 2010-A, $6.5 million for LTGO DSA 2010 and $4.3 million for LTGO DSA 2012-C.
(6) $287.6 million of post emergence UTGO debt secured by Distributable State Aid. Included the Stub UTGO Bonds.
(7) The DDA assigned its right to receive a portion of the Financial Recovery Bonds, Series 2104B to FGIC.
(8) Pro forma pension UAAL of $1,447 million per Milliman letters for GRS ($894 million) dated April 25, 2014 and PFRS ($553 million) dated April 23, 2014.

### *Plan of Adjustment Implementation*

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

**Retiree Health Benefits**

Pursuant to the comprehensive settlement of pension, healthcare and other labor-related issues that the City entered into with employee and retiree representatives that is set forth in the Plan (the "Global Retiree Settlement"), two voluntary employee beneficiary associations ("VEBAs") have been established pursuant to Section II.B.3.s.ii of the Plan of Adjustment to assume the responsibility for providing healthcare benefits to City retirees who retired on or before December 31, 2014 ("Retiree Welfare Benefits"). The trustees of the VEBAs assumed day-to-day responsibility for providing benefits beginning on April 1, 2015 and have monetized its share of Financial Recovery Bonds, Series 2014 B(1) and Series B(2) (collectively, the "B Notes") by entering into a repurchase agreement with Citi Bank in the amount of $25 million for each VEBA to provide funds to pay the costs of retiree health care for the next two years.

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

**Syncora Settlement**

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

**FGIC Settlement**

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

**Settlement Credits**

On the Effective Date, pursuant to the Syncora Settlement and the FGIC/POC Settlement, the City transferred settlement credits to a trustee (on behalf of Syncora and FGIC) in the aggregate amount of $25.0 million that may be applied to 50% of the purchase price of certain eligible City assets, subject to the terms and conditions of those settlement credits.

**Implementation of Restructuring and Reinvestment Initiatives**

The City began implementation of a ten-year $1.7 billion program of reinvestment and revitalization initiatives contemplated in, and made possible by confirmation of, the Plan of Adjustment. The reinvestment and revitalization initiatives provide funds for (a) public safety equipment, facilities and services; (b) blight remediation; (c) upgrades to City infrastructure, operations, and information technology; and (d) public transportation improvements. The DIP Financing and the 2014 Income Tax Bonds provided or are providing funding for $206 million of these initiatives, as described in the following chart.

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**City of Detroit**
Exit Financing Update - By Major Category
*As of July 27, 2015*

| | Exit Financing | | | | | |
|---|---|---|---|---|---|---|
| | Allocated Funding | | | | Total | |
| | Spent | | Unspent | | | |
| **Spend Category** | **Operating** | **Capital** | **Operating** | **Capital** | **Operating** | **Capital** |
| Equipment - Capital | $ - | $ (1.2) | $ - | $ (1.9) | $ - | $ (3.0) |
| Facilities - Capital | (2.5) | (5.9) | (0.5) | (3.2) | (3.0) | (9.1) |
| Fleet | - | (13.0) | - | (11.3) | - | (24.3) |
| Information Technology | (8.2) | (14.1) | (5.9) | (18.6) | (14.1) | (32.7) |
| Labor | (9.2) | (0.2) | (11.4) | - | (20.6) | (0.2) |
| Materials & Supplies | (15.5) | (0.0) | (1.0) | (0.9) | (16.5) | (0.9) |
| Other Infrastructure - Capital | (3.0) | (2.5) | (0.0) | (1.4) | (3.0) | (3.8) |
| Purchased Services | (1.9) | - | (13.0) | - | (14.9) | - |
| Reorganization | (3.3) | - | (5.0) | - | (8.3) | - |
| Training | (0.2) | - | (1.4) | - | (1.6) | - |
| Other | (1.3) | (1.4) | - | - | (1.3) | (1.4) |
| **Grand Total** | **$ (45.2)** | **$ (38.3)** | **$ (38.0)** | **$ (37.3)** | **$ (83.3)** | **$ (75.6)** |
| | | | | **Remaining Funds Available** | (3.1) | (43.7) |
| | | | | **Total Exit Financing** | **$ (86.4)** | **$ (119.3)** |

## Great Lakes Water Authority

On September 9, 2014, the Emergency Manager and the Mayor for the City executed a Memorandum of Understanding (the "MOU") regarding the Formation of the Great Lakes Water Authority ("GLWA") with the county executives of the Counties of Macomb, Oakland and Wayne (the "Counties") and the Governor of the State of Michigan, establishing a framework for the creation of a regional water and sewer/stormwater authority.

On November 26, 2014, GLWA was incorporated by the City and the Counties by approval of the GLWA Articles of Incorporation pursuant to Act No. 233, Public Acts of Michigan, 1955, as amended ("Act 233") for the purpose of acquiring, owning, leasing, improving, enlarging, extending, financing, refinancing and operating the portion of the Water Supply System that provides service to the wholesale customers thereof and to the Retail Water Customers (as defined in the Water and Sewer Services Agreement) up to the point of connection to the Local Water System (the "Regional Water Supply System") and the portion of the Sewage Disposal System that provides service to the wholesale customers thereof and the Retail Sewer Customers (as defined the Water and Sewer Services Agreement) up to the point of connection to the Local Sewer System (the "Regional Sewage Disposal System," and together with the Regional Water Supply System, the "Regional Systems") pursuant to those certain leases dated June 12, 2015 between the City and GLWA (as more fully described below)(the "Leases"), and a certain agreement dated June 12, 2015 for the provision by GLWA of Water Supply and Sewage Disposal Services to City Retail Customers (as defined below)(the "Water and Sewer Services Agreement"). The Water and Sewer Services

Agreement and the Leases will become effective upon the occurrence of certain conditions precedent. Professionals have been hired to assist in all aspects of the transition and currently are preparing documents related to bondholder consents to the transfer and assumption of outstanding City water and sewer bonds by the GLWA and the issuance of GLWA bonds.

**New Financial Management System**

The City has begun a process to replace its old DRMS (Detroit Resource Management System) system. This process is referred to internally as "Fast Track" and will result in the implementation of modern ERP and HRIS systems. These systems are cloud based (hosted environments where software is purchased as a service). See "FINANCIAL PROCEDURES – Accounting System."

**Effective Date Financings**

On the Effective Date, the City issued approximately $1.3 billion of debt, inclusive of the 2014 Income Tax Bonds that is subject to the current reoffering. Certain bonds (the City's 2014 UTGO Bonds, and the 2014 Income Tax Bonds) were sold to the Michigan Finance Authority (MFA). The MFA then issued bonds secured by the City's bonds. This debt and uses of the proceeds are summarized and described below.

| Debt Issued | Amount |
|---|---|
| Financial Recovery Bonds, Series 2014B(1) (Federally Taxable) | $ 616,560,047 |
| Financial Recovery Bonds, Series 2014B(2) (Federally Taxable) | 15,404,098 |
| Financial Recovery Bonds, Series 2014C (Federally Taxable) | 88,430,021 |
| Financial Recovery Income Tax Revenue and Refunding Bonds, Series 2014A | 134,725,000 |
| Financial Recovery Income Tax Revenue and Refunding Bonds, Series 2014B | 140,275,000* |
| Distributable State Aid Fourth Lien Restructured Bonds (Unlimited Tax General Obligation), Series 2014 A1 – 2014K2 | 287,560,790 |
| **Total Debt Issued** | $1,282,954,956 |

* $110,275,000 outstanding due to a $30 million redemption of the 2014 Income Tax Bonds, Series 2014B before the reoffering date.
See Table 14 in the section "INDEBTEDNESS OF THE CITY" for full amount of direct debt of the City.

***Financial Recovery Bonds, Series 2014 B(1) and B(2)***

The Financial Recovery Bonds, Series 2014 B(1) and Series B(2) (collectively, the "B Notes") total $616,560,047 and $15,404,098, respectively. They are federally taxable. The bonds' interest rate is 4.0% per annum from the Effective Date to and including March 31, 2034 and 6% per annum thereafter until the maturity date of April 1, 2044. The City has pledged to pay the principal of and interest on the B Notes from the funds of the City legally available therefor as a first budget obligation of the City, including proceeds of an annual levy of ad valorem taxes on all taxable property in the City, subject to applicable constitutional, statutory and charter tax rate limitations. DWSD will be responsible for its allocable share of the B Notes consistent with prior years' formulas for allocation of COP liabilities. These amounts will be payable after and subordinate to the payment of debt service on all bonded indebtedness of the Water Supply System and Sewage Disposal System and replenishment of the debt service reserve funds relating to that indebtedness.

The bonds were delivered to classes of creditors in satisfaction of: (1) Class 12 OPEB Claims (the bonds were distributed to the VEBAs for the general retirees and police and fire retirees; (2) Class 9 Pension Obligation Certificate (POC) claims; and (3) other unsecured bankruptcy claims. The distribution of the 2014 B(1) and B(2) Bonds is detailed in the table below.

| Use | | Series B(1) | | Series B(2) | | Total |
|---|---|---|---|---|---|---|
| GRS VEBA | $ | 233,414,249 | $ | 5,365,910 | $ | 238,780,159 |
| PFRS VEBA | | 248,245,662 | | 5,655,337 | | 253,900,999 |
| LTGO Class 9 Settlement | | 13,138,835 | | 4,163,026 | | 17,301,861 |
| Class 14 Other Unsecured Claims | | 20,376,922 | | 219,825 | | 20,596,747 |
| FGIC Settlement DDA Recovery | | 3,691,591 | | - | | 3,691,591 |
| POC Settlement with Syncora | | 23,500,000 | | - | | 23,500,000 |
| POC Settlement with FGIC | | 74,192,788 | | - | | 74,192,788 |
| Total | $ | 616,560,047 | $ | 15,404,098 | $ | 631,964,145 |

***Financial Recovery Bonds, Series 2014C***

The Financial Recovery Bonds, Series 2014 C (the "C Notes") were issued in the principal amount of $88,430,021, of which $85,343,547 remain outstanding as of the date hereof. The C Notes bear interest at a rate of 5% per annum. The bonds mature on December 10, 2026. The C Notes are unsecured but City revenues from certain City parking garages will be used to pay the required debt service. If the parking garage revenues are insufficient to pay the debt service on the C Notes when due, then the City's General Fund will be used to pay the necessary debt service funds as a first budget obligation of the City from the proceeds of an annual levy of ad valorem taxes on all taxable property in the City, subject to applicable constitutional, statutory and charter tax rate limitations. DWSD will be responsible for its allocable share of the C Notes consistent with prior years' formulas for allocation of COP liabilities. These amounts will be payable after and subordinate to the payment of debt service on all bonded indebtedness of the Water Supply System and Sewage Disposal System and replenishment of the debt service reserve funds relating to that indebtedness.

The C Notes were issued as part of the Syncora Settlement and FGIC/POC Settlement in the Plan, and on the Effective Date, the bonds were distributed to Wilmington Trust, as trustee for the claimants of certain settlements, as follows:

| **Purpose** | **Amount** |
|---|---|
| POC Settlement with Syncora | $21,271,804 |
| POC Settlement with FGIC | 67,158,217 |
| **Total** | $88,430,021 |

***Distributable State Aid Fourth Lien Restructured Bonds (Unlimited Tax General Obligation), Series 2014 A1-2014 K2***

The City's 2014 UTGO Bonds were issued in the aggregate principal amount of $287,560,790, of which $256,355,000 remains outstanding, and are payable primarily from the City's unlimited tax annual debt millage levy. If the debt millage is insufficient, then the City's distributable state aid and General Fund will be required to make up any deficiency. The 2014 UTGO Bonds were issued to restructure $287,560,790 of the original unlimited tax general obligation ("UTGO") bonds outstanding before the Effective Date. That portion of the UTGO debt has been restructured by the issuance and delivery to the Michigan Finance Authority (the "MFA") of 22 series of new City bonds, each corresponding to an equivalent principal amount of the eleven series of original, prepetition UTGO bonds, with the same interest rate, maturity and redemption provisions as the original UTGO bonds. On the Effective Date, $279,618,950 of the MFA bonds were delivered to the original UTGO bondholders and $7,941,840 of the MFA bonds were delivered to the UTGO bond insurers.

The $287,560,790 principal amount of the original UTGO bonds, which were restructured as described above, were cancelled and discharged. $38,645,000 of the original UTGO bonds remain outstanding ("Stub"). The Plan of Adjustment assigned the City's collections of the debt service millage for the remaining UTGO Stub bonds primarily to the income stabilization funds, as part of the City's original General Retirement (GRS) and Police and Fire Retirement (PFRS) systems, for additional distribution to those retirees who meet certain income eligibility criteria established, pursuant to the Plan. The insurers remain responsible for the payment of debt service to the original bondholders on the remaining $38.6 million UTGO Stub Bonds, as part of the Class 8 UTGO Settlement and in accordance with the Plan of Adjustment.

### *Water and Sewer Revenue Bonds*

On August 21, 2014, the Board of Water Commissioners of DWSD accepted revenue bond tender offers of $752,450,000 for the Water Supply System and $715,220,000 for the Sewage Disposal System. DWSD through the City issued its Water Supply System Revenue Refunding Bonds, Series 2014D bonds in the amount of $854,850,000 as a conduit financing through the Michigan Finance Authority. The net present value savings from this transaction was $57 million. Sewage Disposal System Revenue Refunding Bonds, Series 2014C in the amount of $785,170,000 were issued as a conduit financing through the Michigan Finance Authority in addition to new revenue bonds of $150,690,000. The net present value savings from the refunding transaction was $53.1 million. No water supply system or sewage disposal system bonds were impaired under the Plan of Adjustment.

## Recent Cash Flow Borrowings

Pursuant to Section 36a of Act 279, Section 12(1)(u) of Act 436, and Sections 364(c), 503, and 507(a)(2), of the Bankruptcy Code, the City issued its Financial Recovery Bonds, Series 2014, in the aggregate principal amount of $120,000,000, on April 8, 2014, for the purpose of providing debtor in possession financing of certain quality of life projects within the City (the "DIP Financing Bonds"). The DIP Financing Bonds were issued and sold to Barclay's Capital Incorporated. A portion of the proceeds from the City's 2014 Income Tax Bonds refunded the DIP Financing Bonds in full.

## Compliance with Certain Finance Related Legal and Contractual Obligations

The fiscal year 2015 budget included a $60.3 million subsidy to the Department of Transportation which is projected to remain in the $60.2 million to $63.3 million range through fiscal year 2017, and a $665,064 subsidy to the Airport which is projected to increase to $666,053 in fiscal year 2016 and $675,433 in fiscal year 2017.

In fiscal years 2015 and 2016, the Detroit Zoological Society is budgeted to receive $570,000 for insurance and security pursuant to its operating agreement with the City, the Charles H. Wright Museum of African American History is budgeted to receive a $1.9 million subsidy, the Detroit Historical Society is budgeted to receive an operational subsidy of $500,000, and the Detroit Eastern Market is budgeted to receive an operational subsidy of $165,200.

## Risk Management

The City is self-insured with respect to property damage, liability risks and workers' compensation claims. The City has contracted with a third-party administrator to process claims made against the City. The City assumes the risk for loss exposures, using generally accepted standards with regard to self-assumption of risk. Provisions are made for assumed losses by a combination of annual budgetary appropriations and liquid reserve funds. Insurance has been obtained for catastrophic loss exposures when insurance has been a feasible alternative. Contract liability losses and tort and negligence liability losses are covered by a combination of a Public Liability Reserve Fund and a Risk Management Fund. The City has previously issued self-insurance bonds to provide funds to make loss payments.

The following schedule indicates the amounts paid from appropriations for the fiscal years ended June 30, 2010 through 2014. The schedule reflects both General Fund and Transportation Fund payments. As discussed under "FINANCIAL OPERATIONS – Other Funds of the City – Enterprise Funds," the General Fund has typically made substantial transfers to the Transportation Fund, in part to cover liability claims payable from that fund.

**Table 6 – Liability Claim Expenses**

| | Fiscal Year Ended June 30 | | | | |
|---|---|---|---|---|---|
| | 2010 | 2011 | 2012 | 2013 | 2014 |
| Damage, liability and vehicle claims ……….……………….. | $39,719,607 | $47,996,529 | $24,704,069 | $29,883,679 | ($320,662)* |
| Worker compensation claims .. | 10,613,168 | 15,355,642 | 14,445,611 | 11,896,149 | 8,272,780 |
| Total ................................... | $50,332,775 | $63,352,171 | $39,149,680 | $41,779,828 | $7,952,118 |

SOURCE: Finance Department Risk Management Fund.
* Liability claim expenses in Fiscal Year 2014 for damage, liability and vehicle claims are negative due to the effect of the automatic stay during bankruptcy and a decrease in the litigation reserve from Fiscal Year 2013 to Fiscal Year 2014.

## ASSESSED VALUATION AND PROPERTY TAXES

### Property Valuation and Tax Rate

Article IX, Section 3, of the Michigan Constitution provides that the proportion of true cash value at which property shall be assessed shall not exceed 50% of true cash value. The Michigan Legislature, by statute, has provided that property shall be assessed at 50% of its true cash value. The Michigan Legislature or the electorate may at some future time reduce the percentage below 50% of true cash value.

On March 15, 1994, the electors of the State approved an amendment to the Michigan Constitution permitting the Legislature to authorize *ad valorem* taxes on a non-uniform basis. The legislation implementing this constitutional amendment added a new measure of property value known as "Taxable Value." Since 1995, taxable property has had two valuations - State Equalized Valuation ("SEV") and Taxable Value. Property taxes are levied on Taxable Value. Generally, Taxable Value of property is the lesser of (a) the Taxable Value of the property in the immediately preceding year, adjusted for losses, multiplied by the least of the net percentage change in the property's SEV, or the inflation rate, or 5%, plus additions, or (b) the property's current SEV. Therefore, the Taxable Value of property is likely to be lower than the same property's SEV.

This constitutional amendment and the implementing legislation based the Taxable Value of existing property for the year 1995 on the SEV of that property in 1994. Beginning with the taxes levied in 1995, an increase, if any, in Taxable Value of existing property is limited to the lesser of the percentage net change in SEV from the preceding year to the current year, 5% or the inflation rate. When property is sold or transferred, Taxable Value is adjusted to the SEV, which under existing law is 50% of the current true cash value. The Taxable Value of new construction is equal to current SEV. Taxable Value and SEV of existing property are also adjusted annually for additions and losses.

Responsibility for assessing taxable property rests with the City Assessor. Any property owner may appeal the assessment to the City Assessor, the Board of Review and ultimately to the Michigan Tax Tribunal.

The Michigan Constitution also mandates a system of equalization for assessments. Although the City Assessor is responsible for actually assessing at 50% of true cash value, adjusted for Taxable Value purposes, the final SEV and Taxable Value are arrived at through several steps. The City Assessor establishes assessments initially. City assessments are then equalized to the 50% levels as determined by the County's department of equalization. Thereafter, the State equalizes the various counties in relation to each other. SEV is important, aside from its use in determining Taxable Value of real estate for the purpose of levying *ad valorem* property taxes, because of its indirect measure of total true cash value contained in the City, its role in the spreading of taxes between overlapping jurisdictions, the distribution of various State aid programs, distribution of State revenue sharing and the calculation of debt limits. Real and personal property that is exempt from property taxes, e.g., churches, government property and public schools, is not included in the SEV and Taxable Value. Property granted tax abatements under Act 198, Public Acts of Michigan, 1974, as amended ("Act 198"), is recorded on separate tax rolls while subject to tax abatement. The valuation of tax-abated property is based upon SEV but is not included in either the SEV or Taxable Value data in the Reoffering Circular except as noted. The assessments of, and the tax levies on abated properties are not reflected in Table 9, "Tax Rates and Levies," below.

The City completed reassessments for some neighborhoods for FY 2015, resulting in a decline of residential taxable values of approximately 20.5% between FY 2014 and FY 2015. The City has also contracted with a third party to perform a reappraisal study of all property within the City, which is anticipated to take three to five years, and will likely result in further reductions in the taxable value of property in FY 2020. The value of residential property is expected to stabilize after the reappraisal study is complete.

**Industrial Facilities Tax**

Act 198 provides significant property tax incentives to industry to renovate and expand aging industrial facilities and to build new industrial facilities in Michigan. Land receives no abatement. Under the provisions of Act 198, qualifying cities, villages and townships may establish districts in which industrial firms are offered certain property tax incentives to encourage restoration or replacement of obsolete industrial facilities and to attract new industrial facilities.

Property owners situated in such districts pay an Industrial Facilities Tax ("IFT") in lieu of *ad valorem* property taxes on plant and equipment for a period of up to twelve years. For rehabilitated plant and equipment, the IFT is determined by calculating the product of the state equalized valuation of the replacement facility in the year before the effective date of the abatement certificate multiplied by the total mills levied by all taxing units in the current year. New plants and equipment that received an abatement certificate prior to January 1, 1994 are taxed at one-half the total mills levied by all taxing units, other than mills levied for local school district operating purposes or under the State Education Tax Act, plus one-half of the number of mills levied for local school district operating purposes in 1993. For new facility tax abatements granted after 1993, new plants and equipment are taxed at one-half of the total mills levied as *ad valorem* property taxes by all taxing units except mills levied under the State Education Tax Act, plus the number of mills levied under the State Education Tax Act. For new facility tax abatements granted after 1993, the State Treasurer may permit abatement of all, none or one-half of the mills levied under the State Education Tax Act. *Ad valorem* property taxes on land are not reduced in any way since land is specifically excluded under Act 198.

**Payment and Lien**

Property taxes are due on July 1 of the fiscal year and are payable in full without penalty either on or before August 31 or, at the taxpayer's option, one-half may be paid on or before August 15, with the other half paid on or before January 15. For taxes levied prior to December 31, 2002, the City collected its own delinquent property taxes. Pursuant to Act 246, Public Acts of Michigan, 2003, the City began returning uncollected delinquent property taxes levied after December 31, 2002 to the County for collection on each March 1. The City receives full funding for such taxes from the County's delinquent tax revolving fund. If such delinquent real property taxes remain uncollected after three years from the date on which such taxes become delinquent, the County may charge the respective amount of such taxes back to the City. Thus, delinquent real property taxes for tax year 2015 will be collected in accordance with Act 123, Public Acts of Michigan, 1999, which may result in foreclosure if such taxes are not paid by March 31, 2018. Tangible personal property may also be seized and sold to satisfy a personal property tax lien.

Effective January 14, 2015, the General Property Tax Act, Act 206, Public Acts of Michigan, 1893, as amended ("Act 206") was amended to allow a county treasurer to establish a delinquent property tax payment plan for the principal residence of a financially distressed person. A financially distressed person is a person who is eligible to have property to which he or she holds title to be withheld from a foreclosure petition based on substantial financial hardship and who is not delinquent in satisfying a delinquent property tax installment payment plan for any other property within the same foreclosing governmental unit. If a financially distressed person agrees to participate in a delinquent property tax installment plan and makes the initial payment required under the plan, the subject property would be removed from a foreclosure petition initiated by a foreclosing government unit under Act 206. If a financially distressed person successfully completes the payment plan, the additional interest owed on the delinquent taxes would be waived, resulting in an effective interest rate per annum of 6% on delinquent property taxes. If a financially distressed person does not successfully complete a payment plan, the foreclosing governmental unit would be required to include the property subject to the payment on the next succeeding foreclosure petition under Act 206. While the effect of these changes cannot be predicted, the City expects these changes to reduce the number of property tax foreclosures in the City and to boost tax collections.

As shown in Table 10, "Tax Levies and Collections" below, the rate of current collections to the adjusted levy has decreased from 85.79% in fiscal year 2010 to 73.19% in fiscal year 2015. Such decrease is primarily due to delinquencies and decreased housing values. The City has taken steps designed to improve collections, including a more aggressive foreclosure policy, more realistic assessments of property values, and the implementation of a program that offers negotiated payment plans to delinquent taxpayers. Additionally, the City may attach personal property of real property owners to satisfy real property delinquencies of such owners. The City's rate of current collections increased from 69.15% in 2014 to 73.19% in 2015, with $173 million being collected as of March 1, 2015.

**Property Tax Assessments**

Responsibility for assessing taxable real and personal property rests with the local assessing officer of the City. Any property owner may appeal the assessment to the local assessor, the local Board of Review and ultimately to the Michigan Tax Tribunal.

The Michigan Constitution also mandates a system of equalization for assessments. Although the assessors for each local unit of government within a county are responsible for actually assessing at 50% of true cash value, adjusted for Taxable Value purposes, the final SEV and Taxable Value are arrived at through several steps. Assessments are established initially by the municipal assessor. Municipal assessments are then equalized to the 50% levels as determined by the County's Department of Equalization. Thereafter, the State equalizes the various counties in relation to each other. SEV is important, aside from its use in determining Taxable Value for the purpose of levying ad valorem property taxes, because of its role in the spreading of taxes between overlapping jurisdictions, the distribution of various State aid programs, State revenue sharing and in the calculation of debt limits.

Real property that is exempt from property taxes, e.g., churches, government property, public schools, is not included in the SEV and Taxable Value data in the Official Statement. Property granted tax abatements under Act 198, Public Acts of Michigan, 1974, as amended ("Act 198") is recorded on a separate tax roll while subject to tax abatement. The valuation of tax abated property is based upon SEV but is not included in either the SEV or Taxable Value data in the Official Statement except as noted.

**Appeal of Property Assessments**

Property taxpayers may appeal their assessments to the Michigan Tax Tribunal. Unless otherwise ordered by the Tax Tribunal, before the Tax Tribunal renders a decision on an assessment appeal, the taxpayer must have paid the uncontested portion of the tax bill. The City has approximately 988 tax appeals pending before the Tax Tribunal (including personal property appeals) for the years 2013 to 2015, none of which is expected to have a significant impact on the City's State Equalized Valuation, Taxable Value or the resulting taxes..

**Michigan Personal Property Tax Reform**

On March 28 and April 1, 2014, Governor Snyder signed into law a package of bills amending and replacing legislation enacted in 2012 to reform personal property tax in Michigan. Commercial and industrial personal property of each owner with a combined true cash value in a local taxing unit of less than $80,000 is exempt from ad valorem taxes beginning in 2014. All eligible manufacturing personal property purchased or put into service beginning in 2013 and used more than 50% of the time in industrial processing or direct integrated support becomes exempt beginning in 2016. The legislation extends certain personal property tax exemptions and tax abatements for technology parks, industrial facilities and enterprise zones that were to expire after 2012, until the newly enacted personal property tax exemptions take effect. Pursuant to voter approval in August 2014, the 2014 legislation also includes a formula to reimburse local governments for lost personal property tax revenue. To provide the reimbursement, the legislation reduced the state use tax and created a Local Community Stabilization Authority which will levy a local use tax component and distribute that revenue to qualifying local units. The final impact of this legislation cannot be determined at this time.

The ultimate nature, extent and impact of any other future amendments to Michigan's property tax laws on the City's finances cannot be predicted. Purchasers of the Bonds should consult with their legal counsel and financial advisors as to the consequences of any such legislation on the market price or marketability of the Bonds, the security therefor and the operations of the City.

**Valuations**

The following table shows SEV and Taxable Valuations for the most recent six fiscal years. Because the State has applied an equalization factor of 1.0x for each of these years, SEV is equal to the valuations as determined by City assessing officials.

**Table 7 – State Equalized Valuations and Taxable Valuations**

| | State Equalized Valuation | | | | Taxable Valuation[1] | |
|---|---|---|---|---|---|---|
| Fiscal Year | Real Property | Personal Property[4] | Total | % Annual Change | Total Valuation[2] | % Annual Change |
| 2009 | $10,860,509,000 | $1,637,134,000 | $12,497,643,000 | -10.4% [3] | $9,725,920,000 | -3.5% |
| 2010 | 9,604,012,000 | 1,516,382,000 | 11,120,394,000 | -11.0% | 9,111,882,000 | -6.3% |
| 2011 | 9,263,215,000 | 1,563,433,000 | 10,826,648,000 | -2.6% | 9,411,302,000 | 3.3% |
| 2012 | 8,753,971,000 | 1,369,132,000 | 10,123,104,000 | -6.5% | 8,755,414,000 | -7.0% |
| 2013 | 7,844,574,000 | 1,592,878,000 | 9,437,452,000 | -6.8% | 8,447,370,000 | -3.5% |
| 2014 | 7,118,931,201 | 1,862,606,852 | 8,981,538,053 | -4.8% | 8,301,190,480 | -1.7% |
| 2015 | 6,234,348,714 | 1,815,857,522 | 8,085,206,276 | -10.0% | 7,565,167,128 | -8.9% |

SOURCE: Finance Department, Assessments Division.

(1) Limited by State law. See "ASSESSED VALUATION AND PROPERTY TAXES – Property Valuation and Tax Rate."

(2) Valuations represent the General Ad Valorem roll, which includes the Renaissance Zone.

(3) Decline in State Equalized Valuation includes anticipated reductions as a result of tax assessment appeals to the Michigan Tax Tribunal.

(4) See "ASSESSED VALUATION AND PROPERTY TAXES - Personal Property Tax Reform."

**Valuation by Type of Property**

**Table 8 – Components of State Equalized Valuation**

| | 2011 | 2012 | 2013 | 2014 | 2015 |
|---|---|---|---|---|---|
| By Use (Real Property only) | | | | | |
| Residential .............................. | 63.5% | 62.6% | 61.8% | 60.3% | 53.1% |
| Commercial ............................ | 28.8% | 29.9% | 30.8% | 31.9% | 37.8% |
| Industrial ................................ | 7.6% | 7.5% | 7.4% | 7.8% | 9.1% |
| Total ....................................... | 100.0% | 100.0% | 100.0% | 100.0% | 100.0% |
| By Class (Total State Equalized Valuation) | | | | | |
| Real property .......................... | 85.6% | 86.5% | 83.1% | 79.3% | 77.1% |
| Personal property(*) ............... | 14.4% | 13.5% | 16.9% | 20.7% | 22.9% |
| Total ....................................... | 100.0% | 100.0% | 100.0% | 100.0% | 100.0% |

SOURCE: Finance Department, Assessments Division.

* See "ASSESSED VALUATION AND PROPERTY TAXES - Personal Property Tax Reform."

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The following table shows the tax rates and levies in the City for City, School and County purposes for the current and last five tax years.

**Table 9 – Tax Rates and Levies**

| | 2010 | | 2011 | | 2012 | | 2013 | | 2014 | | 2015 | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **CITY OF DETROIT** | **Millage** | **Levy** | **Millage** | **Levy** | **Millage** | **Levy** | **Millage** | **Levy** | **Millage** | **Levy** | **Millage** | **Levy** |
| General Fund | 19.9520 | 176,126,271 | 19.9520 | 165,006,350 | 19.9520 | 156,114,668 | 19.9520 | 147,351,676 | 19.9520 | 129,773,329 | 19.9520 | 125,464,167 |
| Debt Service | 8.9157 | 80,928,559 | 9.5558 | 83,503,966 | 9.6136 | 81,209,640 | 8.9952 | 74,682,603 | 9.8237 | 63,896,063 | 9.5147 | 59,831,290 |
| Library | 4.6307 | 40,877,502 | 4.6307 | 38,296,657 | 4.6307 | 36,232,969 | 4.6307 | 34,199,148 | 4.6307 | 30,119,354 | 4.6307 | 29,119,232 |
| Total City | 33.4984 | 297,932,332 | 34.1385 | 286,806,973 | 34.1963 | 273,557,277 | 33.5779 | 256,233,427 | 34.4064 | 223,788,747 | 34.0974 | 214,414,689 |
| **SCHOOLS** | | | | | | | | | | | | |
| Debt Service | 13.0000 | 118,454,455 | 13.0000 | 113,820,382 | 13.0000 | 109,815,815 | 13.0000 | 107,932,435 | 13.0000 | 95,074,478 | 13.0000 | 81,747,903 |
| Judgment | 0.1015 | 895,991 | 0.2996 | 2,477,742 | 0.0969 | 754,337 | 0.1422 | 1,050,191 | 0.3415 | 2,221,211 | 0.0155 | 97,468 |
| Non- Homestead Tax[3] | 17.8308 | 157,401,379 | 17.8308 | 147,463,674 | 17.8308 | 75,127,368 | 18.0000 | 71,822,474 | 18.0000 | 67,599,699 | 18.0000 | 68,757,960 |
| Total Schools | 30.9323 | 276,751,826 | 31.1304 | 263,761,798 | 30.9277 | 185,697,521 | 31.1422 | 180,805,100 | 31.3415 | 164,895,387 | 31.0155 | 150,603,331 |
| **STATE EDUCATION TAX** | 6.0000 | 57,605,503 | 6.0000 | 49,620,995 | 6.0000 | 43,135,903 | 6.0000 | 38,883,031 | 6.0000 | 37,272,305 | 6.0000 | 37,729,801 |
| **WAYNE COUNTY & Other** | | | | | | | | | | | | |
| General Fund | 6.6380 | 58,596,942 | 6.6380 | 54,897,361 | 6.6380 | 51,939,112 | 6.6380 | 49,023,678 | 6.6380 | 43,175,389 | 6.6380 | 41,741,737 |
| Judgment | | | | | | | | | | | 0.9761 | 6,138,009 |
| Regional Education Service[1] | 3.4643 | 30,581,107 | 3.4643 | 28,650,336 | 3.4643 | 27,106,458 | 3.4643 | 25,584,924 | 3.4643 | 22,532,766 | 3.4643 | 21,784,558 |
| Community College | 2.4769 | 21,864,834 | 2.4769 | 20,484,374 | 1.9759 | 15,460,454 | 3.2408 | 23,934,308 | 3.2408 | 21,079,060 | 3.2408 | 20,379,123 |
| Wayne County Parks | 0.2459 | 2,170,682 | 0.2459 | 2,033,634 | 0.2459 | 1,924,048 | 0.2459 | 1,816,047 | 0.2459 | 1,599,402 | 0.2459 | 1,546,293 |
| Huron-Clinton Metro Authority | 0.2146 | 1,894,381 | 0.2146 | 1,774,778 | 0.2146 | 1,679,140 | 0.2146 | 1,584,887 | 0.2146 | 1,395,818 | 0.2146 | 1,349,469 |
| Detroit Institute of Arts[2] | | | | | 0.2000 | 1,564,902 | 0.2000 | 1,477,062 | 0.2000 | 1,300,855 | 0.2000 | 1,257,660 |
| Public Safety | 0.9381 | 8,281,077 | 0.9381 | 7,758,243 | 0.9381 | 7,340,175 | 0.9381 | 6,928,158 | 0.9381 | 6,101,662 | 0.9381 | 5,899,054 |
| Zoo | 0.1000 | 882,750 | 0.1000 | 827,017 | 0.1000 | 782,451 | 0.1000 | 738,531 | 0.1000 | 650,428 | 0.1000 | 628,830 |
| Total Wayne County & Other | 14.0778 | 124,271,773 | 14.0778 | 116,425,742 | 13.7768 | 107,796,740 | 15.0417 | 111,087,595 | 15.0417 | 97,835,379 | 15.0417 | 100,724,735 |
| Total Levy | 84.5085 | 756,561,434 | 85.3467 | 716,615,509 | 84.9008 | 610,187,441 | 85.7618 | 587,009,155 | 86.7896 | 523,791,819 | 86.1546 | 503,472,556 |
| Total Homestead Rate | 66.6777 | | 67.5159 | | 67.0700 | | 67.7618 | | 68.7896 | | 68.1546 | |
| Total non-Homestead Rate[3] | 84.5085 | | 85.3467 | | 84.9008 | | 85.7618 | | 86.7896 | | 86.1546 | |

SOURCE: Finance Department
NOTE: Beginning with fiscal year 1996 taxable value cannot exceed the statewide rate of inflation of the prior year on a per parcel basis, except where increases are due to physical changes in the parcel (P.A. 415 of 1994)
(1) Includes Wayne County Intermediate School District and Wayne County Intermediate School District Special Education mills.
(2) DIA millage was fist levied in Fiscal Year 2013.
(3) Non-Homestead tax applies only to industrial , utility, commercial and residential rental properties.

**Tax Levies and Collections**

The following table shows collections of current taxes and collections of current and delinquent taxes, penalties and interest for City operating, debt service and library purposes for fiscal years 2010 through 2015.

**Table 10 – Tax Levies and Collections-Fiscal Years 2010 to 2015**

| | | Collections of Current Levy During Year | |
|---|---|---|---|
| **Fiscal Year Ended June 30,** | **Adjusted Tax Levy(1)** | **Amount(2)** | **Ratio to Adj. Levy** |
| | (all dollars in thousands) | | |
| 2010 | $261,380 | $224,235 | 85.79% |
| 2011 | $257,448 | $205,741 | 79.92% |
| 2012 | $251,399 | $210,359 | 83.68% |
| 2013 | $239,186 | $163,443 | 68.33% |
| 2014 | $222,550 | $153,897 | 69.15% |
| 2015[4] | $237,250 | $173,637 | 73.19% |

SOURCE: City of Detroit 2014 CAFR.
(l) The levy is adjusted from the original levy for cancellations and assessment adjustments.
(2) Property tax levy and collections exclude captured taxes for tax increment authorities.
(3) Decrease in tax collections was due to chargebacks from Wayne County and continuation of the nationwide foreclosures situation.
See "FINANCIAL OPERATIONS - General Fund Revenue Categories: Property Taxes."
(4) City of Detroit Office of the Chief Financial Officer – Treasury Division.

**Largest Property Taxpayers**

Listed below are the ten largest property taxpayers in the City and their Taxable Valuations (thousands omitted).

**Table 11 – Ten Largest Property Taxpayers**
**2015**

| | Taxable Value (in millions) | Rank | % of Total City Taxable Value |
|---|---|---|---|
| Detroit Edison Company | $457.1 | 1 | 6.07% |
| Marathon Oil Company | 403.0 | 2 | 5.35 |
| Vanguard Health Systems* | 289.0 | 3 | 3.84 |
| MGM Detroit LLC* | 205.3 | 4 | 2.73 |
| Riverfront Holdings, Inc. | 108.9 | 5 | 1.45 |
| FCA US LLC | 71.3 | 6 | 0.95 |
| Detroit Entertainment LLC* | 59.8 | 7 | 0.79 |
| Greektown Casino LLC* | 48.2 | 8 | 0.64 |
| International Transmission Co. | 42.3 | 9 | 0.56 |
| General Motors LLC | 38.9 | 10 | 0.52 |

SOURCE: City of Detroit, Finance Department – Assessor's Office.
* Assessments are being appealed. See "ASSESSED VALUATION AND PROPERTY TAXES – Payment and Lien."

**Tax-Exempt Property**

A significant amount of real property (such as government facilities, schools, churches and hospitals) located within the City is exempt from taxation. In addition to tax-exempt real property, much personal property is also exempt, including household property, licensed motor vehicles, manufacturing tools held for use, mechanic's tools, pollution control facilities, property stored while in transit and business inventory, as well as the property of publicly owned and tax-exempt private institutions.

The only major items of personal property subject to property taxation in the City are certain utility, commercial and industrial furniture, fixtures and equipment. See "FINANCIAL OPERATIONS – General Fund Revenue Categories – Property Taxes" and "ASSESSED VALUATION AND PROPERTY TAXES - Personal Property Tax Reform."

## INDEBTEDNESS OF THE CITY AND RELATED ENTITIES

**Legal Debt Margin**

Article VII, Section 21 of the State Constitution establishes the authority, subject to constitutional and statutory prohibitions, for municipalities to incur debt for public purposes. In accordance with the authority granted the State Legislature by the state Constitution, Act 279 was enacted, which conferred to the electorate of the City the power to adopt a home rule charter (the "Charter"). The Charter provides that the City may borrow money for any purpose within the scope of its power, may issue bonds or other evidence of indebtedness therefor, and may, when permitted by law, pledge the full faith, credit and resources of the City for the payment of those obligations. Act 279 limits the debt a city may have outstanding at any time by providing that the net indebtedness incurred for all public purposes may not exceed the greater of 10% of the assessed value of all the real and personal property in the City or 15% of the assessed value of all the real and personal property in the City if that portion of the total amount of indebtedness incurred which exceeds 10% is or has been used solely for the construction or renovation of hospital facilities. The definition of assessed value for the debt limit computation under Act 279 includes certain assessed value equivalents not otherwise included in assessed valuation.

Pursuant to Act 279, significant exclusions to the debt limitations have been permitted for the following purposes: financial recovery bonds, special assessment bonds and motor vehicle highway fund bonds, even though they are a general obligation of the City; revenue bonds payable from revenues only, whether or not secured by a mortgage; bonds, contract obligations or assessments incurred to comply with an order of the Water Resources Commission of the State or a court of competent jurisdiction; obligations incurred for water supply, sewage, drainage, refuse disposal or resource recovery projects necessary to protect the public health by abating pollution; bonds issued to acquire housing for which certain rent subsidies will be received by the City or an agency thereof; bonds issued to refund money advanced or paid for certain special assessments; and self-insurance bonds.

The maximum amount of general obligation debt (both unlimited tax and limited tax) the City may have outstanding at any time is limited by State law. The limit is set at 10% of the City's SEV (adjusted for certain assessed value equivalents) (the "General Purpose Limit") or 15% if that portion which exceeds 10% is used solely for construction or renovations of hospital facilities (the "Additional Hospital Limit"). The General Purpose Limit increases from 10% of the City's SEV to 20% of SEV for financial recovery bonds issued under Section 36a of Act 279 (the "Financial Recovery Limit"). There is no debt limit applied beyond 10% under Act 279 for financial recovery bonds issued under Section 36a(7) of Act 279.

The City entered into multiple transactions on the Effective Date. These transactions included its 2014 UTGO Bonds, in the aggregate principal amount of $287,560,790; the B Notes, in the aggregate principal amount of $631,964,145; the C Notes, in the aggregate principal amount of $88,430,021; and the 2014 Income Tax Bonds, which are the subject of this reoffering. The B Notes and C Notes were issued pursuant to Section 36a of Act 279, for a total of $720,394,166 applied to the Financial Recovery Bond Limit. The 2014 Income Tax Bonds were issued pursuant to Section 36a(7) of Act 279, which does not count against any of the above-described debt limits.

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The limits, and the outstanding general obligation debt subject to the limits, are shown in the following table:

**Table 12 – Legal Debt Margins Subject to State Limitations**

**As of August 19, 2015**

| | | |
|---|---|---|
| SEV 2015 | $8,085,206,276 | |
| Add: Assessed Value Equivalents, Section 4a(9) of Act 279 ...... | 7,103,539,243 | |
| | $15,188 745,519 | |
| General Purpose Debt Limit (10% x $15,188,745,519) ............. | | $1,518,874,552 |
| Less Outstanding Debt: | | |
| General Obligation Bonds (Unlimited Tax)[1] .......................... | | (393,115,000) |
| General Obligation Bonds (Limited Tax)[2] ............................. | | (243,345,000) |
| Limited Tax Long-term Notes and Installment Contracts ....... | | (82,667,505) |
| | | $(719,127,505) |
| General Debt Margin ................................................................. | | $799,747,047 |
| Additional Hospital Limit (5% x $15,188,745,519) .................. | | 75,943,728 |
| General and Hospital Legal Debt Margin.................................. | | $875,690,775 |
| Financial Recovery Limit (20% x $15,188,745,519) ................ | | $3,037,749,104 |
| Less Outstanding Unlimited Tax and Limited Tax Debt........... | | (724,737,164) |
| Less Outstanding Financial Recovery Bonds[3] ........................... | | (717,307,692) |
| Financial Recovery Bonds Debt Margin ................................... | | $1,595,704,248 |

SOURCE: Finance Department.
(1) Includes Stub UTGO Bonds
(2) Does not include financial recovery bonds and self-insurance bonds.
(3) Includes B Notes ($631,964,145) and C Notes ($85,343,547).

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## Capital Financing Policies

### *Unlimited Tax Bonds*

In accordance with the State Constitution, unlimited tax general obligation bonds must be voter approved before issuance. General Fund departments have traditionally relied on unlimited tax general obligation bonds of the City for capital programs. In accordance with State law, the City is obligated to levy and collect taxes without regard to any constitutional, statutory or Charter tax rate limitations for payment of such obligations. The City has followed a policy of scheduling bond referenda to coincide with regularly scheduled elections. The following table shows the City's authorized but unissued unlimited tax general obligation debt for capital programs as of July 1, 2015.

**Table 13 – Authorized but Unissued Debt**

| General Obligation (Unlimited Tax) Bonds | Date of Voter Approval | Remaining Authorization |
|---|---|---|
| Sewer Construction | 8/02/1960 | $24,000,000 |
| Public Safety | 11/2/2004 | 22,644,000 |
| | 2/24/2009 | 61,447,000 |
| Municipal Facilities | 11/7/2000 | 120,000 |
| Neighborhood / Economic Development | 11/2/2004 | 17,295,000 |
| | 2/24/2009 | 25,000,000 |
| Public Lighting | 11/2/2004 | 7,339,000 |
| | 2/24/2009 | 22,000,000 |
| Recreation, Zoo, and Cultural | 11/7/2000 | 497,000 |
| | 11/2/2004 | 570,000 |
| Museums, Libraries, Recreation and Other Cultural | 2/24/2009 | 89,069,000 |
| Detroit Historical Museum | 11/06/2001 | 17,200,000 |
| C. Wright MAAH | 4/29/2003 | 500,000 |
| Transportation | 11/2/2004 | 17,219,000 |
| | 2/24/2009 | 12,000,000 |
| | | $316,900,000 |

SOURCE: Finance Department.

### *Limited Tax Bonds*

The City may issue limited tax general obligation bonds or other obligations without the vote of the electors. However, taxes may not be levied in excess of constitutional, statutory or Charter limitations for the payment thereof. Such bonds are payable from general non-restricted moneys of the City. Certain of such limited tax obligations are secured with multiple liens on specific revenues such as Distributable State Aid. The City has utilized limited tax obligations to finance settlements with city creditors pursuant to the Plan of Adjustment, vehicle purchases, general capital improvements, deficit elimination and the City's Risk Management Fund. See "INDEBTEDNESS OF THE CITY AND RELATED ENTITIES - Statement of Direct Tax - Supported and Revenue Indebtedness" below.

*Revenue Bonds*

There are generally no voter approval requirements for the issuance of revenue bonds. The City issues revenue bonds to finance and refinance various capital projects for water supply, sewage disposal and convention facilities and, through the City of Detroit Building Authority, parking facilities. Additional revenue bonds may be issued for these systems provided certain specific additional bonds tests are met under applicable bond documents.

*Other Capital Financing Sources*

The City also receives State and federal funds which finance certain construction and capital projects. These include state gas and motor vehicle registration dollars for street improvements, federal Community Development Block Grant revenues largely for continuing urban renewal projects and funds through the State and federal government for transportation purposes. In addition, the City periodically receives capital grants as a result of certain tax supported and revenue debt.

The following table sets forth the outstanding direct tax-supported and revenue indebtedness of the City.

**Table 14 – Statement of Direct Tax-Supported and Revenue Indebtedness**
**As of August 19, 2015**

| | | |
|---|---|---|
| **Tax Supported Debt:** | | |
| Unlimited Tax | | |
| General Obligation Bonds (General Purpose)................................ | | $ 393,115,000 |
| Limited Tax | | |
| Self-Insurance Bonds ...................................................................... | $125,210,000 | |
| General Obligation Bonds (Limited Tax)[1] .................................... | 1,205,652,692 | 1,330,862,692 |
| Total tax supported debt ...................................................... | | $ 1,723,977,692 |
| | | |
| **Revenue and Other Debt:** | | |
| Water Supply System Bonds[2,3] ..................................................... | $2,383,683,761 | |
| Sewage Disposal System Bonds[2,3] ................................................ | 3,431,543,673 | |
| Federal Section 108 Loans[4]............................................................ | 80,802,000 | |
| DDA Tax Increment Bonds[4] .......................................................... | 58,676,735 | |
| LDFA Tax Increment Bonds (Chrysler Project)[4]............................ | 41,330,000 | |
| Total revenue and other projects ......................................... | | $ 5,996,036,169 |
| | | |
| **Gross Direct Debt** ............................................................................ | | 7,720,013,861 |
| Deductions of Revenue and Other Debt ............................................ | | (5,996,036,169) |
| **Net Direct Debt** ................................................................................ | | $ 1,723,977,692 |

SOURCE: Municipal Advisory Council of Michigan, except as noted below.
(1) Assumes redemption of $30 million of the taxable 2014 Income Tax Bonds on August 31, 2015.
(2) Detroit Water and Sewerage Department.
(3) It is expected that the Great Lakes Water Authority will assume responsibility for the payment of debt service on the City's outstanding Water Supply System Bonds and Sewage Disposal System Bonds upon the effective date of the Regional Water Supply System Lease and Regional Sewage Disposal System Lease.
(4) Detroit Economic Growth Corporation

### Overlapping Debt

Property in the City is taxed for a proportionate share of outstanding general obligation debt of overlapping governmental entities including the School District of the City of Detroit, Wayne County, Regional Educational Service Agency, Wayne County Community College and the Detroit-Wayne Joint Building Authority. The table below shows the City's share of outstanding tax-supported overlapping debt as of August 19, 2015, See "GOVERNMENTAL STRUCTURE - Other Governmental Entities."

**Table 15 – City's Share of Overlapping Debt**
**As of August 19, 2015**

| Issuer | Outstanding | Detroit's Share Percent | Detroit's Share Amount |
|---|---|---|---|
| School District of the City of Detroit | $1,647,946,743 | 100.00% | $1,647,946,743 |
| Wayne County | 315,956,111 | 16.54% | 52,259,141 |
| Wayne County Community College | 0.00 | 0.00% | 0.00 |
| Net Overlapping Debt | | | $1,700,205,884 |

SOURCE: Municipal Advisory Council of Michigan.

### Summary of Debt Statement

The following table shows the City's net direct and overlapping debt as of August 19, 2015.

**Table 16 – Direct and Overlapping Debt**

| | |
|---|---|
| Direct debt: | |
| Gross principal amount............................................. | $ 7,675,266,893* |
| Less amount payable from other sources.................... | 5,921,289,201 |
| Net direct debt .......................................................... | $ 1,723,977,692* |
| Overlapping debt: | |
| Net overlapping debt ................................................. | $ 1,700,205,884 |
| Net direct and overlapping debt........................................ | $ 3,465,328,088* |

SOURCE: Finance Department and Municipal Advisory Council of Michigan.
* Assumes redemption of $30 million of the taxable 2014 Income Tax Bonds on August 31, 2015.

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The following table shows the total limited tax general obligation debt service requirements of the City:

Table 17 - Total Limited Tax General Obligation Debt Service Requirement Schedule*

| Fiscal Year Ending June 30, | Limited Tax (1) | | |
|---|---|---|---|
| | Principal | Interest | Total |
| 2016 | $16,969,977 | $53,550,249 | $70,520,226 |
| 2017 | $17,835,476 | $57,538,564 | $75,374,040 |
| 2018 | $18,740,250 | $56,631,665 | $75,371,915 |
| 2019 | $33,090,012 | $55,396,552 | $88,486,564 |
| 2020 | $44,215,513 | $53,599,137 | $97,814,650 |
| 2021 | $46,587,539 | $51,473,821 | $98,061,360 |
| 2022 | $49,091,916 | $49,245,286 | $98,337,202 |
| 2023 | $51,704,511 | $46,915,005 | $98,619,516 |
| 2024 | $40,336,237 | $44,823,049 | $85,159,286 |
| 2025 | $74,101,257 | $42,942,353 | $117,043,610 |
| 2026 | $76,409,159 | $39,618,103 | $116,027,262 |
| 2027 | $73,286,324 | $36,036,219 | $109,322,543 |
| 2028 | $71,128,208 | $32,847,606 | $103,975,814 |
| 2029 | $73,313,208 | $29,652,165 | $102,965,373 |
| 2030 | $75,613,208 | $26,350,499 | $101,963,707 |
| 2031 | $55,003,208 | $23,501,671 | $78,504,879 |
| 2032 | $56,133,208 | $21,103,149 | $77,236,357 |
| 2033 | $57,398,208 | $18,578,814 | $75,977,022 |
| 2034 | $48,133,208 | $16,216,230 | $64,349,438 |
| 2035 | $49,023,208 | $20,380,493 | $69,403,701 |
| 2036 | $49,963,208 | $17,545,112 | $67,508,320 |
| 2037 | $31,598,208 | $15,167,139 | $46,765,347 |
| 2038 | $31,598,208 | $13,271,246 | $44,869,454 |
| 2039 | $31,598,208 | $11,375,354 | $42,973,562 |
| 2040 | $31,598,208 | $9,479,462 | $41,077,670 |
| 2041 | $31,598,208 | $7,583,569 | $39,181,777 |
| 2042 | $31,598,208 | $5,687,677 | $37,285,885 |
| 2043 | $31,598,208 | $3,791,784 | $35,389,992 |
| 2044 | $31,598,193 | $1,895,892 | $33,494,085 |
| Total | $1,330,862,692 | $862,197,863 | $2,193,060,555 |

Source: Finance Department.

* Estimated.

Note: Totals may not add due to rounding

(1) Includes the B Notes, C Notes, 2014 Income Tax Bonds (reflecting principal amount of $245 million as a result of a $30 million redemption on August 31, 2015) and 2010 & 2012-C DSA debt.

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**Table 18 – Per Capita Debt and Debt Ratios**

| | | Net Direct Debt | | | Net Direct and Overlapping Debt | | |
|---|---|---|---|---|---|---|---|
| As of June 30, | Population Estimate(1) | Net Amount (000s) | Per Capita Net Amount | Ratio to True Cash Value(2) | Total (000s) | Per Capita | Ratio to True Cash Value(2) |
| 2015 | 713,777 | 1,723,978(3) | 2,415 | 10.7% | 3,424,184 | 4,797 | 21.2% |

SOURCE: Finance Department.
(1) Population estimates are from the U.S. Department of Commerce, Bureau of Census, Population Estimates Program.
(2) By law, SEV represents 50% of True Cash Value. True Cash Value used is based on the SEV set on December 31 of the fiscal year which determines property taxes levied in the following year and is referred to as the following year's SEV. See "ASSESSED VALUATION AND PROPERTY TAXES."
(3) Assumes $30 million redemption on 2014 Income Tax Bonds before closing.

### Other Indebtedness

On November 20, 2012, the City entered into a purchase agreement with IBM Credit LLC for the purchase of certain equipment. The purchase price was $4,918,641.99, which accrues interest at 12.03% per annum. The City makes monthly payments of principal and/or interest, and the debt is scheduled to be retired in December 2016.

### Prospective Indebtedness

The City does not anticipate issuing any new debt in the near term.

## EMPLOYEE BARGAINING UNITS

The City has budgeted 9,281 employees (including part-time and seasonal employees) for fiscal year 2015. Approximately 10% of these employees are non-union, and the remaining 90% are represented by one of the City's 49 bargaining units.

Prior to the Effective Date, the Emergency Manager negotiated new collective bargaining agreements with approximately 40 unions, including: (a) all six of the unions representing public safety personnel in the City's Police and Fire Departments; (b) the substantial majority of the local unions affiliated with American Federation of State, County, and Municipal Employees (AFSCME) Council 25, the City's largest union; and (c) seven of the unions representing employees of the Detroit Water and Sewerage Department. The City's collective bargaining agreements, which generally will remain effective for five years, will promote good labor relations and provide for increased management flexibility to streamline operations. Additionally, the collective bargaining agreements provide for wage increases and restructured health care and pension benefits that will promote recruiting and retention while also providing financial stability.

Pursuant to its duty to bargain under Section 13(c) of the Federal Transit Act, 49 U.S.C. § 5333, the City never imposed city employment terms pursuant to Act 436 on its unionized Detroit Department of Transportation ("DDOT") employees. These employees are represented by eight bargaining units, three of which have members both within and outside of DDOT. In the summer of 2014, the City entered into short-term memoranda of understanding covering these employees, which provided wage, health care, pension, and various other economic fringe savings to the City. These memoranda of understanding expired on or about June 30, 2014.[1] The City will continue to operate in accordance with the provisions of the expired collective bargaining agreements and memoranda of understanding covering DDOT employees while it is in the ongoing process of negotiating long-term collective bargaining agreements with these eight bargaining units. The City continues to negotiate with the DDOT unions. Negotiations with the Amalgamated Transit Union ("ATU") are close and it is unlikely the other unions will settle until an agreement is reached with the ATU. There was no agreement reached with AFSCME Locals 214 and 312 through fact finding in 2014.

1 The agreements with AFSCME Locals 214 and 312 were secured through fact finding in May, 2014.

The City has 17 bargaining units representing employees at DWSD, 12 of which have members both within and outside of DWSD. Pursuant to U.S. District Court Judge Sean F. Cox's ruling, DWSD is required to negotiate and sign its own collective bargaining agreements with these unions and such agreements are to cover only DWSD employees. The City has reached consensual collective bargaining agreements with nine of DWSD's 17 bargaining units. On September 25, 2014, DWSD imposed City Employment Terms on the eight remaining unions, providing cost savings to the City and allowing DWSD the flexibility necessary to efficiently maintain its operations and comply with Judge Cox's ruling.

The City has no reason to believe that it will face any interruption of service from the unionized workforce.

## RETIREMENT SYSTEMS

### Introduction

The City has two retirement systems (a "System" or "Retirement System"). The General Retirement System ("GRS") covers all eligible employees other than policemen and firemen, who are covered by the Police and Fire Retirement System ("PFRS"). Each system is governed by its own retirement board (a "Retirement Board," and the "GRS Board" with respect to the Retirement Board of GRS and the "PFRS Board" with respect to the Retirement Board of PFRS), which invests and administers the System's assets as trust funds solely for the benefit of its participants, retirees and their beneficiaries. The assets of each Retirement System are separate and distinct from assets of the City, are outside the City's control and are not available to pay any obligation or expense of the City (other than the pension obligations of the City).

GRS and PFRS each consist of two components: (i) the benefits accrued under GRS and PFRS in effect as of June 30, 2014 ("Prior GRS" and "Prior PFRS", respectively), which benefits are substantially modified in the Plan of Adjustment, and (ii) the benefits accrued on and after July 1, 2014 ("New GRS" and "New PFRS", respectively). Under both New GRS and New PFRS, the rate of future benefit accruals is reduced from the rates under Prior GRS and Prior PFRS. All City employees are now required to contribute toward the cost of their pension benefits, certain safeguards to prevent future underfunding of New GRS and New PFRS have been put into place, and new governance provisions designed to protect the integrity of GRS and PFRS going forward have been adopted.

Each Retirement System receives an annual actuarial report from its consulting actuary as of each June 30, providing actuarial valuations of its vested benefits, prior service costs and unfunded actuarial accrued liability ("UAAL"). Prior to July 1, 2014, each Retirement Board used those actuarial valuations, together with certain actuarial assumptions, to determine the annual contribution amounts requested from the City.

The most recent annual actuarial reports available for the Retirement Systems are as of June 30, 2014, which reports utilize the valuation payroll from the June 30, 2013 actuarial reports[2]. As of June 30, 2014, the actuarial study of Gabriel, Roeder, Smith and Company (the "Actuary") estimates the GRS had total net assets of $2.0 billion and a total pension liability of $3.8 billion, reflecting a UAAL of approximately $1.8 billion. The changes made to GRS in the Plan of Adjustment reduced this UAAL by $0.8 billion. As of June 30, 2014, the Actuary estimates the PFRS had total net assets of $3.2 billion and a total pension liability of $4.4 billion, reflecting a UAAL of $1.1 billion. The changes made to PFRS in the Plan of Adjustment reduced the UAAL by $0.5 billion. See "RECENT FISCAL SITUATION – Exit from Bankruptcy."

### Summary of Changes to Pension Plans

Under the Plan of Adjustment, both the PFRS and the GRS plans were frozen. The cost of living adjustments (COLAs) in the PFRS were reduced by 55% and eliminated in the GRS. For PFRS retirees, base pension benefits did not change, while the base pension benefits for GRS retirees were reduced by 4.5%. In addition, GRS members (other than surviving beneficiaries of retirees who died prior to June 30, 2014) with annuity savings accounts were subject to recoupment. The recoupment covers amounts paid between July 1, 2003 and July 30, 2013 to individuals which represented the portions of payments made in one of those years to individual annuity savings accounts in excess of the GRS's actual return on investments in that year.

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[2] The June 30, 2013 valuation payroll estimates the combined Systems have 8,630 active employees and 20,565 retirees and their beneficiaries.

The Plan of Adjustment also eliminated retiree health benefits, and established the VEBAs, defined and described below.

In addition, as a condition of the State and foundation contributions to the PFRS and the GRS, the State enacted legislation requiring the establishment of an independent investment committee for each system comprised of independent and retirement system members with fiduciary responsibilities for establishing investment allocations and policies, selecting and terminating investment managers for plan assets, approval of actuarial assumptions, reviewing and affirming the correctness of calculations, audits and financial reports and internal controls of the related system.

**Treatment of Prior GRS and Prior PFRS under the Plan of Adjustment**

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 in the Plan of Adjustment. The old GRS and old PFRS plans (which were frozen on July 1, 2014) are closed to new participants, and vested active employees have not accrued additional pension benefits under the terms and conditions of those plans since that date. As of the Effective Date, the City retained the responsibility to fund all amounts necessary to provide the adjusted (reduced) pension benefits to its employees and retirees who accrued benefits in either of the old, frozen GRS or PFRS pension plans, although the City's contributions will be fixed during the period ending June 30, 2023. After June 30, 2023, the City and DWSD will be required to contribute all amounts necessary to fund the modified accrued pensions of members regardless of the actual investment performance of the assets of GRS. The City will make the contributions from its available cash and, during the ten-year period from July 1, 2023 through June 30, 2033, from approximately \$188 million in funding received from outside sources in settlement of certain issues affecting the City and its retirees (the “Outside Funding”). The City estimates that it will be required to contribute approximately \$442 million from its available cash during this 10-year period, however, the level of funding necessary to support those reduced pension benefits will depend upon, among other things, future actuarial assumptions, changes in retiree mortality and investment returns.

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

With respect to PFRS pension claims, the Plan of Adjustment does not reduce monthly pension payments for holders of PFRS pension claims, but it does reduce annual cost-of-living adjustments ("COLAs" or "escalators") by 55%. With respect to GRS pension claims, the Plan of Adjustment provides for reduction of pension benefits by 4.5% and eliminates COLAs. Holders of GRS pension claims who participated in the Annuity Savings Fund (“ASF”) during the period July 1, 2003 to June 30, 2013, were subject to the recoupment into the GRS trust of a portion of the excess interest credited to Annuity Savings Funds accounts during that period, either by a single lump sum payment, or over time through reductions in their monthly checks. Those GRS participants who were subject to the ASF recoupment filed a timely appeal, which remains pending. See “RECENT FISCAL SITUATION – Bankruptcy.”

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

| Source of Pension Contributions | Paid in FY 2015 | Contributions Through June 30, 2023 | Beneficiary |
|---|---|---|---|
| Detroit Water and Sewerage Department | $ 65,400,000 | $428,500,000 | GRS |
| State Contribution | 98,800,000 | 98,800,000 | GRS |
| DIA | 5,000,000 | 45,000,000 | GRS |
| General Fund | 12,100,000 | 92,100,000 | GRS |
| Library | 2,500,000 | 22,500,000 | GRS |
| Stub UTGO Bond Millage Assignment | 4,400,000 | 31,700,000 | GRS |
| Total GRS Contributions Through June 30, 2023 | 188,200,000 | 718,600,000 | |
| Foundation For Detroit's Future | 18,300,000 | 164,700,000 | PFRS |
| State Contribution | 96,000,000 | 96,000,000 | PFRS |
| Total PFRS Contributions Through June 30, 2023 | 114,300,000 | 260,700,000 | |

**Relevant Terms of New GRS and New PFRS in Effect on and after July 1, 2014**

New GRS and New PFRS are defined benefit pension plans. New GRS provides retirement and survivor benefits to City employees or former employees and their beneficiaries. Active members of New GRS earn benefits under a formula based on final average base compensation, service credit for employment on and after July 1, 2014 and a benefit multiplier of 1.5%. Members are vested upon completion of 10 years of service (service with the City prior to July 1, 2014 is taken into account for this purpose). Vested members may retire with full benefits upon attainment of age 62 (with a limited transition period for employees who were age 53 or older as of June 30, 2014). Employees may retire at age 55 with 30 years of service and collect an actuarially reduced retirement benefit. No disability benefits are provided to employees under New GRS. Survivor benefits are payable to a member’s spouse or other beneficiary. For each Fiscal Year beginning July 1, 2018 and later, the New GRS pension benefits of retirees who are at least 62 years old and have been receiving benefits for at least 12 months may be increased by a 2% COLA on the original pension amount, provided that the funding level of New GRS projected over a five year period is 100% or greater.

Active members of New PFRS earn benefits under a formula based on final average base compensation, service credit for employment on and after July 1, 2014 and a benefit multiplier of 2.0%. Members are vested upon completion of 10 years of service (service with the City prior to July 1, 2014 is taken into account for this purpose). Vested members may retire with full benefits upon attainment of age 55 with 25 years of service (with a limited transition period for employees who were 43 to 47 years old and had 20 to 24 years of service as of June 30, 2014). Vested employees who have fewer than 25 years of service may retire at age 55 and collect an actuarially reduced retirement benefit or at age 62 and collect an unreduced benefit. Disability benefits also are provided to employees under New PFRS. Survivor benefits are payable to a member’s spouse or other beneficiary. For each Fiscal Year beginning July 1, 2015 and later, the New PFRS pension benefits of retirees who have been receiving benefits for at least 12 months may be increased by a 1% compounded COLA, provided that the funding level of New PFRS projected over a five year period is 90% or greater.

For the nine-year period ending June 30, 2023, the City will be required to contribute an amount equal to 5% of its employees’ base pay to New GRS and 12.25% of its employees’ base pay to New PFRS. Based upon the projected base pay of City employees, the General Fund’s annual contribution is anticipated to be approximately $67 million to New GRS and approximately $277 million to New PFRS. A portion of each City contribution will be credited to a rate stabilization fund established under New GRS and New PFRS, respectively, which is designed to be used in the event the projected funding level of New GRS falls below 100% or the projected funding level of New PFRS falls below 90%. Employees who participate in New GRS are required to contribute 4% of their base pay on a pre-tax basis to New GRS, and employees who participate in New PFRS are required to contribute 6% (employees hired by the City before July 1, 2014) or 8% (employees hired by the City on or after July 1, 2014) of their base pay on a pre-tax basis to New PFRS, to fund the cost of their pension benefits.

Employees who participate in New GRS also may elect to make after-tax voluntary employee contributions of (a) 0%, (b) 3%, (c) 5%, or (d) 7% of their total pay to New GRS. Employees who participate in New PFRS may elect to contribute from 1% to 10% of their total pay to New PFRS on an after-tax basis. Those contributions will be credited with earnings at the rate of return earned on assets held in GRS or PFRS (as applicable); however, the earnings rate credited to any New GRS or New PFRS member's voluntary employee contribution account for any year will not be less than 0% nor greater than 5.25%.

The funding objectives of New GRS and New PFRS are to establish and receive employer and employee contributions during each Fiscal Year that are sufficient to fully cover the actuarial cost of benefits anticipated to be paid on account of credited service rendered by employees during the year (the normal cost requirements), and to amortize the unfunded actuarial costs of benefits under New GRS or New PFRS likely to be paid on account of credited service rendered on or after July 1, 2014 and before the first day of the Fiscal Year (the UAAL). In the event the funding level of New GRS projected over a five year period falls below 90%, the following steps will be taken in the order presented until the new funding level is projected to be 100%: (a) the 2% COLA described above will not be provided to retirees, (b) the amounts credited to the rate stabilization fund will be used to increase the funding level of New GRS, and (c) employee mandatory contributions will be increased from 4% of base pay to 5% of base pay. Additional actions designed to improve the funding status of New GRS are required if the projected funding level of New GRS falls below 80%. None of those steps would require the City to make additional contributions to New GRS during the nine-year period ending June 30, 2023. In the event the funding level of New PFRS projected over a five year period falls below 90%, the following steps will be taken in the order presented until the new funding level is projected to be 100%: (a) the 1% additional COLA described above will not be provided to retirees, (b) the amounts credited to the rate stabilization fund will be used to increase the funding level of New PFRS, (c) employee mandatory contributions will be increased in 1% increments to a maximum of from 9% or 11% of base pay, as applicable, (d) the two most recently granted COLAs will be rescinded, (e) employee mandatory contributions will be increased by an additional 1%, and (f) contributions made by the City may be increased consistent with applicable actuarial principles and the Public Employee Retirement System Investment Act, as amended, MCL 38.1132 et seq.

The contribution and benefits provisions of New GRS and New PFRS may not be amended by the City prior to July 1, 2023, other than as required to comply with (i) applicable federal law, or (ii) the Plan of Adjustment.

**Retirement System-Related Detroit Restructuring Legislation**

Effective June 20, 2014, Acts 183, 184, and 185, Public Acts of Michigan, 2014 ("Act 183," "Act 184," and "Act 185," respectively) imposed several limitations on the cost of medical and retirement benefits offered to City employees. Additional requirements on the financial management of the Systems were imposed and have been implemented.

For a City with a population of 600,000 or more, or which has discharged $1 billion in pension liabilities in bankruptcy, or both, Act 183 requires:

(a) The calculation of a pension benefit under a defined benefit plan offered by the City shall only include base pay for any years of service accrued after January 1, 2015;

(b) The annual pension benefit shall not include an additional payment based solely on the rate of investment return earned on the retirement system's assets, unless otherwise agreed to in a plan of adjustment for the City;

(c) For employees hired after July 1, 2023, the City shall not offer a retirement plan for such employees that requires the City to contribute more than 7% of the employee's base pay to a retirement account, or the City may offer the retirement plan offered in the Plan of Adjustment;

(d) For employees hired after July 1, 2023, the City shall not offer to contribute more than 2% of the employee's base pay, or the percentage of a qualified participant's employer contributes on behalf of a qualified participant under section 68b(1) of the State Employees Retirement Act, Act 240, Public Acts of Michigan, 1943, for the employee's post-employment health care insurance benefits.

Beginning January 1, 2024, and on each January 1 thereafter, the City, or its retirement system, if it still provides retirement benefits as part of its employee compensation system, shall file a certification of its compliance with the foregoing provisions with the Commission. See "CURRENT FISCAL SITUATION - Financial Review Commission."

For a City with a population of 600,000 or more, Act 184 prohibits it from exempting itself from the requirements of Act 152. Act 152 imposes certain limitations on the amount a public employer may pay for an employee medical benefit plan; however, it also permits a public employer to exempt itself from the act's limitations.

Act 185 requires a System to establish an investment committee (the "Investment Committee"). The Investment Committee shall recommend to the governing board of a System investment management decisions, including, but not limited to, all of the following:

(a) The development of investment goals and objectives, investment assumptions, and performance measurement standards consistent with the System's needs.

(b) The selection, monitoring, evaluation, and removal of custodians, investment managers, or any investment service providers.

(c) Asset allocation.

(d) Subject to a plan for adjustment, all calculations, actuarial assumptions, or assessments used by an actuary, including, but not limited to, those underlying the restoration of pension benefits, funding levels, and amortization of the restoration of pension benefits, and those underlying the determination of annual funding levels and amortization of annual funding levels, and recommended contributions to the System in accordance with applicable law.

(e) Performing or ordering asset liability valuation studies for the qualified system not less frequently than every 2 years.

(f) Review and approval, before final issuance of all annual audits and actuarial and financial reports before finalization.

(g) Interpret the System's governing documents, applicable laws, plans of adjustment approved by United States bankruptcy courts, and other financial determinations affecting the large sponsored system's funding or benefit levels.

(h) Based on annual actuarial valuation reports and any other projections or reports, as applicable from an actuary or other professional advisors, the determination of the extent of restoration of pension benefits all in conformance with a plan for adjustment.

The Investment Committee shall do all of the following:

(a) Select, set compensation and terms of employment for, and evaluate a System's chief financial officer.

(b) Approve a System's summary annual report created under section 13 before the summary annual report is made public.

The Investment Committee shall submit its recommendation to a System's board. The board shall have not more than 45 days from the date of the submission, or 10 business days if the committee determines in good faith that emergency action is required, to approve or disapprove the recommendation. If the board does not act within 45 days or 10 days, as applicable, the recommendation is considered approved by the board and the chief financial officer shall implement the recommendation.

If the board disapproves the Investment Committee's recommendation within 45 days or 10 days, as applicable, the decision shall be implemented under the Plan of Adjustment for adjustment.

The following table sets forth the contributions of the City to the GRS and the PFRS for fiscal years 2009 through 2014.

**Table 19 – Annual City Contributions to the Retirement Systems**

| | For the Fiscal Year Ended June 30, | | | | | |
|---|---|---|---|---|---|---|
| | **2009** | **2010** | **2011** | **2012** | **2013** | **2014** |
| **GRS** | $39,872,889 | $35,849,970 | $52,426,089 | $34,461,252 | $37,794,407 | $27,523,180 |
| **PFRS** | $31,395,780 | $32,808,484 | $81,642,112 | $49,760,229 | ($29,026,800) | $0 |

Sources: City of Detroit Comprehensive Annual Financial Reports (2009-2014 data); City of Detroit Finance Department (2014 data).
Note: 2013 PFRS contribution reflects an adjustment for accrued but unpaid 2012 contributions, per the City of Detroit Finance department.

**Pension-Related Certificates of Participation**

The City funded certain Prior GRS UAAL through creation of the Detroit General Retirement System Service Corporation (the "Service Corporation"). The City was a party to two Service Contracts, dated May 25, 2005 (the "2005 Service Contract") and June 7, 2006 (the "2006 Service Contract" and together with the 2005 Service Contract, the "Service Contracts"), with the Service Corporation. GRS is not a party to any of the Service Contracts.

In 2005, the Service Corporation created a funding trust, which issued Certificates of Participation (the "2005 COPs") evidencing undivided proportionate interests in the rights to receive certain payments to be made by the City under the 2005 Service Contract. A portion of the proceeds of the 2005 COPs was irrevocably paid to GRS, fully funding its UAAL at that time. In 2006, the Service Corporation created a new funding trust, which issued Certificates of Participation (the "2006 COPs" and, together with the 2005 COPs, the "COPs") evidencing undivided proportionate interests in the rights to receive certain payments to be made by the City under the 2006 Service Contract. A portion of the proceeds of the 2006 COPs was used to redeem certain outstanding 2005 COPs and to extend the amortization schedule for repayment of the UAAL obligations. The City also entered into certain interest rate exchange agreements (the "COP Swap Agreements") in conjunction with the issuance of the COPs.

Pursuant to the Service Contracts and the COP Swap Agreements, the City paid certain payments, service charges and other payments, excluding principal (collectively, the "Service Payments") to the Service Corporation. The Service Payments were calculated to be sufficient to allow the Service Corporation to make payments on the COPs.

The Plan of Adjustment provided for the satisfaction in full of claims relating to the COPs, in part in consideration for the receipt of the B Notes and the C Notes, each issued on December 10, 2014. The definitive documentation governing the B Notes and the C Notes provide generally for the following terms:

- The City's obligations with respect to the B Notes and the C Notes are general and unsecured obligations of the City payable as a first budget obligation from funds of the City's legally available therefor, including proceeds of an annual levy of ad valorem taxes on all taxable property in the City, subject to applicable constitutional, statutory and charter tax rate limitations.
- The B Notes were issued in the aggregate principal amount of $631,964,145, payable over 30 years, and the C Notes were issued in the aggregate principal amount of $88,430,021 payable over 12 years.

## OTHER POST-EMPLOYMENT BENEFITS

The Plan of Adjustment restructured the City's retiree health legacy obligations by eliminating $4.3 billion in unfunded retiree health obligations through the creation of two voluntary employee beneficiary associations (or VEBAs), which will be exclusively responsible for retiree health programs and payments for City employees who retired prior to January 1, 2015. A total allocation of $492.7 million of B Notes, plus an additional contribution from private foundations of approximately $5.0 million (paid over time), will be used to fund the VEBAs.

The Plan of Adjustment provides for the establishment of the VEBAs in accordance with section 501(c)(9) of the Internal Revenue Code of 1986, as amended. The VEBAs will provide health care, life or other permissible benefits to individuals who retired from the City prior to January 1, 2015 and certain of their dependents ("VEBA

Beneficiaries"). The "Detroit Police and Fire VEBA" (PFRHC Trust), funded largely with $253.9 million of the $492.7 million in 2014 B(1) and B(2) bonds, has been established for retired police and fire uniform employees, and the "Detroit General VEBA" (GRHC Trust), funded largely with the remaining $238.8 million of the $492.7 million in 2014 B(1) and B(2) bonds, has been established for general retirees. The VEBAs will each be governed by a board of trustees, which will be responsible for: (1) management of the assets held by the VEBA; (2) administration; and (3) determination of the level of distribution of benefits to the VEBA Beneficiaries. From and after January 1, 2015, the City shall have no further responsibility to provide retiree healthcare or any other retiree benefits to the VEBA Beneficiaries.

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

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

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

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

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

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

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

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

The Supplemental Death Benefit Plan (Supplemental Plan) is a pre-funded single-employer defined benefit plan administered by the Employee Benefit Board of Trustees and is accounted for in the Employee Death Benefits

Fund. 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, employees who die prior to retirement are paid a death benefit of $10,000. 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.

**Other OPEB Liabilities**

As described above, effective as of January 1, 2015, the Detroit General VEBA is the sole source of Retiree Welfare Benefits for the VEBA Beneficiaries. Employees of the City who retire on or after January 1, 2015 may be eligible for Retiree Welfare Benefits, which benefits will be an obligation of the City. The terms of these benefits are the subject of ongoing negotiations between the City and various unions that represent City employees.

## LITIGATION

Prior to the commencement of the City's Bankruptcy Case on July 18, 2013 (the "Petition Date"), the City was involved in numerous lawsuits related to its ongoing operations. These lawsuits arose primarily out of allegations of personal injuries, property damage, or breach of contract. On the Petition Date, all lawsuits and other remedial actions that (i) sought to collect upon debts owed by the City or (ii) implicated the City's property were automatically stayed, unless relief from such stay was granted by the Bankruptcy Court. The Plan of Adjustment provides that, except as specifically provided otherwise in the Plan of Adjustment or Confirmation Order, rights afforded in the Plan of Adjustment and the treatment of all claims by the Plan of Adjustment shall be in exchange for and in complete settlement, satisfaction, discharge, and release of, and injunction against, all claims of any nature whatsoever arising prior to the Effective Date against the City or its property (the "Discharge"). The claims of (i) T&T Management, Inc., (ii) HRT Enterprises and (iii) the John W. and Vivian M. Denis Trust asserting condemnation or inverse condemnation actions against the City alleging that the City has taken private property without just compensation in violation of the Takings Clause of the Fifth Amendment to the United States Constitution were specifically excepted from the Discharge pursuant to the order confirming the Plan and, therefore, may be further pursued following the Effective Date. In its opinion approving the Plan of Adjustment, the Court held that claims brought against City employees under 42 U.S.C. 1983 were outside the Bankruptcy. The City has exposure on such pre-petition claims to the extent the City has agreed to indemnify such employees for actions taken in good faith in the scope of their employment. The City has certain exposure on pre-petition motor vehicle accident claims as set forth in the Plan of Adjustment. While it is impossible to predict the outcome of these suits and claims that are not subject to the Discharge, the City's Law Department believes, based on its review, that the pending claims may be fairly characterized as being in the ordinary course of business for a large municipality and further believes that the resolution of these matters will result in costs to the City similar to those incurred for such similar actions during the five years prior to the Petition Date.

## CERTAIN ECONOMIC AND DEMOGRAPHIC INFORMATION

**General**

The City is located in southeastern Michigan in Wayne County and has a land area of approximately 138 square miles. According to the U.S. Census Bureau, the City is the center of the nation's 14th largest metropolitan statistical area. As of 2014, the City was the 18th largest city, with an estimated census population of approximately 680,250. The City is internationally known for its automobile manufacturing and trade. The southeastern border of the City lies on the Detroit River, an international waterway, which is linked by the St. Lawrence Seaway to seaports around the world. The City is the commercial capital of Michigan and a major economic and industrial center of the nation. There are eight diverse industrial parks, and three fortune 500 companies have world headquarters within the confines of the City.

Historically, the City's economy has been closely tied to the manufacturing sector, especially the automotive industry. The two major U.S. automobile companies and FCA US LLC are principal employers and taxpayers in the Detroit metropolitan area. While the City's economy is linked to automobile and automobile related manufacturing, recent developments are allowing the City to be more diversified by increasing its activities in other manufacturing sectors, technology, health care, trade, commerce and tourism.

The City's educational and medical institutions continue to grow in size and recognition. Wayne State University, one of the nation's largest urban educational institutions, as well as the University of Detroit-Mercy, the largest independent university in the State, are located in the City.

In the last several years, the City recently has seen some positive movement of businesses and residents to the downtown area. Quicken Loans, the largest online mortgage lender, and affiliated companies moved its headquarters into downtown in 2010, and by July 2015 concentrated 9,192 employees in downtown. Blue Cross Blue Shield has 5,415 employees downtown as of July 2015. In addition, the City has had $2.1 billion in development projects in Greater Downtown Detroit between 2010 and 2012. See "APPENDIX II, INFORMATION CONCERNING THE CITY OF DETROIT, CERTAIN ECONOMIC AND DEMOGRAPHIC INFORMATION, Major Projects and Developments."

**Population**

The City's population count (established by U.S. Census) determines its legislative apportionment in Congress and in the State Legislature, and has a direct impact on federal and State programs allocated in whole or in part on a *per capita* basis. Detroit's population declined by nearly 45% to just over one million as of June 1990. In the following 20 years, the population decline continued, falling by a further 25% between 2000 and 2010. Detroit's population stood at 688,250 as of July 2014, a 63% decline from its postwar peak of 1.85 million residents. Detroit has gone from the fourth largest city in America in 1929 to the eighteenth largest today. No other American city has experienced a comparable decline in population over a similar period of time.

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**Table 20 – Population Trends, 1950-2010**

| | City of Detroit | | Wayne County | | Detroit MSA[1] | | U.S. |
|---|---|---|---|---|---|---|---|
| Year | Population | % Change | Population | % Change | Population | % Change | % Change |
| 1950 | 1,849,568 | - | 2,435,235 | - | 3,016,197 | - | - |
| 1960 | 1,670,144 | -9.70% | 2,666,297 | 9.49% | 3,762,360 | 24.74% | 18.50% |
| 1970 | 1,511,482 | -9.50 | 2,666,751 | 0.02 | 4,307,470 | 14.49 | 13.37 |
| 1980 | 1,203,339 | -20.39 | 2,337,891 | -12.33 | 4,353,365 | 1.07 | 11.43 |
| 1990 | 1,027,974 | -14.57 | 2,111,687 | -9.68 | 4,382,299 | 0.66 | 9.84 |
| 2000 | 951,270 | -7.46 | 2,061,162 | -2.39 | 4,452,557 | 1.60 | 13.09 |
| 2010 | 713,777 | -24.97 | 1,820,584 | -11.67 | 4,296,250 | -3.51 | 9.71 |

SOURCE: U.S. Department of Commerce, Bureau of the Census.
(1) Consists of Lapeer, Livingston, Macomb, Oakland, St. Clair and Wayne Counties in Michigan.

**Table 21 – Distribution of Population by Age, 2010**

| Age in Years | Population | % of Total |
|---|---|---|
| Under 5 | 50,146 | 7.0 |
| 5 to 9 | 49,550 | 6.9 |
| 10 to 14 | 52,705 | 7.4 |
| 15 to 19 | 65,632 | 9.2 |
| 20 to 24 | 54,067 | 7.6 |
| 25 to 29 | 43,817 | 6.1 |
| 30 to 34 | 42,573 | 6.0 |
| 35 to 39 | 46,738 | 6.5 |
| 40 to 44 | 46,135 | 6.5 |
| 45 to 49 | 46,907 | 6.6 |
| 50 to 54 | 51,037 | 7.2 |
| 55 to 59 | 45,434 | 6.4 |
| 60 to 64 | 37,111 | 5.2 |
| 65 to 69 | 25,279 | 3.5 |
| 70 to 74 | 18,002 | 2.5 |
| 75 to 79 | 15,176 | 2.1 |
| 80 to 84 | 12,070 | 1.7 |
| 85 years and over | 11,398 | 1.6 |
| Total | 713,777 | 100.0% |

SOURCE: U.S. Department of Commerce, Bureau of the Census.

**Table 22 – Households by Type, 1980-2010**

| | 1980 | | 1990 | | 2000 | | 2010 | |
|---|---|---|---|---|---|---|---|---|
| **Type of Household** | **No. of Households** | **% of Total** | **No. of Households** | **% of Total** | **No. of Households** | **% of Total** | **No. of Households** | **% of Total** |
| | | | | (number of households in thousands) | | | | |
| Family | 289.3 | 66.7% | 244.3 | 65.3% | 218.5 | 64.9% | 162.9 | 60.5% |
| Married-couple | 173.2 | 40.0 | 109.8 | 29.4 | 89.7 | 26.7 | 58.0 | 21.5 |
| Single male head | 18.4 | 4.2 | 21.2 | 5.7 | 22.4 | 6.6 | 20.5 | 7.6 |
| Single female head | 97.7 | 22.5 | 113.2 | 30.3 | 106.4 | 31.6 | 84.5 | 31.4 |
| Non-family | 144.2 | 33.3 | 129.7 | 34.7 | 117.9 | 35.1 | 106.5 | 39.5 |
| Total households | 433.5 | 100.0% | 374.1 | 100.0% | 336.4 | 100.0% | 269.4 | 100.0% |

SOURCE: U.S. Department of Commerce, Bureau of the Census.
NOTE: Family households consist of two or more related persons. Data may not add up to totals due to rounding.

**Employment and Economic Base**

The economy of the City is influenced by trends in the durable goods industry and in particular the domestic automobile industry. Over the past two decades, all three major automotive companies have, at times, experienced financial problems adversely affecting the economy of the Detroit area. General Motors Company and FCA US LLC represent approximately 3.0% of the City's Taxable Valuation and are major employers in the City. Among the complex factors affecting the automotive industry are: national consumer spending patterns (related, among other things, to consumer confidence and perception, disposable income, credit availability and interest rates); the value of the U.S. dollar relative to foreign currencies; foreign trade restrictions; federal and state regulatory policies with respect to auto imports, safety, fuel efficiency and pollution emissions; the availability and price of gasoline; and organizational demand for fleet or specialized vehicles.

The following table sets forth certain information on total employment by industry group for the Detroit-Warren-Livonia MSA and the U.S. The region has in the past consistently maintained a greater percentage of persons employed in the manufacturing sector of the economy than the nation as a whole, which reflected the area's dependence on the automotive industry.

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## Table 23

### Annual Average Wage and Salary Employment by Place of Work (Non-Agricultural)

| | Detroit-Warren-Livonia MSA | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | 2011 | | 2012 | | 2013 | | 2014 | |
| | (000's) | % | (000's) | % | (000's) | % | (000's) | % |
| **Industry Group:** | | | | | | | | |
| Natural Resources & Mining…...... | 55 | 3.10% | 56 | 3.10% | 58 | 3.11% | 62 | 3.27% |
| Construction……...……...……...... | 0 | 0.00% | 0 | 0.00% | 0 | 0.00% | 0 | 0.00% |
| Manufacturing…………………..... | 205 | 11.50% | 219 | 12.00% | 229 | 12.27% | 239 | 12.59% |
| Trade, Transportation & Utilities.... | 334 | 18.80% | 341 | 18.70% | 347 | 18.57% | 354 | 18.66% |
| Information…....………………..... | 26 | 1.50% | 27 | 1.50% | 27 | 1.46% | 28 | 1.46% |
| Financial Activities……………..... | 98 | 5.50% | 100 | 5.40% | 104 | 5.57% | 105 | 5.54% |
| Professional and Business Services | 329 | 18.40% | 348 | 18.90% | 360 | 19.29% | 365 | 19.24% |
| Education and Health Services....... | 291 | 16.30% | 296 | 16.10% | 298 | 15.98% | 300 | 15.81% |
| Leisure & Hospitality...................... | 174 | 9.80% | 177 | 9.60% | 180 | 9.62% | 183 | 9.64% |
| Other Services................................. | 75 | 4.20% | 76 | 4.20% | 77 | 4.13% | 78 | 4.10% |
| Government.................................... | 198 | 11.10% | 193 | 10.50% | 187 | 10.00% | 184 | 9.69% |
| Total……………………..... | 1,785 | 100.00% | 1,832 | 100.00% | 1,867 | 100.00% | 1,897 | 100.00% |

| | U.S. | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | 2011 | | 2012 | | 2013 | | 2014 | |
| | (000's) | % | (000's) | % | (000's) | % | (000's) | % |
| **Industry Group:** | | | | | | | | |
| Natural Resources & Mining…...... | 818 | 0.6% | 855 | 0.6% | 879 | 0.6% | 928 | 0.7% |
| Construction……...……...……...... | 5,441 | 4.1% | 5,622 | 4.1% | 5,774 | 4.2% | 6,069 | 4.3% |
| Manufacturing…………………..... | 11,817 | 8.9% | 11,939 | 8.8% | 12,050 | 8.7% | 12,243 | 8.7% |
| Trade, Transportation & Utilities.... | 25,803 | 19.4% | 26,425 | 19.5% | 26,884 | 19.4% | 27,405 | 19.4% |
| Information…....………………..... | 2,660 | 2.0% | 2,685 | 2.0% | 2,682 | 1.9% | 2,698 | 1.9% |
| Financial Activities……………..... | 7,707 | 5.8% | 7,846 | 5.8% | 7,911 | 5.7% | 8,035 | 5.7% |
| Professional and Business Services | 17,698 | 13.3% | 18,237 | 13.5% | 18,906 | 13.7% | 19,636 | 13.9% |
| Education and Health Services....... | 20,236 | 15.2% | 20,673 | 15.3% | 21,419 | 15.5% | 21,906 | 15.5% |
| Leisure & Hospitality...................... | 13,116 | 9.9% | 13,591 | 10.0% | 14,095 | 10.2% | 14,512 | 10.3% |
| Other Services................................. | 5,336 | 4.0% | 5,448 | 4.0% | 5,461 | 3.9% | 5,519 | 3.9% |
| Government.................................... | 22,333 | 16.8% | 22,239 | 16.4% | 22,208 | 16.1% | 22,305 | 15.8% |
| Total……………………..... | 132,965 | 100.0% | 135,560 | 100.0% | 138,269 | 100.0% | 141,256 | 100.0% |

SOURCE: Michigan Department of Technology, Management and Budget, Labor Market Information; U.S. Department of Labor, Bureau of Labor Statistics for U.S.

NOTE: Totals may not add due to rounding. Not seasonally adjusted.

The following table shows the annual average unemployment rates for the City, the Detroit-Warren-Livonia MSA, the State and the U.S. from 2010 to 2014.

**Table 24 – Civilian Unemployment Rates, Spanning 2010 to 2014**

| | Detroit | Detroit MSA | State of Michigan | U.S. |
|---|---|---|---|---|
| 2010 | 23.0% | 13.9% | 12.7% | 9.6% |
| 2011 | 19.9% | 11.6% | 10.4% | 8.9% |
| 2012 | 18.0% | 10.3% | 9.1% | 8.1% |
| 2013 | 16.9% | 9.4% | 8.8% | 7.4% |
| 2014 | 16.7% | 8.5% | 7.3% | 6.2% |

SOURCE: Michigan Department of Technology, Management and Budget, Labor Market Information.

The following table shows a breakdown of manufacturing wage and salary employment by type for the Detroit-Warren-Livonia MSA for calendar years 2010 through 2014.

**Table 25 – Manufacturing Wage and Salary Employment**

| Industry Group: | 2010 | 2011 | 2012 | 2013 | 2014 |
|---|---|---|---|---|---|
| | | | (In Thousands) | | |
| Durable goods industries…………………….. | 154.4 | 170.9 | 182.9 | 190.6 | 198.3 |
| Nondurable goods industries………………… | 32.0 | 34.2 | 36.3 | 38.4 | 40.6 |
| Total manufacturing employment…………… | 186.4 | 205.1 | 219.2 | 229.0 | 238.9 |

SOURCE: Michigan Department of Energy, Labor & Economic Growth, Office of Labor Market Information.

**(Balance of this page intentionally left blank)**

**Cultural, Educational, Medical and Other Institutions**

The City's quality of life is enhanced by the presence of numerous civic, cultural and educational institutions and health systems, including the Detroit Institute of Arts, the Detroit Symphony Orchestra and the Detroit Opera House, Wayne State University, the University of Detroit-Mercy, Marygrove College and the College for Creative Studies. Hospital systems include the Detroit Medical Center (owned by Vanguard Health Systems), Henry Ford Health System and St. John Providence Health System.

Professional sports franchises include the Detroit Lions, Detroit Tigers and Detroit Red Wings.

In addition, the City has enjoyed the support of several foundations. Foundations based or with offices in the City include the Kresge Foundation, the Community Foundation for Southeastern Michigan, the Skillman Foundation, the Hudson-Webber Foundation and the MCGregor Foundation. Other foundations making significant commitments to and in the City include the Ford Foundation, the Kellogg Foundation, the John S. and James L Knight Foundation and the C.S. Mott Foundation.

**Construction**

The following data shows trends in construction permits in the City.

**Table 26 – Trends in Construction Permits, 2010 to 2015 YTD**
**Economic Development Value ($ Millions)**

| | New Construction | | Alterations/Additions | |
|---|---|---|---|---|
| | Residential | Non-Residential | Residential | Non-Residential |
| 2010 | 32.8 | 22.6 | 30.3 | 137.7 |
| 2011 | 41.9 | 122.9 | 70.0 | 291.3 |
| 2012 | 30.2 | 253.0 | 81.6 | 576.5 |
| 2013 | 25.1 | 227.2 | 46.2 | 233.5 |
| 2014 | 30.8 | 135.4 | 73.5 | 224.4 |
| 2015[1] | 5.4 | 68.9 | 53.7 | 263.3 |

SOURCE: City of Detroit Buildings, Safety Engineering & Environmental Department - Construction Permits Issued Calendar Report.
NOTE: Residential includes single and multiple family dwellings. All years reflect calendar years from January 1 to December 31.
(1) Through June 30, 2015.

**Housing Characteristics**

Trends in the housing stock of the City have a direct impact on the City's levy and collection of *ad valorem* property taxes, because residential real property accounts for more than two-thirds of the valuation of all real property in the City (see "ASSESSED VALUATION AND PROPERTY TAXES - Valuation by Type of Property" above).

The number of housing units in the City fell 26% between 1980 and 2010. Net losses have been concentrated in owner-occupied units, 21% of which were lost to the housing market in the 1980s, 7% of which were lost in the 1990s and 25% lost between 2000 and 2010. Owner occupancy rates in the City declined from 53% in 1980 to 39% in 2010. Since 1990, the City has experienced a significant increase in the construction of new housing units. See "CERTAIN ECONOMIC AND DEMOGRAPHIC INFORMATION - Major Projects and Developments."

**Table 27 – Housing Inventory, 1980 to 2010**

| Occupancy Status | 1980 | 1990 | 2000 | 2010 |
|---|---|---|---|---|
| | | (in thousands) | | |
| Owner-occupied | 250.9 | 197.9 | 184.6 | 137.7 |
| Renter-occupied | 182.6 | 176.1 | 151.8 | 131.7 |
| Vacant | 37.7 | 36.0 | 38.7 | 79.7 |
| Total housing units | 471.2 | 410.0 | 375.1 | 349.2 |

SOURCE: U.S. Department of Commerce, Bureau of the Census.
NOTE: Data may not add up due to independent recording. Excludes seasonal housing.

**Table 28 – Housing Characteristics, 2010**

| | City of Detroit | Wayne County | Detroit MSA | United States |
|---|---|---|---|---|
| Percent owner-occupied | 51.1% | 64.7% | 70.9% | 65.1% |
| Rental vacancy | 18.0% | 14.4% | 12.8% | 9.2% |
| Median value of owner-occupied units | $ 53,900 | $ 89,500 | $ 124,400 | $179,900 |
| Median contract rent | $ 533 | $ 602 | $ 647 | $ 713 |
| Persons per household | 2.59 | 2.56 | 2.53 | 2.58 |

SOURCE: U.S. Department of Commerce, Bureau of Census (one year estimates).
NOTE: Value of Owner-Occupied Units is a self-reported estimate of the then-current market value and therefore is not directly comparable to the SEV.

**Largest Employers**

Below is a listing of the largest principal employers by company and by number of employees actually or estimated to be employed full-time within the City of Detroit as of July 2015, unless otherwise noted. Number of full-time employees may include full-time equivalents.

**Table 29 – Largest Principal Employers**

| | | |
|---|---|---|
| Detroit Medical Center (Vanguard Health Systems) | 11,497 | 1 |
| City of Detroit | 9,591 | 2 |
| Quicken Loans, Inc. | 9,192 | 3 |
| Henry Ford Health System | 8,807 | 4 |
| Detroit Public Schools | 6,586 | 5 |
| U.S. Government | 6,308 | 6 |
| Wayne State University | 6,023 | 7 |
| FCA U.S. L.L.C. | 5,426 | 8 |
| Blue Cross Blue Shield of MI/Blue Care Network | 5,415 | 9 |
| General Motors Co. | 4,327 | 10 |

SOURCE: Crain's Book of Lists, 2014 Edition (City of Detroit Based)

**Port of Detroit**

The Detroit/Wayne County Port Authority ("DWCPA") is a public agency responsible for promoting trade and freight transportation through the Port of Detroit (the "Port"), which provides direct water service to world markets via the Great Lakes/St. Lawrence Seaway. The Port has five privately owned and operated full-service terminals, a liquid bulk terminal and bulk facility, and a single dock facility with capacity for 14 ocean-going vessels. In addition, more than 30 industries located on the Detroit and Rouge Rivers have their own port facilities. A variety of ship repair services are available. The Detroit area, which is the largest foreign trade zone in the United States, provides financial advantages related to federal taxes and customs duties at subzones throughout the City and region. The Port is a principal port of entry for trade with Canada via bridge, vehicular tunnel, rail tunnel and barge service. Steel and scrap steel are the principal export products of the Port, handled for the three local steel mills. General cargo constitutes a minor portion of total tonnage due to the lack of regularly scheduled shipping service. See "CERTAIN ECONOMIC AND DEMOGRAPHIC INFORMATION - Major Projects and Developments."

**Transportation Network**

Five major rail lines provide direct service to the Detroit area by railroad companies such as Conrail, Norfolk Southern, Grand Trunk Western, Canadian Pacific and CSX Transportation. Major cargo handled by the rail lines in the Detroit area include automobiles, auto parts, steel, chemicals and food products.

Air transportation service is provided to the City at the Detroit City Airport, which has general aviation services, and at the Detroit Metropolitan Wayne County Airport, the nation's 12$^{th}$ largest airport (by number of aircraft operations) which is one of its busiest hubs and is the primary Asian gateway for Delta Airlines. Fourteen scheduled passenger airlines provide domestic and international service with more than 32 million annual passenger deplanements and enplanements, and an annual economic impact of over $7.6 billion.

This area's extensive toll-free highway system, which includes the 1-94, 1-75, 1-96 and 1-696 interstate highways and Canadian Highway 401, provides one-day access, based on a 500-mile day, to 48% (by population) of the U.S. market and to the Province of Ontario, Canada.

**Major Projects and Developments**

A number of major developments are in various stages of construction in the City. Most of the projects represent joint efforts between the public and private sectors. Below are brief descriptions of the major developments, including announced financing sources.

***Greater Downtown Detroit***

Greater Downtown Detroit is a 7.2 sq. mile area consisting of the central business district, Midtown, New Center, Woodbridge, Eastern Market, Lafayette Park, Rivertown, and Corktown. Between 2010 and 2012, three companies (Quicken Loans/Rock Ventures, Blue Cross Blue Shield of Michigan, and Strategic Staffing Solutions) were responsible for a total of 10,000 new employees located in greater downtown; between 2006 and 2012, $6 billion had been invested in real estate development and acquisition projects in Greater Downtown; and between October 2012 and October 2014, an additional $606 million of projects have been completed, with $816 million of projects under construction, and $2.3 billion of projects in the planning stage.

**Source:** The Detroit Economic Growth Corporation, the Downtown Detroit Partnership, Midtown Detroit, Inc., and Invest Detroit.

***New Economy Initiative***

Focusing on the Greater Downtown 3.5 mile corridor in the City, the New Economy Initiative ("NEI") is the largest economic development of its kind. This initiative builds a network of support for entrepreneurs and small business. NEI's efforts include:

- A five-year, $14 million investment in TechTown, a local business growth center, enabling the cultivation of local entrepreneurship efforts (including the incubation of Sentinl Corporation, the manufacturer of IDENTILCOK, a fingerprint identification technology for firearms);

- An $887 thousand investment in AutoHarvest, a marketplace that enables owners of intellectual property to list their technologies they are willing to license for use in advanced manufacturing applications;
- A five-year, $1.7 million investment in the Detroit Economic Growth Corporation D2D Program, which connects Detroit-based, small business suppliers with Southeast Michigan large corporate purchasers.

***New International Trade Crossing***

The City's border with Ontario, Canada, is the most frequently crossed in North America, allowing for significant international commercial cooperation. A second bridge, the "New International Trade Crossing" (NITC), between Canada and Detroit has been approved and is expected to contribute to improvements in the City's economy through increased commerce and jobs for residents. Pursuant to an agreement between the Canadian federal government and the State of Michigan announced June 15. 2012, the Canadian federal government would pay the costs of bridge construction, land acquisition in Michigan, the construction of ramps from interstate 75, and the United States customs plaza. The Canadian contribution would be repaid from bridge tolls. On April 12, 2013, the United States State Department issued a Presidential permit to the State of Michigan for the new bridge. On May 22, 2013, the Canadian government allocated $25 million to begin land acquisition on the Detroit side. The crossing, as proposed, would connect Detroit and Windsor by linking Interstate 75 and Interstate 94 in Michigan with the new Windsor-Essex Parkway connection to Highway 401 in Ontario. The bridge is tentatively scheduled for completion in 2018, according to the Michigan Department of Transportation. With traffic crossing the border anticipated to grow from 18,500 vehicles a day in 2016 to 26,500 by 2025, the NITC is expected to provide an orderly flow of people and goods between the two countries.

***M-1 Rail Project***

The construction of the new 3.3 mile streetcar light rail line to run along the City's main street - Woodward Avenue, with $100 million in local funding from non-governmental sources, is expected to revitalize the City's core and in time connect it with the older, mixed use suburbs. Construction for the M-1 Rail project has already begun, and is expected to be completed in 2016.

***Detroit Medical Center***

Vanguard Health Systems' Detroit Medical Center operates eight general and specialty hospitals in southeastern Michigan. A total of $850 million in capital expenditures is planned in the City, including a new cardiovascular institute. Children's Hospital is constructing a new $246 million patient tower and office building.

***Detroit Regional Convention Facility Authority***

The Detroit Regional Convention Facility Authority has completed phase II of a $21 million project that included infrastructure improvements for the North American International Auto Show, partial re-roofing of the building, and creation of parking spaces, additional exhibition space and electrical power improvements. The $227 million phase III multi-year project is currently underway and will include a combination of major physical changes, a 40,000-square-foot expansion and continuation of infrastructure improvements. The project is scheduled to be completed in 2015. The construction cost is being paid for by bonds which will be repaid with hotel and liquor tax revenue.

***Broderick Tower***

The $53 million circa-1928 tower renovation complex is complete. The 127-unit, market-rate apartment project received historic tax credits and bank loan financing.

***David Whitney Building***

This 19-story, 1914-vintage former office building — comprising 250,000 square feet, adjacent to the Broderick Tower, has been redeveloped into 108 residential units on the top 10 floors of the building and a 125-room Aloft Hotel, on floors two through nine.

***Whole Foods Market***

Whole Foods operates a 21,000 square-foot supermarket in the midtown area that encompasses the medical and cultural centers, as well as Wayne State University. The store is now open with about 75 employees. A second Whole Foods Market is being planned.

***Gateway Marketplace Shopping Center***

In 2013, a 325,000 square-foot shopping center covering 36 acres at the northern border of Detroit opened. The center is anchored by a Meijer Supercenter, a Marshalls department store and a K&G Fashion Superstore.

***Bedrock Real Estate Services***

Bedrock Real Estate Services, part of the Dan Gilbert family of companies, now owns or controls more than 70 buildings in the greater downtown. The downtown area is a burgeoning concentration of tech businesses and incubators and is now home to several venture capital firms and many of their portfolio companies.

***United States Patent and Trademark Satellite Office***

The first-ever satellite office for the United States Patent and Trademark Office opened in Detroit in July 2012. The office occupies 31,000 square feet at 300 River Place Drive. The building, situated on the banks of the Detroit River, is listed on the National Historic Registry and was the former home to Parke-Davis Laboratories as well as the Stroh's Brewery Headquarters.

***Wayne State University***

Wayne State University recently completed building a $93 million biotech hub, consisting of a 200,000 square foot biomed research center. Upon full occupancy, the research building will house hundreds of researchers in cardiovascular disease, metabolic disorders such as diabetes, hypertension and obesity, bioinformatics and computational biology and biomedical engineering. In addition, the Henry Ford Health System will move its joint and bone research program and biomechanics motion laboratory from its West Grand Boulevard campus into 16,000 square of the completed project at Wayne State University. Financing included a $30 million grant from the State and the remainder of the financing came from a combination of philanthropy and debt.

***Meijer (Grand River)***

Grand Rapids based retailer Meijer super market has built on a 190,000 square foot super center located on the site of the former Redford High School, located at 6 Mile and Grand River in Northwest Detroit. The store opened to the public in June 2015, and is expected to employ up to 500 people.

***The District Detroit***

Ilitch Holdings, Inc., the owner of the Detroit Red Wings, has finalized and broken ground on a new arena for the NHL team, the District Detroit. The development, at a projected $650 million investment of both public and private funds, will extend the entertainment district north of I-75, bridging the gap between downtown Detroit and the revitalized Midtown. The District Detroit is being funded by $200 million from Ilitch Holdings, and $450 million of bonds issued by the Michigan Strategic Fund. It is expected the District Detroit to be complete for the 2017 National Hockey League season.

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**APPENDIX IV**

**FINANCIAL STATEMENTS OF THE CITY OF DETROIT FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

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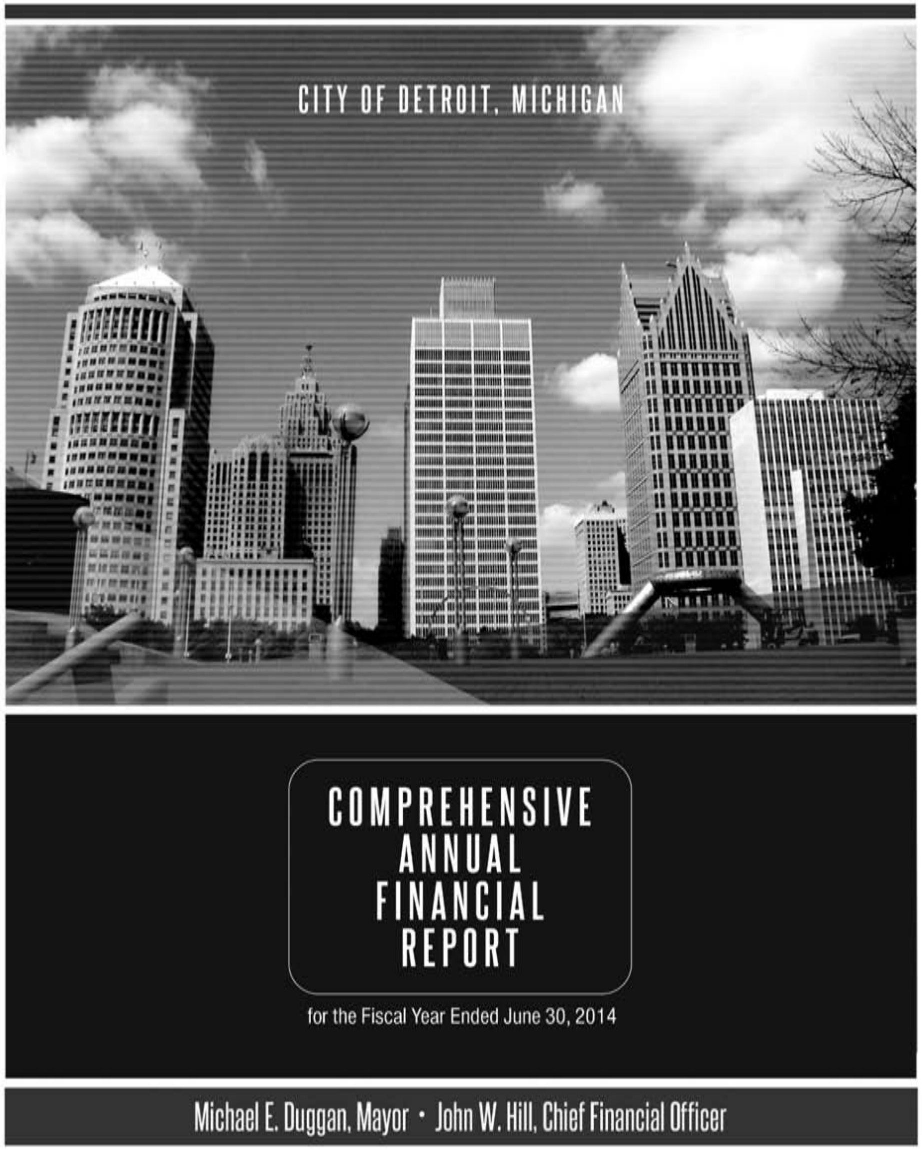


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*"We hope for better things."* | *"It shall rise again from the ashes."*

FOUNDED **1701**
INCORPORATED **1806**
AREA (Square Miles) **137.9**
POPULATION **713,777**



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**City of Detroit**

# Comprehensive Annual Financial Report

**for the Fiscal Year Ended June 30, 2014**

Michael E. Duggan, Mayor

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**PHOTO CREDITS**

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CITY OF DETROIT
OFFICE OF THE CHIEF FINANCIAL OFFICER

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June 17, 2015

The City of Detroit
Honorable Mayor Michael Duggan and
The Honorable City Council

The management and staff of the Office of the Chief Financial Officer are pleased to submit the City of Detroit's Comprehensive Annual Financial Report (CAFR) for the fiscal year ended June 30, 2014 along with the Independent Auditors' Report. This report is prepared for the purpose of disclosing the City's financial condition to its residents, elected officials, and other interested parties.

**INTRODUCTION TO THE REPORT**

*Responsibility*

The Office of the Chief Financial Officer prepares the City's CAFR and is responsible for both, the accuracy of the data and the completeness and fairness of the presentation, including all disclosures. We believe the data presented is accurate in all material aspects, that it is presented in a manner designed to fairly set forth the financial position and results of operations of the City's primary government and component units for which it is financially accountable and that the disclosures necessary to enable the reader to gain an understanding of the City's financial affairs have been included.



*Adherence to Generally Accepted Accounting Principles (GAAP)*

GAAP requires that management provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to complement the MD&A and should be read in conjunction with it. The City's MD&A can be found immediately following the report of independent auditors.

*Independent Audit*

All local units of government within the State of Michigan must comply with the Uniform Budgeting and Accounting Act, Public Act 2 of 1968, as amended, which requires an annual audit of the financial records and transactions of the City by independent certified public accountants. The primary purpose of the auditing requirements of this act is to maintain the confidence of all interested parties in the integrity of the record keeping and financial reporting of local units of government.

**PROFILE OF THE GOVERNMENT**

*Background and Overviews*

Detroit is the largest city in the state of Michigan and is the seat of Wayne County. The City covers approximately 140 square miles and accounts for nearly half of the population of Wayne County. The City is internationally known for automotive manufacturing and trade. Detroit is located on an international waterway, which is linked via the St. Lawrence Seaway to seaports around the world. The City was incorporated in 1806, and is a home rule city under State law. The organizational structure of the City is as follows:



*Emergency Management*

In February 2013, a financial review team appointed by the Governor of the State of Michigan determined that a local government financial emergency existed in the City. On March 14, 2013, the Local Emergency Financial Assistance Loan Board appointed Kevyn Orr as the emergency financial manager of the City in accordance with the State of Michigan Public Act 72 of 1990, the Local Government, and School District Fiscal Responsibility Act ("PA 72"). On March 28, 2013, Michigan Public Act 436 of 2012, the Local Financial Stability, and Choice Act ("PA 436"), took effect, and replaced PA 72. PA 436 specified that an emergency financial manager appointed under PA 72 and serving on the effective date of PA 436 would continue to serve under the new act. PA 436 changed the title of the emergency financial manager to emergency manager and expanded the powers of the emergency manager to include the ability to recommend to the Governor that the City file a petition for relief under Chapter 9 of title 11 of the United States Code (the "Bankruptcy Code").

The Emergency Manager ("EM") delivered a letter to the Governor and the State Treasurer on July 16, 2013, pursuant to Section 18(1) of PA 436 (the "Recommendation Letter"), recommending that the City be authorized to seek relief under Chapter 9 of the Bankruptcy Code. The EM stated in the Recommendation Letter: "Based on the current facts and circumstances, I have concluded that no reasonable alternative to rectifying the City's financial emergency exists other than the confirmation of a plan of adjustment for the City's debts pursuant to Chapter 9 of the Bankruptcy Code because the City cannot adopt a feasible financial plan that can satisfactorily rectify the financial emergency outside of a Chapter 9 process in a timely manner."

On July 18, 2013, the Governor delivered a letter to the EM and the State Treasurer (the "Authorization Letter") authorizing the City to commence a bankruptcy case under Chapter 9 of the Bankruptcy Code. In the Authorization Letter, the Governor agreed with the EM that Chapter 9 offered the only feasible alternative to fix the City's finances and to complete a sustainable restructuring for the benefit of Detroit's approximately 700,000 residents. Based on the EM's Recommendation Letter, the Governor determined that: (a) the City could not meet its obligations to its citizens; (b) the City could not meet its basic obligations to its creditors; (c) the City's failure to meet its obligations to its citizens was the primary cause of its inability to meet its obligations to its creditors; and (d) the only feasible path to ensuring the City will be able to meet its obligations in the future was to have a successful restructuring under the federal bankruptcy process.

Upon receiving the Authorization Letter, the EM issued an order directing the commencement of the City's Chapter 9 bankruptcy case. Consistent with these approvals, on July 18, 2013, the City filed a voluntary petition under Chapter 9 of the Bankruptcy Code in the United States Bankruptcy Court for the Eastern District of Michigan (the "Bankruptcy Court"), which case is captioned *In re City of Detroit, Michigan*, Case No. 13-53846 (Bankr. E.D. Mich.) (the "Bankruptcy Case").

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

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

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

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

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

On September 25, 2014, in accordance with Section 9(6) (c) of PA 436, the City Council voted unanimously to remove the EM as of the Effective Date (the period from the appointment of the EM through such removal, the "EM Tenure"). By a letter to the Governor, the Mayor approved of the Council's vote on the same day. On September 25, 2014, in connection with the vote of City Council to, and the Mayor's approval of, the removal of the EM as of the Effective Date, the EM adopted and issued his Order No. 42. Order No. 42 restored the authority of the Mayor and the City Council over day-to-day operations and activities of the City effective as of the date of such order, as permitted by PA 436. The EM continued to exercise his powers to manage and conclude the Bankruptcy Case and related bankruptcy proceedings, including the closing of the transactions contemplated by the Plan and the occurrence of the Effective Date.

On December 10, 2014, and in accordance with the Plan, the City: (1) issued $1.3 billion of debt, of which $1.1 billion was delivered to various classes of creditors in satisfaction of their claims; (2) paid $110.1 million of cash including $73.1 million to various classes of creditors in satisfaction of their claims, $36.5 million to establish a Professional Fee Reserve account to pay the bankruptcy and restructuring professionals, and $0.5 million to satisfy debt issuance costs; (3) assigned debt service payments on the remaining $43.3 million of the original UTGO bonds primarily to the income stabilization funds for the General Retirement System (GRS) and Police and Fire Retirement System (PFRS); (4) issued settlement credits totaling $25.0 million to the insurers of the POCs; and (5) irrevocably transferred the assets of the Detroit Institute of Arts (DIA) having a net book value of $86.6 million to the DIA, as trustee, to be held in perpetual charitable trust, subject to dispositions in accordance with applicable national ethical standards for museums, and within City limits, for the primary benefit of residents of the City and residents of the State. On December 10, 2014, the EM Tenure concluded.

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

The City eliminated a net $8.3 billion ($9.6 billion of liabilities and deferred inflows less $1.3 billion of assets and deferred charges) of its obligations, including: (1) $7.0 billion of pension and retiree benefits legacy costs; (2) $1.4 billion of POC long-term obligations; (3) $302.5 million of the POC swaps; and (4) $200.9 million of accrued but unpaid pension contributions. Also, as a result of the elimination of the POC long-term obligations, the City eliminated the related net pension asset totaling $1.2 billion, which included the obligation for the unpaid pension contributions. The bankruptcy exit and this settlement and discharge of claims under the Plan provided the City a total of $6.8 billion in aggregate debt relief.





*Financial Review Commission*

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

*Executive Branch*

The citizens of Detroit elect the Mayor to a four-year term. The City Charter grants the Mayor broad managerial powers including the authority to appoint department directors, deputy directors, and other executive branch officials. The responsibility to implement most programs, provide services, activities, and manage day-to-day operations is delegated by the Charter to the executive branch.

*Legislative Branch*

The legislative branch is comprised of the City Council and its agencies. The nine members of the City Council are also elected to four-year terms. Many significant decisions, including budget appropriations, procurement of goods and services, and certain policy matters must be approved by the City Council.

During the fiscal year ending June 30, 2014, many of the powers and functions of the Executive and Legislative Branches were vested in the EM.

*Other Agencies*

The City Clerk's Office and the Election Commission are not classified under either of the two branches mentioned above.

## LOCAL ECONOMY

The City of Detroit is the largest city in Michigan and the 18th largest city in the United States. The City's current economic condition is improving. The future outlook for recovery and improvement is positive. Businesses are transferring employees from suburban cities to the City of Detroit. New residents are moving into the City.

The Great Lakes contain 20 percent of the world's fresh water supply. There are three top-tier universities within 90 minutes of the City. Michigan, due to the Detroit metropolitan area and the auto industry, has America's highest concentration of engineers.

Detroit is becoming a major entertainment destination. The City is home to major sports teams including the Tigers, Lions, and Red Wings. Also, the City's three casinos and a growing number of restaurants and night spots provide visitors with many entertainment options.

The Detroit metro area economy remains dominated by the auto industry. Auto sales by Detroit manufacturers were up in 2014 from the prior year. It is expected that auto sales will continue their upward track this year.

Moody's Investors Service, in its March 11, 2015 analysis of the City, noted "The City's economy and tax base continue to struggle under the weight of property valuation declines, a stubbornly weak demographic profile and a dwindling population, all of which are impediments to the City's efforts to revitalize its economy and shore up its revenue base. Unemployment remains high at 13.0% as of November 2014 reflecting the lasting effects of a 52.9% decline in the number of jobs in the City from 1970 to 2012, inclusive of auto maker job cuts experienced during the recession. The persistently high unemployment rate is also a contributor to the high concentration of residents below the poverty level. Approximately 39.3% of the City's residents live in poverty, according to US census estimates from 2009-13, compared to the US official poverty rate of 14.5% for 2013. While Detroit is the eighteenth largest US City and still boasts a large economic base even after years of decline, the City reports a very low $21,889 full value per capita, well below the U.S. city median of $89,356. This statistic illustrates the difficulty of funding services for a population of this size using the resources available.

The City's housing market is beginning to show signs of rebounding, with housing prices in the Detroit-Dearborn-Livonia metropolitan statistical area increasing by 6.8% from 2013 through the second quarter of 2014. The City's aggressive plans to reduce blight have resulted in an abundance of distressed properties for sale. The large stock of these affordable housing structures will help attract new residents, though the housing market will still suffer from the large inventory of foreclosed and abandoned properties.

Despite these recent gains in home sale prices in some parts of the City, assessed values will continue to decline overall through 2020 due to declines in assessed values that have not kept pace with the recent severe drop in home prices. Erosion of the City's estimated full value began in fiscal 2008 as the recession began, resulting in a valuation decline of 45% from an estimated full value of $28.2 billion at year-end 2007 to $15.5 billion as of fiscal 2014. The City expects the trend of declining property valuations to continue as it makes changes to its property assessment process. The City began the reassessment process in 2014 in an attempt to attract new residents and to correct overassessment in certain areas of the City. As a result of this process, reassessment of residential property in fiscal 2015 is projected to result in an additional 10%-20% decline in taxable valuation for three-quarters of the residential housing stock, with the remainder of the neighborhoods seeing no reduction in their taxable valuation. An outside firm is conducting a reappraisal of all property over the next five years which will likely result in further reductions to the City's taxable value."

*New International Trade Crossing*

The City's border with Ontario, Canada is the most frequently crossed in North America, allowing for significant international commercial cooperation. A second bridge, the "New International Trade Crossing" (NITC), between Canada and Detroit has been approved and is expected to contribute to improvements in the City's economy through increased commerce and jobs for residents. Pursuant to an agreement between the Canadian federal government and the State of Michigan announced June 15, 2012, the Canadian federal government would fund bridge construction, land acquisition in Michigan, and the construction of ramps from Interstate 75. The Canadian contribution would be repaid from bridge tolls. On April 12, 2013, the U.S. State Department issued a Presidential permit to the State of Michigan for the new bridge. On May 22, 2013, the Canadian government allocated $25 million to begin land acquisition on the Detroit side. The crossing, as proposed, would connect Detroit and Windsor by linking Interstate 75 and Interstate 94 in Michigan with the new Windsor–Essex Parkway connection to Highway 401 in Ontario. The bridge is tentatively scheduled for completion in 2020. The NITC is expected to provide an orderly flow of people and goods between the two countries.

*M-1 Rail Project*

The construction of the new 3.3 mile streetcar light rail line to run along the City's main street, Woodward Avenue, with $100 million in local funding from non-governmental sources, is expected to revitalize the City's core and in time connect it with the older, mixed use suburbs. Construction work on the M-1 Rail project has begun. The project is expected to be completed in two years.

*Public Lighting*

The City has long struggled with inadequate street lighting. In the last year, the Public Lighting Authority of Detroit (PLA) made great strides in providing citizens with satisfactory public lighting. The PLA is a State-created authority whose mission is to improve, modernize, and maintain all streetlights in the City. The PLA's goal is to complete relighting all neighborhoods in Detroit by the end of 2015 and all major thoroughfares by the end of 2016. The authority is almost halfway to its goal of installing 65,000 LED lights.

*Blight Removal Initiatives*

Remediation of blight is the City's highest reinvestment priority. The Detroit Land Bank Authority has taken control of a significant number of vacant City owned properties and will auction them to people who will renovate and inhabit the properties. In addition, the Authority takes legal action to seize abandoned homes and/or reaches agreements with property owners who agree to remove blight violations. The City also receives Federal grants to assist in demolition efforts of structures that cannot be saved.



**LONG-TERM FINANCIAL PLANNING**

The City's current financial planning process is primarily driven by the terms of the Plan of Adjustment, related restructuring initiatives, and the oversight of the Commission. In previous years it was primarily driven by the budget process. The Administration has prepared a four-year financial plan in accordance with state law and consistent with the Plan of Adjustment.

The Commission provides oversight of the City's finances and financial planning. Compliance with PA 181 includes the following:

- Providing to the Commission any documents, records or other information requested of City officials by the Commission or its staff, including any documents, records or other information specifically required by PA 181.

- Appearing before the Commission to provide testimony, documents, records or other information when requested by the Commission or its staff.

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

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

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

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

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

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

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

**RELEVANT FINANCIAL POLICIES**

*Internal Control Structure*

Management of the City is responsible to establish and maintain an internal control structure that ensures the assets of the government are protected from loss, theft, or misuse and that adequate accounting data are compiled to allow for preparation of financial statements in conformity with U.S. generally accepted accounting principles. The City adheres to the GASB (Governmental Accounting Standards Board) standards for financial reporting and internal accounting purposes. The internal control structure is designed to provide reasonable, but not absolute, assurance that these objectives are met. The concept of reasonable assurance recognizes that: (1) the cost of a control should not exceed the benefits likely to be derived; and (2) the valuation of costs and benefits requires estimates and judgments by management.

*Budgetary Control*

The City maintains budgetary controls, which are designed to ensure compliance with legal provisions of the annual budget adopted by the City Council. An operating budget is legally adopted by ordinance each fiscal year for the General Fund, and other City funds.

**ACCOMPLISHMENTS/ACKNOWLEDGEMENTS**

*Accomplishments*

Implementation of Reinvestment Initiatives

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

New Financial Management System

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

*Acknowledgements*

I wish to express my appreciation to the City’s Office of the Chief Financial Officer, other City personnel and the fiscal staff at each of our component units whose professionalism, dedication, and efficiency contributed to the preparation of this report. I also would like to extend my thanks to the Mayor’s Office, Members of City Council and the Auditor General for their support.

Sincerely,

**John Naglick Jr.**
Chief Deputy CFO/Finance Director







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# City of Detroit

Coleman A. Young Municipal Center
2 Woodward Avenue, Suite 216
Detroit, Michigan 48226
Phone: (313) 224-4558
Fax: (313) 224-4091

Mark W. Lockridge
AUDITOR GENERAL

## AUDITOR GENERAL'S LETTER

June 17, 2015

The Honorable Mayor Michael E. Duggan
And Members of the City Council
City of Detroit, Michigan

The basic financial statements included in the City's Comprehensive Annual Financial Report for the fiscal year ended June 30, 2014, were audited by KPMG LLP, under contract with the City of Detroit's, Office of the Auditor General. The audit of these financial statements and the resulting Auditors' opinion satisfies the requirements of the City Charter under Section 7.5-105.

Respectfully,

Mark W. Lockridge
Auditor General



# PRINCIPAL OFFICIALS OF THE CITY OF DETROIT, MICHIGAN

## Executive
**(Elected)**

**Mayor**
MICHAEL E. DUGGAN

## Legislative
**(Elected)**

### City Council

BRENDA JONES
President

GEORGE CUSHINGBERRY
President Pro Tem

JANEÉ AYERS

SCOTT BENSON

RAQUEL CASTANEDA-LOPEZ

GABE LELAND

MARY SHEFFIELD

ANDRE SPIVEY

JAMES TATE

IV-10

PRINCIPAL OFFICIALS OF THE

# CITY OF DETROIT, MICHIGAN

## Legislative

**(Elected)**

**City Clerk**
JANICE WINFREY

## Other Executive Officials

**(Appointed)**

JOHN W. HILL
**Chief Financial Officer**

JOHN NAGLICK
**Chief Deputy CFO/ Finance Director**

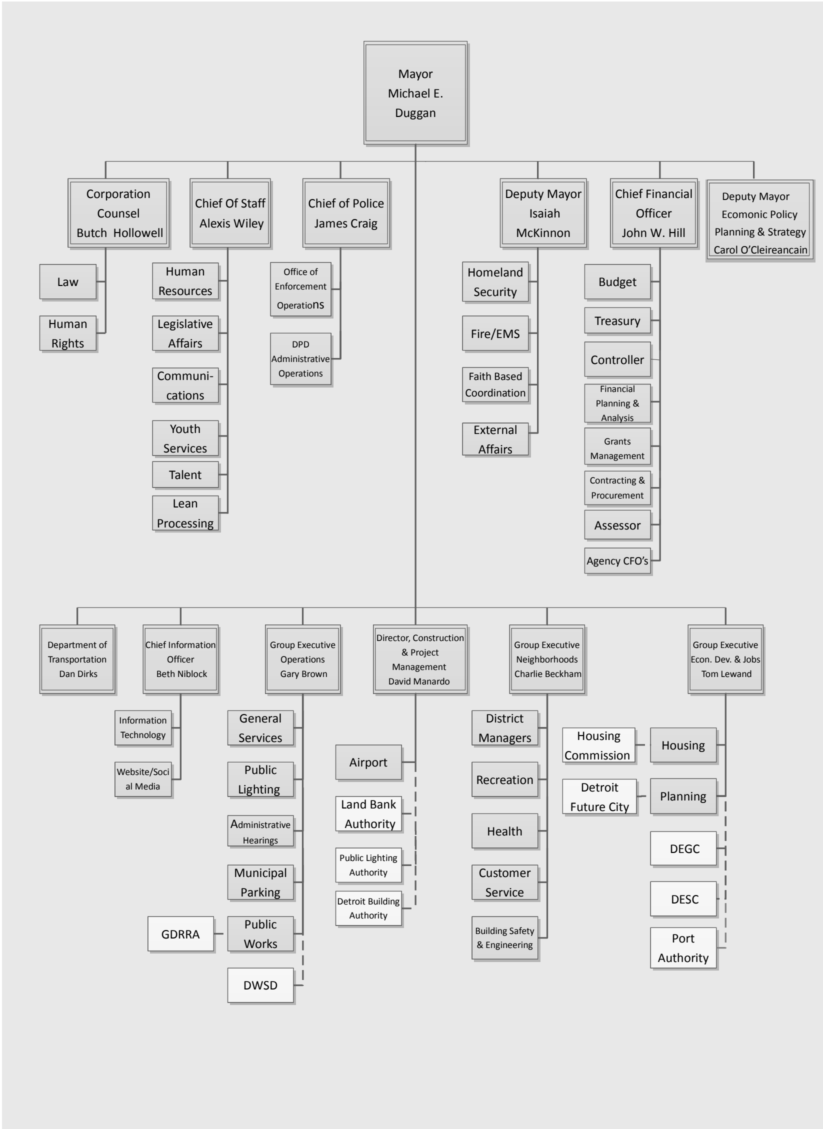


# City Job Fair

The City of Detroit Human Resources Department held a City job fair at Cobo Center on Feb. 28, 2014, looking to fill more than 350 vacant positions in City government, including bus drivers, auto mechanics, police officers, EMS technicians, accountants and human resources analysts. The fair also featured on-site workshops on resumé building and interviewing techniques. The fair was a tremendous success, drawing 2,700 attendees and resulting in 3,400 applications from fair attendees and online applicants.

## COMPREHENSIVE ANNUAL FINANCIAL REPORT

City of Detroit, Michigan






# Video cameras on DDOT buses

The Detroit Department of Transportation (DDOT) and Mayor Duggan announced the installation of cameras on 48 buses on Feb. 24, 2014, thanks to a $250,000 grant from the Federal Transit Administration. Each bus was installed with eight internal and external cameras to capture high-resolution images. The remaining 250 buses in the fleet are now having cameras installed.

## COMPREHENSIVE ANNUAL FINANCIAL REPORT

City of Detroit, Michigan

# F I N A N C I A L

*The Financial Section Contains:*

**Independent Auditors' Report**
**Management's Discussion and Analysis**
**Basic Financial Statements**
**Notes to Basic Financial Statements**
**Required Supplementary Information**



City of Detroit, Michigan
COMPREHENSIVE ANNUAL FINANCIAL REPORT
For the Year Ended June 30, 2014

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# INDEPENDENT AUDITORS' REPORT







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KPMG LLP
Suite 1900
150 West Jefferson
Detroit, MI 48226

## Independent Auditors' Report

To 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 governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Detroit, Michigan (the City), as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

***Management's Responsibility for the Financial Statements***

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

***Auditors' Responsibility***

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the discretely presented component units listed in Note I (a) to the financial statements, which represent 100% of the assets and expenses of the aggregate discretely presented component units. We also did not audit the financial statements of the General Retirement System, the Police and Fire Retirement System (together the Retirement Systems), the Public Lighting Authority, and the Detroit Building Authority, which represent 94% and 64% of the assets and expenses/expenditures/deductions, respectively, of the aggregate remaining fund information. Those statements were audited by other auditors whose reports have been furnished to us, and our opinions, insofar as they relate to the amounts included for the aggregate discretely presented component units and aggregate remaining fund information, are based solely on the reports of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. The financial statements of the Retirement Systems and certain discretely presented component units identified in Note I (a) were not audited in accordance with *Government Auditing Standards*.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the







circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

***Opinions***

In our opinion, based on our audit and the reports of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Detroit, Michigan, as of June 30, 2014, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with U.S. generally accepted accounting principles.

***Emphasis of Matters***

*Emphasis of Matter Regarding Bankruptcy Filing*

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

*Emphasis of Matter Regarding Adoption of New Accounting Pronouncements*

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

As discussed in Note I (u) to the financial statements, in 2014, the City also adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 67, Financial Reporting for Pension Plans. Adopting this new accounting standard resulted in significant changes to the defined benefit related footnote disclosures. Our opinions are not modified with respect to this matter.

*Emphasis of Matter Regarding the Fair Value of Pension Investments*

The plan investments of the General Retirement System and the Police and Fire Retirement System include investments valued at $642,000,000 and $877,000,000, respectively, as of June 30, 2014 whose fair values have been estimated by management in the absence of readily determinable fair values. Management's estimates are based on various methods, which may include information provided by investment managers, general partners, real estate advisors, and other means. Our opinions are not modified with respect to this matter.

***Other Matters***

*Required Supplementary Information*

U.S. generally accepted accounting principles require that the management's discussion and analysis and required supplementary information, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

*Supplementary and Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The introductory section, other supplementary information section, and statistical section, as listed in the table of contents, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The other supplementary information section is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied by us and other auditors in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, based on our audit and the reports of other auditors, the other supplementary information section is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on them.

**Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated June 17, 2015 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

KPMG LLP

Detroit, Michigan
June 17, 2015



# Frederick Douglass Homes Demolition

Mayor Duggan, former Mayor Dave Bing, and Detroit Housing Commission Executive Director Kelley Lyons joined U.S. Department of Housing and Urban Development Assistant Secretary for Public and Indian Housing Sandra Henriquez for the demolition of the Frederick Douglass Homes, formerly the Brewster-Douglass Housing Projects, on March 10, 2014. HUD awarded the Detroit Housing Commission $6.5 million in emergency capital funds to demolish all of the 661 housing units on the site, which had been vacant since 2008. The City is developing an RFP for the redevelopment of the entire site.

**COMPREHENSIVE ANNUAL FINANCIAL REPORT**

City of Detroit, Michigan

# MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) (UNAUDITED)







The following Management's Discussion and Analysis is a required supplement to the City of Detroit's (the "City") financial statements. It describes and analyzes the financial position of the City, providing an overview of the City's activities for the year ended June 30, 2014. We encourage readers to consider the information we present here in conjunction with the information presented in the City's financial statements and notes, which follow this section.

## BANKRUPTCY

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

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

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

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

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

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

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

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

On December 10, 2014, and in accordance with the Plan, the City: (1) issued $1.3 billion of debt of which $1.1 billion was delivered to various classes of creditors in satisfaction of their claims; (2) paid $110.1 million of cash including $73.1 million to various classes of creditors in satisfaction of their claims, $36.5 million to establish a Professional Fee Reserve account to pay the bankruptcy and restructuring professionals, and $0.5 million to satisfy debt issuance costs; (3) assigned debt service payments on the remaining $43.3 million of the original UTGO bonds primarily to the income stabilization funds for the General Retirement System (GRS) and Police and Fire Retirement System (PFRS); (4) issued settlement credits totaling $25.0 million to the insurers of the POCs; and (5) irrevocably transferred the assets of the Detroit Institute of Arts (DIA) having a net book value of $86.6 million to the DIA, as trustee, to be held in perpetual charitable trust, subject to dispositions in accordance with applicable national ethical standards for museums, and within City limits, for the primary benefit of residents of the City and residents of the State. The table below describes the Plan creditor claims settlements and other





requirements and the sources and amounts for the Plan distributions made on or around December 10, 2014.

| Description of Plan Creditor Claims and Other Requirements | Source | Settlement Amount |
|---|---|---|
| Limited Tax General Obligation (LTGO) Bond Debt | Cash | $ 54,999,940 |
| Professional Fee Reserve | Cash | 36,461,114 |
| POC Swap Settlement | Casino Holdback Funds | 12,662,479 |
| Syncora POC Swap Settlement | Cash | 5,000,000 |
| Debt Issuance Costs | Cash | 521,147 |
| 36th District Court Settlement | Cash | 482,857 |
| | Total Cash | 110,127,537 |
| | | |
| Unlimited Tax General Obligation (UTGO) Bond Debt to Holders | 2014 A1 - K1 UTGO Bonds | 279,618,950 |
| Police Fire Retiree Health Care Trust (VEBA) | 2014 B(1) & B(2) Bonds | 253,900,999 |
| General Retiree Health Care Trust (VEBA) | 2014 B(1) & B(2) Bonds | 238,780,159 |
| Refund Series 2014 Financial Recovery Bonds Issued In April 2014 | 2014 A/B Income Tax Bonds | 120,105,000 |
| POC Settlement FGIC/Syncora | 2014 B(1) | 97,692,788 |
| POC Settlement FGIC/Syncora | 2014 C Bonds | 88,430,021 |
| Funds for Revitalization and Reinvestment Initiatives (RRI) | 2014 A/B Income Tax Bonds | 85,684,724 |
| POC Swap Settlement | 2014 A/B Income Tax Bonds | 37,969,929 |
| Debt Service Reserve on 2014 A/B Bonds | 2014 A/B Income Tax Bonds | 27,500,000 |
| Class 14 Unsecured Claims | 2014 B(1) & B(2) Bonds | 20,596,747 |
| LTGO Class 9 Settlement (POC Claims) | 2014 B(1) & B(2) Bonds | 17,301,861 |
| Unlimited Tax General Obligation (UTGO) Bond Debt to Insurers | 2014 A2 - K2 UTGO Bonds | 7,941,840 |
| Downtown Development Authority Class 13 Claim Assigned to FGIC | 2014 B(1) Bonds | 3,691,591 |
| Debt Issuance and Other Costs | 2014 A/B Income Tax Bonds | 3,740,347 |
| | Total Bonds | 1,282,954,956 |
| | | |
| Income Stabilization Funds for Two Pension Funds | Original UTGO Bonds | 43,349,210 |
| Settlement Credits | Non-Cash | 25,000,000 |
| | Total Other Sources | 68,349,210 |
| | | |
| Transfer of Detroit Institute of Arts (DIA) Assets to DIA Trustee | DIA Assets (Book Value) | 86,568,800 |
| | | |
| | Grand Total | $ 1,548,000,503 |

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

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

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

| | | Primary Government | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | | Assets & Obligations | | | Cash & Assets Used & New Obligations | | | |
| Description | | Eliminated | Applied or Assigned | | Cash & Assets | New Debt Obligations | Other | Net Benefit |
| ASSETS | | | | | | | | |
| Net Pension Asset | (1) | $ (1,206,321,236) | $ - | | $ - | $ - | $ - | $ (1,206,321,236) |
| Capital Assets (Net Book Value) | | - | - | (10) | 86,568,800 | - | - | (86,568,800) |
| Deferred Charges | (2) | (34,452,367) | - | | - | - | - | (34,452,367) |
| Total Assets | | (1,240,773,603) | - | | 86,568,800 | - | - | (1,327,342,403) |
| DEFERRED OUTFLOWS OF RESOURCES | (3) | (17,682,877) | | | | | | (17,682,877) |
| LIABILITIES | | | | | | | | |
| Accounts Payable | | - | - | (11) | 36,461,114 | - | - | (36,461,114) |
| Accrued Interest Payable | | 53,306,470 | - | | - | - | - | 53,306,470 |
| Derivative Instruments - Swap Liability | | 302,463,879 | - | | 17,662,479 | 37,969,929 | - | 246,831,471 |
| Defaulted Debt Due to Insurers | (4) | 143,085,398 | - | | - | - | - | 143,085,398 |
| Other Defaulted Debt | (5) | 25,000,000 | - | | - | - | - | 25,000,000 |
| Contingent Liabilities | | - | - | | - | - | 25,000,000 | (25,000,000) |
| Long-Term Obligations | (6) | 2,961,435,753 | 43,349,210 | | 56,003,944 | 1,244,985,027 | 43,349,210 | 1,660,446,782 |
| Total Liabilities | | 3,485,291,500 | 43,349,210 | | 110,127,537 | 1,282,954,956 | 68,349,210 | 2,067,209,007 |
| DEFERRED INFLOWS OF RESOURCES | (7) | 34,844,753 | - | | - | - | - | 34,844,753 |
| Total Net Position (Deficit) | | 2,261,679,773 | 43,349,210 | | 196,696,337 | 1,282,954,956 | 68,349,210 | 757,028,480 |
| Other Obligations Not In Financial Statements | | | | | | | | |
| Long-Term Obligations - OPEB | (8) | 4,723,511,843 | - | | - | - | - | 4,723,511,843 |
| Long-Term Obligations - Net Pension Liability | (9) | 1,326,824,448 | - | | - | - | - | 1,326,824,448 |
| Total Other Obligations | | 6,050,336,291 | - | | - | - | - | 6,050,336,291 |
| Grand Total Net Position (Deficit) | | $ 8,312,016,064 | $ 43,349,210 | | $ 196,696,337 | $ 1,282,954,956 | $ 68,349,210 | $ 6,807,364,771 |

(1) Net Pension Asset eliminated with bankruptcy and GASB 67 and upcoming GASB 68 requirements
(2) Prepaid insurance costs related to eliminated obligations
(3) Deferred charges related to eliminated obligations
(4) Principal and interest paid by insurers for defaulted debt including POC and LTGO debt
(5) Uninsured LTGO (2008 A(2)) bonds principal defaulted on
(6) Includes $1.4 billion POC; $994.8 million OPEB eliminated for year ended June 30, 2014; $287.5 million restructured UTGO; and $117.6 million LTGO obligations
(7) Deferred Swap Termination Fees
(8) Last OPEB valuation (June 11, 2011) $5,718,286,228 less $994,774,385 included in Long-Term Obligations
(9) Net Pension Liability Reduction ($2,918,025,938 pre-bankruptcy and $1,591,201,490 post-bankruptcy)
(10) DIA Assets transferred to DIA Trustee
(11) Funding for Professional Fee Reserve

See Note XIII – Bankruptcy for further details on the City's Chapter 9 Bankruptcy.







## FINANCIAL HIGHLIGHTS

### Government Wide

- At June 30, 2014, the City's net position was $188.4 million, an improvement of $931.9 million from the balance at June 30, 2013, as restated (see below for details). This was mainly due to the $994.8 million (Special Item) reduction of other postemployment benefits (OPEB) because the Employee Health and Life Insurance Benefit Plan was significantly reduced on March 1, 2014 and terminated on December 31, 2014 in accordance with the Plan of Adjustment and settlements reached with retirees in the Bankruptcy Case.

- The City's unrestricted net position was a deficit of $1.3 billion as of June 30, 2014.

- The City had revenues of $2.3 billion and expenses of $2.4 billion for the year ended June 30, 2014.

- The City implemented the provisions of Governmental Accounting Standards Board Statement (GASB) No. 65, *Items Previously Reported as Assets and Liabilities*. As a result, the City reported a change in accounting principle (See Note I (t)). Beginning net position was restated, as debt issuance costs, except the portion related to prepaid insurance costs, were recognized as an expense in the period incurred. Debt issuance costs were previously reported as an asset and recognized as an expense in a systematic and rational manner over the duration of the related debt. As a result, the City's governmental activities net position as of June 30, 2013 decreased $22.4 million and business-type activities net position as of June 30, 2013 decreased $42.9 million. See Note I (t) on page 75 for additional information. Also, GASB 65 established accounting and financial reporting standards that reclassify as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities. Furthermore, these statements provide guidance for deferred outflows of resources and deferred inflows of resources and their applicability to consumption or acquisition of net position.

- The City's pension obligations, retiree benefits, debt service, and derivatives associated with the POCs presented a substantial financial challenge for the City and were a contributing factor in the City's bankruptcy filing. As of June 30, 2014, a total of $302.5 million of the negative fair value of derivatives related to interest rate swaps associated with the City's POCs. The POCs, totaling approximately $1.5 billion, were issued in fiscal years 2005 and 2006 to provide funding for obligations of the City's two pension plans. The City had a $1.5 billion long-term obligation payable at June 30, 2014 for the POCs, including a $52.8 million principal payment that the City defaulted on in June 2013 ($23.1 million) and June 2014 ($29.7 million). The obligations of the City's two pension plans for retiree pensions totaled $7.5 billion at June 30, 2013 (the most recent valuation date), of which approximately $1.5 billion was unfunded (according to the pension plans' actuarial estimates). The primary government's pension, retiree benefits, and other pension related costs totaled $377.4 million for the year ended June 30, 2014. This was a decrease of $314.6 million from the prior year total of $692.0 million. The large decrease was primarily due to the reduction of other postemployment benefits (OPEB) because the Employee Health and Life Insurance Benefit Plan was significantly reduced on March 1, 2014 and terminated on December 31, 2014 in accordance with the Plan of Adjustment and settlements reached with retirees in the Bankruptcy Case.

- The City's total bonded debt at June 30, 2014 was $6.4 billion, an increase of $6.8 million from the June 30, 2013 balance. This increase was primarily due to the Governmental Funds and Public Lighting Authority issuing $120.0 million and $60.0 million of new debt, respectively. The Governmental Funds retired $81.6 million of general obligation bonds during the year ended June 30, 2014. The Sewage Disposal, Water, and Parking Funds retired $42.5 million, $41.2 million, and $9.3 million, respectively, of revenue bonds during the year ended June 30, 2014.

- Total primary government long-term obligations were $8.8 billion at June 30, 2014, a decrease of $703.4 million from $9.5 billion at June 30, 2013. The long-term obligations decreased mainly due to the $994.4 million decrease in other postemployment benefits. The City defaulted on its POC long-term (principal and interest) obligations totaling $107.5 million from June 15, 2013 to June 30, 2014 due to cash flow and the bankruptcy stay.

- At June 30, 2014, the fair value of the POC swap liabilities was $244.1 million for the governmental activities and totaled $302.5 million for the primary government (see Note VIII for more details). This was a $6.0 million increase in fair value from the $296.5 million balance at June 30, 2013.

**Fiduciary**

- The City implemented the provisions of Governmental Accounting Standards Board Statement (GASB) No. 67, *Financial Reporting for Pension Plans*—an amendment of GASB Statement No. 25. Statement No. 67 establishes financial reporting standards, but not funding or budgetary standards, for state and local government defined benefit pension plans and defined contribution pension plans that are administered through trusts or equivalent arrangements (Pension Trusts). For defined benefit pension plans, this statement establishes standards of financial reporting for separately issued financial reports and presentation as pension trust funds in the financial statements of another government, and specifies the required approach to measuring the pension liability of employers and any nonemployer contributing entities for benefits provided through the pension plan (the net pension liability), about which certain information is required to be presented. The adoption of Statement No. 67 has no impact on the City's governmental fund financial statements, which continue to report expenditures in the amount of the actuarially determined contributions, as required by State law. The calculation of pension contributions is unaffected by the change. The adoption has resulted in certain changes to the presentation of the financial statements of the City's Pension and Other Employee Benefit Trust Funds with the exception of the OPEB Plan. In the City's financial statements, these changes were generally limited to a recharacterization of fiduciary fund net position. In the separate annual financial statements of these funds, certain changes in note disclosures and Required Supplementary Information (RSI) were incorporated to comply with Statement No. 67.







**Fund Level**

- The City of Detroit General Fund assets and deferred outflows of resources exceeded its liabilities and deferred inflows of resources by $53.4 million and cash and investments on hand totaling $381.3 million were sufficient to meet obligations due. The General Fund fund balance was $53.4 million, a $126.4 million increase from the $73.0 million deficit at June 30, 2013. Cash and investments were $279.1 million higher than the $102.2 million cash and investments balance at June 30, 2013. The Unassigned General Fund Balance (page 42) had a $145.9 million cumulative deficit at June 30, 2014, a $13.3 million increase from the $132.6 million deficit at the end of fiscal year 2013. The increase in the cumulative deficit of unassigned fund balance was primarily due to the bankruptcy and restructuring costs incurred during the year. The City's General Fund improved solvency and fund balance was in part due to the $120.0 million in proceeds from the Financial Recovery Bonds issued in April 2014 through a private placement with Barclays Capital, Inc. for the Quality of Life program (various reinvestment and revitalization initiatives programs such as blight remediation and purchase of police vehicles). Also, significantly contributing to the increase in the General Fund cash was the default on the $176.2 million required pension contributions through the year ended June 30, 2014. The General Fund fund balance for the Quality of Life program was restricted for $42.0 million for Capital Acquisitions and was committed for $77.1 for other Quality of Life projects.

- The City's General Fund obligations that were defaulted on because of the bankruptcy stay through the year ended June 30, 2014 included: (1) $122.5 million in pension contributions due the Police and Fire Retirement System; (2) $53.7 million in pension contributions due the General Retirement System; (3) $85.6 million of Pension Obligation Certificate (POC) debt; and (4) $51.8 million of Limited Tax General Obligation (LTGO) bond debt. The POC and LTGO debt that was defaulted on was included in the governmental financial statements as liabilities due to the service corporations (POC) and as obligations due to the insurer (for defaulted debt paid by the insurer who had subrogation rights) and bondholders (LTGO). Also, the General Fund owed property taxes totaling $102.1 million due to other funds, component units and other governmental agencies. These unpaid obligations greatly contributed to the City's General Fund $381.3 million cash and investment balance at June 30, 2014.

- The City's General Fund had a net cost of $132.0 million for restructuring and bankruptcy expenses for the year ended June 30, 2014, as the City made substantial progress to settle with the major creditors in the Bankruptcy Case. This was a $112.8 million increase from the $19.2 million for the prior year.

- The City's General Fund agencies continued to make substantial efforts to reduce the deficit for the year ended June 30, 2014 by reducing costs from the prior year, including the: (1) $28.2 million reduction in salaries and wages through 10% pay cuts, furlough days, attrition, and other measures; and (2) $39.7 million and $20.4 million reductions in health care and miscellaneous benefit expenses, respectively, primarily through reductions to retiree benefits starting in March 2014.

- Other major changes to the General Fund for the year ended June 30, 2014 compared to the prior year included: (1) $49.5 million decrease in the risk management fund premium, as the Bankruptcy Case stayed legal claims; (2) $7.7 million increase in sewage disposal costs as the City's General Fund settled with the Water and Sewerage Department concerning disputed invoices; (3) $28.3 million decrease in legal claims because of the bankruptcy stay; (4) $71.1 million increase in debt service (principal and interest) because of the change to report the General Fund supported debt in the General Fund rather than the Debt Service Fund, as was done in the prior years (this was offset by a decrease in transfers-out); (5) $39.2 million decrease in transfers-out mainly because the $71.1 million of debt service included in the General Fund had in prior years been reported as a transfer-out; (6) $26.0 million increase in other transfers-out, including $10.0 million increase in DDOT subsidy and $17.5 million transfer to the Public Lighting Authority of utility users tax revenues to support the new authority; and (7) $18.8 million increase in sales and charges revenues mainly due to the $35.2 million settlement of the City's General and other Governmental Funds interfund service and other charges due from the Water and Sewage Disposal Funds.

- The Public Lighting Authority of Detroit (the "PLA") was authorized by the Michigan Legislature in 2012 per the Michigan Lighting Authority Act (Michigan Public Act 392 of 2012). The PLA is a legally separate entity that was created by the City on February 5, 2013. The PLA was created for the purpose of providing an equitable and reasonable method and means of financing, operating, and maintaining a street lighting system in the City. The PLA anticipates making a multi-year investment in public lighting infrastructure. Because the PLA is in substance a part of the City's operation, its financial statements are blended (Blended Component Unit) with the City's financial statements in the CAFR's Enterprise Funds section. In the year ended June 30, 2013, the PLA was reported in the Special Revenue section because sufficient details were not available at the time on the enterprise activities of the PLA.

- For the year ended June 30, 2014, the General Fund recorded $16.6 million in liabilities due to Wayne County for estimated chargebacks/recoveries of uncollectible delinquent property taxes. Wayne County has been providing the City with payments for the purchase of current year delinquent taxes every year since 2004. In the current year, the County will chargeback to the City prior year taxes purchased that it determines to be uncollectible. At June 30, 2013, the liability totaled $24.5 million. The $7.8 million decrease in the liability for the year ended June 30, 2014 was due to improvements in county collections.

- The General Fund's hospitalization, dental, vision, and life insurance benefits costs in recent years have presented some of the biggest challenges for the City and were major contributors to the structural deficit. For the year ended June 30, 2014, these costs were $155.8 million, down $37.6 million from $193.4 million for year ended June 30, 2013. The portion of the fiscal year 2014 costs relating to retirees was $96.8 million, or 62.1% of the total amount. The portion of the fiscal year 2014 costs relating to active employee's costs was $59.0 million, or 37.9% of the total amount. The retiree share decreased $46.0 million from $142.8 million in the year ended June 30, 2013, while the active share increased $8.4 million. The reason for the decrease in retiree benefits for the year ended June 30, 2014 from the prior







year was that effective March 1, 2014, the City significantly reduced retiree benefits. For retirees who were not eligible for Medicare, the City provided stipends for the purchase of insurance which were much less costly than the insurance previously provided. As discussed in the Bankruptcy Footnote XIII, the Plan of Adjustment provides that the City will no longer provide retiree health benefits after December 31, 2014. The number of retirees exceeds the number of active employees by a factor of two to one.

- The City's business-type activities had a net position of $234.8 million at June 30, 2014, an increase of $147.0 million from the restated balance of $87.7 million at June 30, 2013. The business-type activities cumulative unrestricted net position was a deficit totaling $292.6 million, a $347.8 million decrease from the $640.4 million deficit at June 30, 2013. The Sewage Disposal Fund's net position increased by $40.1 million to $71.0 million at June 30, 2014. The Water Fund's net position deficit decreased by $20.9 million, to a deficit of $37.9 million at June 30, 2014.

## OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is an introduction to the City's basic financial statements, which comprise three components: (1) government-wide financial statements, (2) fund financial statements and (3) notes to the basic financial statements. This report also contains other required supplementary information in addition to the basic financial statements.

### Government-wide Financial Statements

Government-wide financial statements (pages 39-41) are designed to provide readers with a broad overview of the City's finances, in a manner similar to a private sector business. The financial statements include the Statement of Net Position and the Statement of Activities. These statements are prepared using the economic resources measurement focus and accrual basis of accounting. They take into account all revenues and expenses connected with the fiscal year, regardless of when the City received or paid the cash. The Statement of Net Position and the Statement of Activities are two financial statements that report information about the City as a whole, and about its activities that should help answer this question: How has the City's financial position, as a whole, changed as a result of this year's activities? These statements include all non-fiduciary assets and liabilities.

The Statement of Net Position (page 39) presents all of the City's assets and liabilities, with the difference between the two reported as net position. Over time, increases and decreases in net position measure whether the City's financial position is improving or eroding.

The Statement of Activities (pages 40 and 41) presents information showing how the City's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying events giving rise to the change occur, regardless of the timing of related cash flows. Therefore, revenues and expenses are reported in these statements for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

Both statements report three activities:

- Governmental Activities – Most of the City's basic services such as public protection (police and fire) and public works are reported under this category. Taxes and intergovernmental revenues generally fund these services.

- Business-Type Activities – The City charges fees to customers to help it cover all or most of the cost of services it provides such as water and transportation.

- Discretely Presented Component Units – Component units are legally separate organizations for which the elected officials of the primary government are financially accountable. There are twelve legally separate organizations including the Economic Development Corporation, Museum of African American History, and the Detroit Employment Solutions Corporation that are reported as discretely presented component units of the City.

**Fund Financial Statements**

The fund financial statements begin on page 42 and provide detailed information about the major individual funds. A fund is a fiscal and accounting entity with a self-balancing set of accounts that the City uses to keep track of specific sources of funding and spending for a particular purpose. The City's funds are divided into three categories – governmental, proprietary and fiduciary – and use different accounting approaches.

- *Governmental funds* – Most of the City's basic services are reported in the governmental funds, which focus on how money flows into and out of those funds and the balances left at year end that are available for future spending. The governmental fund financial statements provide a detailed short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs. These funds are reported using modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. Governmental funds include the General Fund, General Retirement System Service Corporation, Police and Fire Retirement System Service Corporation and Other Governmental Funds.

- *Proprietary funds* – When the City charges customers for services it provides, whether to outside customers or to other agencies within the City, these services are generally reported in proprietary funds. Proprietary (e.g., Enterprise) funds utilize accrual accounting, the same method used by private sector businesses. Enterprise funds report activities that provide supplies and services to the general public (e.g., Transportation Fund).

- *Fiduciary funds* – The City acts as a trustee or fiduciary for its employee pension plans. It is also responsible for other assets that, because of a trust arrangement, can be used only for the trust beneficiaries. The City's fiduciary activities are reported in the Statements of Fiduciary Net Position and Changes in Fiduciary Net Position (pages 56 and 57). These funds, which include pension (and other employee benefit) and agency funds, are reported using accrual accounting. The government-wide statements exclude fiduciary fund activities and balances







because these assets are restricted in purpose and do not represent discretionary assets of the City to finance its operations.

**Notes to the Basic Financial Statements**

The Notes to the Basic Financial Statements provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes can be found beginning on page 63 of the report.

**Additional Required Supplementary Information**

The Required Supplementary Information that follows the basic financial statements further explains and supports the information in the financial statements.

## FINANCIAL ANALYSIS OF THE CITY AS A WHOLE

**Government-wide Net Position**

Net position (assets less liabilities) serves as a useful indicator of a government's financial position. The City's assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by $188.4 million at June 30, 2014. The net position increased $866.6 million from the deficit of $678.2 million at June 30, 2013. As discussed previously, the increase was mainly due to the $994.8 million reduction in OPEB.

Summary of Net Position
June 30, 2014 and 2013
(In Thousands)

| | Governmental Activities | | Business-type Activities | | Total Primary Government | |
|---|---|---|---|---|---|---|
| | 2014 | 2013 | 2014 | 2013 | 2014 | 2013 |
| Current and other non-current assets | $ 1,805,240 | $ 1,583,883 | $ 1,507,345 | $ 1,513,742 | $ 3,312,585 | $ 3,097,625 |
| Capital assets | 1,510,671 | 1,511,817 | 5,106,915 | 5,200,965 | 6,617,586 | 6,712,782 |
| Total assets | 3,315,911 | 3,095,700 | 6,614,260 | 6,714,707 | 9,930,171 | 9,810,407 |
| Deferred outflows of resources | 14,797 | - | 331,572 | - | 346,369 | - |
| Current and other liabilities | 829,064 | 608,324 | 374,956 | 344,803 | 1,204,020 | 953,127 |
| Long-term obligations | 2,515,734 | 3,295,168 | 6,316,358 | 6,240,290 | 8,832,092 | 9,535,458 |
| Total liabilities | 3,344,798 | 3,903,492 | 6,691,314 | 6,585,093 | 10,036,112 | 10,488,585 |
| Deferred inflows of resources | 32,299 | - | 19,735 | - | 52,034 | - |
| Net position: | | | | | | |
| Net investment in capital assets | 886,141 | 832,127 | 54,337 | 525,964 | 940,478 | 1,358,091 |
| Restricted | 102,048 | 75,056 | 473,057 | 244,040 | 575,105 | 319,096 |
| Unrestricted (deficit) | (1,034,578) | (1,714,975) | (292,611) | (640,390) | (1,327,189) | (2,355,365) |
| Total net position (deficit) | $ (46,389) | $ (807,792) | $ 234,783 | $ 129,614 | $ 188,394 | $ (678,178) |

### Total Primary Government

The City's net investment in capital assets (e.g., land, buildings, equipment, infrastructure, and others), net of any related debt outstanding that was needed to acquire or construct the assets at June 30, 2014, was $940.5 million, $417.6 million less than the $1.4 billion at June 30, 2013. The City uses capital assets to provide services to citizens; consequently, these assets are not available for future spending. The large decrease was primarily due to adjustments by the Sewage Disposal and Water Funds.

Restricted net position totaling $575.1 million at June 30, 2014 is resources subject to external restrictions, constitutional provisions, or enabling legislation on how they can be used. The City presents restricted net position for Highway and Street Improvement ($48.9 million), Capital Projects and Acquisitions ($187.7 million), Debt Service ($335.6 million), Endowments and Trusts ($1.7 million), and Donations ($1.2 million).

The remaining balance is an unrestricted accumulated deficit of $1.3 billion at June 30, 2014. A deficit represents a shortage of assets available to meet all the City's obligations if they were immediately due and payable. The unrestricted accumulated deficit decreased by $1.0 billion from the $2.4 billion at June 30, 2013 mainly due to the $994.8 million OPEB reduction.

### Governmental Activities

At June 30, 2014, the City's governmental activities had a net position deficit (liabilities exceeded assets) of $46.4 million, a decrease of $761.4 million from the $807.8 million net position deficit at June 30, 2013. The reduction of OPEB payable accounted for $766.0 million of the governmental activities decreases in the net position deficit. In addition, the weak economy in fiscal year 2014 and resulting high unemployment and depressed property values adversely impacted tax revenues. Expenses were down $46.8 million due to cost cutting measures such as the 10% pay cut, reduction in retiree health care and other benefits and attrition. Revenues increased $126.1 million mainly due to increases for investment earnings ($84.4 million), charges for services ($58.0 million), and capital grants ($10.9 million). Investment earnings increased due to the derivatives' (interest rate swaps) fair market value adjustment, which was much less than in the prior year. Charges for Services increased $26.6 million for the City's settlement with Comcast for disputed fees. The capital grants were up due to the street resurfacing and repair projects for the year ended June 30, 2014. Income tax revenues were up $5.8 million due to the improving economy. Shared tax revenues were up $7.3 million due to improvements in the State's economy. Wagering tax revenues were down $6.8 million due to competition from other area casinos. Property tax revenues were down $4.5 million as depressed property values and home foreclosures hindered collections.

Net investment in capital assets totaled $886.1 million at June 30, 2014, an increase of $54.0 million from the prior fiscal year. Restricted net position totaled $102.0 million at June 30, 2014. The remaining unrestricted net position deficit totaled $1.0 billion at June 30, 2014, a $680.4 million decrease from the $1.7 billion deficit at June 30, 2013.





### Business-type Activities

The business-type activities had a net position totaling $234.8 million at June 30, 2014, an increase of $105.2 million from the $129.6 million net position at June 30, 2013. The unrestricted net position deficit decreased $347.8 million to $292.6 million at June 30, 2014 from the $640.4 million deficit at June 30, 2013. The Water Fund had a $37.9 million net position deficit at June 30, 2014. The Sewage Disposal Fund had a net position of $71.0 million at June 30, 2014. The Transportation, Parking, and Other Enterprise (Airport and PLA) Funds had net positions totaling $110.9 million, $57.4 million, and $33.4 million, respectively, at June 30, 2014.

### Government-wide Changes in Net Position

The following condensed financial information was derived from the government-wide Statement of Activities and reflects how the City's net position changed during the fiscal year:

Summary of Changes in Net Position
June 30, 2014 and 2013
(In Thousands)

| | Governmental Activities | | Business-type Activities | | Total Primary Government | |
|---|---|---|---|---|---|---|
| | 2014 | 2013 | 2014 | 2013 | 2014 | 2013 |
| Revenues: | | | | | | |
| Program Revenues: | | | | | | |
| Charges for Services | $ 346,935 | $ 288,971 | $ 857,942 | $ 835,754 | $ 1,204,877 | $ 1,124,725 |
| Operating Grants and Contributions | 176,788 | 211,471 | 61,598 | 70,142 | 238,386 | 281,613 |
| Capital Grants and Contributions | 30,593 | 19,741 | 9,943 | 11,855 | 40,536 | 31,596 |
| General Revenues: | | | | | | |
| Property Taxes | 194,680 | 199,192 | - | - | 194,680 | 199,192 |
| Municipal Income Tax | 253,770 | 248,017 | - | - | 253,770 | 248,017 |
| Utility Users Tax | 42,387 | 35,300 | - | - | 42,387 | 35,300 |
| Wagering Tax | 167,570 | 174,357 | - | - | 167,570 | 174,357 |
| Hotel and Liquor Tax | - | - | - | - | - | - |
| Other Local Taxes | 8,604 | 14,385 | - | - | 8,604 | 14,385 |
| State Shared Taxes | 189,757 | 182,454 | - | - | 189,757 | 182,454 |
| State Returnable Liquor License Fees | 607 | 604 | - | - | 607 | 604 |
| Investment Earnings (Losses) | (4,171) | (88,533) | 5,609 | (46,469) | 1,438 | (135,002) |
| Bond Issuance Costs | - | - | (22,174) | | | |
| Miscellaneous | 8,460 | 3,950 | (15,217) | 7,263 | (6,757) | 11,213 |
| Total Revenues | 1,415,980 | 1,289,909 | 897,701 | 878,545 | 2,335,855 | 2,168,454 |
| Expenses: | | | | | | |
| Public Protection | 539,831 | 694,708 | - | - | 539,831 | 694,708 |
| Health | 49,563 | 38,070 | - | - | 49,563 | 38,070 |
| Recreation and Culture | 30,467 | 26,856 | - | - | 30,467 | 26,856 |
| Economic Development | 59,702 | 81,455 | - | - | 59,702 | 81,455 |
| Educational Development | - | 37,041 | - | - | - | 37,041 |
| Housing Supply and Conditions | 8,465 | 5,087 | - | - | 8,465 | 5,087 |
| Physical Environment | 110,555 | 121,192 | - | - | 110,555 | 121,192 |
| Transportation Facilitation | 55,832 | 20,746 | - | - | 55,832 | 20,746 |
| Development and Management | 328,244 | 205,938 | - | - | 328,244 | 205,938 |
| Interest on Long-term Debt | 135,131 | 133,545 | | - | 135,131 | 133,545 |
| Sewage Disposal | - | - | 482,724 | 523,910 | 482,724 | 523,910 |
| Transportation | - | - | 163,842 | 166,024 | 163,842 | 166,024 |
| Water | - | - | 392,921 | 398,087 | 392,921 | 398,087 |
| Automobile Parking | - | - | 14,714 | 20,089 | 14,714 | 20,089 |
| Airport | - | - | 4,613 | 1,910 | 4,613 | 1,910 |
| Total Expenses | 1,317,790 | 1,364,638 | 1,058,814 | 1,110,020 | 2,376,604 | 2,474,658 |
| Excess (Deficiency) Before | | | | | | |
| Transfers | 98,190 | (74,729) | (161,113) | (231,475) | (62,923) | (306,204) |
| Special Item | 766,046 | - | 228,728 | - | 994,774 | - |
| Transfers, Net | (79,433) | (52,662) | 79,433 | 52,662 | - | - |
| Increase (decrease) in | | | | | | |
| Net Position | 784,803 | (127,391) | 147,048 | (178,813) | 931,851 | (306,204) |
| Net Position, July 1 | (807,792) | (680,401) | 129,614 | 308,427 | (678,178) | (371,974) |
| GASB 65 and PLA Adjustment | (23,400) | - | (41,880) | - | (65,280) | - |
| Restated Net Assets, July 1 | (831,192) | (680,401) | 87,734 | 308,427 | (743,458) | (371,974) |
| Net Position, June 30 | $ (46,389) | $ (807,792) | $ 234,782 | $ 129,614 | $ 188,393 | $ (678,178) |

### Total Primary Government

Total revenues for the year ended June 30, 2014 were $2.3 billion, an increase of $145.2 million from the prior fiscal year mainly due to increases in investment earnings. Investment earnings improved by $114.3 million mainly due to the derivative (interest rate swaps) fair market value adjustments, which were much less than in the prior year. Charges for services increased $80.2 million in part due to the $26.3 million settlement with Comcast for disputed fees. Sewer and water revenues from customer charges for services increased $33.3 million and decreased $6.0 million, respectively, from the prior fiscal year.

Total expenses for the year ended June 30, 2014, were $2.4 billion, a decrease of $98.1 million from the prior fiscal year amount. The decrease is mainly attributable to reductions in salaries, wages, and benefits costs, primarily other post-employment benefits as the City significantly reduced retiree benefits effective March 1, 2014, offset by the $112.8 million increase in professional fees for the bankruptcy and restructuring. Significantly contributing to the decrease in expenses were the City labor cost cutting initiatives, including a 10% pay-cut, and attrition which reduced the General Fund salaries and wages by $28.2 million and benefit cuts, mainly health care, by $60.1 million from the prior year amount. General Fund Legal expenses were down $29.0 million from the prior year due to the bankruptcy stay. The Sewage Disposal Fund expenses were $482.7 million during the year ended June 30, 2014, a decrease of $41.2 million compared to $523.9 million during the prior fiscal year due to the $26.0 million reduction in salaries, wages, and benefits. The Water Fund expenses decreased $5.2 million during the year ended June 30, 2014 mainly due to the $17.3 million decrease in salaries, wages, and benefits expenses. The Transportation Fund expenses were $2.2 million less than the prior fiscal year mainly due to the $10.3 million decrease in salaries, wages, and benefits expense resulting from the 10% pay-cut and attrition, partially offset by an increase in materials and supplies costs.

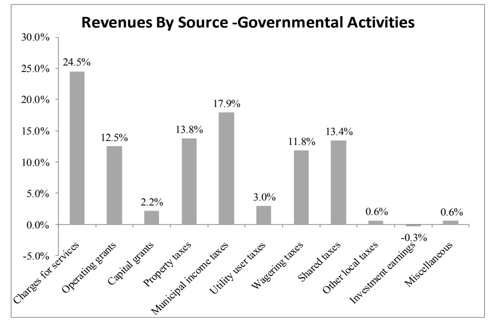
A special item totaling $994.8 million was recorded for the reduction of other postemployment benefits (OPEB) because the Employee Health and Life Insurance Benefit Plan was significantly reduced on March 1, 2014 and terminated on December 31, 2014 in accordance with the Plan of Adjustment and settlements reached with retirees in the Bankruptcy Case. The governmental activities and the business-type activities had special items totaling $766.1 million and $228.7 million, respectively, for the OPEB reduction.



City of Detroit, Michigan
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended June 30, 2014
(UNAUDITED)

### Governmental Activities

The following chart depicts revenues of the governmental activities for the year ended June 30, 2014:




The governmental activities revenues totaled $1.4 billion for the year ended June 30, 2014, a $126.1 million increase from the year ended June 30, 2013. The amount that taxpayers paid for these activities through City taxes was $667.0 million or 47.1% of total revenues, a $4.3 million decrease from the prior year amount. Income taxes were the largest (17.9% of total revenues) category of taxes collected and totaled $253.8 million, a $5.8 million increase from the prior fiscal year amount mainly resulting from improvement in the local economy. Property taxes were $4.5 million less than the prior fiscal year amount due to declining home values and population. Wagering (casino) tax revenues decreased $6.8 million from the prior fiscal year amount due to competition from other casinos opening in the region such as the Toledo casino. Utility users taxes were up $7.1 million due to improvement in the City's economy and utility collections. Other funding for governmental activities was provided from the following sources for the year ended June 30, 2014:

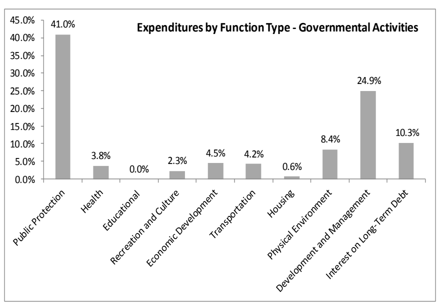
- Charges for services paid by those who directly benefited totaled $346.9 million or 24.5% of total revenues. These services included permits, parking fines, licenses, and solid waste fees. Charges for services were $57.9 million more than the $289.0 million for the year ended June 30, 2013. Charges for services increased mainly due to the $26.6 million settlement with Comcast for disputed fees. Also, charges for services were up for settlement of amounts due for City services provided to the Water and Sewerage Department, which were exchanged for amounts owed to the Department. In the past several years, the revenue had not been recognized due to the inability to collect from the Water and Sewerage Disposal Department. The increase was partially offset by a $13.0 million decrease in electricity revenue mainly due to the inability to collect from the Detroit Public Schools due to their poor financial condition.

- Other governments and organizations subsidized programs such as health related activities and community development projects with grants and contributions totaling $207.4 million or 14.7% of total revenue. This was $23.8 million less than the $231.2 million of subsidies during the year ended June 30, 2013. The major reason for the decrease was workforce development grants were no longer passed through the City. For the year ended June 30, 2013 the City recorded $36.9 million of grant revenue passed through the City to Detroit Employment Solutions Corporation (DESC). Also, contributing to the decrease in grant revenue was that the American Reinvestment and Recovery Act (ARRA) grant funding ended in the prior year. The loss of these grant revenues was partially offset by additional grant revenues for Street resurfacing and repairs during the year.

- Other revenues such as state aid (revenue sharing), interest, and miscellaneous income funded the "public benefit" portion of various programs and totaled $194.7 million or 13.7% of total revenue. This was $96.2 million more than the $98.5 million for the year ended June 30, 2013 mainly due to the $84.4 million increase in investment earnings for derivatives (POC interest rate swaps). In the prior year, adjustments were made due to the anticipation of a termination of the derivatives due to the potential bankruptcy filing and final settlement with the counterparties. As a result, the balance in the deferral (asset) account (i.e., deferred outflows) totaling $203.1 million for the governmental activities was written off to investment revenue. This was offset by a $115.0 million adjustment for the decrease in the fair market value of the swaps at June 30, 2013. State shared taxes were up $7.3 million for the year ended June 30, 2014 compared to the prior fiscal year due to the improving state and local economy.



The following chart depicts expenses of the governmental activities for the year ended June 30, 2014:




The governmental activities expenses totaled $1.3 billion, a $46.8 million decrease from the $1.4 billion for the year ended June 30, 2014. The expenditures are primarily for public protection (police and fire) and development and management (human resources, finance, information technology, general services, Mayor, City Council, etc.). Detailed below is an explanation of the expenses by function type and reasons for changes from the year ended June 30, 2013.





Public protection (police and fire) was the largest component of current expenses, accounting for 41.0% of total expenses. Public protection expenses decreased by $154.9 million from the $694.7 million for the year ended June 30, 2013 primarily due to the OPEB reductions as the City has greatly reduced retiree health care. Public protection OPEB costs were $10.6 million for the year ended June 30, 2014 compared to the $135.0 million for the year ended June 30, 2013. In addition, General Fund public protection salaries and wages decreased $24.3 million and benefits were down $35.2 million from the prior year due to the 10% pay cut, reduction in overtime and reduction of benefits during the year.

Development and management expense was the next largest component at 24.9% of total expenses. Development and management expenses totaled $328.2 million for the year ended June 30, 2014, an increase of $122.3 million from the $205.9 million for the year ended June 30, 2013. Development and management expenses increased from the prior fiscal year mainly because of the professional fees for the bankruptcy and restructuring, which increased $112.8 million from the prior year. In addition, the contribution to the Detroit Transportation Corporation (People Mover) was $6.9 million greater than the prior year. These increases were offset by the $16.6 million decrease in hospitalization expenses because of the cut in retiree benefits on March 1, 2014.

Health expenses were 3.8% of total expenses and totaled $49.6 million for the year ended June 30, 2014, an increase of $11.5 million from the prior fiscal year amount of $38.1 million. The primary reason for the increase in health expenses was the transition of the Health and Human Services departments' grant activities to non-profit agencies that were not under the City's direct control in the prior year which caused a reduction in health grant activities in the prior year. However, for the year ended June 30, 2014, the City's Health Department had taken on more grant responsibilities including the Michigan Department of Community Health (MCDH) and Substance Abuse grants, which has increased its health expenses over the prior year.

Physical environment expenses were 8.4% of total expenses and decreased by $10.6 million from the prior fiscal year amount. The decrease was mainly due to transitioning the Public Lighting Department (PLD) services such as street lighting and electricity to the new Public Lighting Authority and DTE Energy, respectively. The physical environment salaries and benefits were down $3.6 million and $1.4 million, respectively, from the prior year. Physical environment electricity and legal expenses were also down $3.4 million and $6.5 million, respectively. These decreases were offset by a $6.1 million increase in physical environment contractual costs primarily for the public lighting conversion for the PLA from the prior year amount.

Economic development expenses were 4.5% of total expenses and decreased by $21.8 million for the year ended June 30, 2014. The decrease was mainly due to the $9.9 million decrease in the NSP home rehabilitation and demolition grants and the $5.7 million decrease in Home grants during the year because of issues with the grantor agency. Also, Planning and Development salaries and wages decreased $2.3 million due to cuts and attrition.

Educational development expenses were zero and decreased by $37.0 million for the year ended June 30, 2013 compared to the prior fiscal year amount because the workforce development activities were transitioned to the Detroit Employment Solutions Corporation (DESC) in the prior fiscal year. Also, as discussed above, the City no longer passes through grant revenues to the DESC.

Transportation facilitation expenses were 4.2% of total expenses and increased $35.1 million for the year ended June 30, 2014 from the prior fiscal year. The prior year had large adjustments for capital outlays which greatly reduced the Transportation expense amount for that year. Also, there was an $8.5 million increase in Transportation grant contributions due to a large amount of work on City streets during the year ended June 30, 2014.

Recreation and Culture expenses were 2.3% of total expenses and increased $3.6 million mainly due to the $3.5 million increase in sewerage expenses from the prior year as the City settled accounts with the Water and Sewerage Department.

Interest expense on long-term debt was 10.3% of total expenses. Interest expense on long-term debt was $135.1 million for the year ended June 30, 2014 and increased $1.6 million from the $133.5 million for the year ended June 30, 2013. The Governmental Funds defaulted on $71.6 million of interest due on the unsecured debt (certain Pension Obligation Certificates, UTGO Bonds and LTGO Bonds) as of June 30, 2014. The insurers paid $31.8 million of the $71.6 million of defaulted interest to the debt holders. At June 30, 2014, the City was obligated to the insurers and bond holders for the defaulted debt.



**Business-type Activities**

The net position of the business-type activities increased $147.0 million to $234.8 million for the year ended June 30, 2014. Detailed below are the results for the major business-type funds:

**Water Fund**

The Water Fund had a decrease in net position deficit of $20.9 million for the year ended June 30, 2014. High interest and depreciation expenses due to infrastructure needs relative to revenues continued to adversely impact the Water Fund's net position. Water sales revenues from Detroit and suburban customers decreased $6.0 million to $344.9 million for the year ended June 30, 2014 compared to $350.9 million for the year ended June 30, 2013. OPEB expenses decreased $70.3 million (Special Item - OPEB Plan Termination). Salaries, wages, and benefits expenses were $17.3 million less than the prior year amount due to cuts in staff and reduction in retiree health benefits. Interest expense was $133.6 million for the year ended June 30, 2014, an increase of $5.7 million from the prior fiscal year amount. In accordance with GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, the Water Fund restated and increased its deficit net position at the beginning of the fiscal year by $17.2 million to $58.8 million to eliminate debt issuance costs previously recorded as an asset. As of June 30, 2014, the Water Fund had $2.5 billion of outstanding revenue bonds payable in part for major infrastructure projects, which contributed to the $133.6 million of interest expense for the year.





**Sewage Disposal Fund**

The Sewage Disposal Fund had an increase in net position of $40.1 million for the year ended June 30, 2014. High interest and depreciation expenses due to infrastructure needs relative to revenues continued to adversely impact the Sewage Disposal Fund's net position. Sewage Disposal Fund revenues from Detroit and Suburban customers increased $33.4 million to $465.4 million for the year ended June 30, 2014 compared to $432.0 million for the year ended June 30, 2013. OPEB expenses decreased $70.2 million (Special Item – OPEB Plan Termination). Salaries, wages, and benefits were down $26.0 million from the prior fiscal year. Interest expense was $135.1 million for the year ended June 30, 2014, a decrease of $6.9 million from the prior fiscal year. In accordance with GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, the Sewage Disposal Fund restated and reduced its net position at the beginning of the fiscal year by $21.4 million to $31.0 million to eliminate debt issuance costs previously recorded as an asset. As of June 30, 2014, the Sewage Disposal Fund had $2.8 billion of outstanding revenue bonds payable in part for major infrastructure projects, which contributed to the $135.1 million interest expense for the year.

**Transportation Fund**

The Transportation Fund ("DDOT") had an increase in net position of $68.3 million for the year ended June 30, 2014 from the prior year amount mainly due to the $85.8 million reduction in OPEB (Special Item – OPEB Plan Termination). DDOT revenues decreased $7.3 million from the prior fiscal year amount. Salaries, wages, and benefits were $89.5 million, a decrease of $10.2 million from the $99.7 million for the year ended June 30, 2013. This was due to the 10% pay cut and attrition and reduction in retiree benefits. Contractual services expenses were down $1.8 million. The Federal and State grants were $8.5 million less than the $70.1 million for the year ended June 30, 2013, mainly due to a reduction in the State operating assistance (Act 51). The General Fund subsidy to the Transportation Fund was $57.2 million for the year ended June 30, 2014, an increase of $10.0 million from the $47.2 million for the year ended June 30, 2013. In accordance with GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, the Transportation Fund restated its net position at the beginning of the fiscal year by $4.3 million to $42.6 million to eliminate debt issuance costs previously recorded as an asset.

**Automobile Parking Fund**

The Automobile Parking Fund recorded an increase of $2.0 million in net position for the year ended June 30, 2014. The City's General Fund eliminated the $4.1 million advance payable from the Parking Fund because of the inability to collect it. The Fund revenues decreased $1.7 million to $10.3 million for the year ended June 30, 2014 compared to the prior fiscal year. Operating expenses decreased $5.5 million, mainly due to the $10.1 million impairment loss recorded in the prior year for the Joe Louis Arena and related parking garage due to the anticipated move of the Detroit Red Wings to a new arena to be built in the City's mid-town. Salaries and wages were up $2.4 million from the prior year amount. The Parking Fund retired all of its $9.3 million of revenue bonds during the year ended June 30, 2014.

**Airport and Public Lighting Authority Funds (Other Enterprise Funds)**

Other Enterprise Funds include the Airport Fund and Public Lighting Authority of Detroit (the "PLA"). Because the PLA is in substance a part of the City's operation, its financial statements are blended (Blended Component Unit) with the City's financial statements in the CAFR's Enterprise Funds section. In the year ended June 30, 2013, the PLA was reported in the Special Revenue section because sufficient details were not available at the time on the enterprise activities of the PLA. The PLA had a $16.5 million net position at June 30, 2014, a $15.5 million increase from the $1.0 million at June 30, 2013. The PLA had revenues of $18.3 million including $17.5 million transferred from the City's General Fund utility users tax revenues. The PLA had $2.8 million of expenses for the year ended June 30, 2014. Also, the PLA issued $60.0 million of Revenue Bonds in December 2013. These bonds were paid off with proceeds from the $185.0 million of Revenue Bonds (30 year) issued on July 2, 2014.

The Airport Fund had a $0.3 million increase in net position for the year ended June 30, 2014 primarily due to revenue for land acquisition. The General Fund contribution to the Airport was $0.6 million for the year ended June 30, 2014, which was $0.3 million more than in the prior fiscal year.

## FINANCIAL ANALYSIS OF THE CITY'S GOVERNMENTAL FUNDS

The City's governmental funds (statements begin on page 42) reported a combined ending fund balance of $245.6 million at June 30, 2014, a $136.1 million increase from the $109.5 million fund balance deficit at June 30, 2013. This was mainly due to the $120.0 million in proceeds from the Financial Recovery Bonds issued in April 2014 for the Quality of Life program. The fund balances include an unassigned deficit of $145.9 million, a $13.3 million increase from the June 30, 2013 balance. In addition, the remaining fund balances totaling $391.5 million are classified as follows: (1) nonspendable - $25.0 million; (2) restricted - $197.5 million; (3) assigned - $12.6 million; and (4) committed - $156.3 million. Nonspendable fund balances include inventory, long-term receivables and permanent fund principal from endowments. Restricted fund balances include highway and street improvements, police (drug law enforcement), endowments and trusts, capital acquisitions, local business growth (targeted business development), rubbish collection and disposal, and grants. Assigned fund balances include debt service. Committed fund balances include the risk management (workers' compensation, legal, and other damage claims) and Quality of Life funds.

### General Fund

The General Fund is the chief operating fund of the City. The fund had a $53.4 million surplus at June 30, 2014, a $126.4 million increase from the $73.0 million deficit at June 30, 2013. The fund balance includes an unassigned deficit of $145.9 million, a $13.3 million increase from the $132.6 million deficit at June 30, 2013. The remaining General Fund balance includes: (1) restricted (capital acquisitions) - $43.0 million; and (2) committed (risk management and Quality of Life Programs) - $156.3 million.



City of Detroit, Michigan
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended June 30, 2014
(UNAUDITED)

General Fund Balance Sheet
June 30, 2014 and 2013
(in millions)

| | 2014 | 2013 |
|---|---|---|
| Assets and Deferred Outflows of Resources | $ 622.8 | $ 292.5 |
| Liabilities and Deferred Inflows of Resources | 569.4 | 365.5 |
| Fund Balance | | |
| Nonspendable | - | 4.0 |
| Restricted | 43.0 | 1.0 |
| Committed | 156.3 | 54.6 |
| Unassigned for: | | |
| General Fund Deficit | (145.9) | (132.6) |
| Total Fund Balance (Deficit) | 53.4 | (73.0) |
| Total Liabilities and Fund Balance (Deficit) | $ 622.8 | $ 292.5 |

The $13.3 million increase in the unassigned General Fund deficit was primarily due to the $132.0 million for bankruptcy and restructuring costs incurred during the year offset in part by the City's default on the required pension contributions and other cost savings for the year ended June 30, 2014. The GASB (Governmental Accounting Standards Board) Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*, requires that the defaulted pension expenses and related obligations not be included in the governmental financial statements when there are no available resources to pay them. Also, GASB Statement No. 27 requires that the defaulted pension expenses and related obligation (Net Pension Obligation or Net Pension Asset) be recorded in the government-wide statements. While the City was in bankruptcy and had stated its intention not to pay the pension contributions, the City still had a legal requirement to pay them until the Plan of Adjustment was approved by the Bankruptcy Court in December 2014.

The City made great improvements in reducing costs for the year ended June 30, 2014. However, the reduction in costs did adversely impact city services such as public protection for the year ended June 30, 2014. Contributing to the City's deficit reduction efforts were the: (1) $28.2 million reduction in salaries and wages through 10% pay cuts, furlough days, attrition and other measures; and (2) $60.1 million reduction in benefits, mainly hospitalization, due to reduction in retiree benefits effective March 1, 2014.

### General Fund Budgetary Highlights

The City's fiscal year 2014 General Fund budget (pages 162-164) was $1.3 billion. The City's fiscal year 2014 General Fund budget contained no additions or material changes to existing taxes. Pursuant to Section 12(1)(b) of Michigan Public Act 436 of 2012, Emergency Manager approved the City's fiscal year 2014 budget in June 2013.

The estimated revenues in the budget exceeded actual revenues by $205.7 million for the year ended June 30, 2014. The revenue shortfall is mainly attributable to actual intergovernmental (including grant) revenues, and other revenues being $211.0 million and $19.4 million, respectively, less than the final budget (see explanation below for grants revenues). Other revenues were less than budget partially due to the elimination of intra-fund transactions such as the Risk Management Fund premium of $19.4 million, which reduced the actual amount of other revenues and contributed to the budget variance.

Actual expenditures were less than budgeted expenditures by $292.5 million for the year ended June 30, 2014 primarily because the Development and Management, Public Protection and Health appropriations were $26.0 million, $172.3 million and $98.7 million, respectively, larger than the actual results for the year. In addition, the grant expenditures were less than budgeted (see explanation below). Development and Management expenses were less than budget primarily because the "Quality of Life" program actual expenditures were significantly less than appropriation, as the funding was not received until April 2014. Public protection expenses were $172.3 million less than budgeted appropriations mainly due to salary and benefit reductions for police and fire. Health expenses were $98.7 million less than budget due to the transition of Health grant activities to a non-profit entity.

The City's budget for grant revenues and expenditures is greater than the actual revenues and expenditures because: (1) the City budgets grant awards for the total amount of the award even if the grant award is for more than one year, whereas actual revenues only represent one year's activity; (2) the City's fiscal year (July 1-June 30) is different from most grant fiscal years (October 1-September 30) and more or less grant activity may occur depending on the timing; and (3) the City also carries forward previous year unspent grant awards into the current year's budget.

Differences between the original budget and the final amended budget consisted of a total net increase in estimated revenues of $302.6 million and a total net increase in appropriations of $211.5 million. The difference was mostly offset by a total net increase in other financing sources and uses of $85.8 million.







## CAPITAL ASSETS AND DEBT ADMINISTRATION

### Capital Assets

### Total Government

At June 30, 2014, the City had invested $6.6 billion, net of accumulated depreciation, in a broad range of capital assets (see table below). This was a decrease of $95.2 million from the balance at June 30, 2013.

| | Governmental Activities | | Business-type Activities | | Total Primary Government | |
|---|---|---|---|---|---|---|
| | 2014 | 2013 | 2014 | 2013 | 2014 | 2013 |
| Land & Land Rights | $ 412,817 | $ 412,818 | $ 76,694 | $ 49,731 | $ 489,511 | $ 462,549 |
| Land Improvements | - | - | 136,311 | 137,563 | 136,311 | 137,563 |
| Buildings & Structures | 667,074 | 626,888 | 2,100,346 | 2,150,499 | 2,767,420 | 2,777,387 |
| Sewer a& Water Lines | - | - | 893,839 | 890,974 | 893,839 | 890,974 |
| Equipment & Structures | 50,282 | 71,409 | 1,504,276 | 1,599,455 | 1,554,558 | 1,670,864 |
| Works of Art | 29,805 | 29,805 | - | - | 29,805 | 29,805 |
| Infrastructure | 326,323 | 304,551 | - | - | 326,323 | 304,551 |
| Construction in Progress | 24,370 | 66,346 | 395,449 | 372,743 | 419,819 | 439,089 |
| Total | $ 1,510,671 | $ 1,511,817 | $ 5,106,915 | $ 5,200,965 | $ 6,617,586 | $ 6,712,782 |

### Governmental Activities

Governmental Activities capital assets at June 30, 2014 were $1.1 million less than the $1.5 billion at June 30, 2013. The City acquired $81.3 million in new assets including $24.2 million of construction in progress, which was completed during the year ended June 30, 2014. Depreciation expenses totaled $82.1 million for the year ended June 30, 2014, which was $4.3 million less than the prior fiscal year.

At June 30, 2014, the City governmental activities had commitments for future capital asset construction contracts of $20.1 million.

Major capital assets acquired and projects completed or in progress during the year ended June 30, 2014 included the following:

- $49.4 million for traffic light modernization and replacement as well as road construction and resurfacing;
- $60.3 million for renovation and modernization of the new public safety headquarters;
- $5.1 million for improvements to various police precincts, upgrades of police electronic systems and purchases of new police vehicles; and
- $1.6 million for improvements to various recreational facilities, parks and play grounds.

**Business-type Activities**

Business-type activities capital assets at June 30, 2014 were $5.1 billion, a decrease of $94.1 million from the balance at June 30, 2013.

Construction work in progress, major capital assets acquired, and projects completed during the year ended June 30, 2014 included the following:

- The Water Fund is engaged in a variety of projects that are a part of its five-year Capital Improvement Program. The total cost of this program is anticipated to be approximately $504.0 million through fiscal year 2019. The program is being financed from revenues of the fund and proceeds from the issuance of revenue bonds. The total amount of construction contract commitments outstanding at June 30, 2014 was approximately $130.9 million. Projects that will be completed as part of the Water Program include the replacement of water distribution mains, installation of the automated meters reading system, and improvements to water plants, booster stations and, transmission mains.

- The Sewage Disposal Fund is engaged in a variety of projects that are a part of its five-year Capital Improvement Program. The total cost of this program is anticipated to be approximately $553.0 million through fiscal year 2019. The program is being financed primarily from revenues of the Sewage Disposal Fund and proceeds from the issuance of revenue bonds. The total amount of construction contract commitments outstanding at June 30, 2014 was approximately $737.2 million. Projects that will be completed as part of the Sewage Program include the design and construction of combined sewage overflow facilities, rehabilitation of pumping stations, improvements at the wastewater facility, and relining of lateral sewers.

See Note V to the basic financial statements for more information regarding governmental and business-type activities capital assets.

**Long-term Debt**

Outstanding Bonded Debt as of June 30, 2014 and 2013
(In Thousands)

| | Governmental Activities | | Business-type Activities | | Total Primary Government | |
|---|---|---|---|---|---|---|
| | 2014 | 2013 | 2014 | 2013 | 2014 | 2013 |
| General obligation bonds | $ 1,042,312 | $ 1,003,937 | $ 5,458 | $ 5,458 | $ 1,047,770 | $ 1,009,395 |
| Revenue bonds | - | - | 5,285,785 | 5,377,390 | 5,285,785 | 5,377,390 |
| Total | $ 1,042,312 | $ 1,003,937 | $ 5,291,243 | $ 5,382,848 | $ 6,333,555 | $ 6,386,785 |

At June 30, 2014, the City had total bonded debt of $6.4 billion outstanding. Of this amount, $1.0 billion are general obligation bonds backed by the full faith and credit of the City and $5.4 billion are revenue bonds of the City's business enterprises.





The City's total governmental activities general obligation bonded debt increased by $38.4 million during year ended June 30, 2014 mainly because of the issuance of $120.0 million of Financial Recovery Bonds issued in April 2014 through a private placement with Barclays Capital, Inc. for the Quality of Life program (various restructuring programs such as blight remediation and purchase of police vehicles). The proceeds will be used to enhance City services to improve the quality of life of the City's citizens. Planned uses include public safety improvements including purchasing new police cars, hiring new police officers, upgrading technology and equipment, and blight removal. On December 10, 2014, the City issued its Financial Recovery Income Tax Bonds, Series 2014 A/B, which in part, refunded the $120.0 million bonds issued in April 2014.

The City defaulted on $81.6 million of the governmental activities general obligation long-term bonded debt (principal) during the year. The insurers paid $56.6 million of this debt and the remaining $25.0 million, which was uninsured, was unpaid. The City reported a total of $56.6 million due the insurers and the $25.0 million unpaid debt as short-term liabilities on the Governmental Funds Balance Sheet.

Business-type activities' bonded debt decreased by $31.6 million for the year ended June 30, 2014. The Sewage Disposal, Water, and Parking Funds retired $42.5 million, $41.2 million, and $9.3 million, respectively, of revenue bonds in 2014. The PLA issued $60.0 million of revenue bonds in December 2013. The PLA revenue bonds were paid off with the proceeds from the $185.0 million of revenue bonds issued on July 2, 2014. The other Business-type activities did not issue any new bonded debt during the year ended June 30, 2014 due to the City's financial emergency and inability to access credit markets.

In addition to the bonded debt, the City's governmental activities had a total debt of $1.5 billion at June 30, 2014 for POCs ($1.1 billion), notes payable ($85.2 million), loans payable ($36.7 million), and other debt ($214.1 million) such as accrued compensated absences, workers' compensation, and claims and judgments. The City's governmental activities defaulted on its POC long-term obligation totaling $42.9 million during the years ended June 30, 2014 ($24.1 million) and June 30, 2013 ($18.8 million) due to the City's financial emergency and bankruptcy. The bond insurer paid the POC holders. The City reported the $42.9 million on its Governmental Funds balance sheet as a short-term liability due the insurer.

The Michigan Constitution established the authority, subject to constitutional and statutory prohibition, for municipalities to incur debt for public purposes. The City is subject to the Home Rule Act, ACT 279 Public Acts of Michigan, 1909, as amended, which limits the net indebtedness incurred for all public purposes to as much as, but not to exceed, the greater of the following: (a) 10% of the assessed value of all the real and personal property in the City; or (b) 15% of the assessed value of all the real and personal property in the City if that portion of the total amount of indebtedness incurred, which exceeds 10% is, or has been, used solely for the construction or renovation of hospital facilities. Not all of the general bonded debt is subject to the general debt limitation. The City's legal debt limitation at June 30, 2014 was $1.6 billion, of which $553.0 million is available for use. Pursuant to a lawsuit commenced on January 31, 2014, however, the City challenged the validity of the sale of the POCs to the public on the grounds that such sale exceeded the City's legal debt limitation. The POC obligations were compromised and discharged in the Bankruptcy Case, and the lawsuit was dismissed.

The City's ratings on uninsured general obligation bonds as of June 30, 2014 were:

| | |
|---|---|
| **Moody's Investors Service, Inc.** | **Caa3** |
| **Standard & Poor's Corporation** | **C** |
| **Fitch IBCA, Inc.** | **Withdrawn** |

The City's credit ratings were below investment grade due to its bankruptcy and related factors. A significant impact of the City's credit ratings below investment grade status comes in the form of greater limitations on the access to capital and higher borrowing costs.

As of June 30, 2014, the City had eight interest rate swap agreements (the "Swap Agreements"). These eight Swap Agreements were executed by service corporations formed by the City in connection with the POCs. The City's legal obligation relating to the Swap Agreements results from the City's contractual obligation to make service payments to the service corporations.

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

Additional information on the City's long-term debt can be found in Notes VII. Long-Term Obligations, VIII. Derivatives, IX. Pension Plans, and X. Other Postemployment Benefits.

## ECONOMIC CONDITION, NEXT YEAR'S BUDGET AND DEFICIT ELIMINATION PLAN

The City of Detroit is the largest city in Michigan and the 18th largest city in the United States. However, as documented in the 2010 Census, the City's population continues to decline, which contributes to the declining property and income tax base. In addition, the City faces continued high unemployment (11.7% unemployment rate in March 2015 compared to the State unemployment rate of 5.7%), which hinders personal income tax collections. Resident home foreclosures and delinquent property tax levels are another financial concern.

The City's current economic condition is improving. The future outlook for recovery and improvement is positive. Businesses are transferring employees from suburban cities to the City of Detroit. New residents are moving into the City's mid-town and downtown areas. Detroit is becoming a major entertainment destination. The City is home to major sports teams including





the Tigers, Lions, and Red Wings. Also, the City's three casinos and a growing number of restaurants and night spots provide visitors with many entertainment options.

The Detroit metro area economy remains dominated by the auto industry. Auto sales by Detroit area manufacturers were up in 2014 from the prior year. It is expected that auto sales will continue their upward track this year.

The City is partnering with the State and Federal governments to work towards developing a rapid transit bus system operating in dedicated lanes on routes from downtown to and through the suburbs along Gratiot, Woodward, and Michigan avenues. A second bridge between Canada and Detroit has been approved and will contribute to the improvement of the City's economy, providing jobs for residents and improving commerce.

### Next Year's Budget

The fiscal year 2015 budget for the City of Detroit reflects the assumptions in the eighth amended Plan of Adjustment, which was confirmed by the Bankruptcy Court on November 12, 2014 and became effective on December 10, 2014. Section 21 of PA 436 states, "[b]efore the termination of receivership and the completion of the emergency manager's term, or if a transition advisory board is appointed under section 23, then before the transition advisory board is appointed, the emergency manager shall adopt and implement a 2-year budget, including all contractual and employment agreements, for the local government commencing with the termination of receivership." Accordingly, on December 8, 2014 the Emergency Manager submitted the City's fiscal year 2015 and 2016 Budgets. Consistent with the requirements of Section 21(2) of PA 436, the City shall not amend the Two-Year Budget without the written approval of the State Treasurer. In addition to approval by the State Treasurer, an amendment by the City to the Two-Year Budget shall not take effect unless approved by the Commission consistent with Section 7(c) of PA 181.

The fiscal year 2015 budget includes:

- $63.3 million subsidy to DDOT compared to $64.1 million in the FY 14 Budget.
- $58.2 million to pay off the POC derivatives (Swaps).
- $127.6 million for restructuring initiatives and bankruptcy professional fees.
- $63.3 million for Blight reinvestment.
- $94.3 million for Quality of Life exit financing debt service.
- Debt service on financing per the Plan.
- $111.3 million Budget reserve.
- $34.0 million for the Land Bank.
- $12.9 million for Fire Department vehicle fleet replacement.

- $7.4 million for the Finance Enterprise Resource Planning (ERP) system that will upgrade the City's accounting and financial reporting.
- $2.0 million for dangerous tree removal.
- $1.8 million for DDOT transit police.
- $9.5 million for Police vehicle fleet replacement.
- $4.2 million for Recreation Department repairs and maintenance.
- 5% salary and wage increase for all employees for FY 15.

The fiscal year 2015 budget has 787 fewer positions than the budget for the year ended June 30, 2014. Budgeted positions are as follows:

| Description | Positions FY 2014-15 | Positions FY 2013-14 | Variance |
|---|---|---|---|
| General City | 5,911 | 6,461 | (550) |
| Enterprise Agencies | 3,230 | 3,467 | (237) |
| Total Budgeted | 9,141 | 9,928 | (787) |

IV-30

**Deficit Elimination Plan**

State law requires that a local unit of government ending its fiscal year in a deficit condition shall formulate and file a deficit elimination plan (DEP) with the Michigan Department of Treasury within 90 days after the beginning of the fiscal year to correct the deficit. The City's Plan of Adjustment, effective on December 10, 2014, serves as its deficit elimination plan.

## CONTACTING THE CITY'S OFFICE OF THE CHIEF FINANCIAL OFFICER

This financial report is designed to provide our citizens, taxpayers, customers, investors, and creditors with a general overview of the City's finances and to demonstrate the City's accountability for the money it receives. Additional copies of this report and other financial information can be obtained by visiting the Office of the Chief Financial Officer's website at http://www.detroitmi.gov/How-Do-I/City-of-Detroit-CAFR-Find-How-Do-I-City-of-Detroit-MI. You can also contact the office by phone at (313) 224-9707.

The City's component units issue their own audited financial statements. These statements may be obtained by directly contacting the component unit. A list of contact numbers is provided on pages 66 and 67 of this report.



# Mayor Duggan Community Meeting at Detroit Unity Temple

Mayor Duggan hosted a community meeting at Detroit Unity Temple on March 27, 2014. Hundreds of residents heard the Mayor's vision and dozens had an opportunity to ask the Mayor about issues that were of greatest importance to them. Mayor Duggan hosted charter-mandated community meetings in all 7 districts in the city last year.

## COMPREHENSIVE ANNUAL FINANCIAL REPORT

City of Detroit, Michigan

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IV-31



# BASIC

# FINANCIAL

# STATEMENTS

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## City of Detroit, Michigan
## STATEMENT OF NET POSITION
## June 30, 2014

| | Primary Government | | | |
|---|---|---|---|---|
| | Governmental Activities | Business-type Activities | Totals | Component Units |
| ASSETS | | | | |
| Cash and Cash Equivalents | $ 534,206,367 | $ 579,470,142 | $ 1,113,676,509 | $ 41,746,604 |
| Investments | 55,714,512 | 336,599,126 | 392,313,638 | 134,521,928 |
| Accounts and Contracts Receivable - Net | 75,219,189 | 212,939,343 | 288,158,532 | 11,485,708 |
| Internal Balances | (18,565,399) | 18,565,399 | — | — |
| Due from Primary Government | — | — | — | 13,069,229 |
| Due from Component Units | 3,592,419 | 480 | 3,592,899 | — |
| Due from Other Governmental Agencies | 170,403,897 | 7,780,877 | 178,184,774 | 18,856,821 |
| Inventory | — | 19,816,345 | 19,816,345 | 3,462,458 |
| Prepaid Expenses | — | 1,051,783 | 1,051,783 | 1,595,444 |
| Long-Term Receivable | — | 10,219,051 | 10,219,051 | — |
| Loans, Notes, and Pledges Receivable | — | — | — | 37,496,812 |
| Advance to Component Unit/Library | 24,016,604 | — | 24,016,604 | — |
| Other Assets | 2,059,941 | — | 2,059,941 | 34,480,286 |
| Restricted Assets | — | — | — | 5,065,376 |
| Net Pension Asset | 924,139,521 | 282,181,715 | 1,206,321,236 | 25,829,798 |
| Prepaid Insurance on Debt | 34,452,367 | 38,720,796 | 73,173,163 | — |
| Capital Assets: | | | | |
| Non-Depreciable | 466,993,045 | 472,143,776 | 939,136,821 | 28,212,022 |
| Depreciable, Net | 1,043,678,085 | 4,634,770,863 | 5,678,448,948 | 117,705,469 |
| Total Capital Assets - Net | 1,510,671,130 | 5,106,914,639 | 6,617,585,769 | 145,917,491 |
| Total Assets | 3,315,910,548 | 6,614,259,696 | 9,930,170,244 | 473,527,955 |
| DEFERRED OUTFLOWS OF RESOURCES | 14,796,845 | 331,572,495 | 346,369,340 | 297,025 |
| LIABILITIES | | | | |
| Accounts and Contracts Payable | 96,648,366 | 134,105,609 | 230,753,975 | 17,718,672 |
| Accrued Liabilities | 89,850,714 | — | 89,850,714 | — |
| Accrued Salaries and Wages | 18,000,727 | 3,182,486 | 21,183,213 | 1,088,586 |
| Accrued Interest Payable | 55,004,224 | 142,211,803 | 197,216,027 | 4,439,540 |
| Due to Other Governmental Agencies | 132,547,217 | 1,478,909 | 134,026,126 | 22,619,927 |
| Due to Primary Government | — | — | — | 3,592,899 |
| Due to Component Units | 11,251,015 | 1,818,214 | 13,069,229 | — |
| Deposits and Refunds | 10,102,587 | — | 10,102,587 | — |
| Unearned Revenue | — | 17,983,338 | 17,983,338 | 1,771,783 |
| Derivative Instruments - Swap Liability | 244,149,176 | 58,314,703 | 302,463,879 | — |
| Other Defaulted Debt | 25,000,000 | — | 25,000,000 | — |
| Defaulted Debt Due to Insurers | 131,265,183 | 11,820,215 | 143,085,398 | — |
| Other Liabilities | 15,245,132 | 4,041,207 | 19,286,339 | 45,125,136 |
| Long-Term Obligations: | | | | |
| Advance Payable to Primary Government | — | — | — | 24,016,604 |
| Due within one year | 161,367,791 | 250,922,447 | 412,290,238 | 15,324,440 |
| Due in more than one year | 2,354,366,144 | 6,065,434,729 | 8,419,800,873 | 126,957,593 |
| Total Liabilities | 3,344,798,276 | 6,691,313,660 | 10,036,111,936 | 262,655,180 |
| DEFERRED INFLOWS OF RESOURCES | 32,298,762 | 19,735,156 | 52,033,918 | 585,365 |
| NET POSITION (DEFICIT) | | | | |
| Net Investment in Capital Assets | 886,141,054 | 54,337,164 | 940,478,218 | 145,683,104 |
| Restricted for: | | | | |
| Highway and Street Improvement | 48,941,150 | — | 48,941,150 | — |
| Endowments and Trust (Expendable) | 765,245 | — | 765,245 | 12,519,624 |
| Endowments and Trust (Non-Expendable) | 937,861 | — | 937,861 | 1,752,471 |
| Capital Projects and Acquisitions | 14,781,479 | 172,960,701 | 187,742,180 | 49,076,041 |
| Debt Service | 36,621,368 | 298,960,977 | 335,582,345 | 27,393,991 |
| Donations | — | 1,135,691 | 1,135,691 | — |
| Unrestricted (Deficit) | (1,034,577,802) | (292,611,158) | (1,327,188,960) | (25,840,796) |
| Total Net Position (Deficit) | $ (46,389,645) | $ 234,783,375 | $ 188,393,730 | $ 210,584,435 |

See accompanying notes to basic financial statements.

# City of Detroit, Michigan
## STATEMENT OF ACTIVITIES
## For the Year Ended June 30, 2014

| | | Program Revenues | | | Net (Expense) Revenue and Changes in Net Position | | | |
|---|---|---|---|---|---|---|---|---|
| | | | | | Primary Government | | | |
| Functions/Programs | Expenses | Charges for Services | Operating Grants and Contributions | Capital Grants and Contributions | Governmental Activities | Business-type Activities | Totals | Component Units |
| **Primary Government:** | | | | | | | | |
| Governmental Activities: | | | | | | | | |
| Public Protection | $ 539,831,117 | $ 75,017,759 | $ 15,384,089 | $ — | $ (449,429,269) | $ — | $ (449,429,269) | $ — |
| Health | 49,563,178 | 2,389,178 | 48,519,656 | — | 1,345,656 | — | 1,345,656 | — |
| Recreation and Culture | 30,467,345 | 17,106,690 | 1,401,609 | — | (11,959,046) | — | (11,959,046) | — |
| Economic Development | 59,701,870 | 3,344,270 | 55,043,039 | — | (1,314,561) | — | (1,314,561) | — |
| Housing Supply and Conditions | 8,465,345 | 3,509,934 | 1,041,372 | — | (3,914,039) | — | (3,914,039) | — |
| Physical Environment | 110,555,039 | 93,846,458 | — | — | (16,708,581) | — | (16,708,581) | — |
| Transportation Facilitation | 55,831,652 | 22,728,698 | 54,487,195 | 30,592,996 | 51,977,237 | — | 51,977,237 | — |
| Development and Management | 328,243,425 | 128,991,615 | 910,867 | — | (198,340,943) | — | (198,340,943) | — |
| Interest on Long-Term Debt | 135,130,618 | — | — | — | (135,130,618) | — | (135,130,618) | — |
| Total Governmental Activities | 1,317,789,589 | 346,934,602 | 176,787,827 | 30,592,996 | (763,474,164) | — | (763,474,164) | — |
| Business-type Activities: | | | | | | | | |
| Sewage Disposal | 482,723,501 | 475,770,844 | — | — | — | (6,952,657) | (6,952,657) | — |
| Transportation | 163,841,194 | 19,374,841 | 61,597,871 | 9,943,047 | — | (72,925,435) | (72,925,435) | — |
| Water | 392,920,925 | 349,369,362 | — | — | — | (43,551,563) | (43,551,563) | — |
| Automobile Parking | 14,714,363 | 10,341,324 | — | — | — | (4,373,039) | (4,373,039) | — |
| Airport | 4,613,418 | 3,085,314 | — | — | — | (1,528,104) | (1,528,104) | — |
| Total Business-type Activities | 1,058,813,401 | 857,941,685 | 61,597,871 | 9,943,047 | — | (129,330,798) | (129,330,798) | — |
| Total Primary Government | $ 2,376,602,990 | $ 1,204,876,287 | $ 238,385,698 | $ 40,536,043 | (763,474,164) | (129,330,798) | (892,804,962) | — |
| **Component Units:** | | | | | | | | |
| Detroit Brownfield Redevelopment Authority | $ 2,591,668 | $ — | $ 164,811 | $ — | — | — | — | (2,426,857) |
| Detroit Public Library | 34,426,623 | 610,264 | 1,139,935 | — | — | — | — | (32,676,424) |
| Detroit Transportation Corporation | 19,975,848 | 1,688,923 | 11,225,937 | — | — | — | — | (7,060,988) |
| Downtown Development Authority | 34,202,813 | 6,728,612 | — | — | — | — | — | (27,474,201) |
| Eastern Market Corporation | 4,649,205 | 1,246,199 | 565,290 | — | — | — | — | (2,837,716) |
| Economic Development Corporation | 4,318,242 | 1,613,572 | — | — | — | — | — | (2,704,670) |
| Greater Detroit Resource Recovery Authority | 10,483,592 | 68,732 | — | — | — | — | — | (10,414,860) |
| Local Development Finance Authority | 3,121,257 | — | — | — | — | — | — | (3,121,257) |
| Museum of African American History | 5,729,011 | 2,082,615 | 1,049,803 | — | — | — | — | (2,596,593) |
| Detroit Land Bank Authority | 7,125,327 | — | 8,595,248 | — | — | — | — | 1,469,921 |
| Eight Mile/Woodward Corridor Imp. Authority | 71,058 | — | — | — | — | — | — | (71,058) |
| Detroit Employment Solutions Corporation | 37,709,392 | — | 37,551,181 | — | — | — | — | (158,211) |
| Total Component Units | $ 164,404,036 | $ 14,038,917 | $ 60,292,205 | $ — | — | — | — | (90,072,914) |
| General Revenues: | | | | | | | | |
| Taxes: | | | | | | | | |
| Property Taxes | | | | | 194,680,186 | — | 194,680,186 | 58,570,321 |
| Municipal Income Tax | | | | | 253,769,874 | — | 253,769,874 | — |
| Utility Users' Tax | | | | | 42,386,549 | — | 42,386,549 | — |
| Wagering Tax | | | | | 167,569,541 | — | 167,569,541 | — |
| Other Taxes and Assessments | | | | | 8,603,632 | — | 8,603,632 | 3,333,713 |
| State Shared Taxes | | | | | 189,756,901 | — | 189,756,901 | 517,663 |
| State Returnable Liquor License Fees | | | | | 607,547 | — | 607,547 | — |
| Interest and Penalties on Taxes | | | | | 1,269,784 | — | 1,269,784 | — |
| Tipping Fees | | | | | — | — | — | 9,199,165 |
| Contributions | | | | | — | — | — | 12,388,902 |
| Investment Earnings (Losses) | | | | | (4,170,808) | 5,609,449 | 1,438,641 | 2,119,562 |
| Bond Issuance Costs | | | | | — | (22,173,885) | (22,173,885) | — |
| Miscellaneous Revenues (Expenses) | | | | | 7,549,098 | (13,956,786) | (6,407,688) | 1,827,491 |
| Loss on Disposal of Capital Assets | | | | | (359,223) | (1,259,818) | (1,619,041) | — |
| Special Item - OPEB Plan Termination | | | | | 766,046,174 | 228,728,211 | 994,774,385 | 20,210,541 |
| Transfers | | | | | (79,432,723) | 79,432,723 | — | — |
| Total General Revenues, Transfers and Special Items | | | | | 1,548,276,532 | 276,379,894 | 1,824,656,426 | 108,167,358 |
| Change in Net Position | | | | | 784,802,368 | 147,049,096 | 931,851,464 | 18,094,444 |
| Net Position (Deficit) - Beginning of Year, as Restated (Note I(t)) | | | | | (831,192,013) | 87,734,279 | (743,457,734) | 192,489,991 |
| Net Position (Deficit) - End of Year | | | | | $ (46,389,645) | $ 234,783,375 | $ 188,393,730 | $ 210,584,435 |

See accompanying notes to basic financial statements.

# City of Detroit, Michigan
## BALANCE SHEET
## GOVERNMENTAL FUNDS
## June 30, 2014

| | General Fund | General Retirement System Service Corporation | Police and Fire Retirement System Service Corporation | Other Governmental Funds | Totals |
|---|---|---|---|---|---|
| ASSETS | | | | | |
| Cash and Cash Equivalents | $ 376,272,685 | $ — | $ — | $ 157,933,682 | $ 534,206,367 |
| Investments | 5,009,151 | — | — | 50,705,361 | 55,714,512 |
| Accounts and Contracts Receivable: | | | | | |
| Estimated Withheld Income Taxes Receivable | 24,694,559 | — | — | — | 24,694,559 |
| Utility Users' Taxes Receivable | 2,505,618 | — | — | — | 2,505,618 |
| Property Taxes Receivable | 260,081,217 | — | — | 102,587,983 | 362,669,200 |
| Income Tax Assessments | 58,485,008 | — | — | — | 58,485,008 |
| Special Assessments | 24,669,919 | — | — | 541,890 | 25,211,809 |
| Loans Receivable | — | — | — | 18,000,000 | 18,000,000 |
| Trade Receivables | 211,692,008 | — | — | 7,860,509 | 219,552,517 |
| Total Accounts and Contracts Receivable | 582,128,329 | — | — | 128,990,382 | 711,118,711 |
| Allowance for Uncollectible Accounts | (513,781,842) | — | — | (125,309,367) | (639,091,209) |
| Total Accounts and Contracts Receivable - Net | 68,346,487 | — | — | 3,681,015 | 72,027,502 |
| Due from Other Funds | 10,729,220 | 36,123,493 | 49,459,580 | 76,645,530 | 172,957,823 |
| Due from Fiduciary Funds | 2,538,863 | — | — | 652,824 | 3,191,687 |
| Due from Component Units | 1,808,025 | 1,775,280 | — | 9,114 | 3,592,419 |
| Due from Other Governmental Agencies | 156,927,661 | — | — | 13,476,236 | 170,403,897 |
| Advances to Component Units | — | 24,016,604 | — | — | 24,016,604 |
| Other Advances | 805,485 | — | — | — | 805,485 |
| Other Assets | 348,865 | — | — | 905,591 | 1,254,456 |
| Total Assets | 622,786,442 | 61,915,377 | 49,459,580 | 304,009,353 | 1,038,170,752 |
| DEFERRED OUTFLOWS OF RESOURCES | — | — | — | — | — |
| Total Assets and Deferred Outflows of Resources | $ 622,786,442 | $ 61,915,377 | $ 49,459,580 | $ 304,009,353 | $ 1,038,170,752 |
| LIABILITIES | | | | | |
| Accounts and Contracts Payable | $ 50,239,629 | $ — | $ — | $ 14,241,131 | $ 64,480,760 |
| Accrued Liabilities | 68,690,505 | — | — | 21,160,209 | 89,850,714 |
| Accrued Salaries and Wages | 17,141,508 | — | — | 859,219 | 18,000,727 |
| Due to Other Funds | 181,615,738 | — | — | 9,907,484 | 191,523,222 |
| Due to Fiduciary Funds | 32,167,402 | — | — | 204 | 32,167,606 |
| Due to Other Governmental Agencies | 87,700,587 | — | — | 24,723,046 | 112,423,633 |
| Due to Component Units | 9,295,244 | — | — | 1,955,771 | 11,251,015 |
| Income Tax Refunds Payable | 3,862,477 | — | — | — | 3,862,477 |
| Deposits from Vendors and Customers | 5,440,699 | — | — | 799,411 | 6,240,110 |
| Unearned Revenue | 5,051,341 | — | — | 357,514 | 5,408,855 |
| Other Defaulted Debt | 25,000,000 | — | — | — | 25,000,000 |
| Defaulted Debt Due to Insurer | 22,953,172 | 22,282,634 | 29,079,826 | 56,949,551 | 131,265,183 |
| Other Liabilities | 14,639,129 | — | — | 606,003 | 15,245,132 |
| Accrued Interest Payable | 3,890,348 | 15,616,139 | 20,379,754 | — | 39,886,241 |
| Accrued Compensated Absences | — | — | — | 9,539 | 9,539 |
| Claims and Judgments | 628,806 | — | — | — | 628,806 |
| Total Liabilities | $ 528,316,585 | $ 37,898,773 | $ 49,459,580 | $ 131,569,082 | $ 747,244,020 |
| DEFERRED INFLOWS OF RESOURCES | $ 41,063,488 | $ — | $ — | $ 4,268,862 | $ 45,332,350 |
| FUND BALANCES (DEFICIT) | | | | | |
| Nonspendable: | | | | | |
| Long-Term Receivables | $ — | $ 24,016,604 | $ — | $ — | $ 24,016,604 |
| Permanent Fund Principal | — | — | — | 937,861 | 937,861 |
| Restricted for: | | | | | |
| Highway and Street Improvements | — | — | — | 48,941,150 | 48,941,150 |
| Unspent Bond Proceeds | 979,826 | — | — | — | 979,826 |
| Police | — | — | — | 9,690,016 | 9,690,016 |
| Endowments and Trusts | — | — | — | 765,245 | 765,245 |
| Capital Acquisitions | 42,000,000 | — | — | 62,946,287 | 104,946,287 |
| Local Business Growth | — | — | — | 478,084 | 478,084 |
| Rubbish Collection and Disposal | — | — | — | 19,109,922 | 19,109,922 |
| Construction Code | — | — | — | 2,395,287 | 2,395,287 |
| Grants | — | — | — | 10,302,793 | 10,302,793 |
| Committed for: | | | | | |
| Risk Management Operations | 79,267,054 | — | — | — | 79,267,054 |
| QOL Program | 77,067,071 | — | — | — | 77,067,071 |
| Assigned for: | | | | | |
| Debt Service | — | — | — | 12,604,764 | 12,604,764 |
| Unassigned: | | | | | |
| General Fund (Deficit) | (145,907,582) | — | — | — | (145,907,582) |
| Total Fund Balances (Deficit) | 53,406,369 | 24,016,604 | — | 168,171,409 | 245,594,382 |
| Total Liabilities, Deferred Inflows of Resources, and Fund Balances (Deficit) | $ 622,786,442 | $ 61,915,377 | $ 49,459,580 | $ 304,009,353 | $ 1,038,170,752 |



# City of Detroit, Michigan
## RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS TO THE STATEMENT OF NET POSITION
## June 30, 2014

| | | |
|---|---|---|
| Fund Balances (Deficit) - Total Governmental Funds | | $ 245,594,382 |
| Amounts reported for governmental activities in the statement of net position are different because: | | |
| Capital assets used in governmental activities are not financial resources and therefore are not reported in the governmental funds: | | |
| Governmental capital assets | $ 3,422,579,811 | |
| Less accumulated depreciation | (1,911,908,681) | 1,510,671,130 |
| Other assets/liabilities used in governmental activities are not financial resources and therefore are not reported in the governmental funds: | | |
| Receivables applicable to governmental activities are not due and collectible in the current period and therefore are deferred in the governmental funds | | 13,033,588 |
| Grant receivables applicable to governmental activites are not due and collectible in the current period and therefore are unearned revenues in governmental funds | | 5,408,855 |
| Net pension asset | | 924,139,521 |
| Deferred amount on refunding | | 14,796,845 |
| Prepaid insurance on debt | | 34,452,367 |
| Long-term liabilities, including bonds payable are not due and payable in the current period and therefore are not reported in the governmental funds; interest on long-term debt is not accrued in the governmental funds and is recognized as an expenditure to the extent due; and all liabilities, both current and long-term, are reported in the statement of net position: | | |
| Accrued interest payable on bonds and other long-term obligations | (15,117,983) | |
| Accrued interest and penalties on escheatment payable | (20,123,584) | |
| General obligation bonds | (1,042,311,968) | |
| Derivative Instruments | (244,149,176) | |
| Notes payable | (85,184,000) | |
| Loans payable | (36,693,164) | |
| Unamortized premiums | (18,651,009) | |
| Accrued compensated absences | (63,586,781) | |
| Accrued workers' compensation | (69,176,000) | |
| Accrued other postemployment benefits | (14,032,941) | |
| Claims and judgments | (48,004,758) | |
| Accrued pollution remediation | (51,265) | |
| Pension obligation certificates payable | (1,137,403,704) | (2,794,486,333) |
| Net Position (Deficit) of Governmental Activities | | $ (46,389,645) |

## City of Detroit, Michigan
## STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
## GOVERNMENTAL FUNDS
## For the Year Ended June 30, 2014

| | General Fund | General Retirement System Service Corporation | Police and Fire Retirement System Service Corporation | Other Governmental Funds | Totals |
|---|---|---|---|---|---|
| REVENUES: | | | | | |
| Taxes: | | | | | |
| Property Taxes | $ 129,413,195 | $ — | $ — | $ 65,214,710 | $ 194,627,905 |
| Municipal Income Tax | 253,769,874 | — | — | — | 253,769,874 |
| Utility Users' Tax | 42,386,549 | — | — | — | 42,386,549 |
| Wagering Tax | 167,924,023 | — | — | — | 167,924,023 |
| Gas and Weight Tax | — | — | — | 53,904,485 | 53,904,485 |
| Other Taxes and Assessments | 6,480,150 | — | — | 2,123,482 | 8,603,632 |
| Interest and Penalties on Taxes | 896,735 | — | — | 373,049 | 1,269,784 |
| Licenses, Permits, and Inspection Charges | 8,685,443 | — | — | 20,021,186 | 28,706,629 |
| Intergovernmental: | | | | | |
| Federal | 39,930,125 | — | — | 56,977,258 | 96,907,383 |
| State: | | | | | |
| State Shared Revenue | 189,756,901 | — | — | — | 189,756,901 |
| State Returnable Liquor License Fees | 607,547 | — | — | — | 607,547 |
| Other State Sourced Revenue | 24,333,026 | — | — | 24,893,308 | 49,226,334 |
| Other | 223,381 | — | — | 5,778,004 | 6,001,385 |
| Sales and Charges for Services | 157,377,149 | — | — | 50,609,879 | 207,987,028 |
| Ordinance Fines and Forfeitures | 15,946,936 | — | — | 1,904,202 | 17,851,138 |
| Revenue from Use of Assets | 7,568,498 | — | — | — | 7,568,498 |
| Investment Earnings | 180,623 | — | — | 119,774 | 300,397 |
| Other Revenue | 64,735,592 | 1,859,512 | — | 28,415,290 | 95,010,394 |
| Total Revenues | 1,110,215,747 | 1,859,512 | — | 310,334,627 | 1,422,409,886 |
| EXPENDITURES: | | | | | |
| Current: | | | | | |
| Public Protection | 426,103,004 | — | — | 23,519,280 | 449,622,284 |
| Health | 46,424,431 | — | — | 2,357,772 | 48,782,203 |
| Recreation and Culture | 15,979,864 | — | — | 52,728 | 16,032,592 |
| Economic Development | — | — | — | 51,178,770 | 51,178,770 |
| Housing Supply and Conditions | 6,966,303 | — | — | — | 6,966,303 |
| Physical Environment | 59,575,884 | — | — | 37,865,258 | 97,441,142 |
| Transportation Facilitation | — | — | — | 36,505,709 | 36,505,709 |
| Development and Management | 296,530,041 | — | — | 1,156,350 | 297,686,391 |
| Debt Service: | | | | | |
| Principal | 44,546,910 | 10,454,902 | 13,644,111 | 41,331,000 | 109,976,923 |
| Interest | 29,081,981 | 29,242,071 | 38,162,200 | 30,459,501 | 126,945,753 |
| Bond Issuance Costs | 3,379,410 | — | — | — | 3,379,410 |
| Capital Outlay | 15,175,250 | — | — | 66,154,054 | 81,329,304 |
| Total Expenditures | 943,763,078 | 39,696,973 | 51,806,311 | 290,580,422 | 1,325,846,784 |
| Excess (Deficiency) of Revenues Over (Under) Expenditures | 166,452,669 | (37,837,461) | (51,806,311) | 19,754,205 | 96,563,102 |
| OTHER FINANCING SOURCES (USES): | | | | | |
| Sources: | | | | | |
| Transfers In | 9,010,944 | 37,837,461 | 51,806,311 | 11,115,472 | 109,770,188 |
| Bonds and Notes Issued | 120,000,000 | — | — | — | 120,000,000 |
| Uses: | | | | | |
| Transfers Out | (169,076,495) | — | — | (20,126,416) | (189,202,911) |
| Total Other Financing Sources (Uses) | (40,065,551) | 37,837,461 | 51,806,311 | (9,010,944) | 40,567,277 |
| Net Change in Fund Balances | 126,387,118 | — | — | 10,743,261 | 137,130,379 |
| Fund Balances (Deficit) at Beginning of Year | (72,980,749) | 24,016,604 | — | 157,428,148 | 108,464,003 |
| Fund Balances at End of Year | $ 53,406,369 | $ 24,016,604 | $ — | $ 168,171,409 | $ 245,594,382 |

See accompanying notes to basic financial statements.



## City of Detroit, Michigan
## RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
## For the Year Ended June 30, 2014

| | | |
|---|---|---|
| Change in Fund Balances - Total Governmental Funds | | $ 137,130,379 |
| Amounts reported for governmental activities in the statement of activities are different because: | | |
| Some revenues reported in the statement of activities do not provide current financial resources and therefore are not reported as revenues in the governmental funds | | (7,485,689) |
| Governmental funds report capital outlays as expenditures; however, in the statement of activities, the cost of those assets is depreciated over their estimated useful lives: | | |
| Expenditures for capital assets | $ 81,329,304 | |
| Less current year depreciation | (82,115,608) | (786,304) |
| The net effect of miscellaneous transactions involving capital assets (i.e., sales, trade-ins, and disposals) is to decrease net position | | (359,223) |
| Due to State Government for Escheatment | | (5,445,909) |
| Payments to the pension systems increased the net pension asset | | (75,245,775) |
| Bond and note proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net position | | (120,000,000) |
| Repayment of bond principal and other debt is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position | | 109,976,923 |
| Change in deferred outflows of resources related to derivatives is not reported in the governmental funds | | (4,471,205) |
| Some expenses recorded in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the governmental funds: | | |
| Amortization of prepaid insurance issuance costs | (1,863,189) | |
| Change in accrued interest payable | 495,711 | |
| Deferred gain/(loss) on defeasance | (265,261) | |
| Amortization of bond premiums | 2,231,146 | |
| Amortization of swap termination fees | 1,343,787 | |
| Amortization of deferred amounts on refunding | (1,301,745) | |
| Change in accrued compensated absences | 2,864,411 | |
| Change in accrued workers' compensation claims | (7,327,000) | |
| Change in accrued Public Liability | 2,253,358 | |
| Change in accrued other post employment benefits | 752,952,453 | |
| Change in accrued pollution remediation | 105,500 | 751,489,171 |
| Change in Net Position of Governmental Activities | | $ 784,802,368 |

See accompanying notes to basic financial statements.

**City of Detroit, Michigan**
**STATEMENT OF NET POSITION**
**ENTERPRISE FUNDS**
**June 30, 2014**

| | Sewage Disposal Fund | Transportation Fund | Water Fund | Automobile Parking Fund | Other Enterprise Funds | Totals |
|---|---|---|---|---|---|---|
| ASSETS | | | | | | |
| Current Assets: | | | | | | |
| Cash and Cash Equivalents | $ 96,127,434 | $ 2,586,571 | $ 98,870,737 | $ 10,812,378 | $ 17,441,205 | $ 225,838,325 |
| Investments | 20,771,621 | 10,532 | 14,030,467 | — | — | 34,812,620 |
| Accounts and Contracts Receivable: | | | | | | |
| Other Receivables - Trade | 241,121,210 | 100,085 | 107,172,012 | 43,619 | 2,140,012 | 350,576,938 |
| Total Accounts and Contracts Receivable | 241,121,210 | 100,085 | 107,172,012 | 43,619 | 2,140,012 | 350,576,938 |
| Allowance for Uncollectible Accounts | (108,044,238) | (18,551) | (34,349,502) | — | (1,029,232) | (143,441,523) |
| Total Accounts and Contracts Receivable - Net | 133,076,972 | 81,534 | 72,822,510 | 43,619 | 1,110,780 | 207,135,415 |
| Due from Other Funds | 7,435,471 | 12,182,487 | 23,674,834 | 1,066,812 | 25,315 | 44,384,919 |
| Due from Fiduciary Funds | 1,639,051 | 2,554,411 | 1,576,152 | 34,314 | — | 5,803,928 |
| Due from Other Governmental Agencies | — | 7,768,833 | — | — | 12,044 | 7,780,877 |
| Due from Component Unit | — | — | — | 480 | — | 480 |
| Inventory | 9,384,419 | 4,962,196 | 5,469,730 | — | — | 19,816,345 |
| Prepaid Expenses | 787,731 | 180,876 | — | 60,097 | 23,079 | 1,051,783 |
| Restricted: | | | | | | |
| Cash and Cash Equivalents | 152,554,687 | — | 132,458,480 | — | — | 285,013,167 |
| Investments | 19,487,688 | — | — | — | — | 19,487,688 |
| Total Current Assets | 441,265,074 | 30,327,440 | 348,902,910 | 12,017,700 | 18,612,423 | 851,125,547 |
| Noncurrent Assets: | | | | | | |
| Restricted: | | | | | | |
| Cash and Cash Equivalents | 52,137,290 | — | 16,481,360 | — | — | 68,618,650 |
| Investments | 68,058,347 | — | 161,891,288 | — | 52,349,183 | 282,298,818 |
| Prepaid Insurance on Debt | 20,670,224 | — | 18,050,572 | — | — | 38,720,796 |
| Other Receivables | 7,523,336 | 650,000 | 2,045,715 | — | — | 10,219,051 |
| Net Pension Asset | 90,144,213 | 93,066,680 | 98,970,822 | — | — | 282,181,715 |
| Capital Assets: | | | | | | |
| Land and Land Rights | 37,926,842 | 7,578,462 | 8,872,365 | 4,967,313 | 17,349,458 | 76,694,440 |
| Land Improvements | 76,829,093 | — | 101,297,526 | 214,908 | 8,020,718 | 186,362,245 |
| Buildings and Structures | 2,115,462,929 | 150,933,511 | 811,978,038 | 200,066,403 | 5,853,773 | 3,284,294,654 |
| Interceptors and Regulators | 205,749,861 | — | — | — | — | 205,749,861 |
| Mains | — | — | 1,033,350,228 | — | — | 1,033,350,228 |
| Services and Meters | — | — | 176,652,924 | — | — | 176,652,924 |
| Vehicles and Buses | — | 139,023,990 | — | 1,254,151 | 1,326,693 | 141,604,834 |
| Machinery, Equipment, and Fixtures | 1,712,904,344 | 50,299,558 | 1,072,459,390 | 4,952,624 | 1,867,408 | 2,842,483,324 |
| Construction in Progress | 251,923,506 | 1,808,177 | 122,415,104 | — | 19,302,549 | 395,449,336 |
| Total Capital Assets | 4,400,796,575 | 349,643,698 | 3,327,025,575 | 211,455,399 | 53,720,599 | 8,342,641,846 |
| Less: Accumulated Depreciation | (1,562,801,735) | (199,077,574) | (1,315,381,585) | (142,510,869) | (15,955,444) | (3,235,727,207) |
| Capital Assets - Net | 2,837,994,840 | 150,566,124 | 2,011,643,990 | 68,944,530 | 37,765,155 | 5,106,914,639 |
| Total Noncurrent Assets | 3,076,528,250 | 244,282,804 | 2,309,083,747 | 68,944,530 | 90,114,338 | 5,788,953,669 |
| Total Assets | 3,517,793,324 | 274,610,244 | 2,657,986,657 | 80,962,230 | 108,726,761 | 6,640,079,216 |
| Deferred Outflows of Resources | 214,536,819 | 1,287,183 | 115,748,493 | — | — | 331,572,495 |

(Continued)

See accompanying notes to basic financial statements.

## City of Detroit, Michigan
## STATEMENT OF NET POSITION
## ENTERPRISE FUNDS
## June 30, 2014

| | Sewage Disposal Fund | Transportation Fund | Water Fund | Automobile Parking Fund | Other Enterprise Funds | Totals |
|---|---|---|---|---|---|---|
| LIABILITIES AND NET POSITION (DEFICIT) | | | | | | |
| Current Liabilities: | | | | | | |
| Accounts and Contracts Payable | $ 63,013,252 | $ 11,752,614 | $ 41,763,877 | $ 799,338 | $ 11,396,723 | $ 128,725,804 |
| Accrued Salaries and Wages | 620,423 | 1,378,484 | 1,080,879 | 97,246 | 5,454 | 3,182,486 |
| Due to Other Funds | 22,743,136 | 306,257 | — | 2,134,131 | 635,996 | 25,819,520 |
| Due to Fiduciary Funds | 1,365,525 | 1,032,831 | 1,919,469 | 693,545 | 368,435 | 5,379,805 |
| Due to Component Units | — | 1,818,214 | — | — | — | 1,818,214 |
| Due to Other Governmental Agencies | — | 1,478,909 | — | — | — | 1,478,909 |
| Accrued Interest | 71,473,338 | 3,783,534 | 66,954,931 | — | — | 142,211,803 |
| Defaulted Debt Due to Insurer | 3,876,257 | 4,523,248 | 3,420,710 | — | — | 11,820,215 |
| Other Liabilities | 16,003,280 | — | 9,820,504 | 1,378,944 | 2,662,263 | 29,864,991 |
| Unearned Revenue | — | 506,989 | — | 17,476,349 | — | 17,983,338 |
| Bonds, Notes, and Capital Leases | 86,495,000 | 2,660,578 | 53,140,000 | — | 60,000,000 | 202,295,578 |
| Accrued Compensated Absences | 1,565,150 | 3,013,426 | 1,965,415 | 76,578 | 19,078 | 6,639,647 |
| Accrued Workers' Compensation and Claims and Judgments | 2,034,458 | 786,262 | 2,487,823 | 84,000 | 88,000 | 5,480,543 |
| Accrued Other Postemployment Benefits | 1,111,555 | 1,508,954 | 1,782,195 | 48,137 | 6,967 | 4,457,808 |
| Pension Obligation Certificates - Net | 2,041,421 | 2,382,157 | 1,801,509 | — | — | 6,225,087 |
| Total Current Liabilities | 272,342,795 | 36,932,457 | 186,137,312 | 22,788,268 | 75,182,916 | 593,383,748 |
| Noncurrent Liabilities: | | | | | | |
| Other Liabilities | 15,217,513 | — | 6,521,791 | — | — | 21,739,304 |
| Bonds and Notes Payable - Net | 3,259,316,826 | 2,797,454 | 2,500,192,940 | — | — | 5,762,307,220 |
| Pension Obligation Certificates Payable (POCs) - Net | 83,802,009 | 97,777,302 | 73,946,895 | — | — | 255,526,206 |
| Accrued Compensated Absences | 3,178,793 | 188,540 | 3,991,449 | 76,578 | — | 7,435,360 |
| Accrued Workers' Compensation and Claims and Judgments | 4,362,500 | 2,182,717 | 10,193,000 | 685,000 | 186,800 | 17,610,017 |
| Accrued Other Postemployment Benefits | 254,116 | 294,769 | 258,787 | 6,898 | 2,052 | 816,622 |
| Derivative instruments - swap liability | 19,073,402 | 22,315,318 | 16,925,983 | — | — | 58,314,703 |
| Total Noncurrent Liabilities | 3,385,205,159 | 125,556,100 | 2,612,030,845 | 768,476 | 188,852 | 6,123,749,432 |
| Total Liabilities | 3,657,547,954 | 162,488,557 | 2,798,168,157 | 23,556,744 | 75,371,768 | 6,717,133,180 |
| Deferred Inflows of Resources | 3,738,739 | 2,532,991 | 13,463,426 | — | — | 19,735,156 |
| Net Position: | | | | | | |
| Net Investment in Capital Assets | 22,834,100 | 145,108,091 | (209,212,631) | 68,944,530 | 26,663,074 | 54,337,164 |
| Restricted for Capital Acquisitions | 44,123,303 | — | 120,420,900 | — | 8,416,498 | 172,960,701 |
| Restricted for Donations | — | — | 1,135,691 | — | — | 1,135,691 |
| Restricted for Debt Service | 176,641,371 | — | 122,319,606 | — | — | 298,960,977 |
| Unrestricted (Deficit) | (172,555,324) | (34,232,212) | (72,559,999) | (11,539,044) | (1,724,579) | (292,611,158) |
| Total Net Position (Deficit) | $ 71,043,450 | $ 110,875,879 | $ (37,896,433) | $ 57,405,486 | $ 33,354,993 | $ 234,783,375 |

See accompanying notes to basic financial statements.

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# City of Detroit, Michigan
## STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
## ENTERPRISE FUNDS
## For the Year Ended June 30, 2014

| | Sewage Disposal Fund | Transportation Fund | Water Fund | Automobile Parking Fund | Other Enterprise Funds | Totals |
|---|---|---|---|---|---|---|
| Operating Revenues: | | | | | | |
| Sales and Charges for Services | $ 465,356,441 | $ 18,596,179 | $ 344,879,132 | $ — | $ 1,430 | $ 828,833,182 |
| Rentals, Fees, and Surcharges | 5,830,344 | 524,200 | — | 10,341,324 | 1,259,571 | 17,955,439 |
| Miscellaneous | 4,584,059 | 254,462 | 4,490,230 | — | 1,824,313 | 11,153,064 |
| Total Operating Revenues | 475,770,844 | 19,374,841 | 349,369,362 | 10,341,324 | 3,085,314 | 857,941,685 |
| Operating Expenses: | | | | | | |
| Salaries, Wages, and Benefits | 69,598,479 | 89,458,201 | 64,876,052 | 4,483,891 | 1,047,008 | 229,463,631 |
| Contractual Services | 51,134,733 | 11,413,548 | 45,384,265 | 4,292,433 | — | 112,224,979 |
| Operating | 60,835,254 | 3,700,340 | 46,272,888 | 2,064,199 | 2,785,842 | 115,658,523 |
| Maintenance | 5,528,124 | — | 9,449,775 | 70,436 | 24,674 | 15,073,009 |
| Materials, Supplies, and Other Expenses | 42,072,667 | 36,560,190 | 8,279,376 | 200,189 | 35,103 | 87,147,525 |
| Depreciation | 118,409,025 | 16,280,241 | 85,026,008 | 3,031,143 | 135,302 | 222,881,719 |
| Total Operating Expenses | 347,578,282 | 157,412,520 | 259,288,364 | 14,142,291 | 4,027,929 | 782,449,386 |
| Operating Income (Loss) | 128,192,562 | (138,037,679) | 90,080,998 | (3,800,967) | (942,615) | 75,492,299 |
| Non-Operating Revenues (Expenses): | | | | | | |
| Investment Earnings (Losses) | 2,832,781 | 507 | 4,276,702 | 1,729 | 1,660 | 7,113,379 |
| Investment Earnings (Losses) - Changes in Fair Value of Derivatives | (491,902) | (575,510) | (436,518) | — | — | (1,503,930) |
| Federal and State Grants | — | 61,597,871 | — | — | — | 61,597,871 |
| Interest on Bonds, Notes Payable, and Loans | (135,145,219) | (6,428,674) | (133,632,561) | (572,072) | (585,489) | (276,364,015) |
| Loss on Disposal of Capital Assets | — | (1,259,818) | — | — | — | (1,259,818) |
| Bond Issuance Costs | — | — | — | — | (916,636) | (916,636) |
| Amortization of Bond Issuance Costs and Deferrals | (13,963,557) | — | (7,293,692) | — | — | (21,257,249) |
| Special Item - OPEB Plan Termination | 70,201,066 | 85,808,452 | 70,306,819 | 2,365,557 | 46,317 | 228,728,211 |
| Other Revenues | (11,573,635) | — | (2,383,151) | — | — | (13,956,786) |
| Total Non-Operating Revenues (Expenses), Net | (88,140,466) | 139,142,828 | (69,162,401) | 1,795,214 | (1,454,148) | (17,818,973) |
| Net Loss Before Contributions and Transfers | 40,052,096 | 1,105,149 | 20,918,597 | (2,005,753) | (2,396,763) | 57,673,326 |
| Capital Contributions | — | 9,943,047 | — | — | — | 9,943,047 |
| Transfers In | — | 57,209,128 | — | 4,050,006 | 18,173,589 | 79,432,723 |
| Increase (Decrease) in Net Position | 40,052,096 | 68,257,324 | 20,918,597 | 2,044,253 | 15,776,826 | 147,049,096 |
| Net Position (Deficit) - Beginning of Year, as Restated (Note I(t)) | 30,991,354 | 42,618,555 | (58,815,030) | 55,361,233 | 17,578,167 | 87,734,279 |
| Net Position (Deficit) - End of Year | $ 71,043,450 | $ 110,875,879 | $ (37,896,433) | $ 57,405,486 | $ 33,354,993 | $ 234,783,375 |

See accompanying notes to basic financial statements.

## City of Detroit, Michigan
## STATEMENT OF CASH FLOWS
## ENTERPRISE FUNDS
## For the Year Ended June 30, 2014

| | Sewage Disposal Fund | Transportation Fund | Water Fund | Automobile Parking Fund | Other Enterprise Funds | Totals |
|---|---|---|---|---|---|---|
| Cash Flows from Operating Activities: | | | | | | |
| Receipts from Customers | $ 475,207,954 | $ 20,281,999 | $ 363,525,264 | $ 9,830,913 | $ 2,550,213 | $ 871,396,343 |
| Receipts from (to) Other Funds | (21,977,299) | (7,211,813) | 18,306,856 | 1,914,555 | (93,363) | (9,061,064) |
| Payments to Suppliers | (105,305,127) | (60,436,419) | (53,738,131) | (5,634,880) | (2,146,841) | (227,261,398) |
| Payments to Employees | (64,948,994) | (71,986,402) | (66,989,564) | (3,705,613) | (827,899) | (208,458,472) |
| Net Cash Provided by (Used in) Operating Activities | 282,976,534 | (119,352,635) | 261,104,425 | 2,404,975 | (517,890) | 426,615,409 |
| Cash Flows from Non-Capital Financing Activities: | | | | | | |
| Interest Paid - Pension Obligation Certificates | (2,494,649) | (745,026) | (2,826,869) | — | — | (6,066,544) |
| Grants and Contributions from Other Governments | — | 65,893,601 | — | — | — | 65,893,601 |
| Transfers from Other Funds | — | 52,060,618 | — | — | 18,173,589 | 70,234,207 |
| Miscellaneous Non-Capital Financing | (11,573,635) | — | (2,383,151) | — | — | (13,956,786) |
| Net Cash Provided by Non-Capital Financing Activities | (14,068,284) | 117,209,193 | (5,210,020) | — | 18,173,589 | 116,104,478 |
| Cash Flows from Capital and Related Financing Activities: | | | | | | |
| Capital Contributions | — | 10,737,618 | — | — | — | 10,737,618 |
| Proceeds from Sales of Capital Assets | — | — | 434,765 | — | — | 434,765 |
| Acquisition and Construction of Capital Assets | (118,350,724) | (343,779) | (39,864,058) | (690,638) | (8,130,049) | (167,379,248) |
| Proceeds from Bond and Note Issuances | 12,705,851 | — | — | — | 59,083,364 | 71,789,215 |
| Principal Paid on Bonds, Notes, and Capital Leases | (78,245,000) | (8,243,938) | (41,180,000) | (9,300,000) | — | (136,968,938) |
| Interest Paid on Bonds, Notes, and Leases - Net | (145,306,061) | (2,876,502) | (137,864,072) | (634,396) | (585,489) | (287,266,520) |
| Net Cash Provided by (Used in) Capital and Related Financing Activities | (329,195,934) | (726,601) | (218,473,365) | (10,625,034) | 50,367,826 | (508,653,108) |
| Cash Flows from Investing Activities: | | | | | | |
| Proceeds from Sales and Maturities of Investments | 84,773,753 | 4,364 | 55,072,264 | 18,836,414 | — | 158,686,795 |
| Purchases of Investments | (60,523,125) | (573) | (20,000,000) | (18,836,414) | (52,349,183) | (151,709,295) |
| Earnings (Losses) from Investment Securities | 1,135,070 | 507 | 1,465,972 | 1,729 | 1,660 | 2,604,938 |
| Net Cash Provided by (Used in) Investing Activities | 25,385,698 | 4,298 | 36,538,236 | 1,729 | (52,347,523) | 9,582,438 |
| Net Increase (Decrease) in Cash and Cash Equivalents | (34,901,986) | (2,865,745) | 73,959,276 | (8,218,330) | 15,676,002 | 43,649,217 |
| Cash and Cash Equivalents at Beginning of Year | 335,721,397 | 5,452,316 | 173,851,301 | 19,030,708 | 1,765,203 | 535,820,925 |
| Cash and Cash Equivalents at End of Year | $ 300,819,411 | $ 2,586,571 | $ 247,810,577 | $ 10,812,378 | $ 17,441,205 | $ 579,470,142 |

(Continued)

See accompanying notes to basic financial statements.

# City of Detroit, Michigan
## STATEMENT OF CASH FLOWS
## ENTERPRISE FUNDS
## For the Year Ended June 30, 2014

| | Sewage Disposal Fund | Transportation Fund | Water Fund | Automobile Parking Fund | Other Enterprise Funds | Totals |
|---|---|---|---|---|---|---|
| Reconciliation of Operating Income (Loss) to Net Cash Provided by | | | | | | |
| (Used in) Operating Activities: | | | | | | |
| Operating Income (Loss) | $ 128,192,562 | $ (138,037,679) | $ 90,080,998 | $ (3,800,967) | $ (942,615) | $ 75,492,299 |
| Adjustments to Reconcile Operating Income (Loss) to Net Cash | | | | | | |
| Provided by (Used in) Operating Activities: | | | | | | |
| Depreciation and Amortization | 118,409,025 | 16,280,241 | 85,026,008 | 3,031,143 | 135,302 | 222,881,719 |
| Write-off of Capital Assets, including Construction in Progress | 21,996,104 | — | 27,680,423 | — | — | 49,676,527 |
| Loss on Disposal of Capital Assets | 10,573,894 | — | 2,629,607 | — | — | 13,203,501 |
| Changes in Assets and Liabilities: | | | | | | |
| Accounts and Contracts Receivable | (562,890) | 539,926 | 14,155,902 | 197,625 | (900,302) | 13,430,261 |
| Inventory | 378,384 | (427,500) | 791,994 | — | — | 742,878 |
| Net Pension Asset | (3,895,750) | 11,263,451 | (2,708,997) | — | — | 4,658,704 |
| Prepaid Expenses | 65,461 | (26,193) | 3,819,180 | 30,127 | (22,479) | 3,866,096 |
| Due from Other Funds | (7,435,471) | (1,272,177) | — | (28,725) | 5,851 | (8,730,522) |
| Unearned Revenue | — | 367,232 | — | (708,036) | — | (340,804) |
| Accounts and Contracts Payable | 12,524,879 | 2,789,900 | 17,816,401 | 241,879 | 495,493 | 33,868,552 |
| Due to Other Funds | (14,541,828) | (5,939,636) | 18,306,855 | 1,943,280 | (100,214) | (331,543) |
| Due to Fiduciary Funds | 1,136,329 | (4,844,460) | 104,162 | 693,545 | — | (2,910,424) |
| Other Liabilities | — | — | — | 720,371 | 607,968 | 1,328,339 |
| Accrued Compensated Absences | — | (234,969) | — | (26,477) | 1,729 | (259,717) |
| Accrued Workers' Compensation and Claims and Judgments | 14,996,490 | (1,333,714) | 1,495,252 | 58,003 | 191,800 | 15,407,831 |
| Accrued Other Postemployment Benefits | 1,121,642 | 1,521,894 | 1,795,726 | 48,364 | 7,060 | 4,494,686 |
| Accrued Salaries and Wages | 17,703 | 1,049 | 110,914 | 4,843 | 2,517 | 137,026 |
| Net Cash Provided by (Used in) Operating Activities | $ 282,976,534 | $ (119,352,635) | $ 261,104,425 | $ 2,404,975 | $ (517,890) | $ 426,615,409 |
| Noncash activities: | | | | | | |
| Fair value of derivatives | $ 491,902 | $ 575,510 | $ 436,518 | $ — | $ — | $ 1,503,930 |
| Prior period adjustment | 21,367,325 | 4,319,037 | 17,232,024 | — | — | 42,918,386 |
| Special Item - OPEB Plan Termination | (70,201,066) | (85,808,452) | (70,306,819) | (2,365,557) | (46,317) | (228,728,211) |
| Acquisition of Capital Assets under Accounts Payable | — | — | — | — | 11,102,081 | 11,102,081 |
| Defaulted debt due to insurer | — | 4,523,248 | — | — | — | 4,523,248 |

See accompanying notes to basic financial statements.

**City of Detroit, Michigan**
**STATEMENT OF FIDUCIARY NET POSITION**
**FIDUCIARY FUNDS**
**June 30, 2014**

| | Pension and Other Employee Benefit Trust Funds | Agency Funds |
|---|---|---|
| ASSETS | | |
| Cash and Cash Equivalents | $ 85,199,201 | $ 21,643,703 |
| Investments at Fair Value: | | |
| Short-Term Investments | 192,269,659 | — |
| Bonds and Stocks | 3,258,768,111 | — |
| Mortgage-Backed Securities | 85,351,584 | — |
| Mortgage and Construction Loans | 222,109,497 | — |
| Equity Interest in Real Estate | 511,763,494 | — |
| Real Estate Investment Trusts Held by Custodian | 176,517,750 | — |
| Pooled Investments | 387,888,304 | — |
| Private Placements | 392,167,687 | — |
| Total Investments | 5,226,836,086 | — |
| Accrued Interest Receivable | 24,035,831 | — |
| Accounts Receivable: | | |
| Due from Primary Government | 37,547,411 | — |
| Due from Component Units | 14,736 | — |
| From Investment Sales | 37,262,430 | — |
| Other Receivables | 28,528,866 | — |
| Total Accounts Receivable | 103,353,443 | — |
| Cash and Investments Held as Collateral for Securities Lending | 110,495,718 | — |
| Prepaid Assets | 1,085,025 | — |
| Capital Assets | 2,622,067 | — |
| Total Assets | 5,553,627,371 | 21,643,703 |
| LIABILITIES | | |
| Accounts and Contracts Payable | 14,014,313 | 389,068 |
| Payables for Investment Purchases | 22,691,745 | — |
| Benefits and Claims Payable | 16,033,638 | — |
| Due to Primary Government | 8,453,683 | 541,932 |
| Due to Component Units | 99,221 | — |
| Amount Due to Broker for Securities Lending | 122,793,596 | — |
| Other Liabilities | 32,509,380 | 20,712,703 |
| Total Liabilities | 216,595,576 | $ 21,643,703 |
| Net Position Held in Trust for Pension and Other Employee Benefits | $ 5,337,031,795 | |

See accompanying notes to basic financial statements.



**City of Detroit, Michigan**
**STATEMENT OF CHANGES IN FIDUCIARY NET POSITION**
**FIDUCIARY FUNDS**
**For the Year Ended June 30, 2014**

| | Pension and Other Employee Benefit Trust Funds |
|---|---|
| ADDITIONS: | |
| Employer Contributions | $ 231,603,289 |
| Plan Member Contributions | 49,120,221 |
| Other Income | 5,957,863 |
| Total Contributions | 286,681,373 |
| Investment Earnings: | |
| Interest and Dividend Income | 127,874,664 |
| Net Appreciation in Fair Value | 746,643,164 |
| Investment Expense | (23,931,038) |
| Securities Lending Income, Net | 660,610 |
| Net Gain on Collateralized Securities | 2,944,306 |
| Other Income | 10,126,392 |
| Total Investment Earnings | 864,318,098 |
| Total Additions | 1,150,999,471 |
| DEDUCTIONS: | |
| Pension and Annuity Benefits | 539,195,823 |
| Premiums to Insurers and Damage Claims | 245,224,610 |
| Member Refunds and Withdrawals | 182,078,457 |
| General and Administrative Expenses | 22,658,364 |
| Total Deductions | 989,157,254 |
| Net Increase | 161,842,217 |
| Net Position Held in Trust for Pension and Other Employee Benefits, Beginning of Year | 5,175,189,578 |
| Net Position Held in Trust for Pension and Other Employee Benefits, End of Year | $ 5,337,031,795 |

See accompanying notes to basic financial statements.

# City of Detroit, Michigan
## COMBINING STATEMENT OF NET POSITION
## DISCRETELY PRESENTED COMPONENT UNITS
## June 30, 2014

| | Detroit Brownfield Redevelopment Authority | Detroit Public Library | Detroit Transportation Corporation | Downtown Development Authority | Eastern Market Corporation |
|---|---|---|---|---|---|
| ASSETS: | | | | | |
| Cash and Cash Equivalents | $ 7,107 | $ 19,520,264 | $ 262,389 | $ 2,706,524 | $ 2,844,294 |
| Investments | 3,417,485 | 13,427,149 | 3,667,299 | 63,652,861 | — |
| Accounts and Contracts Receivable, | | | | | |
| Taxes, Interest, and Penalties Receivable - Net | 1,021,456 | 65,007 | 92,487 | 2,262,781 | 1,393,595 |
| Due from Primary Government | 3,713,854 | (285) | 1,818,214 | 7,477,887 | — |
| Due from Other Governmental Agencies | — | 4,389,634 | 2,861,557 | 8,252,783 | — |
| Inventory | — | — | 3,411,282 | — | 19,503 |
| Prepaid Expenses | 9,568 | 429,300 | 421,741 | 592,905 | 19,916 |
| Loans, Notes, and Pledges Receivable | — | — | — | 32,314,472 | — |
| Other Assets | 28,130 | 13,906 | — | 26,399,339 | 132,570 |
| Restricted Assets | — | — | — | — | — |
| Net Pension Asset | — | 25,829,798 | — | — | — |
| Capital Assets: | | | | | |
| Non-Depreciable | — | 1,602,932 | 7,108,237 | 7,544,670 | 2,921,599 |
| Depreciable, Net | — | 22,185,043 | 39,921,964 | 36,965,020 | 1,850,671 |
| Capital Assets, Net | — | 23,787,975 | 47,030,201 | 44,509,690 | 4,772,270 |
| Total Assets | 8,197,600 | 87,462,748 | 59,565,170 | 188,169,242 | 9,182,148 |
| DEFERRED OUTFLOWS OF RESOURCES: | — | 297,025 | — | — | — |
| LIABILITIES: | | | | | |
| Accounts and Contracts Payable | 16,089 | 1,827,983 | 4,579,293 | 1,568,992 | 594,377 |
| Accrued Salaries and Wages | — | 523,492 | 136,219 | — | 84,754 |
| Accrued Interest Payable | — | — | — | 3,921,397 | — |
| Due to Primary Government | 2,500 | 2,353,003 | 932,561 | 35,769 | 22,935 |
| Due to Other Governmental Agencies | — | 4,594,927 | — | 18,000,000 | — |
| Unearned Revenue | — | — | 6,362 | — | 326,387 |
| Other Liabilities | 6,451,446 | 1,815,135 | 1,442,667 | 34,770,616 | 33,865 |
| Long-term Obligations: | | | | | |
| Advance Payable to Primary Government for POCs | — | 24,016,604 | — | — | — |
| Due within one year | — | 1,649,275 | — | 7,156,974 | — |
| Due in more than one year | — | 2,057,748 | 576,453 | 82,126,198 | — |
| Total Liabilities | 6,470,035 | 38,838,167 | 7,673,555 | 147,579,946 | 1,062,318 |
| DEFERRED INFLOWS OF RESOURCES: | — | 585,365 | — | — | — |
| NET POSITION (DEFICIT): | | | | | |
| Net Investment in Capital Assets | — | 23,787,975 | 47,030,201 | 44,509,690 | 4,772,270 |
| Restricted for: | | | | | |
| Endowments and Trusts (Expendable) | — | 11,623,654 | — | — | — |
| Endowments and Trusts (Non-Expendable) | — | 748,960 | — | — | — |
| Capital Projects | 477,331 | — | 3,165,832 | — | 3,492,759 |
| Debt Service | — | — | — | — | — |
| Unrestricted (Deficit) | 1,250,234 | 12,175,652 | 1,695,582 | (3,920,394) | (145,199) |
| Total Net Position (Deficit) | $ 1,727,565 | $ 48,336,241 | $ 51,891,615 | $ 40,589,296 | $ 8,119,830 |

| | Economic Development Corporation | Greater Detroit Resource Recovery Authority | Local Development Finance Authority | Museum of African American History | Detroit Land Bank Authority | Eight Mile/ Woodward Corridor Imp. Authority | Detroit Employment Solutions Corporation | Totals |
|---|---|---|---|---|---|---|---|---|
| ASSETS: | | | | | | | | |
| Cash and Cash Equivalents | $ 12,411,240 | $ 1,139,067 | $ 1,236,779 | $ 617,007 | $ 818,181 | $ 1,868 | $ 181,884 | $ 41,746,604 |
| Investments | 20,198,862 | 1,728,533 | 27,393,991 | 1,035,748 | — | — | — | 134,521,928 |
| Accounts and Contracts Receivable, | | | | | | | | |
| Taxes, Interest, and Penalties Receivable - Net | 16,950 | 1,207,315 | — | 29,885 | 706,426 | — | 4,689,806 | 11,485,708 |
| Due from Primary Government | — | — | 3 | — | — | 59,556 | — | 13,069,229 |
| Due from Other Governmental Agencies | 880,858 | — | 2,400,138 | — | — | 71,851 | — | 18,856,821 |
| Inventory | — | — | — | 31,673 | — | — | — | 3,462,458 |
| Prepaid Expenses | — | — | — | 19,305 | 44,145 | 9,392 | 49,172 | 1,595,444 |
| Loans, Notes, and Pledges Receivable | 4,732,340 | — | — | 450,000 | — | — | — | 37,496,812 |
| Other Assets | — | — | — | — | 7,876,681 | — | 29,660 | 34,480,286 |
| Restricted Assets | — | 5,065,376 | — | — | — | — | — | 5,065,376 |
| Net Pension Asset | — | — | — | — | — | — | — | 25,829,798 |
| Capital Assets: | | | | | | | | |
| Non-Depreciable | — | 8,873,234 | — | 161,350 | — | — | — | 28,212,022 |
| Depreciable, Net | — | 14,961,219 | — | 1,196,481 | 119,679 | — | 505,392 | 117,705,469 |
| Capital Assets, Net | — | 23,834,453 | — | 1,357,831 | 119,679 | — | 505,392 | 145,917,491 |
| Total Assets | 38,240,250 | 32,974,744 | 31,030,911 | 3,541,449 | 9,565,112 | 142,667 | 5,455,914 | 473,527,955 |
| DEFERRED OUTFLOWS OF RESOURCES: | — | — | — | — | — | — | — | 297,025 |
| LIABILITIES: | | | | | | | | |
| Accounts and Contracts Payable | 230,815 | 2,407,586 | 13,860 | 801,145 | 1,167,853 | 18,413 | 4,492,266 | 17,718,672 |
| Accrued Salaries and Wages | — | — | — | 151,507 | 192,614 | — | — | 1,088,586 |
| Accrued Interest Payable | 74,183 | — | 443,960 | — | — | — | — | 4,439,540 |
| Due to Primary Government | — | — | — | 386 | 46,141 | — | 199,604 | 3,592,899 |
| Due to Other Governmental Agencies | 25,000 | — | — | — | — | — | — | 22,619,927 |
| Unearned Revenue | 74,667 | — | — | — | 1,364,367 | — | — | 1,771,783 |
| Other Liabilities | — | — | — | — | 168,507 | — | 442,900 | 45,125,136 |
| Long-term Obligations: | | | | | | | | |
| Advance Payable to Primary Government for POCs | — | — | — | — | — | — | — | 24,016,604 |
| Due within one year | 312,796 | — | 6,035,000 | — | — | 53,202 | 117,193 | 15,324,440 |
| Due in more than one year | 750,000 | — | 41,330,000 | — | — | — | 117,194 | 126,957,593 |
| Total Liabilities | 1,467,461 | 2,407,586 | 47,822,820 | 953,038 | 2,939,482 | 71,615 | 5,369,157 | 262,655,180 |
| DEFERRED INFLOWS OF RESOURCES: | — | — | — | — | — | — | — | 585,365 |
| NET POSITION (DEFICIT): | | | | | | | | |
| Net Investment in Capital Assets | — | 23,834,453 | — | 1,357,831 | 119,679 | — | 271,005 | 145,683,104 |
| Restricted for: | | | | | | | | |
| Endowments and Trusts (Expendable) | — | — | — | 895,970 | — | — | — | 12,519,624 |
| Endowments and Trusts (Non-Expendable) | — | — | 1,003,511 | — | — | — | — | 1,752,471 |
| Capital Projects | 36,578,087 | 5,065,377 | — | 296,655 | — | — | — | 49,076,041 |
| Debt Service | — | — | 27,393,991 | — | — | — | — | 27,393,991 |
| Unrestricted (Deficit) | 194,702 | 1,667,328 | (45,189,411) | 37,955 | 6,505,951 | 71,052 | (184,248) | (25,840,796) |
| Total Net Position (Deficit) | $ 36,772,789 | $ 30,567,158 | $ (16,791,909) | $ 2,588,411 | $ 6,625,630 | $ 71,052 | $ 86,757 | $ 210,584,435 |

See accompanying notes to basic financial statements.

# City of Detroit, Michigan
## COMBINING STATEMENT OF ACTIVITIES
## DISCRETELY PRESENTED COMPONENT UNITS
## For the Year Ended June 30, 2014

| | Detroit Brownfield Redevelopment Authority | Detroit Public Library | Detroit Transportation Corporation | Downtown Development Authority | Eastern Market Corporation |
|---|---|---|---|---|---|
| Expenses | $ (2,591,668) | $ (34,426,623) | $ (19,975,848) | $ (34,202,813) | $ (4,649,205) |
| Program Revenues: | | | | | |
| Charges for Services | — | 610,264 | 1,688,923 | 6,728,612 | 1,246,199 |
| Operating Grants and Contributions | 164,811 | 1,139,935 | 11,225,937 | — | 565,290 |
| Total Program Revenues | 164,811 | 1,750,199 | 12,914,860 | 6,728,612 | 1,811,489 |
| Net Program (Expenses) Revenues | (2,426,857) | (32,676,424) | (7,060,988) | (27,474,201) | (2,837,716) |
| General Revenues: | | | | | |
| Property Taxes | 2,604,386 | 30,275,953 | — | 20,778,345 | — |
| Other Taxes | — | 3,333,713 | — | — | — |
| Shared Taxes | — | 517,663 | — | — | — |
| Tipping Fees | — | — | — | — | — |
| Contributions | — | — | 3,315,661 | — | 5,444,995 |
| Investment Earnings (Losses) | 3,597 | 1,364,907 | 403,228 | — | 76,555 |
| Special Item - OPEB | — | 20,210,541 | — | — | — |
| Miscellaneous Revenues | — | 6,122 | 479,915 | 1,248,392 | — |
| Total General Revenues | 2,607,983 | 55,708,899 | 4,198,804 | 22,026,737 | 5,521,550 |
| Change in Net Position | 181,126 | 23,032,475 | (2,862,184) | (5,447,464) | 2,683,834 |
| Net Position (Deficit) - Beginning of Year, as Restated (Note I(t)) | 1,546,439 | 25,303,766 | 54,753,799 | 46,036,760 | 5,435,996 |
| Net Position (Deficit) - End of Year | $ 1,727,565 | $ 48,336,241 | $ 51,891,615 | $ 40,589,296 | $ 8,119,830 |

| | Economic Development Corporation | Greater Detroit Resource Recovery Authority | Local Development Finance Authority | Museum of African American History | Detroit Land Bank Authority | Eight Mile/ Woodward Corridor Imp. Authority | Detroit Employment Solutions Corporation | Totals |
|---|---|---|---|---|---|---|---|---|
| Expenses | $ (4,318,242) | $ (10,483,592) | $ (3,121,257) | $ (5,729,011) | $ (7,125,327) | $ (71,058) | $ (37,709,392) | $ (164,404,036) |
| Program Revenues: | | | | | | | | |
| Charges for Services | 1,613,572 | 68,732 | — | 2,082,615 | — | — | — | 14,038,917 |
| Operating Grants and Contributions | — | — | — | 1,049,803 | 8,595,248 | — | 37,551,181 | 60,292,205 |
| Total Program Revenues | 1,613,572 | 68,732 | — | 3,132,418 | 8,595,248 | — | 37,551,181 | 74,331,122 |
| Net Program (Expenses) Revenues | (2,704,670) | (10,414,860) | (3,121,257) | (2,596,593) | 1,469,921 | (71,058) | (158,211) | (90,072,914) |
| General Revenues: | | | | | | | | |
| Property Taxes | — | — | 4,778,443 | — | — | 133,194 | — | 58,570,321 |
| Other Taxes | — | — | — | — | — | — | — | 3,333,713 |
| Shared Taxes | — | — | — | — | — | — | — | 517,663 |
| Tipping Fees | — | 9,199,165 | — | — | — | — | — | 9,199,165 |
| Contributions | 859,397 | — | — | 2,768,849 | — | — | — | 12,388,902 |
| Investment Earnings (Losses) | 126,911 | 3,439 | 140,925 | — | — | — | — | 2,119,562 |
| Special Item - OPEB | — | — | — | — | — | — | — | 20,210,541 |
| Miscellaneous Revenues | — | — | — | 93,062 | — | — | — | 1,827,491 |
| Total General Revenues | 986,308 | 9,202,604 | 4,919,368 | 2,861,911 | — | 133,194 | — | 108,167,358 |
| Change in Net Position | (1,718,362) | (1,212,256) | 1,798,111 | 265,318 | 1,469,921 | 62,136 | (158,211) | 18,094,444 |
| Net Position (Deficit) - Beginning of Year, as Restated (Note I(t)) | 38,491,151 | 31,779,414 | (18,590,020) | 2,323,093 | 5,155,709 | 8,916 | 244,968 | 192,489,991 |
| Net Position (Deficit) - End of Year | $ 36,772,789 | $ 30,567,158 | $ (16,791,909) | $ 2,588,411 | $ 6,625,630 | $ 71,052 | $ 86,757 | $ 210,584,435 |

See accompanying notes to basic financial statements.

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# NOTES TO BASIC FINANCIAL STATEMENTS

**NOTE I - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The City of Detroit (the "City"), incorporated in 1806, is a home rule city under State of Michigan (MI) law. The City is organized into two separate branches: (1) the executive branch, which is headed by the Mayor; and (2) the legislative branch, which is composed of the City Council and its agencies. The City provides the following services as authorized by its charter: public protection, public works, recreation and culture, health, economic development, public lighting, transportation, water and sewage, airport, and parking.

**(a) Reporting Entity**

The accompanying financial statements present the City (primary government) and its component units. Component units are legally separate organizations for which the elected officials of the City are financially accountable, or the relationship to the City is such that exclusion would cause the City's financial statements to be misleading or incomplete. The component units discussed below are included in the City's reporting entity because of the significance of their operational or financial relationships with the City. Blended component units, although legally separate entities, are, in substance, part of the City's operations. Discretely presented component units are reported in a separate column in the government-wide financial statements to emphasize that they are legally separate from the City.

**Blended Component Units**

*Detroit Building Authority (DBA)** - The DBA is governed by a Board in which the City appoints the voting majority of the DBA's Board Members and is able to impose its will. Although legally separate, the DBA is included in the operations and activities of the City because it was entirely incorporated for the purpose of acquiring, furnishing, equipping, owning, improving, enlarging, operating, or maintaining buildings, automobile parking lots or structures, and recreational facilities for the use of any legitimate public purpose of the City. Financing is provided by the issuance of bonds secured by lease agreements with the City and from grants received by the City.

*Public Lighting Authority (PLA)** - The PLA under the provisions of Act 392, Public Acts of MI of 2012 and is governed by a Board in which the City appoints the voting majority of the PLA's Board Members and is able to impose its will. The PLA is a legally separate entity and was formed to develop and implement a plan to improve the City's public lighting system. The PLA will be funded through the issuance of bonds to be paid back with revenue from the City's utility tax.

*Detroit General Retirement System Service Corporation (DGRSSC)* and *Detroit Police and Fire Retirement System Service Corporation (DPFRSSC)* - DGRSSC and DPFRSSC are Michigan (MI) nonprofit corporations incorporated by the City pursuant to State Law and are legally separate from the City. The DGRSSC and DPFRSSC were formed to assist the City in maintaining the actuarial integrity of the City's two pension systems. Both Corporations are fiscally dependent upon and provide services entirely to the City. The governing body of each corporation is its Board of Directors, each of which consists of three officials of the City, the Finance Director, the Budget Director, and the Corporation Counsel, plus two members of the City Council, selected and appointed by the City Council.

In May 2006, the City entered into a separate service contract with each of the DGRSSC and the DPFRSSC, in which the City purported to contractually obligate itself to make periodic payments to the corporations. The DGRSSC and the DPFRSSC, severally and not jointly, entered into a Trust Agreement with U.S. Bank National Association, as Trustee, which created the Detroit Retirement Systems Funding Trust 2006 (DRSFT), a grantor trust established and existing under MI law. The DGRSSC and DPFRSSC sold and assigned to the DRSFT their rights to receive certain of the payments to be received from the City under the service contracts. During the year, the City was involved in litigation regarding this transaction, which was settled in connection with the City's plan of adjustment in the Bankruptcy Case. See Note XIII for further discussion regarding the bankruptcy.







**Discretely Presented Component Units**

*Detroit Brownfield Redevelopment Authority (DBRA)** - The DBRA was created by a City Council resolution and approved by the Mayor in April 1998, under the provisions of Act 381, Michigan Public Act of 1996. The City appoints the majority of the DBRA's Board Members and is able to impose its will. DBRA was established to create Brownfield redevelopment zones and promote the revitalization, redevelopment, and reuse of certain property, including, but not limited to, tax-reverted, blighted, or functionally obsolete property.

*Detroit Public Library (DPL)* - The DPL is a statutory body created by the State, which is legally separate from the City. The DPL was created to provide reference materials, research information, and publications to residents of the City and Wayne County (the County). Funding is provided by an ad valorem tax of 4.63 mills in real and personal property taxes in the City. In addition, DPL receives grants and endowments from private organizations. The City Council is responsible for approving DPL's annual budget. Due to DPL's relationship with the City, it would be misleading to exclude its financial information from the City's financial statements.

*Detroit Transportation Corporation (DTC)** - The DTC was established in 1985 to oversee construction and operation of the Central Automated Transit System (People Mover) in downtown Detroit. The DTC is a legally separate entity. However, the City appoints the voting majority of the Board Members and may impose its will. The DTC is primarily funded by means of grants from the City.

*Downtown Development Authority (DDA)* *- The DDA was created to promote and develop economic growth in the City's downtown business district. The DDA is a legally separate entity. However, the City appoints the voting majority of the Board Members and may impose its will. Funding is provided by an ad valorem tax of 1.0 mill on real and personal property in the downtown development district, a levy on the increased assessed value of a tax increment district, and issuance of revenue and tax increment bonds.

*Eastern Market Corporation (EMC)** - The EMC was established to develop, maintain, and promote the Eastern Market district of the City. The EMC manages the market in the City known as Eastern Market. The EMC is a legally separate entity. However, the City appoints the voting majority of the Board Members and may impose its will. The EMC is primarily funded by means of private grants and contributions.

*Economic Development Corporation (EDC)** - The EDC was established to create and implement project plans for designated project areas within the City, and thus encourage the location and expansion of industrial and commercial enterprises within the City. The EDC is a legally separate entity. However, the City appoints the voting majority of the Board Members and may impose its will. The EDC is primarily funded by means of grants from the City.

*Greater Detroit Resource Recovery Authority (GDRRA)* - The GDRRA was established by the cities of Detroit and Highland Park for the acquisition, construction, and operation of a waste-to-energy facility. The GDRRA is a legally separate entity. However, the City appoints the voting majority of the Board Members and may impose its will. Operating revenues consist of tipping fees received from the City of Detroit to be used for the hauling and disposal of the municipal solid waste.

*Local Development Finance Authority (LDFA)** - The LDFA was created to finance certain improvements for local public roads in the vicinity of the Chrysler Jefferson Avenue Assembly Plant. The LDFA is a legally separate entity. However, the City appoints the voting majority of the Board Members and may impose its will. Incremental portions of the City and the County property taxes fund the LDFA.

*Museum of African American History (MAAH)* -* The MAAH was created to provide research, compilation, presentation, publication, and dissemination of knowledge relating to the history, growth, development, heritage, and culture of people of African descent and the human struggle for freedom. The MAAH is a legally separate entity. However, the City appoints the voting majority of the Board Members and may impose its will. The MAAH is primarily funded by means of private grants and grants from the City.

*Detroit Land Bank Authority (DLBA)** - The DLBA was created to stimulate neighborhood stabilization and economic growth through the acquisition, management, and disposition of tax-reverted and acquired properties by working collaboratively with community stakeholders, developers, and other governmental agencies in a transparent and fiscally responsible manner to promote conscientious stewardship of land. The DLBA is a legally separate entity. However, the City appoints the voting majority of the Board Members and may impose its will. The DLBA is primarily funded through federal and local grants.

*Eight Mile/Woodward Corridor Improvement Authority (EMWCIA)** - The EMWCIA was established to correct and prevent deterioration in the Eight Mile/Woodward area. The EMWCIA is a legally separate entity. However, the City appoints the voting majority of the Board Members and may impose its will. The EMWCIA is primarily funded by the first $100,000 of Tax Increment Capture.

*Detroit Employment Solutions Corporation (DESC)** - The DESC was established to be the administrative and fiscal agency responsible for providing workforce programs and services to the citizens and businesses of Detroit. The DESC is a legally separate entity. However, the City appoints the voting majority of the Board Members and may impose its will. The DESC is primarily funded by grants.

* Audit conducted in accordance with *Government Auditing Standards* as promulgated by the Comptroller General of the United States.

**Financial Statements of Component Units**

Complete financial statements of the individual blended and discretely presented component units can be obtained directly from the following administrative offices:

**Blended Component Units:**

Detroit Building Authority
1301 Third Street, Suite 328
Detroit, MI 48226
(313) 224-0174

Detroit Police and Fire Retirement System Service Corporation
500 Woodward Avenue, Suite 3000
Detroit, MI 48226
(313) 224-3380

Detroit General Retirement System Service Corporation
500 Woodward Avenue, Suite 3000
Detroit, MI 48226
(313) 224-3362

Public Lighting Authority
65 Cadillac Square, Suite 3100
Detroit, MI 48226
(313) 324-8290







**Discretely Presented Component Units:**

Detroit Brownfield Redevelopment Authority
500 Griswold, Suite 2200
Detroit, MI 48226
(313) 963-2940

Greater Detroit Resource Recovery Authority
5700 Russell Street
Detroit, MI 48211
(313) 876-0449

Detroit Public Library
5201 Woodward Avenue
Detroit, MI 48226
(313) 833-1000

Local Development Finance Authority
500 Griswold, Suite 2200
Detroit, MI 48226
(313) 237-4616

Detroit Transportation Corporation
535 Griswold, Suite 400
Detroit, MI 48226
(313) 224-2160

Museum of African American History
315 East Warren Avenue
Detroit, MI 48202
(313) 494-5800

Downtown Development Authority
500 Griswold, Suite 2200
Detroit, MI 48226
(313) 237-4616

Detroit Land Bank Authority
65 Cadillac Square, Suite 3200
Detroit, MI 48226
(313) 974-6869

Eastern Market Corporation
2934 Russell Street
Detroit, MI 48207
(313) 833-9300

Eight Mile/Woodward Corridor Improvement Authority
500 Griswold, Suite 2200
Detroit, MI 48226
(313) 237-4616

Economic Development Corporation
500 Griswold, Suite 2200
Detroit, MI 48226
(313) 237-4616

Detroit Employment Solutions Corporation
440 East Congress Street
Detroit, MI 48226
(313) 876-0674

**Related Organizations**

The City has in place Memoranda of Understanding (i.e., contracts) for the operations of certain City-owned assets with the following private nonprofit corporations:

Detroit Historical Society
Founders Society Detroit Institute of Arts
Detroit Zoological Society

The City's accountability for these organizations does not extend beyond these contracts.

The City has in place a Cooperative Endeavor Agreement with the U.S. Department of Housing and Urban Development (HUD) to handle the day-to-day administration and management of the Detroit Housing Commission (DHC). The DHC is now an autonomous enterprise, separate from the City.

The Mayor is responsible for appointing the members of the board of the Northwest Community Programs, Inc., and the Detroit Economic Growth Association, private nonprofit corporations, but the City's accountability for these organizations does not extend beyond making the appointments.

**Joint Venture**

A joint venture is a legal entity or other organization that results from a contractual agreement and that is owned, operated, or governed by two or more participants as a separate and specific activity, subject to joint control in which the participants retain (a) an ongoing financial interest or (b) an ongoing financial responsibility. The City participates in the following joint venture:

The Detroit-Wayne Joint Building Authority (DWJBA) was created as a corporate instrumentality in 1948 by an agreement between the City and Wayne County. The DWJBA receives its revenues through a lease agreement with the City and the County, which expires on March 1, 2028. The lease provides that the DWJBA shall maintain and operate the building at 2 Woodward Ave, Detroit, (known as the Coleman A. Young Municipal Center), the expenditures of which are to be reimbursed by the City and County on the basis of the building space allocations specified in the lease. All revenues or other monies received by the DWJBA must be disbursed for specific purposes in accordance with agreements with the incorporating units and holders of the bonds.

The City is unaware of any circumstances that would cause an additional benefit or burden to the participating governments in the near future. The DWJBA is not included in the financial statements of the City. Complete financial statements of the DWJBA may be obtained by writing to the DWJBA at the following address:

Detroit-Wayne Joint Building Authority
1316 Coleman A. Young Municipal Center (CAYMC)
Detroit, MI 48226

**(b) Basis of Presentation**

The basic financial statements include both government-wide and fund financial statements.

**Government-wide Financial Statements.** The government-wide statement of net position and statement of activities report the overall financial activity of the primary government (the "City"), excluding fiduciary activities, and its component units. Eliminations have been made to minimize the double counting of internal activities of the City. These statements distinguish between the governmental and business-type activities of the City. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange transactions. Business-type activities are financed in whole or in part by fees charged to external parties.

The statement of activities presents a comparison between direct expenses and program revenues for the different business-type activities of the City and for each function of the City's governmental activities. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include: (a) charges paid by the recipients of goods or services offered by the programs; and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

**Fund Financial Statements.** The fund financial statements provide information about the City's funds, including its fiduciary fund types. Separate financial statements for each fund category (governmental, proprietary, and fiduciary) are presented. The emphasis on fund financial statements is on major governmental and enterprise funds, each displayed in a separate column. All remaining governmental and enterprise funds are aggregated and reported as other governmental or other enterprise funds. Proprietary fund operating revenues, such as charges for services, primarily result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Non-operating revenues, such as subsidies and investment earnings, result from nonexchange transactions or ancillary activities.







The City reports the following major funds:

**Governmental Funds:**

**General Fund** accounts for several of the City's primary services (Police, Fire, Public Works, Community, and Youth Services, etc.) and is the primary operating unit of the City.

**Detroit General Retirement System Service Corporation Fund** accounts for the debt service payments related to the issuance of the Pension Obligation Certificates.

**Police and Fire Retirement System Service Corporation Fund** accounts for the debt service payments related to the issuance of the Pension Obligation Certificates.

**Proprietary Funds:**

**Sewage Disposal Fund** accounts for the operations of the wastewater treatment plant, sewers, including sanitary and combined sewers, combined sewer outfalls, and interceptors. The facility provides service to Detroit and 76 other communities in southeastern MI.

**Transportation Fund** accounts for the City's mass transit system with a fleet of 462 coaches. The fund operates an administration building, which includes a heavy repair facility and plant maintenance building, as well as three other satellite terminals with light repair garages and storage bays.

**Water Fund** accounts for the operations of five water treatment plants, 19 booster stations, a transmission and distribution system, and reservoirs. The fund provides service to Detroit and 127 other communities in southeastern MI.

**Automobile Parking Fund** accounts for the activity of the City's Auto Parking and Arena System, excluding parking fine revenues.

Additionally, the City reports the following Fiduciary Fund types:

**Fiduciary Funds:**

**Pension and Other Employee Benefit Trust Funds** account for moneys held in trust by the City for pension benefits and other employee benefits. The City uses pension trust funds to account for the retirement plans for civilian employees, firefighters, and police officers. The Employee Benefit Trust funds account for various health and long-term disability benefits for employees and retirees.

**Agency Funds** account for transactions for assets held by the City as agent for certain activities or for various entities. Payroll deductions and special deposits are the primary transactions accounted for in these funds.

**(c) Measurement Focus and Basis of Accounting**

The government-wide, proprietary, and fiduciary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flow takes place. Nonexchange transactions, in which the City gives (or receives) value without directly receiving (or giving) equal value in exchange, include income taxes, sales taxes, property taxes, grants, entitlements, and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year in which the taxes are levied. Revenue from self-assessed taxes, including income taxes and sales tax, is recognized in the fiscal year in which the underlying exchange transaction occurs. Revenue from grants, entitlements, and similar items is recognized in the fiscal year for which all eligibility requirements imposed by the provider have been met. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted; matching requirements, in which the City must provide local resources to be used for a specified purpose; and expenditure requirements, in which the resources are provided to the City on a reimbursement basis.

Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal year, except for grants and trade receivables, which are 180 and 90 days, respectively. Expenditures generally are recorded when the liability is incurred, as under accrual accounting. However, principal and interest on general long-term debt, claims and judgments, compensated absences, and other long-term obligations are recorded only when payment is due. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources. Significant revenue sources that are susceptible to accrual include property taxes, income taxes, utility taxes, state-shared revenue, state gas and weight tax revenue, interest, and certain grants associated with the current fiscal period. All other revenue sources are considered to be measurable and available only when cash is received.

**(d) Cash and Cash Equivalents**

Cash and cash equivalents include amounts in demand deposits, as well as certificates of deposits and money market funds with an original maturity date of three months or less.

**(e) Investments**

Investments of the City are reported at fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates. The only investments that do not have an established market are certificates of deposit, which are reported at par value plus accrued interest.

**(f) Interfund Transactions**

The City has the following types of interfund transactions:

**Advances -** amounts provided with a requirement for long-term repayment. Interfund advances are reported as advances to other funds in lender funds and advances from other funds in borrower funds.

**Services Provided and Used -** sales and purchases of goods and services between funds for a price approximating their external exchange value. Interfund services provided and used are reported as revenues in seller funds and expenditures or expenses in purchaser funds. Unpaid amounts are reported as interfund receivables and payables in the fund balance sheets or fund statements of net position.

**Reimbursements -** repayments from the funds responsible for particular expenditures or expenses to the funds that initially paid for them. Reimbursements are reported as expenditures in the reimbursing fund and as a reduction of expenditures in the reimbursed fund.

**Transfers -** flows of assets (such as cash or goods) without equivalent flows of assets in return and without a requirement for repayment. In governmental funds, transfers are reported as other financing uses in the funds making transfers and as other financing sources in the funds receiving transfers. In proprietary funds, transfers are reported after non-operating revenues and expenses.

**(g) Due from/to Other Governmental Agencies**

Due from/to other governmental agencies consists primarily of sales, grant reimbursement, and charges for services to/from the County, the State, and the Federal Government.





**(h) Inventory**

Inventory is stated at the lower of cost or market using the average cost method. Inventory of governmental and enterprise funds are recorded as expenditures when consumed rather than when purchased.

**(i) Capital Assets**

Capital assets, which include land, buildings, improvements, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Purchased capital assets are reported at cost where historical records are available and at an estimated historical cost where no historical records exist. Donated assets are recorded at estimated fair value as of the date received. The City's capitalization levels are $5,000 on tangible personal property and for improvements other than buildings, and $50,000 on infrastructure, including sewer and storm water lines. All acquisitions of land and land improvements are capitalized regardless of cost.

Interest incurred during the construction phase of capital assets of business-type activities is reflected in the capitalized value of the asset constructed. Capitalized interest for the year ended June 30, 2014 for the Sewage Disposal and Water Funds was $9,366,483 and $3,918,354, respectively. Costs of assets sold or retired (and related amounts of accumulated depreciation) are eliminated from the accounts in the year of sale or retirement, and the resulting gain or loss is included in the operating statement of the related fund. In governmental funds, the sale of general capital assets is included in the statement of revenues, expenditures, and changes in fund balances as proceeds from sale. Other costs incurred for repairs and maintenance are expensed as incurred.

Depreciation on all assets is provided on the straight-line basis over the following estimated useful lives:

| | Years |
|---|---|
| Land improvements | 5-67 |
| Buildings and building improvements | 5-50 |
| Interceptors and regulators | 100 |
| Mains | 67 |
| Services and meters | 20-87 |
| Improvements other than buildings | 5-50 |
| Machinery, equipment, and fixtures | 3-20 |
| Vehicles other than buses | 3-10 |
| Buses | 12 |
| Other infrastructure | 7-60 |

The City has a collection of artwork presented both in buildings and public outdoor spaces. The true value of the art is expected to either be maintained at cost or appreciate over time, and thus, the art is not depreciated. If individual pieces are lost or destroyed, the loss is recorded. Further information regarding City-owned art can be found in Note V.

**(j) Deferred Outflows/Inflows of Resources**

In addition to assets, the statement of net position and/or balance sheet report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. On the government-wide Statement of Net Position, a deferred outflow has been recorded related to refundings of debt for the difference between the reacquisition price and the net carrying amount of the old debt. This deferred outflow will be amortized over the shorter of the life of the refunded or refunding debt.

In addition to liabilities, the statement of net position and/or balance sheet report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The City has two items that qualify for reporting in this category. The deferred inflows of resources related to unavailable revenue are reported in the governmental funds balance sheet. The governmental funds report unavailable revenues from many sources: grants, special assessments, and various other sources. These amounts will be recognized as an inflow of resources in the period that the amounts become available. On the government-wide Statement of Net Position, a deferred inflow has been recorded related to the swap termination and refunding. 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 refunded debt.

**(k) Bond Premiums and Discounts**

In the government-wide and proprietary fund financial statements, bond premiums and discounts are recorded as liabilities and amortized using the effective interest method.

In the governmental fund financial statements, bond premiums and discounts and gains are recognized during the current period. The face amount of debt issued is reported as other financing sources. Premiums on debt issuances are reported as other financing sources, while discounts on debt issuances are reported as other financing uses.

**(l) Compensated Absences**

The liability for compensated absences reported in the government-wide and proprietary fund statements consists of unpaid, accumulated vacation and sick leave balances. The liability 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). The liability current year accruals are based on estimates and payments are based on actuals. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations or retirements.

For employees other than those of the Transportation Fund, unused vacation pay and banked overtime accumulate up to a maximum level until termination of employment, while there is no vesting of sick pay until an employee reaches age 60 or completes 25 years of service. Furlough time is awarded to uniformed police and fire employees at the beginning of two semiannual periods. Any unused furlough time remaining at the end of each semiannual period is forfeited. For the Transportation Fund, unused vacation pay accumulates for each employee up to a maximum level. Once this level is attained, unused vacation must be used or the employee loses a portion of the vacation pay.

**(m) Property Taxes**

The City's property taxes are levied each July 1 of the fiscal year and are payable without penalty either on or before August 31 in full, or one-half on or before August 15, with the balance then being payable on or before the following January 15. Property taxes attach as a lien on the property as of July 1 of the year of levy. Property owners may appeal their assessments to the local Board of Review and ultimately to the MI Tax Tribunal.

The 2013 taxable valuation of the City totaled approximately $8.3 billion (a portion of which is abated and a portion of which is captured by the LDFA, DDA, and DBRA), on which taxes consisted of 19.952 mills for operating purposes and 8.9952 mills for debt service. This resulted in approximately $144.8 million for operations and approximately $77.9 million for debt service. These amounts are recognized in the respective General Fund and Debt Service Fund financial statements as tax revenue.







The Wayne County Treasurer (Treasurer) is required by the General Property Tax Law, as amended, to collect delinquent real property taxes levied by the City. Under the Act, the Treasurer pays the City in full for delinquent real property taxes owed according to the delinquent tax roll transferred to the County Treasurer. Taxes eligible for payment include all delinquent taxes, except taxes on personal property, due and payable to the City. The Treasurer is then responsible for the collection of the outstanding delinquent taxes. The County retains all interest and penalties generated by the delinquent taxes to offset its tax collection costs. Real property taxes not collected within two years after the sale to the County are charged back to the City.

For accounting purposes, the transfer of delinquent property taxes receivable is recognized as a sale, with a corresponding liability recorded for the estimated amount that will be charged back to the City. During the year ended June 30, 2014, approximately $158 million of delinquent property taxes receivable were transferred (sold) to the County, and $106 million were charged back to the City from prior year sales. As of June 30, 2014, the City has recorded an approximate liability of $79 million ($17 million in the General Fund, $19 million in the Non-Major Governmental Funds, and $43 million in the Water and Sewage Disposal Funds) for the estimated amount of property tax receivables sold to the County that will be charged back in future years.

**(n) Municipal Income Taxes**

The City levies an annual income tax. The rate for the calendar year 2013 consists of an annualized tax of 2.40 percent on the income of resident individuals, 1.20 percent on income earned in the City by non-residents, and 2.00 percent for corporations. Municipal income taxes are accrued for income tax withholdings collected by employers but not yet remitted to the City. In the government-wide financial statements, income tax revenue is recorded in the period in which the underlying compensation is earned by the taxpayer. In the governmental fund financial statements, the City records municipal income tax revenues when they become available. Available is defined as due and receivable within the current fiscal year or expected to be collected within 60 days thereafter. Estimated refunds for income tax returns received and in process, in which payment has not been made, are recorded as a reduction of revenues. Income tax assessments receivable represent estimated additional taxes assessed as a result of tax return audits or failure to file a return.

**(o) Fund Balances**

In the fund financial statements, governmental funds report the following components of fund balance:

- Nonspendable: Amounts that are not in spendable form or are legally or contractually required to be maintained intact.
- Restricted: Amounts that are legally restricted by outside parties, constitutional provisions, or enabling legislation for use of a specific purpose.
- Committed: Amounts that can be used only for specific purposes determined by a formal action of the government's highest level of decision-making authority. Commitments are made and can be rescinded only by a formal action of the government's highest level of decision-making authority.
- Assigned: Intent to spend resources on specific purposes expressed by the governing body.
- Unassigned: Amounts that do not fall into any other category above. This is the residual classification for amounts in the General Fund and represents fund balance that has not been assigned to other funds and has not been restricted, committed, or assigned to specific purposes in the General Fund. In other governmental funds, only negative unassigned amounts are reported, if any, and represent expenditures incurred for specific purposes exceeding the amounts previously restricted, committed, or assigned to those purposes.

If there is an expenditure incurred for purposes for which both restricted and unrestricted fund balance is available, the City will consider restricted fund balance to have been spent before unrestricted fund balance. Further, if there is an expenditure incurred for purposes for which committed, assigned, or unassigned fund balance classifications could be used, then the City will consider committed fund balance to be spent before assigned fund balance, and consider assigned fund balance to be spent before unassigned fund balance.

**(p) Net Position**

In the government-wide and proprietary fund financial statements, equity is displayed in three components as follows:

- **Net Investment in Capital Assets** - This consists of capital assets, net of accumulated depreciation, less the outstanding balances of bonds, mortgages, notes, or other borrowing that are attributable to the acquisition, construction, or improvement of those assets.
- **Restricted** - This consists of net position that is restricted by outside parties or by law through constitutional provisions or enabling legislation. When both restricted and unrestricted resources are available, generally it is the City's policy to use restricted resources first, and then unrestricted resources when they are needed.
- **Unrestricted** - This consists of net position that does not meet the definition of "Restricted" or "Net Investment in Capital Assets."

**(q) Unbilled Revenue**

The Water and Sewage Disposal Funds record unbilled revenues for services provided prior to year end by accruing actual revenues billed in the subsequent month.

**(r) Use of Estimates**

The preparation of financial statements in conformity with U.S. generally accepted accounting principles (GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues, expenses, and expenditures during the reporting period. Actual results could differ from those estimates.



**(s) Upcoming Accounting Pronouncements**

In December 2009, the GASB issued Statement No. 58, *Financial Reporting for Chapter 9 Bankruptcies*. This statement provides accounting and financial reporting guidance for governments that have petitioned for protection from creditors by filing for bankruptcy under Chapter 9 of the United States Bankruptcy Code. It requires governments to re-measure liabilities that are adjusted in bankruptcy when the bankruptcy court confirms a new payment plan. The City is currently evaluating the impact this standard will have on the financial statements when adopted during the City's fiscal year ending June 30, 2015. As disclosed in Note XIII, the City of Detroit was engaged in bankruptcy proceedings during 2014. The recorded and disclosed balances contained within this report are subject to change pursuant to the confirmed City's plan of adjustment.

In June 2012, the GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions*. Statement No. 68 requires governments providing defined benefit pensions to recognize their unfunded pension benefit obligation as a liability for the first time and to more comprehensively and comparably measure the annual costs of pension benefits. This net pension liability that will be recorded on the government-wide, proprietary, and discretely presented component unit statements will be computed differently than the current unfunded actuarial accrued liability, using specific parameters set forth by the GASB. The statement also enhances accountability and transparency through revised and new note disclosures and required supplementary information (RSI). The City has evaluated the impact this standard will have on the financial statements when adopted during the City's fiscal year ending June 30, 2015. Implementation of Statement No. 68 for the fiscal year ended June 30, 2015 will result in the elimination of the net pension asset ($1,206,321,236 as of June 20, 2014) and the recognition of the net pension liability.

In January 2013, the GASB issued GASB Statement No. 69, *Government Combinations and Disposals of Government Operations*. Statement No. 69 establishes accounting and financial reporting standards related to government combinations and disposals of government operations. As used in the Statement, the term government combinations includes a variety of transactions referred to as mergers, acquisitions, and transfers of





operations. The Statement requires disclosures to be made about government combinations and disposals of government operations to enable financial statement users to evaluate the nature and financial effects of those transactions. The City is currently evaluating the impact this standard will have on the financial statements when adopted during the City's fiscal year ending June 30, 2015.

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

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

**(t) Prior Period Adjustment and Restatement of Beginning Net Position**

As a result of the implementation of GASB Statement No. 65 as noted in paragraph (u) and the change of presentation of the Public Lighting Authority, the beginning net position has been restated to apply the changes noted associated with the bond issuance costs and the change of presentation. The effect of this change is as follows.

| | | |
|---|---|---|
| Government activities: | | |
| Net deficit - As of 6/30/13 | $ | (807,792,434) |
| Public Lighting Authority | | (1,038,451) |
| Bond issuance costs | | (22,361,128) |
| Net deficit - 7/1/13 - As restated | $ | (831,192,013) |
| Business-type activities: | | |
| Net position - As of 6/30/13 | $ | 129,614,214 |
| Public Lighting Authority | | 1,038,451 |
| Bond issuance costs | | (42,918,386) |
| Net position - 7/1/13 - As restated | $ | 87,734,279 |
| Component units: | | |
| Net position - As of 6/30/13 | $ | 194,664,121 |
| Bond issuance costs | | (2,174,130) |
| Net position - 7/1/13 - As restated | $ | 192,489,991 |

**(u) New Accounting Pronouncements**

During the year, the City adopted GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities – an Amendment of GASB Statement No. 25*. The statement establishes accounting and financial reporting standards that reclassify, as deferred outflows and inflows of resources, certain items that were previously reported as assets and liabilities. The statement also provides other financial reporting guidance related to the impact of the financial statement elements deferred outflows of resources and deferred inflows of resources.

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

| Item | Amount | Prior Reporting Classification/Treatment | New Classification After Adoption of GASB 65 |
|---|---|---|---|
| Bond issuance costs - Governmental activities | $ 22,361,128 | Asset | Outflow of resources (restatement of prior year net position) |
| Bond issuance costs - Component units | 2,174,130 | Asset | Outflow of resources (restatement of prior year net position) |
| Bond issuance costs - Business-type activities: | | | |
| Sewage Disposal Fund | 21,367,325 | Asset | Outflow of resources (restatement of prior year net position) |
| Transportation Fund | 4,319,037 | Asset | Outflow of resources (restatement of prior year net position) |
| Water Fund | 17,232,024 | Asset | Outflow of resources (restatement of prior year net position) |
| Deferred amounts on debt refundings - Governmental activities | 14,796,845 | Adjustment to bonds payable | Deferred outflow of resources |
| Deferred amounts on debt refundings - Business-type activities | | | |
| Sewage Disposal Fund | 214,536,819 | Adjustment to bonds payable | Deferred outflow of resources |
| Transportation Fund | 1,287,183 | Adjustment to bonds payable | Deferred outflow of resources |
| Water Fund | 115,748,493 | Adjustment to bonds payable | Deferred outflow of resources |
| Deferred amounts on debt refundings - Component units | 297,025 | Adjustment to bonds payable | Deferred outflow of resources |
| Deferred amounts on swap termination - Governmental activities | 28,219,511 | Adjustment to bonds payable | Deferred inflow of resources |
| Deferred amounts on swap termination - Business-type activities | | | |
| Sewage Disposal Fund | 3,738,739 | Adjustment to bonds payable | Deferred inflow of resources |
| Transportation Fund | 2,532,991 | Adjustment to bonds payable | Deferred inflow of resources |
| Water Fund | 13,463,426 | Adjustment to bonds payable | Deferred inflow of resources |
| Deferred amounts on swap termination - Component units | 585,365 | Adjustment to bonds payable | Deferred inflow of resources |
| Grant resources earned but not received within 180 days of year end - Governmental activities | 4,079,251 | Liability | Deferred inflow of resources |

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





**(v) Change in Accounting Principle**

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

This change impacted the beginning of year cash and cash equivalents balance on the Statement of Cash Flows for the Enterprise Funds. The following table presents a summary of the significant effects of the change in accounting policy:

| | As Previously Reported | Adjustments | As Adjusted |
|---|---|---|---|
| Water Fund | | | |
| June 30, 2013: | | | |
| Total cash and cash equivalents | $ 45,366,904 | $ 128,484,397 | $ 173,851,301 |
| Total investments | 336,667,686 | (128,484,397) | 208,183,289 |
| Sewage Fund | | | |
| June 30, 2013: | | | |
| Total cash and cash equivalents | $ 111,109,204 | $ 224,612,193 | $ 335,721,397 |
| Total investments | 355,482,764 | (224,612,193) | 130,870,571 |
| Automobile Parking Fund | | | |
| June 30, 2013: | | | |
| Total cash and cash equivalents | $ 759,509 | $ 18,271,199 | $ 19,030,708 |
| Total investments | 18,271,199 | (18,271,199) | - |

## NOTE II - STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

**(a) Liquidity Risk**

Liquidity risk is the risk of not having sufficient liquid financial resources to meet obligations when they fall due. Over the past several decades, the City has experienced significant economic and social challenges that have negatively impacted employment, business conditions and quality of life. Three of the City's largest revenue streams — distributable state aid, property taxes, and municipal income taxes — are especially susceptible during times of major economic downturns and have declined in recent years due to high levels of unemployment. Population decline and home foreclosures have adversely impacted City property valuations and property and income tax collections. Further stressing the City's liquidity were legacy costs such as retiree health care and debt service. As the City's tax base and revenues declined, the legacy costs became an increasing percentage of the General Fund budget, which reduced funding available for essential services such as police and fire.

The City of Detroit was insolvent on June 30, 2013 as the General Fund liabilities exceeded its assets by $73.0 million and cash and investments on hand totaling $102.2 million were insufficient to meet obligations due. The City's accumulated unrestricted General Fund deficit was $132.6 million on June 30, 2013. On July 18, 2013, due to the City's insolvency and inability to meet its obligations, the City filed a voluntary petition under Chapter 9 of the Bankruptcy Code in the United States Bankruptcy Court for the Eastern District of Michigan (the "Bankruptcy Court"), which case is captioned *In re City of Detroit, Michigan*, Case No. 13-53846 (Bankr. E.D. Mich.) (the "Bankruptcy Case"). On July 19, 2013, Bankruptcy Judge Steven W. Rhodes was assigned to the Bankruptcy Case by the Chief Judge of the United States Court of Appeals for the Sixth Circuit. On or about February 18, 2015, after Judge Rhodes' retirement, Judge Thomas J. Tucker assumed oversight of the Bankruptcy Case (See Footnote XIII for more detail on the Bankruptcy Case).

After the Chapter 9 filing, the City's General Fund solvency improved for the year ended June 30, 2014 as assets exceeded liabilities by $53.4 million and cash and investments on hand totaled $381.3 million. However, much of the improvement was due to borrowing $120.0 million for the City's reinvestment and revitalization initiatives program and defaulting on General Fund pension contributions totaling $176.2 million, partially as a result of the bankruptcy filing.

The City's General Fund obligations that were defaulted on through the year ended June 30, 2014 included: (1) $122.5 million in pension contributions due the Police and Fire Retirement System; (2) $53.7 million in pension contributions due the General Retirement System; (3) $85.6 million of Pension Obligation Certificate debt; and (4) $51.8 million of Limited Tax General Obligation (LTGO) bond debt. Also, the General Fund owed to other funds, component units, and other governmental agencies property taxes that it had collected totaling $102.1 million. The City's accumulated unrestricted General Fund deficit was $145.9 million on June 30, 2014.

On November 12, 2014, the Bankruptcy Court entered an order (the "Confirmation Order") confirming the City's Eighth Amended Plan of Adjustment ("Plan"). The Plan became effective in accordance with its terms on December 10, 2014 (the "Effective Date"), and the City exited bankruptcy.

Section 22(1) of Public Act 436 provides that if an emergency manager determines that the financial emergency he or she was appointed to manage has been rectified, the emergency manager is to inform the Governor and Treasurer of the State of Michigan of that determination. Accordingly, on December 8, 2014, the Emergency Manager submitted a letter to the Governor and Treasurer stating the following: "Over the past 16 months, the Chapter 9 process has allowed the City to take and implement critical steps towards restructuring its existing obligations and laying the foundation for substantial reinvestment in the City - that is, to correct in a sustainable fashion the financial conditions that prompted my appointment. This work required the assistance and cooperation of the State, the Mayor, the City Council and, ultimately, all of the City's major stakeholders, as well as the commitment of the bankruptcy judge and a skilled group of mediators. The key elements of this restructuring include the following:

- The elimination of approximately $7 billion of debt obligations upon the occurrence of the Effective Date, including the significant reduction of the City's obligations relating to: (a) approximately $1.4 billion in claims arising in connection with certain certificates of participation; (b) approximately $550 million in claims arising in connection with general obligation debt; and (c) approximately $7.4 billion in claims related to pension and retiree health obligations (discussed in further detail below);

- The establishment of a framework for the reinvestment of approximately $1.7 billion in the City between the Effective Date and June 30, 2023 (the "Reinvestment Initiatives"). The Reinvestment Initiatives include, but are not limited to: (a) approximately $450 million in funding earmarked for the remediation of blight throughout the City; (b) urgently needed resources for, and reforms of, the Detroit Police Department, the Detroit Fire Department and the City's emergency response services; (c) improvements to the City's transportation network; and (d) a comprehensive overhaul of the City's antiquated information technology systems. The Reinvestment Initiatives provide the City with the opportunity to: (a) arrest the long-entrenched and reinforcing trends of population loss, declining property values and declining revenues; (b) remedy the crippling service delivery insolvency characterized as "inhumane" by the Bankruptcy Court; and (c) provide a platform for residential and commercial growth within the City;

- The negotiation and implementation of the "Grand Bargain," which transferred certain artwork owned by the City (and managed by the Detroit Institute of Arts) to an irrevocable charitable trust - thus maintaining an irreplaceable resource for the perpetual benefit of the City and its surrounding communities - as part of a larger transaction providing for the contribution of $816 million over the next 20 years by the State and certain charitable foundations for the benefit of the City's pensioners;

- The restructuring of the City's pension and retiree health legacy obligations, which consumed substantial (and escalating) percentages of the City's revenues at the time of the Chapter 9 filing. The proceeds to be directed to the City's General Retirement System and Police and Fire Retirement System (together, the "Retirement Systems") as a result of the Grand Bargain allowed the City to adequately fund the Retirement Systems going forward, while minimizing cuts to retirees' pension payments (thus maintaining a working relationship with the City's employees). The Chapter 9 process further allowed the City to eliminate billions







in unfunded retiree health obligations through the creation of two voluntary employee benefits associations (or VEBAs), which will be responsible for retiree health payments following the Effective Date;

- The entry into discrete development agreements with: (a) a wholly-owned subsidiary of Syncora Guarantee Inc. and Syncora Capital Assurance Inc.; and (b) Financial Guaranty Insurance Company (or its designee) that promise to provide for substantial reinvestment in, and rehabilitation of, City assets;

- The entry into a memorandum of understanding with the State of Michigan and Oakland, Wayne and Macomb Counties establishing a framework for the creation of a regional water and sewer/storm water authority to be called the Great Lakes Water Authority (the "GLWA"). As part of the GLWA transaction, the City will lease its regional water supply and sewer disposal system facilities to the GLWA for an initial 40-year term in exchange for an annual $50 million payment that will fund local infrastructure improvements, debt service on bonds issued to finance such improvements or the City's share of the cost of common-to-all improvements;

- The negotiation and implementation of new collective bargaining agreements with approximately 40 unions, including: (a) all six of the unions representing public safety personnel in the City's Police and Fire Departments; (b) the substantial majority of the local unions affiliated with American Federation of State, County, and Municipal Employees (AFSCME) Council 25, the City's largest union; and (c) seven of the unions representing employees of the Detroit Water and Sewerage Department. The City's collective bargaining agreements, which generally will remain effective for five years, will promote good labor relations and provide for increased management flexibility to streamline operations. Additionally, the collective bargaining agreements provide for wage increases and restructured health care and pension benefits that will promote recruiting and retention while also providing financial stability; and

- The restructuring of various City departments - including the Finance Department, the Human Resources Department, the Planning and Development Department, the Information Technology Department and the Law Department - through, among other changes, the establishment of new divisions, modifications to reporting structures, reorganization of existing job titles and job functions and the creation of new job titles and new job functions. The comprehensive restructuring of these significant City departments should facilitate improvements in operating flexibility, productivity, efficiency and recruitment and retention."

The Governor in his "Notice of Termination" letter to the Emergency Manager dated December 9, 2014 stated: "When I authorized the placement of the City into bankruptcy, I noted that at that point, the City could not meet its basic obligation to its citizens, which had also resulted in an inability to meet obligations to its creditors. The bankruptcy process, combined with the budget that is now in place, means the financial emergency will be sustainably rectified." Furthermore, the Governor stated: "I conclude that the financial conditions of the City have been corrected in a sustainable fashion as provided in Act 436. Therefore, pursuant to Section 9(7) of the Act, I hereby remove the City of Detroit from receivership as of the Effective Date of the Plan for Adjustment, provided that this occurs prior to December 31, 2014, and do so without the imposition of any conditions permitted under the Act."

On December 10, 2014, and in accordance with the Plan, the City: (1) issued $1.3 billion of debt of which $1.1 billion was delivered to various classes of creditors in satisfaction of their claims; (2) paid $110.1 million of cash including $73.1 million to various classes of creditors in satisfaction of their claims, $36.5 million to establish a Professional Fee Reserve account to pay the bankruptcy and restructuring professionals, and $0.5 million to satisfy debt issuance costs; (3) assigned debt service payments on the remaining $43.3 million of the original UTGO bonds primarily to the income stabilization funds for the General Retirement System (GRS) and Police and Fire Retirement System (PFRS); (4) issued settlement credits totaling $25.0 million to the insurers of the POCs; and (5) irrevocably transferred the assets of the Detroit Institute of Arts (DIA) having a net book value of $86.6 million to the DIA, as trustee, to be held in perpetual charitable trust, subject to dispositions in accordance with applicable national ethical standards for museums, and within City limits, for the primary benefit of residents of the City and residents of the State.

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

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

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

| | | Primary Government | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | | Assets & Obligations | | | Cash & Assets Used & New Obligations | | | |
| Description | | Eliminated | Applied or Assigned | | Cash & Assets | New Debt Obligations | Other | Net Benefit |
| ASSETS | | | | | | | | |
| Net Pension Asset | (1) | $ (1,206,321,236) | $ - | | $ - | $ - | $ - | $ (1,206,321,236) |
| Capital Assets (Net Book Value) | | - | - | (10) | 86,568,800 | - | - | (86,568,800) |
| Deferred Charges | (2) | (34,452,367) | - | | - | - | - | (34,452,367) |
| Total Assets | | (1,240,773,603) | - | | 86,568,800 | - | - | (1,327,342,403) |
| DEFERRED OUTFLOWS OF RESOURCES | (3) | (17,682,877) | | | | | | (17,682,877) |
| LIABILITIES | | | | | | | | |
| Accounts Payable | | - | - | (11) | 36,461,114 | - | - | (36,461,114) |
| Accrued Interest Payable | | 53,306,470 | - | | - | - | - | 53,306,470 |
| Derivative Instruments - Swap Liability | | 302,463,879 | - | | 17,662,479 | 37,969,929 | - | 246,831,471 |
| Defaulted Debt Due to Insurers | (4) | 143,085,398 | - | | - | - | - | 143,085,398 |
| Other Defaulted Debt | (5) | 25,000,000 | - | | - | - | - | 25,000,000 |
| Contingent Liabilities | | - | - | | - | - | 25,000,000 | (25,000,000) |
| Long-Term Obligations | (6) | 2,961,435,753 | 43,349,210 | | 56,003,944 | 1,244,985,027 | 43,349,210 | 1,660,446,782 |
| Total Liabilities | | 3,485,291,500 | 43,349,210 | | 110,127,537 | 1,282,954,956 | 68,349,210 | 2,067,209,007 |
| DEFERRED INFLOWS OF RESOURCES | (7) | 34,844,753 | - | | - | - | - | 34,844,753 |
| Total Net Position (Deficit) | | 2,261,679,773 | 43,349,210 | | 196,696,337 | 1,282,954,956 | 68,349,210 | 757,028,480 |
| Other Obligations Not In Financial Statements | | | | | | | | |
| Long-Term Obligations - OPEB | (8) | 4,723,511,843 | - | | - | - | - | 4,723,511,843 |
| Long-Term Obligations - Net Pension Liability | (9) | 1,326,824,448 | - | | - | - | - | 1,326,824,448 |
| Total Other Obligations | | 6,050,336,291 | - | | - | - | - | 6,050,336,291 |
| Grand Total Net Position (Deficit) | | $ 8,312,016,064 | $ 43,349,210 | | $ 196,696,337 | $ 1,282,954,956 | $ 68,349,210 | $ 6,807,364,771 |

(1) Net Pension Asset eliminated with bankruptcy and GASB 67 and upcoming GASB 68 requirements
(2) Prepaid insurance costs related to eliminated obligations
(3) Deferred charges related to eliminated obligations
(4) Principal and interest paid by insurers for defaulted debt including POC and LTGO debt
(5) Uninsured LTGO (2008 A(2)) bonds principal defaulted on
(6) Includes $1.4 billion POC; $994.8 million OPEB eliminated for year ended June 30, 2014; $287.5 million restructured UTGO; and $117.6 million LTGO obligations
(7) Deferred Swap Termination Fees
(8) Last OPEB valuation (June 11, 2011) $5,718,286,228 less $994,774,385 included in Long-Term Obligations
(9) Net Pension Liability Reduction ($2,918,025,938 pre-bankruptcy and $1,591,201,490 post-bankruptcy)
(10) DIA Assets transferred to DIA Trustee
(11) Funding for Professional Fee Reserve

While the bankruptcy substantially reduced the City's obligations, especially legacy pension and retiree health costs, challenges and risks remain to secure the liquidity to fund the resources necessary to provide satisfactory City services such as public protection and transportation. The City's liquidity risk will continue until the changes adopted under the Plan of Adjustment are implemented effectively by the City over the long-term and other quality of life issues plaguing the City are also addressed satisfactorily. In addition, several appeals of the Confirmation Order have been filed and are currently pending before the United States District Court for the Eastern District of Michigan. These appeals request that some or all of the provisions of the Confirmation Order be reversed. If any of these appeals are successful, it could adversely impact the City's liquidity.



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**(b) Compliance with Finance Related Legal and Contractual Provisions**

The Law requires the City to fund its minimally required pension contributions for the fiscal year ended June 30, 2014, prior to said date. Notwithstanding this requirement, the City failed to remit its complete contribution prior to June 30, 2014. Contributions due to the General Retirement and Police and Fire Retirement Systems totaled $78.4 million and $122.5 million, respectively, at June 30, 2014.

The City is required by the State of Michigan, Public Act 206 of 1893 and the General Property Tax Act, MCL 211.43 (3) (a), to deliver within 10 business days after the first and fifteenth of each month, the tax collections on hand to the County Treasurer and other tax assessing units such as Wayne County and the Detroit Public Schools. As of June 30, 2014, the City failed to remit approximately $102.1 million of property tax distributions held by the General Fund that were due to other funds, component units, and other governmental agencies. All such required distributions at June 30, 2014 were subsequently remitted.

The City is required by the State of Michigan, Public Act 346 of 1966 to distribute payments received in lieu of taxes (PILOT) due to the other tax assessing units such as the State of Michigan and Detroit Public Schools for the year for which the distribution is calculated. The City was not in compliance with Public Act 346 of 1966 because it did not remit the 2013 distributions due the State of Michigan ($2.3 million) and the Detroit Public Schools ($3.1 million) PILOT until August 2014.

The City was not in compliance with State of Michigan Public Act 451, Part 115. The General (General Grants), and Employee Disability Income Protection Plan Funds borrowed $2.9 million and $0.1 million, respectively, from the Solid Waste Fund, which is a violation of Public Act 451, which restricts the use of funds for solid waste collection and disposal.

The City was not in compliance with the State of Michigan's Uniform Unclaimed Property Act, Public Act 29 of 1995. The City failed to properly escheat unclaimed property tax overpayments to the state as required. As a result, the City is subject to interest and penalties on the amount that should have been escheated.

The City was not in compliance with the State of Michigan Public Act 2 of 1968, Uniform Budgeting and Accounting Act, Section 141.438 (3), which requires the City to not incur expenditures against an appropriation account in excess of the amount appropriated by the City Council. As noted in the footnote II (d), some of the City agency's actual expenditures exceeded their appropriations for the year ended June 30, 2014.

The City was not in compliance with the United States, Office of Management and Budget (OMB), Circular A-133, Section 300, which requires the City to: "Identify, in its accounts, all Federal awards received and expended and the Federal programs under which they were received." The City's general ledger records were not always accurate at the individual grant level, as required.

The City was not in compliance with State of Michigan Public Act 206 and the General Property Tax Act, MCL 211.43(3) (a), which requires the City to remit the Industrial Facilities Tax (IFT) collections within 10 business days after the 1st and 15th of each month. Also, the City was not in compliance with Public Act 198 of 1974 because it did not submit IFT Tax Form 170, as required to the State of Michigan by July 30th of each year. The City has not filed IFT Tax Form 170 since tax year 2010.

The City was not in compliance with Michigan Public Act 206 of 1893, MCL 211, related to Real Estate Exemptions. The City does not have adequate controls in place to maintain and update the listing of tax exempt properties. The City was unable to provide documentation supporting the tax exempt status for 17 of 65 properties selected by the auditors for review.

**(c) Deficit Fund Equity**

The General Fund had a deficit of unassigned fund balance of $145,907,582 at June 30, 2014. Local Development Finance Authority (a Component Unit) (LDFA) had a deficit of unrestricted net position of $45,189,411. Eastern Market Corporation (a Component Unit) had a deficit of unrestricted net position of $145,199. The Downtown Development Authority (a Component Unit) (DDA) had a deficit of unrestricted net position of $3,920,394. Detroit Employment Solutions Corporation (a Component Unit) (DESC) had a deficit of unrestricted net position of $184,248. The City's Plan of Adjustment approved in the Bankruptcy Case is its deficit elimination plan. DDA and LDFA's plan for elimination of its deficit involves the continued collection of incremental tax revenues and payment of its debt service requirements in the upcoming years. Eastern Market Corporation's plan for elimination of its deficit involves ongoing cost containment.

The Sewage Disposal Fund (an Enterprise Fund) had a deficit of unrestricted net position of $172,555,324. The Transportation Fund (an Enterprise Fund) had a deficit of unrestricted net position of $34,232,212. The Water Fund (an Enterprise Fund) had a deficit of unrestricted net position of $72,559,999. The Parking Fund (an Enterprise Fund) had a deficit of unrestricted net position of $11,539,044. The Airport Fund (an Other Enterprise Fund), had a deficit of unrestricted net position of $1,724,579. As of the date of this report, the City has not yet filed deficit elimination plans with the State of Michigan related to the Transportation, Parking, and Airport Funds.

**(d) Excess of Expenditures over General Fund Appropriations**

The City amended the budget in a legally permissible manner in compliance with State of Michigan Public Act 2 of 1968.

The legal level of budget control is maintained at the appropriation level, which is more detailed than the budget in the Required Supplementary Information. Listed below are expenditures that exceeded their corresponding appropriation for the year ended June 30, 2014:

| Agency Description | Appropriation Description | YTD Budget Final | YTD Actual | Variance |
|---|---|---|---|---|
| Building and Safety Engineer | Environmental Affairs Department | $ 304,191 | $ 338,587 | $ (34,396) |
| | Administration and Licenses | (3,850) | (1,196) | (2,654) |
| Finance | Targeted Business Developments | (1,119) | - | (1,119) |
| Health and Wellness Promotions | Substance Abuse | (4,996) | 1,463 | (6,459) |
| Water | Executive Office | 5,024,230 | 5,039,419 | (15,189) |
| Mayor's Office | Citizen Radio Patrol | (1,127) | - | (1,127) |
| | Community Access Center | 6,034 | 6,695 | (661) |
| Non-Departmental | Greater Detroit Resource Recovery Authority | 699 | 1,223 | (524) |
| | Claims Fund(Insurance Premium) | 19,426,000 | 33,056,500 | (13,630,500) |
| | Downtown Development Authority Bonds 1997 | - | 1,369,400 | (1,369,400) |
| | Adjustments and Undistributed Costs | - | 45,599,110 | (45,599,110) |
| | General Revenue - Non-Departmental | 2,462,631 | 9,526,108 | (7,063,477) |
| | Program Management Office | (80) | - | (80) |
| | 800 MHZ Project Debt Service | - | 34,953,272 | (34,953,272) |
| | Restructuring Consolidation | 116,780,832 | 139,099,663 | (22,318,831) |
| Police | Civil Rights Integrity Bureau | 13 | 56,649 | (56,636) |
| | Professional Accountability Bureau | (328) | - | (328) |
| | Rape Counseling Unit | 331,515 | 347,616 | (16,101) |
| | Support Services Bureau | 19,436,509 | 26,429,328 | (6,992,819) |
| Planning & Development | Real Estate and GIS | 979,123 | 4,501,968 | (3,522,845) |
| Public Lighting | Administration | 1,589,671 | 4,645,637 | (3,055,966) |
| Recreation | Management | - | 1,760 | (1,760) |
| | Development and Support | (330) | (24) | (306) |
| | Recreation Management | 640,189 | 738,325 | (98,136) |
| | Belle Isle Operations | 186,788 | 207,165 | (20,377) |
| General Services Department | Ground Maintenance | 5,227,094 | 5,551,592 | (324,498) |
| | Facilities & Grounds Maintenance | 11,451,334 | 12,440,119 | (988,785) |
| | Fleet Management | 21,101,492 | 21,923,907 | (822,415) |
| Zoological Institute | Main Zoo Operations | (7,845) | - | (7,845) |
| | Belle Isle Activities | (35) | - | (35) |
| City Council | City Legislative Functions | 3,143,686 | 3,304,288 | (160,602) |
| | Council President Office | 169,800 | 170,174 | (374) |
| | Council Member Office 1 | 22,095 | 23,814 | (1,719) |
| | Council Member Office 3 | 111,524 | 133,132 | (21,608) |
| | Council Member Office 8 | 115,205 | 116,786 | (1,581) |
| Emergency Manager | Emergency Manager | (132,935,370) | 4,687,943 | (137,623,313) |
| **Total All Agencies** | | $ 75,555,575 | $ 354,270,423 | $ (278,714,848) |





## NOTE III - DEPOSITS AND INVESTMENTS

**(a) Governmental and Business-type Activities**

A summary of deposits and investments of the governmental and business-type activities at June 30, 2014 is as follows:

| | Governmental Activities | Business-type Activities | Total |
|---|---|---|---|
| Demand Deposits | $ 534,206,367 | $ 579,470,142 | $ 1,113,676,509 |
| U.S. Treasury Notes | 7,293,827 | — | 7,293,827 |
| U.S. Government Agency Securities | 48,420,685 | 284,239,411 | 332,660,096 |
| Money Market Funds | — | — | — |
| Governmental Investment Pools | — | 52,349,183 | 52,349,183 |
| Certificates of Deposit | — | 10,532 | 10,532 |
| Total | $ 589,920,879 | $ 916,069,268 | $ 1,505,990,147 |

Deposits and investments of the governmental and business-type activities at June 30, 2014 are reported in the financial statements as follows:

| | Governmental Activities | Business-type Activities | Total |
|---|---|---|---|
| Cash and Cash Equivalents | $ 534,206,367 | $ 579,470,142 | $ 1,113,676,509 |
| Investments | 55,714,512 | 336,599,126 | 392,313,638 |
| Total | $ 589,920,879 | $ 916,069,268 | $ 1,505,990,147 |

State laws authorize the City to make deposits in the accounts of federally insured financial institutions. Cash held by fiscal agents or by trustees is secured in accordance with the requirements of the agency or trust agreement.

The City is authorized by Michigan Public Act 20 of 1943 (as amended) to invest in obligations of the U.S. government or its agencies, certificates of deposit, savings and depository accounts of insured institutions, commercial paper of certain investment quality, repurchase agreements, banker acceptances, mutual funds of certain investment quality, and investment pools authorized by state law.

***Custodial Credit Risk of Bank Deposits***

Custodial credit risk is the risk that in the event of bank failure, the bank may not return the City's deposits. The City does not have a deposit policy for custodial credit risk. As of June 30, 2014, the governmental and business-type activities had deposits of $544,505,675 and $562,409,612, respectively, of bank deposits (certificates of deposit, checking, and savings accounts) that were exposed to custodial credit risk as they were uninsured and uncollateralized.

***Interest Rate Risk***

Interest rate risk is the risk that, over time, the value of debt investments will decrease as a result of a rise in interest rates. The City's investment policy does not specifically restrict investment maturities other than commercial paper, which can only be purchased with a 270-day maturity. The City policy minimizes interest rate risk by requiring that the City attempt to match its debt investments with anticipated cash flow requirements. Unless related to a specific cash flow, the City is generally not permitted to directly invest in debt securities maturing more than 10 years from the original date of purchase.

The City (governmental and business-type activities) had the following debt investments and maturities at June 30, 2014:

| | Total Fair Value | Investment Maturities in Years: Less Than 1 Year | 1 – 5 Years | 6 – 10 Years |
|---|---|---|---|---|
| **Governmental Activities** | | | | |
| U.S. Government Agency Securities | $ 48,420,685 | $ — | $ 48,420,685 | $ — |
| U.S. Treasury Notes | 7,293,827 | 7,293,827 | — | — |
| Total Governmental Activities | $ 55,714,512 | $ 7,293,827 | $ 48,420,685 | $ — |
| **Business-type Activities** | | | | |
| U.S. Government Agency Securities | $ 284,239,411 | $ — | $ 284,239,411 | $ — |
| Governmental Investment Pools | 52,349,183 | 52,349,183 | — | — |
| Certificates of Deposit | 10,532 | — | 10,532 | — |
| Total Business-type Activities | $ 336,599,126 | $ 52,349,183 | $ 284,249,943 | $ — |

### *Credit Risk*

Credit risk is the risk that the City will not recover its investments due to the inability of the counterparty to fulfill its obligations. The City's investment policy complies with State law, which limits its investments in commercial paper, mutual funds, and external investment pools 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).

The City's debt investments (governmental and business-type activities) have the following ratings at June 30, 2014 as rated by S&P or Moody's:

| | AAA | AAAm | AA+ | A-1 | Not Rated | Total |
|---|---|---|---|---|---|---|
| **Governmental Activities** | | | | | | |
| U.S. Government Agency Securities | $ 48,420,685 | $ — | $ — | $ — | $ — | $ 48,420,685 |
| U.S. Treasury Notes | 7,293,827 | — | — | — | — | 7,293,827 |
| Total Governmental Activities | $ 55,714,512 | $ — | $ — | $ — | $ — | $ 55,714,512 |
| **Business-type Activities** | | | | | | |
| U.S. Government Agency Securities | $ — | $ — | $ 284,239,411 | $ — | $ — | $ 284,239,411 |
| Governmental Investment Pools | — | 52,349,183 | — | — | — | 52,349,183 |
| Certificates of Deposit | — | — | — | — | 10,532 | 10,532 |
| Total Business-type Activities | $ — | $ 52,349,183 | $ 284,239,411 | $ — | $ 10,532 | $ 336,599,126 |

### *Concentration of Credit Risk*

Concentration of credit risk is the risk of loss attributed to the magnitude of the City's investment in a single issuer. The City's policy specifies a number of limitations to minimize concentration of credit risk including prohibiting investing more than 5 percent of the portfolio in securities (excluding U.S. government securities) of any one issuer. More than 5 percent of the City's debt investments are in the following: Federal Home Loan Bank (14.9 percent), Federal Farm Credit Bank (16.0 percent), and Federal National Mortgage Association (50.1 percent).





**(b) Fiduciary Activities**

The fiduciary activities consist of the Pension Funds (General Retirement System and Police and Fire Retirement System) and Other Employee Benefit and Agency Funds. A summary of cash and investments for fiduciary activities at June 30, 2014 is as follows:

| | Pension and Other Employee Benefit Trust Funds: General Retirement System | Police & Fire Retirement System | Other Employee Benefits | Total | Agency Funds |
|---|---|---|---|---|---|
| Demand Deposits | $ 25,742,786 | $ 52,165,913 | $ 7,290,502 | $ 85,199,201 | $ 21,643,703 |
| Short-Term Investments | 74,423,479 | 82,894,855 | 34,951,325 | 192,269,659 | — |
| Stocks | 1,058,090,820 | 1,295,157,265 | 6,912,333 | 2,360,160,418 | — |
| Commingled Equity Funds | 84,643,123 | — | — | 84,643,123 | — |
| Bonds | 116,409,457 | 697,555,113 | — | 813,964,570 | — |
| Mortgage-Backed Securities | 21,970,772 | 63,374,032 | 6,780 | 85,351,584 | — |
| Governmental Investment Pools | 7,870,265 | 380,018,039 | — | 387,888,304 | — |
| Equity Interest in Real Estate | 211,811,951 | 299,951,543 | — | 511,763,494 | — |
| Private Placements | 322,419,977 | 67,792,405 | 1,955,305 | 392,167,687 | — |
| Mortgage and Construction Loans | 99,652,517 | 122,456,980 | — | 222,109,497 | — |
| Real Estate Investment Trusts Held by Custodian | — | 176,517,750 | — | 176,517,750 | — |
| Total | $ 2,023,035,147 | $ 3,237,883,895 | $ 51,116,245 | $ 5,312,035,287 | $ 21,643,703 |

Cash and investments for fiduciary activities at June 30, 2014 are reported in the financial statements as follows:

| | Pension and Other Employee Benefit Trust Funds: General Retirement System | Police & Fire Retirement System | Other Employee Benefits | Total | Agency Funds |
|---|---|---|---|---|---|
| Cash and Cash Equivalents | $ 25,742,786 | $ 52,165,913 | $ 7,290,502 | $ 85,199,201 | $ 21,643,703 |
| Investments | 1,997,292,361 | 3,185,717,982 | 43,825,743 | 5,226,836,086 | — |
| Total | $ 2,023,035,147 | $ 3,237,883,895 | $ 51,116,245 | $ 5,312,035,287 | $ 21,643,703 |

**Pension Funds**

The Pension Funds are authorized by Michigan Public Act 347 of 2012 to invest in certain reverse repurchase agreements, stocks, diversified investment companies, annuity investment contracts, real estate leased to public entities, mortgages, real estate, debt or equity of certain small businesses, certain state and local government obligations, and certain other specified investment vehicles. The investment policy adopted by the board of trustees is in accordance with Public Act 196 of 1997 and has authorized the investments according to Michigan Public Act 347. The Pension Funds' deposits and investment policies are in accordance with this statutory authority.

***Custodial Credit Risk of Bank Deposits***

At June 30, 2014, the General Retirement System had approximately $15.4 million in checking account balances that were uninsured and uncollateralized. At June 30, 2014, the Police and Fire Retirement System had approximately $11.8 million in checking account balances that were uninsured and uncollateralized. The Pension Funds believe that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the Pension Funds evaluate each financial institution with which they deposit funds and assess the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

***Interest Rate Risk***

The Pension Funds' investment policies do not restrict investment maturities. The Pension Funds had the following debt investments and maturities at June 30, 2014 (in $000):

| | Fair Value | Less Than 1 Year | 1-5 Years | 6-10 Years | Over 10 Years |
|---|---|---|---|---|---|
| **General Retirement System** | | | | | |
| U.S. Government | $ 37,579 | $ 1,521 | $ 5,121 | $ 8,683 | $ 22,254 |
| Mortgage-Backed Securities | 3,829 | 617 | — | 272 | 2,940 |
| Treasuries | 31,262 | 18,463 | 4,346 | 4,218 | 4,235 |
| Corporate | 19,000 | 2,155 | 10,043 | 4,816 | 1,986 |
| Private Placement | 20,855 | 5,449 | 3,773 | 2,676 | 8,957 |
| State and Local Obligations | 441 | — | — | — | 441 |
| Commingled Bond Funds ** | 31,452 | 31,452 | — | — | — |
| Commercial Mortgages | 920 | 153 | — | — | 767 |
| Mortgages | 98,467 | 70,918 | 27,549 | — | — |
| Construction Loans | 1,186 | — | 1,186 | — | — |
| Term Loans | 2,974 | 922 | 191 | 1,861 | — |
| Total | $ 247,965 | $ 131,650 | $ 52,209 | $ 22,526 | $ 41,580 |
| **Police & Fire Retirement System** | | | | | |
| U.S. Government | $ 111,196 | $ 4,505 | $ 44,859 | $ 17,696 | $ 44,136 |
| Government Assets and Mortgage-Backed Securities | 62,414 | 1,579 | 3,192 | 3,130 | 54,513 |
| Treasuries | (2) | — | (5) | 26 | (23) |
| Corporate ** | 308,719 | 10,701 | 104,948 | 151,024 | 42,046 |
| Private Placement | 136,703 | 4,203 | 37,472 | 85,403 | 9,625 |
| Convertible Bonds | 49,777 | 7,912 | 19,237 | 7,283 | 15,345 |
| State and Local Obligations | 6,626 | — | 510 | 5,539 | 577 |
| Convertible Preferred Stock | 3,662 | 3,662 | — | — | — |
| Construction Loans | 19,000 | — | 19,000 | — | — |
| Mortgages | 103,294 | 88,962 | 14,332 | — | — |
| Total | $ 801,389 | $ 121,524 | $ 243,545 | $ 270,101 | $ 166,219 |

** Not all pooled, mutual funds, corporate, and commingled bond funds are subject to interest rate risk.







***Credit Risk***

State law limits investments in commercial paper to the top two ratings issued by nationally recognized statistical rating organizations. The Pension Funds' investment policies do not further limit their investment choices. The General Retirement System and the Police and Fire Retirement System debt investments have the following ratings at June 30, 2014 as rated by S&P and Moody's, respectively (amounts presented in $000):

| | AAA | AA | A | BAA | BA | B | CAA & Below | Not Rated |
|---|---|---|---|---|---|---|---|---|
| **General Retirement System** | | | | | | | | |
| U.S. Government | $ 35,317 | $ 181 | $ 260 | $ — | $ — | $ — | $ — | $ 3,236 |
| Treasuries | 3,401 | — | — | — | — | — | — | — |
| Corporate | 5,347 | 8,148 | 9,025 | 15,452 | 2,846 | 623 | 866 | 43,941 |
| Other Fixed Income | 3,655 | 1,188 | 3,608 | 2,634 | 795 | 215 | 31 | 6,499 |
| Commingled Bond Funds | — | — | — | — | — | — | — | 78,435 |
| Preferred Securities | — | — | 364 | 658 | 191 | — | — | — |
| Mortgages | — | — | — | — | — | — | — | 98,467 |
| Construction Loans | — | — | — | — | — | — | — | 1,186 |
| Total | $ 47,720 | $ 9,517 | $ 13,257 | $ 18,744 | $ 3,832 | $ 838 | $ 897 | $ 231,764 |
| **Police & Fire Retirement System** | | | | | | | | |
| Government Fixed Income | $ 144,220 | $ 3,170 | $ 404 | $ — | $ — | $ — | $ — | $ 9,632 |
| Government Assets and Mortgage-Backed Securities | | | | | | | | |
| Corporate Fixed Income | 8,838 | 17,259 | 54,153 | 116,643 | 35,903 | 63,190 | 14,583 | 17,985 |
| Private Placements | 2,359 | 4,365 | 9,722 | 16,744 | 25,768 | 55,758 | 14,077 | 11,105 |
| Convertible Bonds | — | — | 3,270 | 3,567 | 706 | 1,893 | — | 23,481 |
| Future Contracts | — | — | — | — | — | — | — | (1) |
| Convertible Preferred Stock | — | — | — | 2,282 | 421 | — | — | 5,772 |
| Preferred Securities | — | — | — | 558 | — | 55 | — | 4,008 |
| Convertible Private Placements | — | — | — | — | — | 725 | — | 9,348 |
| Mortgages | — | — | — | — | — | — | — | 103,294 |
| Construction Loans | — | — | — | — | — | — | — | 19,000 |
| Total | $ 155,417 | $ 24,794 | $ 67,549 | $ 139,794 | $ 62,798 | $ 121,621 | $ 28,660 | $ 203,624 |

***Foreign Currency Risk***

Foreign currency risk is the risk that an investment denominated in the currency of a foreign country could reduce its U.S. dollar value as a result of changes in foreign currency exchange rates. State law and the City's investment policy do not permit investments in foreign currency. However, the General Retirement System and Police and Fire Retirement System (Pension Funds) do not restrict the amount of investments in foreign currency.

The foreign currency risk for cash and investments of the Pension Funds at June 30, 2014 is as follows (in $000):

| | General Retirement System | | | | Police and Fire Retirement System | | | |
|---|---|---|---|---|---|---|---|---|
| | Fixed Income | Equity | Cash | Forward Contracts | Equity | Forward Contracts Unrealized Gain (Loss) | Cash | Net Other Investment Receivable/ (Payable) |
| Australian Dollar | $ 2,811 | $ — | $ 7 | $ (1,365) | $ 4,939 | $ 7,392 | $ 52 | $ (358) |
| Brazilian Real | 617 | — | — | 472 | 539 | — | 3 | — |
| British Pound Sterling | 1,248 | — | 565 | (214) | 42,781 | 8,093 | 621 | (198) |
| Canadian Dollar | 107 | — | 1 | (107) | 10,157 | 3,214 | 54 | — |
| Chilean Peso | — | — | — | 2,147 | — | — | — | — |
| Danish Krone | — | — | — | — | 1,768 | 1,715 | 17 | — |
| Euro Currency | 4,022 | — | (103) | (3,874) | 82,233 | (13,738) | 2,350 | (413) |
| Hong Kong Dollar | — | — | — | — | 13,189 | (1,212) | 33 | (203) |
| Hungarian Forint | 1,072 | — | — | — | — | — | — | — |
| Indian Rupee | — | — | — | 1,117 | 1,159 | — | — | — |
| Israeli Shekel | — | — | — | — | — | 602 | 3 | — |
| Japanese Yen | — | — | — | — | 65,600 | (19,084) | 465 | — |
| Malaysian Ringgit | 561 | — | — | — | 300 | — | — | — |
| Mexican Nuevo Peso | 3,382 | — | — | — | — | — | — | — |
| New Taiwan Dollar | — | — | — | — | 546 | — | — | — |
| New Turkish Lira | — | — | — | 362 | 307 | — | — | — |
| New Zealand Dollar | 773 | — | — | (704) | — | — | — | — |
| Norwegian Krone | — | — | — | — | 7,092 | (480) | 51 | 47 |
| Philippines Peso | — | — | — | — | — | — | 8 | — |
| Polish Zloty | 1,277 | — | 15 | (1,108) | — | — | — | — |
| Russian New Ruble | — | — | — | — | 658 | — | 46 | — |
| Singapore Dollar | — | — | — | — | 269 | 1,704 | 14 | — |
| South African Rand | 740 | — | — | — | 1,054 | — | 9 | — |
| South Korean Won | 1,233 | — | — | — | 3,455 | — | 11 | — |
| Swedish Krona | — | — | — | — | 2,877 | 3,620 | 17 | — |
| Swiss Franc | — | — | — | — | 26,782 | (3,267) | 277 | 142 |
| Total | $ 17,843 | $ — | $ 485 | $ (3,274) | $ 265,705 | $ (11,441) | $ 4,031 | $ (983) |

***Securities Lending***

As permitted by State statues and under the provisions of a securities lending authorization agreement, the Pension Funds lend securities to broker-dealers and banks for collateral that will be returned for the same securities in the future. The Pension Funds' custodial bank manages the securities lending program and receives cash, government securities, or irrevocable bank letters of credit as collateral. The custodial banks do not have the ability to pledge or sell collateral securities unless the borrower defaults. Borrowers are required to deliver collateral for each loan equal to not less than 102 percent of the market value of the loaned securities. At June 30, 2014, the collateral provided for the General Retirement System and the Police and Fire Retirement System was 102.00 percent and 102.17 percent of the market value of the loaned securities, respectively.

The Pension Funds did not impose any restrictions during the fiscal year on the amount of loans made on its behalf by the custodial bank. There were no failures by any borrowers to return loaned securities or pay distributions thereon during the fiscal year. Moreover, there were no losses during the fiscal year resulting from a default of the borrowers or custodial bank.







The Pension Funds and the borrower maintain the right to terminate all securities lending transactions on demand. The cash collateral received on each loan was invested together with the cash collateral of other lenders in an investment pool. The average duration of this investment pool at June 30, 2014 was five and six days for the General Retirement System and the Police and Fire Retirement System, respectively. Because the loans are terminable on demand, their duration did not generally match the duration of the investments made with cash collateral.

The collateral held and the fair market value of the underlying securities on loan for the General Retirement System at June 30, 2014 was $35,241,386 and $34,458,938, respectively. The collateral held and the fair value of the underlying securities on loan for the Police and Fire Retirement System at June 30, 2014 was $87,552,210 and $85,691,007, respectively.

| | Underlying Securities | |
|---|---|---|
| Securities Lent | General Retirement System | Police and Fire Retirement System |
| U.S. Government and Agencies | $ 5,327,272 | $ 1,642,663 |
| U.S. Corporates | — | 11,215,901 |
| U.S. Equities | 28,037,373 | 69,558,862 |
| Non-U.S. Fixed Income | 444,409 | — |
| Non-U.S. Equities | 649,884 | 3,273,581 |
| Total | $ 34,458,938 | $ 85,691,007 |

At June 30, 2014, the fair value of the collateral pool related to securities lending for the General Retirement System and the Police and Fire Retirement System was $30,949,483 and $79,546,235, respectively. The collateral was invested in agencies, asset-backed securities, notes (floating rate), money funds, repurchase agreements, and U.S. corporate securities (floating rate). Approximately 84 percent of the General Retirement System securities had a duration less than one year and 16 percent had a duration over 15 years. Approximately 88 percent of the Police and Fire Retirement System securities had a duration less than one year and 12 percent had a duration over 15 years.

The credit ratings of the securities lending collateral pool held at June 30, 2014 as rated by S&P are as follows:

| Ratings | General Retirement System | Police and Fire Retirement System |
|---|---|---|
| B | $ — | $ 439,538 |
| CCC | 3,579,610 | 9,206,816 |
| D | 1,496,155 | — |
| Not Rated | 25,873,718 | 69,899,881 |
| Total | $ 30,949,483 | $ 79,546,235 |

**Other Employee Benefits and Agency Trust Funds**

State laws authorize the City to make deposits in the accounts of federally insured financial institutions. Cash held by fiscal agents or by trustees is secured in accordance with the requirements of the agency or trust agreement. The City is authorized to invest in obligations of the U.S. government or its agencies, certificates of deposit, savings and depository accounts of insured institutions, commercial paper of certain investment quality, repurchase agreements, banker's acceptances, mutual funds of certain investment quality, and investment pools authorized by State law.

***Custodial Credit Risk of Bank Deposits***

The City does not have a deposit policy for custodial credit risk. At June 30, 2014, the Other Employee Benefit and Agency Trust Funds had deposits of $8,316,465 that were exposed to custodial credit risk as they were uninsured and uncollateralized.

***Interest Rate Risk***

The City's investment policy does not specifically restrict investment maturities other than commercial paper, which can only be purchased with a 270-day maturity. The City'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 City is generally not permitted to directly invest in securities maturing more than 10 years from the original date of purchase.

The Other Employee Benefit Trust Fund had the following debt investments and maturities at June 30, 2014:

| | | Investment Maturities in Years | | | |
|---|---|---|---|---|---|
| | Total Fair Value | Less Than 1 Year | 1 – 5 Years | 6 – 10 Years | > 10 Years |
| U.S. Government Agency Securities | $ 6,780 | $ — | $ — | $ — | $ 6,780 |
| Mutual Funds | 20,455,994 | — | — | 18,018,045 | 2,437,949 |
| Total | $ 20,462,774 | $ — | $ — | $ 18,018,045 | $ 2,444,729 |

***Credit Risk***

The City's investment policy complies with State law that limits its investments in commercial paper, mutual funds, and external investment pools which purchase commercial paper to the top two rating classifications issued by two NRSROs.

The Other Employee Benefit and Agency Trust Funds' debt investments have the following credit quality ratings at June 30, 2014 as rated by S&P or Moody's:

| | Not Rated |
|---|---|
| U.S. Government Agency Securities | $ 6,780 |
| Mutual Funds | 20,455,994 |
| Total | $ 20,462,774 |

***Concentration of Credit Risk***

The City's policy specifies a number of limitations to minimize concentration of credit risk including prohibiting investing more than 5 percent of the portfolio in securities (excluding U.S. government, mutual funds, external investment pools, and other pooled investments) of any one issuer. There were no investments of more than 5 percent of the total debt investments of Other Employee Benefit and Agency Trust Funds.

## NOTE IV - INTERFUND BALANCES AND ACTIVITY

### (a) Balances Due from/to Other Funds

During the course of operations, numerous transactions occur between the City funds for goods provided and services rendered and for the reimbursement of expenditures. Related interfund receivables and payables are classified as "due from other funds" and "due to other funds" on the balance sheet and statement of net position and will be settled within one year.



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Interfund receivables and payables at June 30, 2014 are as follows:

| | Due From | | | | | |
|---|---|---|---|---|---|---|
| Due To | General Fund | GRSSC Fund | PFRSSC Fund | Non-Major Governmental Funds | Sewage Disposal Fund | Transpor-tation Fund |
| General Fund | $ — | $ — | $ — | $ 7,695,446 | $ — | $ 303,985 |
| GRSSC Fund | 36,123,493 | — | — | — | — | — |
| PFRSSC Fund | 49,459,580 | — | — | — | — | — |
| Non-Major Governmental Funds | 74,559,524 | — | — | 2,043,446 | — | 2,272 |
| Sewage Disposal Fund | 7,435,471 | — | — | — | — | — |
| Transportation Fund | 12,182,487 | — | — | — | — | — |
| Water Fund | 931,698 | — | — | — | 22,743,136 | — |
| Automobile Parking Fund | 898,170 | — | — | 168,592 | — | — |
| Non-Major Proprietary Fund | 25,315 | — | — | — | — | — |
| Fiduciary Funds (1) | 32,167,402 | — | — | 204 | 1,365,525 | 1,032,831 |
| Liabilities Total | $ 213,783,140 | $ — | $ — | $ 9,907,688 | $ 24,108,661 | $ 1,339,088 |

| | Due From | | | | |
|---|---|---|---|---|---|
| | Water Fund | Automobile Parking Fund | Non-Major Proprietary Fund | Fiduciary Funds | Assets Total |
| General Fund | $ — | $ 2,100,338 | $ 629,451 | $ 2,538,863 | $ 13,268,083 |
| GRSSC Fund | — | — | — | — | 36,123,493 |
| PFRSSC Fund | — | — | — | — | 49,459,580 |
| Other Governmental Funds | — | 33,793 | 6,495 | 652,824 | 77,298,354 |
| Sewage Disposal Fund | — | — | — | 1,639,051 | 9,074,522 |
| Transportation Fund | — | — | — | 2,554,411 | 14,736,898 |
| Water Fund | — | — | — | 1,576,152 | 25,250,986 |
| Automobile Parking Fund | — | — | 50 | 34,314 | 1,101,126 |
| Non-Major Proprietary Fund | — | — | — | — | 25,315 |
| Fiduciary Funds (1) | 1,919,469 | 693,545 | 368,435 | — | 37,547,411 |
| Liabilities Total | $ 1,919,469 | $ 2,827,676 | $ 1,004,431 | $ 8,995,615 | $ 263,885,768 |

(1) This interfund payable primarily represents employer contributions that are due to the Employee Benefit Trust Funds at year end.

### (b) Transfers

During the course of the fiscal year, transactions occur between the City's funds for operating subsidies. Related interfund receipts and disbursements are classified as "transfers in" and "transfers out" on the Statement of Revenues, Expenditures/Expenses, and Changes in Fund Balances/Net Position. The transfers are routine and consistent with the activities of the fund. Transfers between funds during the year ended June 30, 2014 are as follows:

| | Transfers Out | | |
|---|---|---|---|
| Transfers In | General Fund | Non-Major Governmental Funds | Total |
| General Fund | $ — | $ 9,010,944 | $ 9,010,944 |
| General Retirement System Service Corporation | 37,837,461 | — | 37,837,461 |
| Police and Fire System Service Corporation | 51,806,311 | — | 51,806,311 |
| Non-Major Governmental Funds | — | 11,115,472 | 11,115,472 |
| Transportation Fund | 57,209,128 | — | 57,209,128 |
| Automobile Parking Fund | 4,050,006 | — | 4,050,006 |
| Non-Major Proprietary Fund | 18,173,589 | — | 18,173,589 |
| Total | $ 169,076,495 | $ 20,126,416 | $ 189,202,911 |

The General Fund transferred $169.1 million to other funds. The largest transfer from the General Fund was made to the Transportation Fund for $57.2 million to maintain bus operations. The General Fund also transferred a combined $89.6 million to the City's Retirement System Service Corporations for interest payments on the Pension Obligation Certificates. Of the $89.6 million, $85.6 million has been recorded as an interfund receivable in these service funds as of June 30, 2014.

The Non-Major Governmental Funds transferred $20.1 million to other funds; the Major Street Fund transferred $8.1 million to the Local Street Fund and $9.0 million to the General Fund.

## NOTE V - CAPITAL ASSETS

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

| | Balance June 30, 2013 | Additions | Retirements | Balance June 30, 2014 |
|---|---|---|---|---|
| **Governmental Activities** | | | | |
| Non-Depreciable Capital Assets: | | | | |
| Land | $ 412,818,037 | $ — | $ — | $ 412,818,037 |
| Works of Art | 29,804,733 | — | — | 29,804,733 |
| Construction in Progress | 66,345,844 | 24,216,235 | (66,191,804) | 24,370,275 |
| Total Non-Depreciable Capital Assets | 508,968,614 | 24,216,235 | (66,191,804) | 466,993,045 |
| Depreciable Capital Assets: | | | | |
| Buildings and Improvements | 1,135,110,212 | 69,328,706 | — | 1,204,438,918 |
| Machinery, Equipment, and Fixtures | 601,395,082 | 4,596,292 | (2,221,729) | 603,769,645 |
| Infrastructure | 1,097,998,327 | 49,379,874 | — | 1,147,378,201 |
| Total Depreciable Capital Assets | 2,834,503,621 | 123,304,872 | (2,221,729) | 2,955,586,764 |
| Less Accumulated Depreciation for: | | | | |
| Buildings and Improvements | 508,222,334 | 29,143,080 | — | 537,365,414 |
| Machinery, Equipment, and Fixtures | 529,986,315 | 25,364,228 | (1,862,506) | 553,488,037 |
| Infrastructure | 793,446,929 | 27,608,299 | — | 821,055,228 |
| Total Accumulated Depreciation | 1,831,655,578 | 82,115,607 | (1,862,506) | 1,911,908,679 |
| Total Governmental Activities Capital Assets, Net | $ 1,511,816,657 | $ 65,405,500 | $ (66,551,027) | $ 1,510,671,130 |

Depreciation expense for governmental activities for the year ended June 30, 2014 was charged to functions as follows:

| | |
|---|---|
| Public Protection | $ 12,168,690 |
| Health | 500,222 |
| Recreation and Culture | 13,710,009 |
| Economic Development | 6,893,100 |
| Housing Supply and Conditions | 529,540 |
| Physical Environment | 12,513,038 |
| Transportation Facilitation | 21,426,323 |
| Development and Management | 14,374,685 |
| Total | $ 82,115,607 |





| | Balance June 30, 2013 | Additions | Retirements | Balance June 30, 2014 |
|---|---|---|---|---|
| **Business-type Activities** | | | | |
| ***Sewage Disposal Fund:*** | | | | |
| Non-Depreciable Assets: | | | | |
| Land and Land Rights | $ 13,369,777 | $ 24,557,065 | $ — | $ 37,926,842 |
| Construction in Progress | 211,789,383 | 102,987,773 | (62,853,650) | 251,923,506 |
| Total Non-Depreciable Capital Assets | 225,159,160 | 127,544,838 | (62,853,650) | 289,850,348 |
| Depreciable Assets: | | | | |
| Land Improvements | 75,477,901 | 1,351,192 | — | 76,829,093 |
| Buildings and Structures | 2,104,024,856 | 35,430,375 | (23,992,302) | 2,115,462,929 |
| Interceptors and Regulators | 207,261,372 | — | (1,511,511) | 205,749,861 |
| Machinery, Equipment, and Fixtures | 1,697,620,776 | 19,407,300 | (4,123,732) | 1,712,904,344 |
| Total Depreciable Capital Assets | 4,084,384,905 | 56,188,867 | (29,627,545) | 4,110,946,227 |
| Total Capital Assets | 4,309,544,065 | 183,733,705 | (92,481,195) | 4,400,796,575 |
| Less Accumulated Depreciation: | | | | |
| Land Improvements | 21,449,900 | 1,111,266 | — | 22,561,166 |
| Buildings and Structures | 615,834,356 | 43,511,517 | — | 659,345,873 |
| Interceptors and Regulators | 70,678,939 | 2,195,983 | — | 72,874,922 |
| Machinery, Equipment, and Fixtures | 740,324,214 | 71,590,259 | (3,894,699) | 808,019,774 |
| Total Accumulated Depreciation | 1,448,287,409 | 118,409,025 | (3,894,699) | 1,562,801,735 |
| Total Sewage Disposal Fund Capital Assets, Net | $ 2,861,256,656 | $ 65,324,680 | $ (88,586,496) | $ 2,837,994,840 |
| ***Transportation Fund:*** | | | | |
| Non-Depreciable Capital Assets: | | | | |
| Land and Land Rights | $ 7,578,462 | $ — | $ — | $ 7,578,462 |
| Construction in Progress | 1,316,641 | 1,057,624 | (566,088) | 1,808,177 |
| Total Non-Depreciable Capital Assets | 8,895,103 | 1,057,624 | (566,088) | 9,386,639 |
| Depreciable Capital Assets: | | | | |
| Buildings and Structures | 150,858,601 | 74,910 | — | 150,933,511 |
| Vehicle and Buses | 146,071,582 | 640,958 | (7,688,550) | 139,023,990 |
| Machinery, Equipment, and Fixtures | 49,900,963 | 567,869 | (169,274) | 50,299,558 |
| Total Depreciable Capital Assets | 346,831,146 | 1,283,737 | (7,857,824) | 340,257,059 |
| Total Capital Assets | 355,726,249 | 2,341,361 | (8,423,912) | 349,643,698 |
| Less Accumulated Depreciation: | | | | |
| Buildings and Structures | 58,725,934 | 3,113,946 | — | 61,839,880 |
| Vehicle and Buses | 96,615,607 | 9,592,508 | (6,430,384) | 99,777,731 |
| Machinery, Equipment, and Fixtures | 34,053,798 | 3,573,787 | (167,622) | 37,459,963 |
| Total Accumulated Depreciation | 189,395,339 | 16,280,241 | (6,598,006) | 199,077,574 |
| Total Transportation Fund Capital Assets, Net | $ 166,330,910 | $ (13,938,880) | $ (1,825,906) | $ 150,566,124 |

| | Balance June 30, 2013 | Additions | Retirements | Balance June 30, 2014 |
|---|---|---|---|---|
| **Business-type Activities** | | | | |
| ***Water Fund:*** | | | | |
| Non-Depreciable Capital Assets: | | | | |
| Land and Land Rights | $ 6,466,486 | $ 2,405,879 | $ — | $ 8,872,365 |
| Construction in Progress | 159,078,519 | 40,039,627 | (76,703,042) | 122,415,104 |
| Total Non-Depreciable Capital Assets | 165,545,005 | 42,445,506 | (76,703,042) | 131,287,469 |
| Depreciable Capital Assets: | | | | |
| Land Improvements | 101,297,526 | — | — | 101,297,526 |
| Buildings and Structures | 806,692,081 | 7,808,775 | (2,522,818) | 811,978,038 |
| Mains | 1,007,719,701 | 25,630,524 | — | 1,033,350,225 |
| Services | 51,838,576 | — | — | 51,838,576 |
| Meters | 123,838,698 | 975,650 | — | 124,814,348 |
| Machinery, Equipment, and Fixtures | 1,060,563,086 | 15,521,549 | (3,625,242) | 1,072,459,393 |
| Total Depreciable Capital Assets | 3,151,949,668 | 49,936,498 | (6,148,060) | 3,195,738,106 |
| Total Capital Assets | 3,317,494,673 | 92,382,004 | (82,851,102) | 3,327,025,575 |
| Less Accumulated Depreciation: | | | | |
| Land Improvements | 18,078,621 | 1,449,486 | — | 19,528,107 |
| Buildings and Structures | 301,810,957 | 17,466,071 | — | 319,277,028 |
| Mains | 351,717,401 | 14,366,119 | — | 366,083,520 |
| Services | 27,478,328 | 625,924 | — | 28,104,252 |
| Meters | 49,809,346 | 5,042,224 | — | 54,851,570 |
| Machinery, Equipment, and Fixtures | 484,967,639 | 46,076,184 | (3,506,715) | 527,537,108 |
| Total Accumulated Depreciation | 1,233,862,292 | 85,026,008 | (3,506,715) | 1,315,381,585 |
| Total Water Fund Capital Assets, Net | $ 2,083,632,381 | $ 7,355,996 | $ (79,344,387) | $ 2,011,643,990 |







| | Balance June 30, 2013 | Additions | Retirements | Balance June 30, 2014 |
|---|---|---|---|---|
| **Business-type Activities** | | | | |
| ***Automobile Parking Fund:*** | | | | |
| Non-Depreciable Capital Assets: | | | | |
| Land and Land Rights | $ 4,967,313 | $ — | $ — | $ 4,967,313 |
| Construction in Progress | 445,679 | 898,524 | (1,344,203) | — |
| Total Non-Depreciable Capital Assets | 5,412,992 | 898,524 | (1,344,203) | 4,967,313 |
| Depreciable Capital Assets: | | | | |
| Land Improvements | 214,908 | — | — | 214,908 |
| Buildings and Structures | 200,066,403 | — | — | 200,066,403 |
| Vehicles and Buses | 1,254,151 | — | — | 1,254,151 |
| Machinery, Equipment, and Fixtures | 3,608,421 | 1,344,203 | — | 4,952,624 |
| Total Depreciable Capital Assets | 205,143,883 | 1,344,203 | — | 206,488,086 |
| Total Capital Assets | 210,556,875 | 2,242,727 | (1,344,203) | 211,455,399 |
| Less Accumulated Depreciation: | | | | |
| Land Improvements | 198,455 | 3,143 | — | 201,598 |
| Buildings and Structures | 135,403,815 | 2,807,914 | — | 138,211,729 |
| Vehicles and Buses | 1,182,093 | 35,473 | — | 1,217,566 |
| Machinery, Equipment, and Fixtures | 2,695,363 | 184,613 | — | 2,879,976 |
| Total Accumulated Depreciation | 139,479,726 | 3,031,143 | — | 142,510,869 |
| Total Automobile Parking Fund Capital Assets, Net | $ 71,077,149 | $ (788,416) | $ (1,344,203) | $ 68,944,530 |

| | Balance June 30, 2013 | Additions | Retirements | Balance June 30, 2014 |
|---|---|---|---|---|
| **Business-type Activities** | | | | |
| ***Other Proprietary Funds:*** | | | | |
| ***Airport Fund:*** | | | | |
| Non-Depreciable Capital Assets: | | | | |
| Land and Land Rights | $ 17,349,458 | $ — | $ — | $ 17,349,458 |
| Construction in Progress | 112,500 | — | — | 112,500 |
| Total Non-Depreciable Capital Assets | 17,461,958 | — | — | 17,461,958 |
| Depreciable Capital Assets: | | | | |
| Land Improvements | 8,020,718 | — | — | 8,020,718 |
| Buildings and Structures | 5,853,773 | — | — | 5,853,773 |
| Vehicle and Buses | 1,326,693 | — | | 1,326,693 |
| Machinery, Equipment, and Fixtures | 1,825,327 | — | — | 1,825,327 |
| Total Depreciable Capital Assets | 17,026,511 | — | — | 17,026,511 |
| Total Capital Assets | 34,488,469 | — | — | 34,488,469 |
| Less Accumulated Depreciation: | | | | |
| Land Improvements | 7,720,718 | 40,000 | — | 7,760,718 |
| Buildings and Structures | 5,221,969 | 52,647 | — | 5,274,616 |
| Vehicle and Buses | 1,326,693 | — | — | 1,326,693 |
| Machinery, Equipment, and Fixtures | 1,550,762 | 37,605 | — | 1,588,367 |
| Total Accumulated Depreciation | 15,820,142 | 130,252 | — | 15,950,394 |
| Total Airport Fund Capital Assets, Net | $ 18,668,327 | $ (130,252) | $ — | $ 18,538,075 |
| ***Public Lighting Authority:*** | | | | |
| Non-Depreciable Capital Assets: | | | | |
| Construction in Progress | $ — | $ 19,190,049 | $ — | $ 19,190,049 |
| Depreciable Capital Assets: | | | | |
| Machinery, Equipment, and Fixtures | — | 42,081 | — | 42,081 |
| Less Accumulated Depreciation: | | | | |
| Machinery, Equipment, and Fixtures | — | 5,050 | — | 5,050 |
| Total Public Lighting Authority Fund Capital Assets, Net | — | 19,227,080 | — | 19,227,080 |
| Total Other Proprietary Fund Capital Assets, Net | $ 18,668,327 | $ 19,096,828 | $ — | $ 37,765,155 |

In addition to the art capitalized above, as of June 30, 2014, the City of Detroit held title to a significant collection of art that has not been recorded as capital assets. The collection is held for public exhibition rather than financial gain. Currently, the Founders Society Detroit Institute of Arts (the "DIA") cares for and preserves the collection. Most of the items in the collection were donated to the City many years ago. The City has not allocated new funds for the acquisition of art in recent years. As part of the agreement between the City and the DIA, any funds received from disposition of works of art in the City art collection are used solely to purchase other works of art for the City art collection.

See Note XII (f) for discussion of commitments related to construction activities.





## NOTE VI. SHORT-TERM OBLIGATIONS

As of June 30, 2014, short-term notes payable consisted of Local Government Loan Program Revenue Bonds, Series 2013D of $60,000,000 issued by the PLA with a variable interest rate of the lesser of LIBOR, adjusted for a margin, or 12 percent. The bonds were used for purposes of conducting PLA's operations and financing the improvement of the City's public lighting system.

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

| | Balance June 30, 2013 | Increase | Decrease | Balance June 30, 2014 |
|---|---|---|---|---|
| Loan Program Revenue Bonds | $ — | $ 60,000,000 | $ — | $ 60,000,000 |
| Total | $ — | $ 60,000,000 | $ — | $ 60,000,000 |

## NOTE VII. LONG-TERM OBLIGATIONS

### (a) Changes in Long-Term Obligations

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

| | Balance June 30, 2013 | Increase | Decrease | Balance June 30, 2014 | Amount Due Within One Year |
|---|---|---|---|---|---|
| **Governmental Activities** | | | | | |
| General Obligation Bonds | $ 1,003,936,968 | $ 120,000,000 | $ (81,625,000) | $ 1,042,311,968 | $ 72,674,422 |
| Notes Payable | 88,310,000 | — | (3,126,000) | 85,184,000 | 3,384,000 |
| Loans Payable | 37,820,074 | — | (1,126,910) | 36,693,164 | 1,127,467 |
| Total Bonds, Notes, and Loans Payable | 1,130,067,042 | 120,000,000 | (85,877,910) | 1,164,189,132 | 77,185,889 |
| Add: Unamortized Premiums | 20,882,155 | — | (2,231,146) | 18,651,009 | — |
| Total Bonds, Notes, and Loans Payable, Net | 1,150,949,197 | 120,000,000 | (88,109,056) | 1,182,840,141 | 77,185,889 |
| Pension Obligation Certificates Payable | 1,161,502,719 | — | (24,099,015) | 1,137,403,704 | 27,049,913 |
| Total Pension Obligation Certificates Payable, Net | 1,161,502,719 | — | (24,099,015) | 1,137,403,704 | 27,049,913 |
| Other Long-Term Liabilities: | | | | | |
| Accrued Compensated Absences | 66,500,292 | 31,839,087 | (34,743,059) | 63,596,320 | 34,743,059 |
| Accrued Workers' Compensation | 61,849,000 | 8,496,552 | (1,169,552) | 69,176,000 | 8,626,000 |
| Claims and Judgments | 54,499,463 | 628,806 | (6,494,705) | 48,633,564 | 628,806 |
| Accrued Pollution Remediation | 156,765 | — | (105,500) | 51,265 | 51,265 |
| Accrued Other Postemployment Benefits | 766,985,393 | 80,904 | (753,033,356) | 14,032,941 | 13,082,859 |
| Total Other Long-Term Liabilities | 949,990,913 | 41,045,349 | (795,546,172) | 195,490,090 | 57,131,989 |
| Total Governmental Activities | $ 3,262,442,829 | $ 161,045,349 | $ (907,754,243) | $ 2,515,733,935 | $ 161,367,791 |

| | Balance June 30, 2013 | Increase | Decrease | Balance June 30, 2014 | Amount Due Within One Year |
|---|---|---|---|---|---|
| **Business-type Activities** | | | | | |
| ***Sewage Disposal Fund:*** | | | | | |
| Revenue Bonds Payable | $ 2,763,065,000 | $ — | $ (34,755,000) | $ 2,728,310,000 | $ 41,665,000 |
| Capital Appreciation Bonds | 80,250,000 | — | (7,700,000) | 72,550,000 | 8,395,000 |
| Discount on Capital Appreciation Bonds | (18,820,684) | — | 3,528,456 | (15,292,228) | — |
| State Revolving Loans | 482,872,027 | 12,705,851 | (35,790,000) | 459,787,878 | 36,435,000 |
| Total Revenue Bonds Payable | 3,307,366,343 | 12,705,851 | (74,716,544) | 3,245,355,650 | 86,495,000 |
| Add: Unamortized Premiums | 110,513,465 | — | (10,057,289) | 100,456,176 | — |
| Less: Unamortized Discounts | (2,579,971) | — | 2,579,971 | — | — |
| Total Revenue Bonds Payable, Net | 3,415,299,837 | 12,705,851 | (82,193,862) | 3,345,811,826 | 86,495,000 |
| Pension Obligation Certificates Payable | 87,662,151 | — | (1,818,721) | 85,843,430 | 2,041,421 |
| Other Long-Term Liabilities: | | | | | |
| Accrued Compensated Absences | 1,194,979 | 5,102,413 | (1,553,449) | 4,743,943 | 1,565,150 |
| Accrued Workers' Compensation | 3,293,000 | 990,029 | (591,029) | 3,692,000 | 507,000 |
| Claims and Judgments | 190,000 | 2,514,958 | — | 2,704,958 | 1,527,458 |
| Other Accrued Liabilities | 12,166,071 | 19,054,722 | — | 31,220,793 | 16,003,280 |
| Accrued Other Postemployment Benefits | 70,445,095 | 17,437 | (69,096,861) | 1,365,671 | 1,111,555 |
| Total Other Long-Term Liabilities | 87,289,145 | 27,679,559 | (71,241,339) | 43,727,365 | 20,714,443 |
| Total Sewage Disposal Fund | $ 3,590,251,133 | $ 40,385,410 | $ (155,253,922) | $ 3,475,382,621 | $ 109,250,864 |
| ***Transportation Fund:*** | | | | | |
| General Obligation Bonds | $ 5,458,032 | $ — | $ — | $ 5,458,032 | $ 2,660,578 |
| Pension Obligation Certificates Payable | 102,281,745 | — | (2,122,286) | 100,159,459 | 2,382,157 |
| Other Long-Term Liabilities: | | | | | |
| Capital Leases Payable | 8,243,938 | — | (8,243,938) | — | — |
| Accrued Compensated Absences | 3,436,935 | 2,778,457 | (3,013,426) | 3,201,966 | 3,013,426 |
| Accrued Workers' Compensation | 4,302,693 | 519,562 | (1,853,276) | 2,968,979 | 786,262 |
| Accrued Other Postemployment Benefits | 86,090,281 | 22,846 | (84,309,404) | 1,803,723 | 1,508,954 |
| Total Other Long-Term Liabilities | 102,073,847 | 3,320,865 | (97,420,044) | 7,974,668 | 5,308,642 |
| Total Transportation Fund | $ 209,813,624 | $ 3,320,865 | $ (99,542,330) | $ 113,592,159 | $ 10,351,377 |



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| | Balance June 30, 2013 | Increase | Decrease | Balance June 30, 2014 | Amount Due Within One Year |
|---|---|---|---|---|---|
| **Business-type Activities** | | | | | |
| ***Water Fund:*** | | | | | |
| Revenue Bonds Payable | $ 2,524,775,000 | $ — | $ (39,850,000) | $ 2,484,925,000 | $ 51,785,000 |
| State Revolving Loans | 21,453,761 | — | (1,330,000) | 20,123,761 | 1,355,000 |
| Total Revenue Bonds Payable | 2,546,228,761 | — | (41,180,000) | 2,505,048,761 | 53,140,000 |
| Add: Unamortized Premiums | 55,083,232 | — | (3,375,733) | 51,707,499 | — |
| Less: Unamortized Discounts | (3,632,420) | — | 209,100 | (3,423,320) | — |
| Total Revenue Bonds Payable, Net | 2,597,679,573 | — | (44,346,633) | 2,553,332,940 | 53,140,000 |
| Pension Obligation Certificates Payable | 77,353,384 | — | (1,604,980) | 75,748,404 | 1,801,509 |
| Other Long-Term Liabilities: | | | | | |
| Accrued Compensated Absences | 10,622,865 | 1,315,988 | (5,981,989) | 5,956,864 | 1,965,415 |
| Accrued Workers' Compensation | 9,590,000 | 2,867,141 | (1,761,141) | 10,696,000 | 1,358,000 |
| Claims and Judgments | 243,986 | 1,749,573 | (8,736) | 1,984,823 | 1,129,823 |
| Other Accrued Liabilities | 8,175,986 | 8,166,309 | — | 16,342,295 | 9,820,504 |
| Accrued Other Postemployment Benefits | 70,552,075 | 25,524 | (68,536,617) | 2,040,982 | 1,782,195 |
| Total Other Long-Term Liabilities | 99,184,912 | 14,124,535 | (76,288,483) | 37,020,964 | 16,055,937 |
| Total Water Fund | $ 2,774,217,869 | $ 14,124,535 | $ (122,240,096) | $ 2,666,102,308 | $ 70,997,446 |

| | Balance June 30, 2013 | Increase | Decrease | Balance June 30, 2014 | Amount Due Within One Year |
|---|---|---|---|---|---|
| **Business-type Activities** | | | | | |
| ***Automobile Parking Fund:*** | | | | | |
| Revenue Bonds Payable | $ 9,300,000 | $ — | $ (9,300,000) | $ — | $ — |
| Less: | | | | | |
| Unamortized Discounts | (175,226) | — | 175,226 | — | — |
| Total Revenue Bonds Payable, Net | 9,124,774 | — | (9,124,774) | — | — |
| Other Long-Term Liabilities: | | | | | |
| Advances from Other Funds | 4,050,006 | — | (4,050,006) | — | — |
| Accrued Compensated Absences | 179,633 | 367,771 | (394,248) | 153,156 | 76,578 |
| Accrued Workers' Compensation | 597,000 | 78,933 | (8,933) | 667,000 | 84,000 |
| Claims and Judgments | 113,997 | 60,000 | (71,997) | 102,000 | — |
| Accrued Other Postemployment Benefits | 2,372,228 | 55,036 | (2,372,229) | 55,035 | 48,137 |
| Total Other Long-Term Liabilities | 7,312,864 | 561,740 | (6,897,413) | 977,191 | 208,715 |
| Total Automobile Parking Fund | $ 16,437,638 | $ 561,740 | $ (16,022,187) | $ 977,191 | $ 208,715 |
| ***Other Proprietary Fund:*** | | | | | |
| Accrued Compensated Absences | $ 17,349 | $ 15,967 | $ (14,238) | $ 19,078 | $ 19,078 |
| Accrued Workers' Compensation | 81,000 | 7,000 | — | 88,000 | 88,000 |
| Claims and Judgments | 2,000 | 184,800 | — | 186,800 | — |
| Accrued Other Postemployment Benefits | 48,276 | 117 | (39,374) | 9,019 | 6,967 |
| Total Other Proprietary Fund | $ 148,625 | $ 207,884 | $ (53,612) | $ 302,897 | $ 114,045 |



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## (b) General Obligation Bonds

*Governmental Activities*

The City issues general obligation bonds to provide funds for the acquisition and construction of major capital facilities and equipment. General obligation bonds have been issued for both governmental and business-type activities. General obligation bonds are backed by the full faith and unlimited taxing power of the City. The debt for governmental activities will be retired by future property tax levies and other resources accumulated in the General Fund and the Debt Service (other governmental) Fund to the extent not otherwise adjusted and/or discharged pursuant to the Plan of adjustment confirmed in the Bankruptcy Case. The debt for business-type activities (i.e., Transportation Fund) will be retired by revenues from those operations or, if the revenues are not sufficient, by future tax levies to the extent not otherwise adjusted and/or discharged pursuant to the Plan of adjustment confirmed in the Bankruptcy Case.

On April 8, 2014, the City issued $120.0 million of State of Michigan Financial Recovery Bonds, Series 2014. The proceeds are being used to enhance City services to improve the quality of life of the City's citizens. Planned uses include public safety improvements including purchasing new police cars, hiring new police officers, upgrading technology and equipment, and blight removal. The maturity date of the bonds was the earliest of (a) the date that is two years and six months after the closing date; (b) the effective date of the confirmed plan of adjustment filed in the Bankruptcy Case (i.e., December 10, 2014); (c) the acceleration of the bonds under the revised bond documents; and (d) dismissal of the Bankruptcy Case.

*Schedule of General Obligation Bonds*

The following is a schedule of general obligation bonds outstanding at June 30, 2014:

| | Bond Date | Amount Issued | Range of Interest Rates | Maturity Date | Balance June 30, 2014 | |
|---|---|---|---|---|---|---|
| **Governmental Activities** | | | | | | |
| General Obligation Bonds - Unlimited Tax: | | | | | | |
| Series 1999-A | 4-1-99 | $ 28,020,000 | 5.00 to 5.25% | 4/1/15-19 | $ 15,765,000 | b |
| Series 2001-A(1) | 7-15-01 | 83,200,000 | 5.0 to 5.375 | 4/1/15-21 | 74,800,000 | b |
| Series 2002 | 8-2-02 | 29,205,000 | 5.125 | 4/1/21-22 | 6,645,000 | b |
| Series 2003-A | 10-21-03 | 34,380,000 | 4.00 to 5.25 | 4/1/15-23 | 31,675,000 | b |
| Series 2004-A(1) | 9-9-04 | 39,270,000 | 4.25 to 5.25 | 4/1/19-24 | 39,270,000 | b |
| Series 2004-B(1) | 9-9-04 | 29,365,000 | 4.00 to 5.25 | 4/1/15-18 | 29,365,000 | b |
| Series 2004-B(2) | 9-9-04 | 17,270,000 | 5.24 | 4/1/15-18 | 575,000 | |
| Series 2005-B | 12-1-05 | 13,840,000 | 5.00 | 4/1/15-16 | 4,695,000 | |
| Series 2005-B | 12-1-05 | 37,920,000 | 4.30 to 5.00 | 4/1/17-25 | 37,920,000 | b |
| Series 2005-C | 12-1-05 | 20,010,000 | 5.00 | 4/1/15-16 | 4,730,000 | |
| Series 2005-C | 12-1-05 | 10,795,000 | 4.30 to 5.25 | 4/1/17-20 | 10,795,000 | b |
| Series 2008-A | 6-9-08 | 15,120,000 | 4.00 to 5.00 | 4/1/15-18 | 12,385,000 | |
| Series 2008-A | 6-9-08 | 43,510,000 | 5.00 | 4/1/19-28 | 43,510,000 | b |
| Series 2008-B(1) | 6-9-08 | 66,475,000 | 5.00 | 4/1/15-18 | 18,780,000 | |
| Series 2010-E | 12-16-10 | 100,000,000 | 5.129 to 8.369 | 11/1/14-35 | 100,000,000 | b |
| Total General Obligation Bonds - Unlimited Tax | | | | | $ 430,910,000 | |

| | Bond Date | Amount Issued | Range of Interest Rates | Maturity Date | Balance June 30, 2014 | |
|---|---|---|---|---|---|---|
| **Governmental Activities (continued)** | | | | | | |
| General Obligation Bonds - Limited Tax: | | | | | | |
| Self-Insurance Bonds: | | | | | | |
| Series 2012C | 8-23-12 | 129,520,000 | 3.00 to 5.00 | 11/1/14-32 | $ 129,520,000 | |
| General Obligation: | | | | | | |
| Series 2005-A(1) | 6-29-05 | 21,325,000 | 4.53 | 4/1/2015 | 3,950,000 | |
| Series 2005-A(1) | 6-29-05 | 52,175,000 | 4.61 to 5.15 | 4/1/16-25 | 52,175,000 | b |
| Series 2005-A(2) | 6-29-05 | 4,055,000 | 4.00 | 4/1/2015 | 745,000 | |
| Series 2005-A(2) | 6-29-05 | 9,475,000 | 4.00 to 5.00 | 4/1/16-25 | 9,475,000 | b |
| Series 2005-B | 6-29-05 | 4,845,000 | 5.00 | 4/1/2015 | 1,000,000 | |
| Series 2005-B | 6-29-05 | 6,940,000 | 5.00 | 4/1/16-21 | 6,940,000 | b |
| Series 2008-A(1) | 6-9-08 | 43,443,278 | 5.00 | 4/1/15-16 | 37,806,968 | |
| Series 2014 - QOL Financial Recovery | 4-8-14 | 120,000,000 | LIBOR + 0.26 | 10/7/2016 | 120,000,000 | |
| Distributable State Aid 2010 | 3-18-10 | 249,790,000 | 4.25 to 5.25 | 11/1/14-35 | 249,790,000 | |
| Total General Obligation Bonds - Limited Tax | | | | | 611,401,968 | |
| Total General Obligation Bonds | | | | | $ 1,042,311,968 | |
| **Business-type Activities** | | | | | | |
| ***Transportation Fund:*** | | | | | | |
| General Obligation Bonds - Limited Tax: | | | | | | |
| Series 2008-A(1) | 6-9-08 | 6,271,722 | 5.00% | 4/1/15-16 | $ 5,458,032 | |

a - Indicates interest rates are reset periodically at the stated market interest rates.
b - Indicates bonds are callable under terms specified in the indenture; all other bonds are noncallable.

### (c) Revenue Bonds

*Sewage Disposal Fund*

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

| Bonds | Types of Revenue Pledged | General Purpose for Debt | Term of Pledged Commitment | Remaining Principal and Interest | Principal and Interest for the Year Ended June 30, 2014 | Net Pledged Revenue Recognized for the Year Ended June 30, 2014 | Proportion of Pledged Revenue Collected |
|---|---|---|---|---|---|---|---|
| Revenue Bonds and State of Michigan Revolving Fund Loans | All Sewage Disposal Fund operating revenue | Funding of various waste water treatment and collection capital improvements, refund certain sewage disposal revenue bonds, pay termination amounts for interest rate swap agreements, and funding reserve requirements. | Through 2040 | $ 5,488,185,412 | $ 229,611,135 | $ 273,877,114 | 119.3% |

The fund has approximately $292 million in restricted cash and investments related to various bond indentures as of June 30, 2014.





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*Water Fund*

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 Water Supply System. A summary of the pledged revenue and the applicable debt as of June 30, 2014 is as follows:

| Bonds | Types of Revenue Pledged | General Purpose for Debt | Term of Pledged Commitment | Remaining Principal and Interest | Principal and Interest for the Year Ended June 30, 2014 | Net Pledged Revenue Recognized for the Year Ended June 30, 2014 | Proportion of Pledged Revenue Collected |
|---|---|---|---|---|---|---|---|
| Revenue Bonds and State of Michigan Revolving Fund Loans | All Water Fund operating revenue | Funding of various waste water treatment and collection capital improvements, refund certain water revenue bonds, pay termination amounts for interest rate swap agreements, and funding reserve requirements | Through 2042 | $ 4,510,976,358 | $ 182,464,867 | $ 212,022,819 | 116.2% |

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

*Schedule of Revenue Bonds*

The following is a schedule of revenue bonds (including capital appreciation bonds and state revolving loans) outstanding at June 30, 2014:

| | Bond Date | Amount Issued | Range of Interest Rates | Maturity Date | Balance June 30, 2014 | |
|---|---|---|---|---|---|---|
| **Business-type Activities** | | | | | | |
| ***Sewage Disposal Fund:*** | | | | | | |
| Sewage Disposal System Revenue Bonds: | | | | | | |
| Series 1998-A | 12-14-06 | $ 18,540,000 | 5.50 % | 7/1/14-17 | $ 13,535,000 | |
| Series 1998-A | 12-14-06 | 49,075,000 | 5.25 | 7/1/18-23 | 49,075,000 | b |
| Series 1998-B | 12-14-06 | 18,750,000 | 5.50 | 7/1/14-17 | 13,395,000 | |
| Series 1998-B | 12-14-06 | 48,770,000 | 5.25 | 7/1/18-23 | 48,770,000 | b |
| Series 1999-A (* *) | 12-1-99 | 33,510,118 | 0.00 | 7/1/14-21 | 57,257,772 | |
| Series 2001-B | 9-15-01 | 110,550,000 | 5.50 | 7/1/23-29 | 110,550,000 | |
| Series 2001-C (1) | 6-17-09 | 6,360,000 | 5.25 | 7/1/14-19 | 3,865,000 | |
| Series 2001-C (1) | 6-17-09 | 148,510,000 | 6.50 to 7.00 | 7/1/20-27 | 148,510,000 | b |
| Series 2001-C (2) | 5-8-08 | 3,275,000 | 4.00 | 7/1/14-18 | 1,725,000 | |
| Series 2001-C (2) | 5-8-08 | 119,630,000 | 4.00 to 5.25 | 7/1/19-29 | 119,630,000 | b |
| Series 2001-D | 10-23-01 | 92,450,000 | Variable (a) | 7/1/32 | 21,300,000 | b |
| Series 2001-E | 5-7-08 | 136,150,000 | 5.75 | 7/1/24-31 | 136,150,000 | b |
| Series 2003-A | 5-22-03 | 55,395,000 | 3.50 to 5.50 | 7/1/14-18 | 55,395,000 | |
| Series 2003-A | 5-22-03 | 543,985,000 | 3.40 to 5.00 | 7/1/14-32 | 128,940,000 | b |
| Series 2003-B | 6-17-09 | 150,000,000 | 7.50 | 7/1/32-33 | 150,000,000 | b |
| Series 2004-A | 2-12-04 | 101,435,000 | 5.00 to 5.25 | 7/1/14-24 | 60,795,000 | |
| Series 2005-A | 3-17-05 | 3,765,000 | 3.50 to 3.70 | 7/1/14-15 | 1,115,000 | |
| Series 2005-A | 3-17-05 | 269,590,000 | 3.75 to 5.125 | 7/1/16-35 | 236,770,000 | b |
| Series 2005-B | 3-17-05 | 40,215,000 | 5.00 to 5.50 | 7/1/14-22 | 37,195,000 | |
| Series 2005-C | 4-5-05 | 22,065,000 | 5.00 | 7/1/14-15 | 8,485,000 | |
| Series 2005-C | 4-5-05 | 41,095,000 | 5.00 | 7/1/16-25 | 41,095,000 | b |
| Series 2006-A | 5-7-08 | 123,655,000 | 5.50 | 7/1/34-36 | 123,655,000 | |
| Series 2006-B | 8-10-06 | 11,850,000 | 4.00 to 5.00 | 7/1/14-16 | 5,090,000 | |
| Series 2006-B | 8-10-06 | 238,150,000 | 4.25 to 5.00 | 7/1/17-36 | 238,150,000 | b |
| Series 2006-C | 8-10-06 | 8,495,000 | 5.25 | 7/1/16 | 8,495,000 | |
| Series 2006-C | 8-10-06 | 18,065,000 | 5.00 | 7/1/17-18 | 18,065,000 | b |
| Series 2006-D | 12-14-06 | 370,000,000 | Variable (a) | 7/1/26-32 | 288,780,000 | b |
| Series 2012-A | 6-26-12 | 95,445,000 | 5.00 | 7/1/14-22 | 95,445,000 | |
| Series 2012-A | 6-26-12 | 564,335,000 | 5.00 to 5.50 | 7/1/23-39 | 564,335,000 | b |
| Total Sewage Disposal System Revenue Bonds | | | | | $ 2,785,567,772 | |

* * - Capital Appreciation Bonds
a - Interest rates are set periodically at the stated current market interest rate.
b - Indicates bonds are callable under terms specified in the indenture; all other bonds are noncallable.







| | Bond Date | Amount Issued | Range of Interest Rates | Maturity Date | Balance June 30, 2014 |
|---|---|---|---|---|---|
| **Business-type Activities (continued)** | | | | | |
| ***Sewage Disposal Fund (continued):*** | | | | | |
| State Revolving Loans: | | | | | |
| Series 1993-B-SRF | 9-30-93 | $ 6,603,996 | 2.00 | 10/01/14 | $ 390,000 |
| Series 1997-B-SRF | 9-30-97 | 5,430,174 | 2.25 | 10/01/14-18 | 1,575,000 |
| Series 1999-SRF-1 | 6-24-99 | 21,475,000 | 2.50 | 4/01/15-20 | 7,590,000 |
| Series 1999-SRF-2 | 9-30-99 | 46,000,000 | 2.50 | 10/01/14-22 | 23,555,000 |
| Series 1999-SRF-3 | 9-30-99 | 31,030,000 | 2.50 | 10/01/14-20 | 12,660,000 |
| Series 1999-SRF-4 | 9-30-99 | 40,655,000 | 2.50 | 10/01/14-20 | 16,585,000 |
| Series 2000-SRF-1 | 3-30-00 | 44,197,995 | 2.50 | 10/01/14-22 | 19,947,995 |
| Series 2000-SRF-2 | 9-28-00 | 64,401,066 | 2.50 | 10/01/14-22 | 32,836,066 |
| Series 2001-SRF-1 | 6-28-01 | 82,200,000 | 2.50 | 10/01/14-24 | 50,225,000 |
| Series 2001-SRF-2 | 12-20-01 | 59,850,000 | 2.50 | 10/01/14-24 | 36,575,000 |
| Series 2002-SRF-1 | 6-27-02 | 18,985,000 | 2.50 | 4/01/15-23 | 9,710,000 |
| Series 2002-SRF-2 | 6-27-02 | 1,545,369 | 2.50 | 4/01/15-23 | 790,369 |
| Series 2002-SRF-3 | 12-19-02 | 31,549,466 | 2.50 | 10/01/14-24 | 17,794,466 |
| Series 2003-SRF-1 | 6-26-03 | 48,520,000 | 2.50 | 10/01/14-25 | 31,960,000 |
| Series 2003-SRF-2 | 9-25-03 | 25,055,370 | 2.50 | 4/01/15-25 | 15,205,370 |
| Series 2004-SRF-1 | 6-24-04 | 2,910,000 | 2.125 | 10/01/14-24 | 1,750,000 |
| Series 2004-SRF-2 | 6-24-04 | 18,353,459 | 2.125 | 4/01/15-25 | 11,008,459 |
| Series 2004-SRF-3 | 6-24-04 | 12,722,575 | 2.125 | 4/01/15-25 | 7,622,575 |
| Series 2007-SRF-1 | 9-20-07 | 167,565,000 | 1.625 | 10/01/14-29 | 135,996,786 |
| Series 2009-SRF-1 | 4-17-09 | 13,970,062 | 2.50 | 4/01/15-30 | 11,355,062 |
| Series 2010-SRF-1 | 1-22-10 | 4,214,763 | 2.50 | 4/01/15-31 | 3,655,763 |
| Series 2012-SRF-1 | 8-30-12 | 14,950,000 | 2.50 | 10/01/15-34 | 10,999,967 |
| Total State Revolving Loans Payable | | | | | $ 459,787,878 |

| | Bond Date | | Amount Issued | Range of Interest Rates | Maturity Date | | Balance June 30, 2014 | |
|---|---|---|---|---|---|---|---|---|
| **Business-type Activities (continued)** | | | | | | | | |
| ***Water Fund:*** | | | | | | | | |
| Water Supply System Revenue Bonds: | | | | | | | | |
| Series 1993 | 10-15-93 | $ | 38,225,000 | 6.50% | 7/1/14-15 | $ | 24,725,000 | |
| Series 1997-A | 8-01-97 | | 215,300,000 | 6.00 | 7/1/14-15 | | 13,430,000 | |
| Series 2001-A | 5-01-01 | | 301,165,000 | 5.00 | 7/1/29-30 | | 73,790,000 | b |
| Series 2001-C | 5-14-08 | | 4,055,000 | 3.50 to 4.25 | 7/1/14-18 | | 1,900,000 | |
| Series 2001-C | 5-14-08 | | 186,350,000 | 4.50 to 5.75 | 7/1/19-29 | | 186,350,000 | b |
| Series 2003-A | 1-30-03 | | 234,805,000 | 4.50 to 5.00 | 7/1/19-34 | | 178,785,000 | b |
| Series 2003-B | 1-30-03 | | 41,770,000 | 5.00 | 7/1/34 | | 41,770,000 | b |
| Series 2003-C | 1-30-03 | | 4,335,000 | Variable (a) | 7/1/14 | | 2,330,000 | |
| Series 2003-C | 1-30-03 | | 25,325,000 | 4.25 to 5.25 | 7/1/15-22 | | 25,325,000 | b |
| Series 2003-D | 9-1-06 | | 3,180,000 | 4.00 to 4.20 | 7/1/14-16 | | 1,010,000 | |
| Series 2003-D | 9-1-06 | | 139,575,000 | 4.25 to 5.00 | 7/1/17-33 | | 139,575,000 | b |
| Series 2004-A | 8-16-06 | | 17,600,000 | 4.125 to 5.25 | 7/1/14-16 | | 13,435,000 | |
| Series 2004-A | 8-16-06 | | 55,165,000 | 4.50 to 5.25 | 7/1/17-25 | | 55,165,000 | b |
| Series 2004-B | 8-16-06 | | 52,840,000 | 4.00 to 5.00 | 7/1/14-16 | | 13,720,000 | |
| Series 2004-B | 8-16-06 | | 100,990,000 | 4.25 to 5.00 | 7/1/17-23 | | 100,990,000 | b |
| Series 2005-A | 3-23-05 | | 20,965,000 | 3.60 to 5.00 | 7/1/14-15 | | 4,350,000 | |
| Series 2005-A | 3-23-05 | | 84,035,000 | 3.90 to 5.00 | 7/1/16-35 | | 84,035,000 | b |
| Series 2005-B | 5-14-08 | | 19,070,000 | 4.00 to 5.50 | 7/1/14-18 | | 11,505,000 | |
| Series 2005-B | 5-14-08 | | 175,830,000 | 4.75 to 5.50 | 7/1/19-35 | | 175,830,000 | b |
| Series 2005-C | 3-23-05 | | 36,405,000 | 5.00 | 7/1/14-15 | | 19,005,000 | |
| Series 2005-C | 3-23-05 | | 90,200,000 | 5.00 | 7/1/16-22 | | 90,200,000 | b |
| Series 2006-A | 8-16-06 | | 42,795,000 | 5.00 | 7/1/14-16 | | 22,965,000 | |
| Series 2006-A | 8-16-06 | | 237,205,000 | 5.00 | 7/1/17-34 | | 237,205,000 | b |
| Series 2006-B | 4-01-09 | | 900,000 | 3.30 to 5.00 | 7/1/14-19 | | 600,000 | |
| Series 2006-B | 4-01-09 | | 119,100,000 | 5.50 to 7.00 | 7/1/20-36 | | 119,100,000 | b |
| Series 2006-C | 8-16-06 | | 12,585,000 | 4.00 to 5.00 | 7/1/14-16 | | 8,620,000 | |
| Series 2006-C | 8-16-06 | | 208,060,000 | 5.00 | 7/1/17-33 | | 208,060,000 | b |
| Series 2006-D | 8-16-06 | | 4,430,000 | 4.00 to 4.20 | 7/1/14-16 | | 45,000 | |
| Series 2006-D | 8-16-06 | | 142,160,000 | 4.25 to 5.00 | 7/1/17-32 | | 142,160,000 | b |
| Series 2011-A | 12-22-11 | | 37,880,000 | 5.00 | 7/1/14-21 | | 29,100,000 | |
| Series 2011-A | 12-22-11 | | 341,710,000 | 5.00 to 5.75 | 7/1/22-41 | | 341,710,000 | b |
| Series 2011-B | 12-22-11 | | 7,455,000 | 2.496 to 5.00 | 7/1/14-21 | | 5,730,000 | |
| Series 2011-B | 12-22-11 | | 9,740,000 | 6.00 | 7/1/22-33 | | 9,740,000 | b |
| Series 2011-C | 12-22-11 | | 3,925,000 | 5.00 | 7/1/21 | | 2,700,000 | |
| Series 2011-C | 12-22-11 | | 99,965,000 | 4.50 to 5.25 | 7/1/23-41 | | 99,965,000 | b |
| Total Water Supply System Revenue Bonds | | | | | | $ | 2,484,925,000 | |
| State Revolving Loans: | | | | | | | | |
| Series 2005 SRF-1 | 9-22-05 | $ | 13,805,164 | 2.125% | 10/1/14-26 | $ | 9,335,164 | |
| Series 2005 SRF-2 | 9-22-05 | | 8,891,730 | 2.125 | 10/1/14-26 | | 5,851,730 | |
| Series 2006 SRF-1 | 9-21-06 | | 5,180,926 | 2.125 | 10/1/14-26 | | 3,480,926 | |
| Series 2008 SRF-1 | 9-29-08 | | 2,590,941 | 2.500 | 10/1/14-28 | | 1,455,941 | |
| Total State Revolving Loans Payable | | | | | | $ | 20,123,761 | |

a - Interest rates are set periodically at the stated current market interest rate.
b - Indicates bonds are callable under terms specified in the indenture; all other bonds are noncallable.

## (d) Pension Obligation Certificates (POCs)

The Detroit Retirement Systems Funding Trust issued POCs for the purpose of funding certain unfunded accrued actuarial liabilities (UAAL) of the two retirement systems of the City, which include the General Retirement System (GRS) and the Police and Fire Retirement System (PFRS). The GRS includes employees and retirees of certain governmental funds, proprietary funds (Sewage Disposal Fund, Transportation Fund, and Water Fund), and the Detroit Public Library, a discretely presented component unit.





A trust was created by the General Retirement System Service Corporation (GRSSC) and the Police and Fire Retirement System Service Corporation (PFRSSC), both blended component units of the City. The City entered into service contracts with the GRSSC and PFRSSC to facilitate the transaction.

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

| | Bond Date | | Amount Issued | Range of Interest Rates | Maturity Date | | Balance June 30, 2014 |
|---|---|---|---|---|---|---|---|
| **Pension Obligation Certificates** | | | | | | | |
| Series 2005 - A | 6-2-05 | $ | 640,000,000 | 4.00 to 4.95% | 6/15/14-25 | $ | 450,615,000 |
| Series 2006 - A, B | 6-12-06 | | 948,540,000 | Variable (a) | 6/15/19-35 | | 948,540,000 |
| Total Pension Obligation Certificates | | | | | | $ | 1,399,155,000 |

a - Interest rates are set periodically at the stated current market interest rate.

The POCs were allocated to the governmental activities and the Transportation, Sewage Disposal, and Water Funds based on those funds portion of the overall UAAL liquidated by the use of the POCs net proceeds. Because the Detroit Public Library is a discretely presented component unit, its prorated portion of the POCs liability assumed was included in the balance of the POCs obligation recorded in the governmental activities. The City has an advance to the Library for $24,016,604 outstanding at June 30, 2014.

As of June 30, 2014, the City failed to remit the required principal and interest payments on the POCs totaling $29,645,000 and $36,838,505, respectively. The entire amount of the principal and $6,024,864 of the interest was paid by the insurer subrogees. The City also failed to remit the required principal and interest payments totaling $23,105,001 and $17,873,917, respectively, as of June 30, 2013. The entire amount of the principal and $4,407,810 of the interest was paid by the insurer subrogees. According to agreements between the City and subrogees, the City was to repay the subrogees and therefore a current obligation has been recorded totaling $63,182,675. A current obligation was recorded for the remaining amount of unpaid interest totaling $44,279,748.

The POC and service corporation contracts do not require immediate payment of the remaining POC debt balance (totaling approximately $1.399 billion for the entire City and $1.1 billion for the General Fund at June 30, 2014) upon a missed payment. No party to the POC and service corporation agreements has sought to exercise any right to immediate payment of the remaining POC debt balance subsequent to the missed payment. As a result, the POC debt was not immediately due and payable as of June 30, 2014, and the City continues to report it as a long-term obligation in its financial statements as of that date.

**(e) Notes and Loans Payable**

The City issues installment notes and loans to provide funds for various public improvement projects.

The following is a schedule of notes payable at June 30, 2014:

| | Issue Date | Range of Interest Rates | | Maturity Date | | Balance June 30, 2014 |
|---|---|---|---|---|---|---|
| **Governmental Activities** | | | | | | |
| ***Non-Major Funds:*** | | | | | | |
| (All notes are secured by future Block Grant revenues) | | | | | | |
| Ferry Street Project | 06/12/08 | 4.14 to 4.62 | % | 08/01/14-18 | $ | 1,635,000 |
| Garfield Project | 06/12/08 | 4.14 to 4.33 | | 08/01/14-15 | | 525,000 |
| Stuberstone Project | 06/12/08 | 4.14 to 4.48 | | 08/01/14-16 | | 90,000 |
| Vernor Lawndale Project | 09/14/06 | 5.07 to 5.74 | | 08/01/14-25 | | 1,340,000 |
| New Amsterdam Project | 08/01/02 | 5.43 to 6.12 | | 08/01/14-22 | | 7,750,000 |
| Mexicantown Welcome Center Project | 09/14/06 | 5.07 to 5.70 | | 08/01/14-24 | | 3,210,000 |
| Book Cadillac Project | 09/14/06 | 5.07 to 5.77 | | 08/01/14-26 | | 7,300,000 |
| Book Cadillac Project Note II | 06/12/08 | 4.14 to 5.38 | | 08/01/14-27 | | 9,984,000 |
| Garfield II Note 1 | 09/14/06 | 4.14 to 5.30 | | 08/01/14-25 | | 6,372,000 |
| Garfield II Note 2 | 09/14/06 | 5.07 to 5.77 | | 08/01/14-26 | | 2,058,000 |
| Garfield II Note 3 | 09/16/09 | LIBOR + 0.2 | | 08/01/14-29 | | 1,473,000 |
| Garfield II Note 4 | 09/16/09 | LIBOR + 0.2 | | 08/01/17-29 | | 6,697,000 |
| Fort Shelby Project | 06/12/08 | 4.14 to 5.34 | | 08/01/14-26 | | 17,750,000 |
| Woodward Garden Project 1 | 06/12/08 | 4.48 to 5.05 | | 08/01/16-21 | | 7,050,000 |
| Woodward Garden Project 2 | 07/21/10 | 2.66 to 4.35 | | 08/01/16-28 | | 6,197,000 |
| Woodward Garden Project 2 | 04/20/12 | LIBOR + 0.2 | | 08/01/16-31 | | 5,753,000 |
| Total Notes Payable | | | | | $ | 85,184,000 |

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The following is a schedule of loans payable at June 30, 2014:

| | Issue Date | Range of Interest Rates | Maturity Date | | Balance June 30, 2014 |
|---|---|---|---|---|---|
| **Governmental Activities** | | | | | |
| Downtown Development Authority | 1991-1997 | — | — | $ | 33,600,000 |
| Loan Payable IBM Schedule - 001 | 11/20/12 | 12.03% | 12/1/16 | | 3,093,164 |
| Total Loans Payable | | | | $ | 36,693,164 |

The City entered into a $33.6 million loan payable with the Downtown Development Authority, listed in the preceding table, a discretely presented component unit. The loan was used to cover costs related to the Cobo Hall Expansion Project and operations of the Downtown People Mover System. The loan is unsecured and bears no interest and was to be repaid by the City as general operating funds become available to the extent not otherwise adjusted and/or discharged pursuant to the Plan of adjustment confirmed in the Bankruptcy Case.



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**(f) Debt Service Requirements**

As of June 30, 2014, debt service requirements of the City's debt (fixed-rate and variable-rate) are 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.

| | General Obligation Debt | | Revenue Bonds and Other Indebtedness | |
|---|---|---|---|---|
| | Principal | Interest | Principal | Interest |
| **Governmental Activities:** | | | | |
| 2015 | $ 72,674,422 | $ 53,016,556 | $ 4,511,467 | $ 3,895,987 |
| 2016 | 71,352,546 | 49,421,537 | 4,923,872 | 3,595,470 |
| 2017 | 174,605,000 | 43,013,780 | 6,788,825 | 3,233,877 |
| 2018 | 56,245,000 | 38,737,330 | 5,517,000 | 2,953,151 |
| 2019 | 56,670,000 | 35,868,119 | 6,501,000 | 2,683,925 |
| 2020-2024 | 259,180,000 | 136,113,790 | 31,025,000 | 8,840,695 |
| 2025-2029 | 151,140,000 | 79,803,648 | 25,694,000 | 2,071,432 |
| 2030-2034 | 146,550,000 | 38,264,482 | 3,316,000 | 13,749 |
| 2035-2036 | 53,895,000 | 3,450,450 | 33,600,000 | — |
| Total | $ 1,042,311,968 | $ 477,689,692 | $ 121,877,164 | $ 27,288,286 |
| **Business-type Activities:** | | | | |
| ***Sewage Disposal Fund*** | | | | |
| 2015 | $ — | $ — | $ 86,495,000 | $ 143,116,135 |
| 2016 | — | — | 89,685,000 | 140,215,950 |
| 2017 | — | — | 92,005,000 | 137,085,906 |
| 2018 | — | — | 95,245,000 | 133,856,457 |
| 2019 | — | — | 98,680,000 | 130,495,440 |
| 2020-2024 | — | — | 531,714,430 | 597,192,595 |
| 2025-2029 | — | — | 658,340,870 | 473,615,592 |
| 2030-2034 | — | — | 759,417,578 | 329,999,044 |
| 2035-2039 | — | — | 730,435,000 | 135,776,140 |
| 2040-2044 | — | — | 118,630,000 | 6,184,275 |
| Total | $ — | $ — | $ 3,260,647,878 | $ 2,227,537,534 |

| | General Obligation Debt | | Revenue Bonds and Other Indebtedness | |
|---|---|---|---|---|
| | Principal | Interest | Principal | Interest |
| **Business-type Activities (Continued)** | | | | |
| ***Transportation Fund*** | | | | |
| 2015 | $ 2,660,578 | $ 272,902 | $ — | $ — |
| 2016 | 2,797,454 | 139,873 | — | — |
| Total | $ 5,458,032 | $ 412,775 | $ — | $ — |
| ***Water Fund*** | | | | |
| 2015 | $ — | $ — | $ 53,140,000 | $ 129,324,867 |
| 2016 | — | — | 58,450,000 | 126,508,048 |
| 2017 | — | — | 61,505,000 | 123,406,562 |
| 2018 | — | — | 64,460,000 | 120,418,686 |
| 2019 | — | — | 67,585,000 | 117,251,087 |
| 2020-2024 | — | — | 388,280,000 | 531,700,016 |
| 2025-2029 | — | — | 489,018,761 | 421,780,373 |
| 2030-2034 | — | — | 608,075,000 | 287,744,642 |
| 2035-2039 | — | — | 514,310,000 | 126,622,290 |
| 2040-2042 | — | — | 200,225,000 | 21,171,026 |
| Total | $ — | $ — | $ 2,505,048,761 | $ 2,005,927,597 |

The future principal payments for Sewage Disposal Fund revenue bonds exceed the bonds payable balance by $15,292,228 at June 30, 2014 because the future principal payments on capital appreciation bonds are greater than the carrying value of those bonds. The balance of the capital appreciation bonds will increase each year, until maturity, through accretion.

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The annual debt service requirements to maturity for pension obligation certificates at June 30, 2014 are as follows. Refer to Note VIII for information on derivative instruments.

| | Pension Obligation Certificates | | |
|---|---|---|---|
| | Principal | Interest | Investment Derivatives, Net |
| **Governmental Activities:** | | | |
| 2015 | $ 27,049,913 | $ 64,654,664 | $ 37,645,862 |
| 2016 | 30,037,394 | 27,410,958 | 37,645,862 |
| 2017 | 33,301,268 | 25,965,258 | 37,645,862 |
| 2018 | 36,800,888 | 24,362,468 | 37,645,862 |
| 2019 | 37,121,179 | 22,591,241 | 37,645,862 |
| 2020-2024 | 216,929,328 | 90,940,030 | 178,762,043 |
| 2025-2029 | 282,766,094 | 52,901,113 | 150,482,797 |
| 2030-2034 | 382,116,298 | 42,101,427 | 60,472,999 |
| 2035 | 91,281,344 | 5,466,678 | — |
| Total | $ 1,137,403,706 | $ 356,393,837 | $ 577,947,149 |
| **Business-type Activities:** | | | |
| ***Sewage Disposal Fund*** | | | |
| 2015 | $ 2,041,421 | $ 4,879,402 | $ 2,841,084 |
| 2016 | 2,266,883 | 2,068,669 | 2,841,084 |
| 2017 | 2,513,203 | 1,959,564 | 2,841,084 |
| 2018 | 2,777,315 | 1,838,603 | 2,841,084 |
| 2019 | 2,801,486 | 1,704,931 | 2,841,084 |
| 2020-2024 | 16,371,370 | 6,863,124 | 13,490,936 |
| 2025-2029 | 21,339,984 | 3,992,377 | 11,356,737 |
| 2030-2034 | 28,837,812 | 3,177,338 | 4,563,816 |
| 2035 | 6,893,956 | 412,565 | — |
| Total | $ 85,843,430 | $ 26,896,573 | $ 43,616,909 |
| ***Transportation Fund*** | | | |
| 2015 | $ 2,382,157 | $ 5,693,829 | $ 3,315,292 |
| 2016 | 2,645,251 | 2,413,953 | 3,315,292 |
| 2017 | 2,932,684 | 2,286,637 | 3,315,292 |
| 2018 | 3,240,879 | 2,145,487 | 3,315,292 |
| 2019 | 3,269,086 | 1,989,503 | 3,315,292 |
| 2020-2024 | 19,103,935 | 8,008,657 | 15,742,723 |
| 2025-2029 | 24,901,866 | 4,658,749 | 13,252,305 |
| 2030-2034 | 33,651,167 | 3,707,673 | 5,325,570 |
| 2035 | 8,032,434 | 481,423 | — |
| Total | $ 100,159,459 | $ 31,385,911 | $ 50,897,058 |

| | Pension Obligation Certificates | | |
|---|---|---|---|
| | Principal | Interest | Investment Derivatives, Net |
| **Business-type Activities (Continued):** | | | |
| ***Water Fund*** | | | |
| 2015 | $ 1,801,509 | $ 4,305,963 | $ 2,507,193 |
| 2016 | 2,000,473 | 1,825,554 | 2,507,193 |
| 2017 | 2,217,845 | 1,729,271 | 2,507,193 |
| 2018 | 2,450,918 | 1,622,526 | 2,507,193 |
| 2019 | 2,472,249 | 1,504,564 | 2,507,193 |
| 2020-2024 | 14,447,368 | 6,056,553 | 11,905,449 |
| 2025-2029 | 18,832,057 | 3,523,184 | 10,022,067 |
| 2030-2034 | 25,448,723 | 2,803,930 | 4,027,464 |
| 2035 | 6,077,262 | 364,078 | — |
| Total | $ 75,748,404 | $ 23,735,623 | $ 38,490,945 |

**(g) Debt Limit**

The Michigan Constitution established the authority, subject to constitutional and statutory prohibition, for municipalities to incur debt for public purposes. The City is subject to the Home Rule Act, Act 279 Public Acts of MI, 1909, as amended, which limits the net indebtedness incurred for all public purposes to as much as, but not to exceed, the greater of the following: (a) 10 percent of the assessed value of all the real and personal property in the City or (b) 15 percent of the assessed value of all the real and personal property in the City if that portion of the total amount of indebtedness incurred which exceeds 10 percent is, or has been, used solely for the construction or renovation of hospital facilities.

**(h) Refundings**

The City defeased certain bonds in the prior and current years by placing the proceeds of new debt in an irrevocable trust to provide for all future debt service payments on the old debt. Accordingly, the trust account assets and the liability for the defeased debt are not included in the City's financial statements. The amount of defeased debt outstanding at June 30, 2014 was as follows:

| | Revenue Bonds |
|---|---|
| Sewage Disposal Fund | $ 259,545,000 |
| Water Fund | 178,070,000 |
| Total | $ 437,615,000 |







**(i) Bonds Authorized and Unissued**

The following is the schedule of bonds authorized and unissued at June 30, 2014:

| | Authority | Date | Authorized Amount | Unissued Amount |
|---|---|---|---|---|
| General Obligation Bonds | | | | |
| (Tax Supported): | | | | |
| Sewer Construction | Electorate | 8/2/1960 | $ 50,000,000 | $ 24,000,000 |
| Public Safety | Electorate | 11/2/2004 | 120,000,000 | 23,393,000 |
| Municipal Facilities | Electorate | 11/7/2000 | 18,000,000 | 120,000 |
| Neighborhood/Economic Development | Electorate | 11/2/2004 | 19,000,000 | 17,295,000 |
| Public Lighting | Electorate | 11/2/2004 | 22,000,000 | 7,735,000 |
| Recreation, Zoo, Cultural | Electorate | 11/7/2000 | 56,000,000 | 628,000 |
| Recreation, Zoo, Cultural History | Electorate | 11/2/2004 | 22,000,000 | 570,000 |
| Historical | Electorate | 11/6/2011 | 20,000,000 | 17,200,000 |
| Museum of African American History | Electorate | 4/29/2003 | 6,000,000 | 500,000 |
| Transportation | Electorate | 11/2/2004 | 32,000,000 | 17,310,000 |
| Public Lighting | Electorate | 2/24/2009 | 22,000,000 | 22,000,000 |
| Neighborhood/Economic | Electorate | 2/24/2009 | 25,000,000 | 25,000,000 |
| Museums, Libraries, Recreation, and Other | Electorate | 2/24/2009 | 97,000,000 | 89,770,000 |
| Transportation | Electorate | 2/24/2009 | 12,000,000 | 12,000,000 |
| Public Safety | Electorate | 2/24/2009 | 72,000,000 | 59,379,000 |
| Total Bonds Authorized - Unissued | | | | $ 316,900,000 |

The electorate approved an amendment to the State Constitution (the Headlee Amendment) on November 7, 1978, that requires voter approval for the issuance of general obligation bonds effective December 22, 1978. The authority to issue bonds approved by the electors continues until revoked by the electors.

Additionally, the City has State Revolving Loans in the Sewage Disposal Fund, which have been authorized but not issued. These amounted to $3,950,033 at June 30, 2014.

**(j) Debt Ratings**

On July 18, 2013, Standard & Poor's downgraded the City's UGTO rating from "CC" to "C". On October 2, 2013, Standard & Poor's downgraded the City's UTGO rating from "C" to "D". On September 30, 2013, Fitch downgraded the City's UGTO and LGTO ratings from "C" to "D". On June 16, 2014, Fitch withdrew the 'D' ratings on the POCs, UGTO, and LGTO bonds due to the bankruptcy.

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

See Note XIV for any rating actions that occurred after June 30, 2014.

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## NOTE VIII. DERIVATIVES

The table below summarizes derivative instrument activity during the reporting period and balances at the end of the year (debit/(credit)):

| | Changes in Fair Value | | Fair Value at June 30, 2014 | | Notional |
|---|---|---|---|---|---|
| | Classification | Amount | Classification | Amount | Amount |
| **Governmental Activities** | | | | | |
| Investment derivatives: | | | | | |
| Pay-fixed interest rate swaps | Investment loss | $ (4,471,205) | Long-term liabilities | $ (244,149,176) | $ 650,336,000 |
| **Business-type Activities** | | | | | |
| Investment derivatives: | | | | | |
| Pay-fixed interest rate swaps | Investment Loss | (1,503,930) | Long-term liabilities | (58,314,702) | 149,664,000 |

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

The fair values of the interest rate swaps were estimated using the zero-coupon method. This method calculates the future net settlement payments required by the swap, assuming that the current forward rates implied by the yield curve correctly anticipate future spot interest rates. These payments are then discounted using the spot rates implied by the current yield curve for hypothetical zero-coupon bonds due on the date of each future net settlement on the swaps.

### (a) Objectives

In order to better manage its interest rate exposure and to reduce the overall costs of its financings, the City has entered into eight separate pay-fixed, receive-variable interest rate swaps.

### (b) Terms

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

| Associated Financing Issue | Notional Amount (1) | Effective Date | Fixed Rate Paid | Rate Received | Fair Value | Swap Termination Date | Final Maturity of Bonds |
|---|---|---|---|---|---|---|---|
| **Investment Derivatives** | | | | | | | |
| **Investment Derivatives, Pay-fixed interest rate swaps** | | | | | | | |
| Pension Obligation Certificates: | | | | | | | |
| Taxable Certification of Participation SBSFPC-0009 | $ 96,621,000 | 6/12/2006 | 6.36% | 3 MONTH LIBOR + .34% | $ (39,240,207) | 6/15/2034 | 6/15/2034 |
| Taxable Certification of Participation SBSFPC-0012 | 45,252,000 | 6/12/2006 | 6.32 | 3 MONTH LIBOR + .30% | (16,046,639) | 6/15/2029 | 6/15/2029 |
| Taxable Certification of Participation 37380341 | 96,621,000 | 6/12/2006 | 6.36 | 3 MONTH LIBOR + .34% | (39,231,534) | 6/15/2034 | 6/15/2034 |
| Taxable Certification of Participation 37380291 | 45,252,000 | 6/12/2006 | 6.32 | 3 MONTH LIBOR + .30% | (16,039,694) | 6/15/2029 | 6/15/2029 |
| Taxable Certification of Participation SBSFPC-0010 | 153,801,500 | 6/12/2006 | 6.35 | 3 MONTH LIBOR + .34% | (62,624,781) | 6/15/2034 | 6/15/2034 |
| Taxable Certification of Participation SBSFPC-0011 | 104,325,500 | 6/12/2006 | 6.32 | 3 MONTH LIBOR + .30% | (33,341,547) | 6/15/2029 | 6/15/2029 |
| Taxable Certification of Participation 37380313 | 153,801,500 | 6/12/2006 | 6.35 | 3 MONTH LIBOR + .34% | (62,610,295) | 6/15/2034 | 6/15/2034 |
| Taxable Certification of Participation 37380351 | 104,325,500 | 6/12/2006 | 6.32 | 3 MONTH LIBOR + .30% | (33,329,181) | 6/15/2029 | 6/15/2029 |
| Total | $ 800,000,000 | | | | $ (302,463,878) | | |

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



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### (c) Credit Risk

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

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

### (d) Interest Rate Risk

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

### (e) Basis Risk

The City is exposed to basis risk when the variable interest received on a swap is based on a different index than the variable interest rate to be paid on the associated variable rate debt obligation. At June 30, 2014, the associated POCs used the same index (based on LIBOR) in the table above. As a result, there was no significant exposure to basis risk as of June 30, 2014.

### (f) Rollover Risk

The City is exposed to rollover risk on swaps that mature or may be terminated prior to the maturity of the associated financings. When these swaps terminate, or in the case of the termination option, if the counterparty exercises its option, the City will not realize the synthetic rate offered by the swaps on the underlying issues. The City is exposed to rollover risk on the pension obligation swaps should they be terminated prior to the maturity of the associated financings (POCs).

### (g) Foreign Currency Risk

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

### (h) Market Access Risk

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

**NOTE IX. PENSION PLANS**

**(a) Plan Administration**

City of Detroit Retirement System consists of the General Retirement System (GRS) and the Police and Fire Retirement System (PFRS) (collectively, the "Systems"). Each system is a single employer plan composed of a Defined Benefit Plan and a Defined Contribution Annuity Plan. The plans provide retirement, disability, and survivor benefits to plan members and beneficiaries. Each 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 Systems issue publicly available financial reports that include financial statements and the required supplementary information. The reports can be obtained from City of Detroit Retirement Systems, One Detroit Center, 500 Woodward Ave., Suite 3000, Detroit, MI 48226 or obtained from Systems' website (www.rscd.org).

The board of trustees of the General Retirement System consists of ten members - five elected employee members, one elected retired member, one mayor appointed citizen, and three ex-officio members. The board of trustees of the Police and Fire Retirement System consists of sixteen members – six elected employee members, two elected retired members, and eight ex-officio members.

**(b) Plan Membership**

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

| | GRS | PFRS |
|---|---|---|
| Inactive plan members or beneficiaries currently receiving benefits | 12,089 | 8,476 |
| Inactive plan members entitled to but not yet receiving benefits | 2,395 | 235 |
| Active plan members | 5,364 | 3,266 |

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

**(c) Benefits Provided**

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

**(d) Contributions**

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



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The City's average contribution rate for fiscal year 2014 was 30.05 percent of annual payroll for the General Retirement System and 30.59 percent of annual payroll for the Police and Fire Retirement System. The City contributed only $27,523,180 of the annual required contribution of $68,025,576 for the General Retirement System and did not make any payments towards the required contribution of $51,418,126 for the Police and Fire Retirement System.

**(e) Deferred Retirement Option Program ("DROP")**

In lieu of terminating employment and accepting a retirement allowance under the Plan, any member of the Police and Fire Retirement System who is eligible for the DROP program may defer the receipt of his or her retirement allowance, continue services and be paid compensation. At the time of the DROP election, the member no longer accrues a benefit. The program credits the employee for benefit payments that would have been paid had they retired normally, by depositing 75 percent of the monthly payment with a third-party administrator in the member's name. The remaining 25 percent of the monthly payments are retained in the trust for general purposes. The DROP allocations continue if the member continues to be actively employed, as a police officer or a firefighter, with the City. The member is eligible to withdraw the amounts deposited with the third-party administrator upon retirement and from that point on the retiree receives 100 percent of retirement benefits. There are no amounts held by the System at June 30, 2014 as all amounts due to the members pursuant to the DROP election are held by a third-party administrator.

**(f) Investment Policy**

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

| | Target Allocation | |
|---|---|---|
| Asset Class | GRS | PFRS |
| Global asset allocation | 12.0 % | 0.0 % |
| Domestic Equity | 23.0 | 19.0 |
| International Equity | 22.0 | 19.0 |
| Domestic Fixed Income | 16.0 | 17.5 |
| International Fixed Income | 3.0 | 0.0 |
| Energy/MLPs | 0.0 | 5.0 |
| Real estate | 8.0 | 13.0 |
| Cash | 0.0 | 1.0 |
| High yield | 0.0 | 8.0 |
| Private mortgages | 0.0 | 2.5 |
| Private equity | 6.0 | 10.0 |
| Hedge funds | 5.0 | 5.0 |
| Commodities | 5.0 | 0.0 |

**(g) Rate of Return**

For the year ended June 30, 2014, the annual money-weighted rate of return on pension plan investments, net of pension plan investment expense, was 16.3 percent for the General Retirement System and 19.8 percent for the Police and Fire Retirement System. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

**(h) Pension Plan Reserves**

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

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

The employee reserve (Annuity Savings Fund) is credited as employee contributions are received throughout the year; the Systems maintain a record of the amount contributed by each employee, and credits interest annually at a rate approved by the board of trustees. The City Council adopted an Ordinance limiting the interest rate on the General Retirement System's net investment rate of return, with a cap of 7.9 percent and a floor of 0 percent. During fiscal year 2014, the board of trustees approved the interest rate at 0 percent. The interest rate for the Police and Fire Retirement System is based on the recognized rate of return per the previous actuarial valuation. During fiscal year 2014 the board of trustees approved the interest rate at 3.8 percent. Members are eligible to withdraw if they left the City for any reason (retire, laid-off, quit, disability, death), and have 25 years of service (or 20 for DPOA or Fire equivalents). Eligible active members may elect to withdraw their accumulated (annuity) contributions plus investment earnings. Upon retirement, a member can elect to annuitize or receive a lump sum of their accumulated contribution and interest earnings. Members of the Police and Fire Retirement System are also eligible to withdraw upon conversion from disability or have an eligible domestic relations order (EDRO). When an employee retires, becomes disabled, or if a surviving spouse elects an annuity rather than a lump-sum payout of accumulated employee contributions, the balance is transferred to the annuity reserve fund.

The balances of the reserve accounts as of June 30, 2014 for the Systems are as follows:

| | GRS | PFRS |
|---|---|---|
| Reserved for employee contributions | $ 267,783,724 | $ 155,258,272 |
| Reserved for retired contributions | 2,350,833,869 | 2,883,228,305 |

**(i) Net Pension Liability of the City, as Required by GASB Statement No. 67**

The net pension liability of the City has been measured as of June 30, 2014 based on benefits in force as of that date and is composed of the following:

| | GRS | PFRS |
|---|---|---|
| Total pension liability | $ 3,801,649,071 | $ 4,407,788,045 |
| Plan fiduciary net position | 2,015,207,879 | 3,276,203,299 |
| City's net pension liability | $ 1,786,441,192 | $ 1,131,584,746 |
| Plan fiduciary net position as a percentage of the total pension liability | 53.0 % | 74.3 % |

Attribution period: As of June 30, 2014, the plan was frozen such that no new benefit accruals were allowed and no new members could join. Starting July 1, 2014, the participants in this legacy plan will now be earning benefits under a newly created defined benefit plan. GASB 67 requires that the service costs of all pensions be attributed through all assumed exit ages, through retirement. Neither GASB 67 nor any other GASB standard has set forth guidance specifically related to frozen plans with successor plans in place. Absent any guidance to the contrary, due to the status as a frozen plan combined with the fact that individuals are now earning service in a new defined benefit pension plan, the retirement date for purposes of attribution was assumed to be June 30, 2014 for all members. Therefore, the total pension liability at June 30, 2014 is equal to the present value of projected benefit payments.





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**(j) Actuarial Assumptions**

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

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

| | GRS | PFRS |
|---|---|---|
| Inflation | 4.0 % | 4.0 % |
| Salary increases | 4.0-8.9 % | 5.0-9.2 % |
| Investment rate of return | 7.9 % | 8.0 % |

For the General Retirement System, mortality rates were based on 110 percent of the RP-2000 Combined Table for males and 110 percent of the RP-2000 Combined Table set back two years for females. For the Police and Fire Retirement System, mortality rates were based on 95 percent of the RP-2000 Combined Table for males and 100 percent of the RP-Combined Table set back two years for females.

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

- For the Systems, due to the plan freeze, pay was not assumed to increase in the future and no inflation assumption was utilized. The investment rate of return (net of pension plan investment expense, including inflation) applied to the end of year pension liability was 7.2 percent.
- To calculate the total pension liability as of June 30, 2014, the mortality assumption was changed to the RP-2014 Blue Collar Mortality Tables, Employees and Health Annuitants for males and females with fully generational mortality projections using the 2-dimensional Mortality Improvement Scale MP-2014. For the General Retirement System, the table was set forward one year for males and females.
- The actuarial assumptions used in the June 30, 2013 valuation to calculate the total pension liability as of June 30, 2014 were based on the results of an actuarial experience study for the period July 1, 2008 to June 30, 2013.
- Cost of living adjustments: For both the beginning and end of year calculations of the total pension liability, for certain active members, depending upon bargaining group, benefits are increased annually by 2.25 percent of the original pension amounts at retirement.

**(k) Discount Rate**

The discount rate used to measure the total pension liability as of June 30, 2014 was 7.2 percent for both Systems; however, the single discount rate used at the beginning of the year was 5.88 percent for the General Retirement System and 8.0 percent for the Police and Fire Retirement System. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current contribution rate and that City contributions will be made at rates equal to the difference between actuarially determined contribution rates and the employee rate.

**(l) Projected Cash Flows**

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

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

For the Police and Fire Retirement System, based on the above assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees both at the beginning of the year as well as at the end of the year. Therefore, the long-term rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

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

| | Long-term Expected Real Rate of Return | |
|---|---|---|
| | GRS | PFRS |
| Global asset allocation/risk parity | 4.62 % | 0.00 % |
| Domestic equity | 5.01 | 4.49 |
| International equity | 6.13 | 4.68 |
| Domestic fixed income | 1.88 | 1.61 |
| International fixed income | 3.87 | 0.00 |
| Energy/MLPs | 0.00 | 7.02 |
| Real Estate - General | 3.90 | 0.00 |
| Real Estate - Private | 0.00 | 3.95 |
| Real Estate - Public | 0.00 | 3.32 |
| Cash | 0.00 | (0.24) |
| High yield | 0.00 | 3.41 |
| Private mortgages | 0.00 | 3.41 |
| Private equity | 6.83 | 6.98 |
| Hedge Funds | 4.15 | 4.10 |
| Commodities | 3.17 | 0.00 |

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

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

| | 1% Decrease (6.2%) | Current Discount Rate (7.2%) | 1% Increase (8.2%) |
|---|---|---|---|
| Net pension liability of the Plan | | | |
| GRS | $ 2,170,235,520 | $ 1,786,441,192 | $ 1,466,150,791 |
| PFRS | 1,644,647,869 | 1,131,584,746 | 707,632,759 |

**(n) Annual Pension Costs and Net Pension Asset, as Required by GASB Statement No. 27**

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



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The annual pension costs and net pension assets for the City (primary government) as of June 30, 2014 are as follows:

| | PFRS | GRS | GRS | GRS | GRS | |
|---|---|---|---|---|---|---|
| | | | Business-type Activities | | | |
| | Governmental Activities | Governmental Activities | Sewage Disposal Fund | Transportation Fund | Water Fund | Total Primary Government |
| Annual required contributions (ARC) | $ 51,418,126 | $ 29,509,073 | $ 8,476,369 | $ 13,648,269 | $ 16,391,865 | $ 119,443,702 |
| Interest on net pension asset | (42,853,862) | (36,633,249) | (6,813,629) | (8,242,080) | (7,604,684) | (102,147,504) |
| Adjustment to ARC | 47,994,237 | 26,033,540 | 4,842,128 | 5,857,262 | 5,404,294 | 90,131,461 |
| Annual pension cost | 56,558,501 | 18,909,364 | 6,504,868 | 11,263,451 | 14,191,475 | 107,427,659 |
| Contributions made (employer)* | - | 222,090 | 10,400,618 | - | 16,900,472 | 27,523,180 |
| Changes in net pension asset | (56,558,501) | (18,687,274) | 3,895,750 | (11,263,451) | 2,708,997 | (79,904,479) |
| Net pension asset, beginning of year | 535,673,281 | 463,712,015 | 86,248,463 | 104,330,131 | 96,261,825 | 1,286,225,715 |
| Net pension asset, end of year | $ 479,114,780 | $ 445,024,741 | $ 90,144,213 | $ 93,066,680 | $ 98,970,822 | $ 1,206,321,236 |

* Includes payments subsequent to year-end for Sewage and Water Funds of $1,358,792 and $1,847,723, respectively, and overpayments from fiscal year ended June 30, 2013 for Sewage and Water Funds of $1,119,946 and $1,483,608, respectively

Three-year trend information for the City (primary government) is as follows:

| | Year Ended | Annual Pension Cost (APC) | Actual Contributions | Percentage of APC Contributed | Net Pension Asset |
|---|---|---|---|---|---|
| GRS | June 30, 2014 | $ 50,869,158 | $ 27,523,180 | 54.1 % | $ 727,206,456 |
| | June 30, 2013 | 43,258,554 | 37,794,407 | 87.4 | 750,552,434 |
| | June 30, 2012 | 32,614,342 | 34,461,252 | 105.7 | 756,016,581 |
| PFRS | June 30, 2014 | 56,558,501 | - | 0.0 | 479,114,780 |
| | June 30, 2013 | 49,017,402 | (29,026,800) | -59.2 | 535,673,281 |
| | June 30, 2012 | 53,722,030 | 49,760,229 | 92.6 | 613,717,483 |

**(o) Funding Status and Funding Progress**

The funded status of each plan, as of June 30, 2013, based on actuarial assumptions of the Retirement Systems, respectively is as follows:

| | GRS | PFRS |
|---|---|---|
| Actuarial value of assets | $ 2,524,863,146 | $ 3,474,538,021 |
| Actuarial accrued liability (AAL) | $ 3,609,073,858 | $ 3,890,143,341 |
| Unfunded AAL (UAAL) | $ 1,084,210,712 | $ 415,605,320 |
| Funded ratio | 70.0% | 89.3% |
| Covered payroll | $ 213,291,083 | $ 186,694,166 |
| Ratio of UAAL/covered payroll | 508.3% | 222.6% |

**(p) Actuarial Methods and Assumptions**

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

| | GRS | PFRS |
|---|---|---|
| Valuation Date | June 30, 2012 | June 30, 2012 |
| Actuarial Cost Method | Entry Age | Entry Age |
| Amortization Method | Level Percent | Level dollar, Closed |
| Remaining Amortization Period | 30 years, Open | 29 years, Closed |
| Asset Valuation Method | 7-year Smoothed Market | 7-year Smoothed Market |
| Actuarial Assumptions: | | |
| Investment Rate of Return | 7.9% | 8.0% |
| Projected Salary Increases | 4.0%-8.9% | 5.0%-9.2% |
| Inflation Rate | 4.00% | 0% for three years; 4% thereafter |
| Cost-of-Living Adjustments | 2.25% | 2.25% |

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

**NOTE X. OTHER POSTEMPLOYMENT BENEFITS**

**(a) Plan Description**

The Employee Health and Life Insurance Benefit Plan (Benefit Plan) was a single–employer defined benefit plan administered by the City and Retirement Systems and was accounted for in the Other Post-employment Benefits Fund. The Plan does not issue a separate stand-alone statement. The Benefit Plan provided hospitalization, dental care, vision care, and life insurance to all officers and employees of the City who were employed on the day preceding the effective date of the Benefit Plan and who continue in the employ of the City on and after the effective date of the Benefit Plan. Retirees were allowed to enroll in any of the group plans offered by the City to active employees. The City provided healthcare coverage for substantially all retirees in accordance with terms set forth in union contracts or provisions found in Section 13, Article 8 of the Code of Ordinances. Effective March 1, 2014, the City changed the health insurance coverage offered to retirees which is described in more detail below. Additional changes have occurred due to the effectiveness of the Plan as confirmed by the Bankruptcy Court.

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

The healthcare benefit eligibility conditions for General City employees hired before 1995 are 30 years of creditable service or 25 years of creditable service for an EMS member or age 60 and 10 years of creditable service or age 65 and 8 years of creditable service. The healthcare benefit eligibility conditions for General City employees hired on or after 1995 are age 55 and 30 years of creditable services, or age 60 and 10 years of creditable service or age 65 and 8 years of creditable service. Prior to March 1, 2014, the City provided full healthcare coverage to General City employees who retired prior to January 1, 1984, except for the Master Medical benefit that was added on to the coverage after that date. The City paid up to 90 percent of healthcare coverage if retired after January 1, 1984; however, for employees who retired between January 1, 1984 and June 30, 1994, the retiree share has been reduced by 50 percent by appropriations from City Council. The City also paid health coverage for the spouse, under the same formulas noted above, as long as the spouse continued to receive a pension. The City did not pay health coverage for a new non-City retiree spouse. Dental and vision coverage was provided for the retiree and the spouse.

The healthcare benefit eligibility conditions for Police and Fire were any age with 25 years of creditable service, or any age with 20 years of service for Detroit Police Officers Association (DPOA) members, effective March 8, 2007 and Allied Detroit Fire Fighters Association (DFFA) members, effective March 8, 2008. Prior to March 1, 2014, the City paid up to 90 percent of healthcare coverage for the retiree and the spouse. The City paid up to 90 percent of healthcare coverage for the spouse as long as the spouse continues to receive a pension.



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The City did not pay for healthcare coverage for a new non-City retiree spouse. Spouses (widows or widowers) of Straight Life Option retirees who retired prior to July 1, 1987 continued to receive hospitalization coverage. Dental and vision coverage was provided for the retiree and the spouse.

The City provided healthcare coverage to General City and Police and Fire employees that opt for early retirement. For General City employees hired before 1995, the healthcare benefit eligibility conditions are 25 years of creditable service and employees hired after 1995 is age 55 and 25 years of creditable service. The coverage begins when the retiree would have been eligible for normal retirement. Prior to March 1, 2014, the City paid up to 90 percent of healthcare coverage for the retiree and the spouse. The City paid up to 90 percent of healthcare coverage for the spouse as long as the spouse continued to receive a pension. The City did not pay for healthcare coverage for a new non-City retiree spouse. For Police and Fire employees, the healthcare coverage begins when the retiree reaches the date they would have attained 25 years of creditable service or when the retiree would have attained 20 years of creditable service for DPOA member and Allied DFFA members, effective March 8, 2007. Prior to March 1, 2014, the City paid up to 90 percent of healthcare coverage for the retiree and the spouse. The City paid up to 90 percent of healthcare coverage for the spouse as long as the spouse continued to receive a pension. The City did not pay for healthcare coverage for a new non-City retiree spouse. Spouses (widows or widowers) of Straight Life Option retirees who retired prior to July 1, 1987 continued to receive hospitalization coverage. Dental and vision coverage was provided for the retiree and the spouse.

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

In addition to healthcare coverage, the City allowed its retirees to continue life insurance coverage under the Group Insurance Protection Plan offered to active employees in accordance with Section 13, Article 9 of the Code of Ordinances. The basic life insurance coverage for General City and Police and Fire employees is based on the employee's basic annual earnings to the next higher thousand dollars. The life insurance benefit amounts range from $3,750 to $12,500.

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

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

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

Pursuant to the Retiree Settlement Agreement, Medicare-eligible retirees who opted out of a City-sponsored Medicare Advantage Plan on or prior to February 7, 2014 were automatically enrolled in a City-sponsored Health Reimbursement Arrangement ("HRA"). The City provided each enrolled retiree with a vested $115 monthly contribution credit to his or her HRA during the remainder of 2014, which will carry forward until used by the retiree or otherwise forfeited under terms negotiated by the parties to the Retiree Settlement

Agreement. In addition, the retirees were provided an additional opportunity to opt out of a City-sponsored Medicare Advantage Plan after February 7, 2014 and by June 20, 2014 and receive an HRA with credits for the months they were not covered under the City-sponsored Medicare Advantage Plan.

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

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

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

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

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

Under the City's plan of adjustment approved in the Bankruptcy Case, the City restructured retiree health benefits through the creation of two voluntary employee beneficiary associations (or VEBAs). See Note XIII for further detail regarding the VEBAs. As a result of the restructuring, a special item totaling $994,774,385 was recorded which represented the reduction of the net other postemployment benefit liability for the Employee Health and Life Insurance Benefit Plan. The Benefit Plan was significantly reduced on March 1, 2014 and terminated on December 31, 2014.

### (b) Funding Policy

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

| Benefit | City Cost | Retiree Cost | Total Cost |
|---|---|---|---|
| Hospitalization | $ 124,383,248 | $ 16,298,533 | $ 140,681,781 |
| Dental | 6,196,144 | 1,984,411 | 8,180,555 |
| Vision | 845,446 | 186,909 | 1,032,355 |
| Life Insurance | 128,739 | 36,077 | 164,816 |
| | $ 131,553,577 | $ 18,505,930 | $ 150,059,507 |





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

| Benefit | City Cost | Retiree Cost | Total Cost |
|---|---|---|---|
| Supplemental Death Benefit | $ 99,776 | $ — | $ 99,776 |

The City of Detroit Employee Benefit Trust paid death benefits in the amounts of $997,047 for General City retirees and $584,877 for Police and Fire retirees for the year ended June 30, 2014.

### (c) Annual OPEB Costs and Net OPEB Obligation

Employee Health and Life Insurance Benefit Plan - Prior to the City changing the health insurance coverage offered to retirees and the Plan of adjustment approval, the City had a net OPEB obligation of $994,774,385 as of June 30, 2013. Given the significant changes to the Plan, and ultimately the elimination of the Plan as a result of the creation of the VEBAs, the City has recorded a special item to reduce the OPEB obligation as of June 30, 2014. The net OPEB obligation as of June 30, 2014 was eliminated and a contractual liability was created equal to the fiscal year 2015 benefit payments of $17,540,667.

| | | Business-type Activities | | | | | |
|---|---|---|---|---|---|---|---|
| | Total Governmental Activities | Sewage Disposal Fund | Transportation Fund | Water Fund | Automobile Parking Fund | Non-Major Proprietary Fund | Total Primary Government |
| **Employee Health and Life Insurance Benefit Plan** | | | | | | | |
| Net OPEB Obligation, beginning of year | $ 766,046,174 | $ 70,201,066 | $ 85,808,452 | $ 70,306,819 | $ 2,365,557 | $ 46,317 | $ 994,774,385 |
| Special Item - Plan Termination | (766,046,174) | (70,201,066) | (85,808,452) | (70,306,819) | (2,365,557) | (46,317) | (994,774,385) |
| Net OPEB Obligation, end of year | $ - | $ - | $ - | $ - | $ - | $ - | $ - |
| Postemployment Benefit Contractual Liability | $ 13,082,859 | $ 1,111,555 | $ 1,508,954 | $ 1,782,195 | $ 48,137 | $ 6,967 | $ 17,540,667 |

Supplemental Death Benefit Plan - The City's annual other postemployment benefit (OPEB) cost (expense) is calculated based on the annual required contribution (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pension*. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal costs each year and amortize any unfunded actuarial accrued liabilities (or funding excess) over a period not to exceed 30 years.

The following table shows the components of the City's annual OPEB cost for the year ended June 30, 2014, the amount actually contributed to the Employee Supplemental Death Benefit Plan, and changes in the City's net OPEB obligation for the Benefit Plan:

| | | Business-type Activities | | | | | |
|---|---|---|---|---|---|---|---|
| | Total Governmental Activities | Sewage Disposal Fund | Transportation Fund | Water Fund | Automobile Parking Fund | Non-Major Proprietary Fund | Total Primary Government |
| **Supplemental Death Benefit Plan** | | | | | | | |
| Annual Required Contributions (ARC) | $ 65,250 | $ 13,370 | $ 18,149 | $ 21,436 | $ 579 | $ 84 | $ 118,868 |
| Interest on Net OPEB Obligation | 46,961 | 12,201 | 14,091 | 12,263 | 334 | 98 | 85,948 |
| Adjustment to ARC | (31,307) | (8,134) | (9,394) | (8,175) | (222) | (65) | (57,297) |
| Annual OPEB Cost (Expense) | 80,904 | 17,437 | 22,846 | 25,524 | 691 | 117 | 147,519 |
| Contributions Made | (70,040) | (7,350) | (9,906) | (11,992) | (464) | (23) | (99,775) |
| Changes in Net OPEB Obligation | 10,864 | 10,087 | 12,940 | 13,532 | 227 | 94 | 47,744 |
| Net OPEB Obligation, beginning of year | 939,219 | 244,029 | 281,829 | 245,255 | 6,671 | 1,959 | 1,718,962 |
| Net OPEB Obligation, end of year | $ 950,083 | $ 254,116 | $ 294,769 | $ 258,787 | $ 6,898 | $ 2,053 | $ 1,766,706 |

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

| | Year Ended | Annual OPEB Cost | Actual Contributions | Percentage of Annual OPEB Cost Contributed | Net OPEB Obligation (Asset) |
|---|---|---|---|---|---|
| Supplemental and Death Benefit Plan | June 30, 2014 | $ 147,519 | $ 99,776 | 67.6 % | $ 1,766,705 |
| | June 30, 2013 | 615,816 | 114,292 | 18.6 | 1,718,963 |
| | June 30, 2012 | 609,001 | 200,751 | 33.0 | 1,217,448 |

**(d) Funded Status and Funding Progress**

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

Supplemental Death Benefit Plan – As of June 30, 2013, the most recent actuarial valuation date for the Supplemental Plan, the actuarial accrued liability for benefits related to all City employees was $32,445,878 and the actuarial value of assets was $31,264,848, resulting in an unfunded actuarial accrued liability (UAAL) of $1,181,030. The covered payroll (annual payroll of all active City employees covered by the Plan) was $396,950,077 and the ratio of the UAAL to the covered payroll was 0.3 percent.

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. The prior year actuarial reports were not prepared using the parameters as specified by GASB Statement No. 45 and therefore, prior year trend information was not included in schedule of funding progress for years prior to June 30, 2008.

***Actuarial Methods and Assumptions***

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







The actuarial methods and significant assumptions used to determine the annual required contributions for the year ended June 30, 2014 were as follows:

| | Employee Health and Life Insurance Benefit Plan | Supplemental Death Benefit Plan |
|---|---|---|
| Valuation date | June 30, 2013 | June 30, 2013 |
| Actuarial cost method | Aggregate actuarial cost method | Individual entry-age |
| Amortization method | Level dollar | Level dollar |
| Amortization period for unfunded actuarial accrued liabilities | 1.5 years | 30 years, open |
| Asset valuation method | N/A | 3 year smoothed market |
| Actuarial assumptions: | | |
| Investment rate of return | 0.0% | 5.0% |
| Projected salary increases | N/A | N/A |
| Healthcare cost trend rate | N/A | N/A |

In the June 30, 2013 actuarial valuation for the Supplemental Death Benefit Plan, the mortality tables used by the City's plan to evaluate death benefits to be paid for 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 setback 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 setback 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 XI. RISK MANAGEMENT

The City 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 City provides health and dental insurance benefits to employees and retirees through self-insured health plans that are administered by third-party administrators. The City does not purchase excess or stop-loss insurance for its self-insured health plans. The City currently is also self-insured for losses such as workers' compensation, legal, disability benefits, and vehicular liabilities and does not purchase stop-loss insurance.

The City purchases public official liability insurance, property insurance for certain properties, and general liability insurance for accidents occurring at certain properties. The City assumes a $250,000 self-insured retention for any one loss or occurrence under its self-insured public official liability program. The City purchases excess liability insurance for its general liability for certain properties that provides per occurrence and aggregate protection. The City 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 City currently reports the risk management activities (excluding health and dental) of non-Enterprise Funds and the Transportation Fund (an Enterprise Fund) in its General Fund. Each fund pays insurance premiums to the General Fund based on past claims activities. Because the Transportation Fund is included in the General Fund's risk management activities, it does not record a liability in its financial statements. Risk management activities for the other Enterprise Funds are recorded and reported separately in those funds. The Detroit Public Library (Library), a discretely presented component unit, reimburses the City for all costs incurred related to workers' compensation. The Library records the liability in its financial statements.

The liability for self-insured health and dental benefits is reported with accrued liabilities for each of the applicable funds. The liability for workers' compensation current year claims are based on estimates and payments are based on actuals.

Changes in the reported liabilities for workers' compensation, legal, disability benefits, and vehicular liabilities for the years ended June 30, 2014 and 2013, respectively, are as follows:

| | Governmental Activities | | Business-type Activities | |
|---|---|---|---|---|
| | June 30, 2014 | June 30, 2013 | June 30, 2014 | June 30, 2013 |
| Balance at beginning of year | $ 116,348,463 | $ 128,234,257 | $ 18,413,676 | $ 22,140,309 |
| Current year claims and changes in estimates | 9,125,358 | 6,333,033 | 8,971,996 | 6,668,691 |
| Claims payments | (7,664,257) | (18,218,827) | (4,295,112) | (10,395,324) |
| Balance at end of year | $ 117,809,564 | $ 116,348,463 | $ 23,090,560 | $ 18,413,676 |

Changes in the accrued liabilities for health and dental claims for the years ended June 30, 2014 and 2013, respectively, are as follows:

| | Governmental Activities | | Business-type Activities | |
|---|---|---|---|---|
| | June 30, 2014 | June 30, 2013 | June 30, 2014 | June 30, 2013 |
| Balance at beginning of year | $ 31,098,837 | $ 26,942,025 | $ 1,317,216 | $ 1,133,760 |
| Current year claims and changes in estimates | 100,958,945 | 132,834,132 | 28,265,624 | 34,947,355 |
| Claims payments | (110,852,673) | (128,677,320) | (32,729,058) | (34,763,899) |
| Balance at end of year | $ 21,205,109 | $ 31,098,837 | $ (3,146,218) | $ 1,317,216 |

The General Fund reported committed fund balance of $79.3 million at June 30, 2014 for the purpose of funding future claim liabilities.





## NOTE XII. COMMITMENTS AND CONTINGENCIES

### (a) Lawsuits and Claims

The City is a defendant in numerous lawsuits and is also subject to other claims, including claims for workers' compensation payments. The City uses in-house and, where necessary, outside counsel to adjudicate lawsuits. Each case is initially rated by the City supervising or senior attorney handling or overseeing the case with respect to its viability for success against the City. Only cases rated 'probable' for recovery from the City are reported for financial statement purposes. The dollar value reserved for any eventual payout on any said case is based upon the facts of the case, industry standards relative to the type of injury or damage involved, and the experience of the Supervising or Senior attorney. The legal reserve as of June 30, 2014 is a product of this analysis. The City used a third party actuary to perform a workers' compensation reserve analysis (estimated loss reserve) as June 30, 2014. The actuary used a general approach that relied upon actual loss development patterns for the City of Detroit to the extent they are available, and is augmented with industry benchmark loss development patterns based on insurance industry sources and patterns to project ultimate losses. While it is not possible to project the final outcome of these lawsuits and claims, the City and its legal department have estimated that the liability for all such litigation and claims totaled approximately $140.9 million for the primary government as of June 30, 2014. In addition, these lawsuits and claims may be compromised and/or discharged pursuant to a plan of adjustment confirmed in the Bankruptcy Case.

### (b) Grant Audits

Several of the City's funds participate in a number of federally assisted grant programs. These programs are subject to program compliance audits by the grantors or their representatives. The audits of these programs prior to and/or including the year ended June 30, 2014 have not been conducted and/or completed. Accordingly, the funds' compliance with applicable grant requirements will be established at some future date. The amount, if any, of expenditures that may be disallowed by the granting agencies cannot be determined as of June 30, 2014. Since the City believes such adjustments, if any, will not be material, no provision for possible adjustments has been made.

### (c) Rate Matters

The Water Fund is a party to certain challenges and disputes related to its wastewater treatment rates by various groups and governmental entities. The challenges address the reasonableness of the overall revenue requirement to be attained, certain cost allocation methods, and ultimate amounts billed. Settlement discussions are ongoing and the ultimate solution is not currently known.

### (d) Block Grant Funds

Several revitalization projects in the City have used a combination of financing from governmental and private sources. One of the sources of governmental financing has been Section 108 loan notes from the Federal Government. As of June 30, 2014, future Block Grant Funds of $85,184,000 were pledged as collateral for the amounts owed to the Federal Government under Section 108 of the Housing and Community Development Act of 1974, as amended.

### (e) Other Contingencies

The General Fund has a contingent liability for the obligations of all other City funds should such funds be unable to generate sufficient funds to liquidate their liabilities. In particular, the Airport Fund (other enterprise fund), Detroit Transportation Corporation, and Transportation Fund have received varying levels of subsidy from the General Fund to fund operating requirements.

**(f) Construction Commitments**

The City has commitments for future construction contracts. Construction to date and remaining commitments at June 30, 2014 were as follows:

| | Spent as of June 30, 2014 | Remaining |
|---|---|---|
| Public Protection | $ 12,409,411 | $ 15,451,476 |
| Municipal Facilities | 5,880,409 | 939,470 |
| Recreation and Culture | — | 133,043 |
| Municipal Services | 671,073 | 1,454,772 |
| Development and Management | 494,077 | 112,123 |
| Transportation Facilitation | — | 2,000,000 |
| Total | $ 19,454,970 | $ 20,090,884 |

The Sewage Disposal Fund is engaged in a variety of projects that are a part of its five-year Capital Improvement Program (Sewage Program). The total cost of this Sewage Program is anticipated to be approximately $553 million through fiscal year 2019. The Sewage Program is being financed primarily from revenues of the Fund and proceeds from the issuance of revenue bonds. The total amount of construction contract commitments outstanding at June 30, 2014 was approximately $737.2 million.

The Water Fund is engaged in a variety of projects that are a part of its five-year Capital Improvement Program (Water Program). The total cost of this Water Program is anticipated to be approximately $504 million through fiscal year 2019. The Water Program is being primarily financed from revenues of the Fund and proceeds from the issuance of revenue bonds. The total amount of construction contract commitments outstanding at June 30, 2014 was approximately $130.9 million.

**(g) Operating Leases**

The City has entered into various operating leases for equipment. The commitments under such lease agreements provide for minimum annual rental payments as follows:

| Fiscal Year Ending: | |
|---|---|
| 2015 | $ 11,283,949 |
| 2016 | 10,028,603 |
| 2017 | 8,488,039 |
| 2018 | 8,275,531 |
| 2019 | 8,062,819 |
| 2020-2024 | 35,894,227 |
| 2025-2028 | 25,072,804 |
| Total Minimum Payments | $ 107,105,972 |

Rental expense for all operating leases approximated $15.3 million for the year ended June 30, 2014.

**(h) Revenue Bond Indentures**

The various bond indentures contain significant limitations and restrictions on annual debt service requirements, maintenance of and flow of monies through various restricted accounts, minimum amounts to be maintained in various sinking funds, and minimum revenue bond coverage.





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**(i) Pollution Remediation**

The City is subject to various governmental 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 post closure care. At June 30, 2014, the City has recorded an estimated pollution remediation obligation of $51,265 as follows:

| | Total Governmental Activities |
|---|---|
| Accrued Pollution Remediation | $ 51,265 |

The City's pollution remediation obligation is the result of projects that have been budgeted and approved by City Council. These projects include removal of underground storage tanks, cleanup of contaminated soil, and removal of other environmental pollution (e.g., asbestos) identified at the individual sites. The estimated liability is calculated using the expected cash flow technique. The pollution remediation obligation is an estimate and subject to changes resulting from price increases or reductions, technology, or changes in applicable laws and regulations. The estimated pollution obligation is reflected in the City's long-term obligations, which can be seen in Note VII (a).

**(j) Joe Louis Arena and Joe Louis Arena Parking Facility – Lease Agreement**

On March 31, 2014, the Detroit City Council approved a lease between the City, Olympia Entertainment and the Detroit Red Wings for the rental of the Joe Louis Arena and the Joe Louis Arena Parking Facility, effective as of July 2, 2010 and ending on June 30, 2015. The agreement may be extended for up to five more years. The agreement also includes a $5.2 million settlement payable to the City in six equal installments over a three year period for all claims that all parties may have against the other related to the original lease (effective from August 16, 1978 to June 30, 2010) and the original parking agreement, and the new lease and the new parking agreement up through their dates of execution (July 1, 2010 through April 1, 2014). A payment of $1,293,750 was received by the City upon execution of the lease. Accordingly, the City has recognized $3.9 million accounts receivable and $3.9 million deferred inflows on the General Fund balance sheet. In addition, the General Fund reduced the Parking Fund Advance of $4,050,006 to zero due to the uncertainty of collection.

**NOTE XIII. BANKRUPTCY**

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

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

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

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

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

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

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

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

On December 10, 2014, and in accordance with the Plan, the City: (1) issued $1.3 billion of debt of which $1.1 billion was delivered to various classes of creditors in satisfaction of their claims; (2) paid $110.1 million of cash including $73.1 million to various classes of creditors in satisfaction of their claims, $36.5 million to establish a Professional Fee Reserve account to pay the bankruptcy and restructuring professionals, and $0.5 million to satisfy debt issuance costs; (3) assigned debt service payments on the remaining $43.3 million of the original UTGO bonds primarily to the income stabilization funds for the General Retirement System (GRS) and Police and Fire Retirement System (PFRS); (4) issued settlement credits totaling $25.0 million to the insurers of the POCs; and (5) irrevocably transferred the assets of the Detroit Institute of Arts (DIA) having a net book value of $86.6 million to the DIA, as trustee, to be held in perpetual charitable trust, subject to dispositions in accordance





with applicable national ethical standards for museums, and within City limits, for the primary benefit of residents of the City and residents of the State. The table below describes the Plan creditor claims settlements and other requirements and the sources and amounts for the settlements made on or around December 10, 2014.

| Description of Plan Creditor Claims and Other Requirements | Source | Settlement Amount |
|---|---|---|
| Limited Tax General Obligation (LTGO) Bond Debt | Cash | $ 54,999,940 |
| Professional Fee Reserve | Cash | 36,461,114 |
| POC Swap Settlement | Casino Holdback Funds | 12,662,479 |
| Syncora POC Swap Settlement | Cash | 5,000,000 |
| Debt Issuance Costs | Cash | 521,147 |
| 36th District Court Settlement | Cash | 482,857 |
| | Total Cash | 110,127,537 |
| | | |
| Unlimited Tax General Obligation (UTGO) Bond Debt to Holders | 2014 A1 - K1 UTGO Bonds | 279,618,950 |
| Police Fire Retiree Health Care Trust (VEBA) | 2014 B(1) & B(2) Bonds | 253,900,999 |
| General Retiree Health Care Trust (VEBA) | 2014 B(1) & B(2) Bonds | 238,780,159 |
| Refund Series 2014 Financial Recovery Bonds Issued In April 2014 | 2014 A/B Income Tax Bonds | 120,105,000 |
| POC Settlement FGIC/Syncora | 2014 B(1) | 97,692,788 |
| POC Settlement FGIC/Syncora | 2014 C Bonds | 88,430,021 |
| Funds for Revitalization and Reinvestment Initiatives (RRI) | 2014 A/B Income Tax Bonds | 85,684,724 |
| POC Swap Settlement | 2014 A/B Income Tax Bonds | 37,969,929 |
| Debt Service Set-Aside on 2014 A/B Bonds | 2014 A/B Income Tax Bonds | 27,500,000 |
| Class 14 Unsecured Claims | 2014 B(1) & B(2) Bonds | 20,596,747 |
| LTGO Class 9 Settlement (POC Claims) | 2014 B(1) & B(2) Bonds | 17,301,861 |
| Unlimited Tax General Obligation (UTGO) Bond Debt to Insurers | 2014 A2 - K2 UTGO Bonds | 7,941,840 |
| Downtown Development Authority Class 13 Claim Assigned to FGIC | 2014 B(1) & B(2) Bonds | 3,691,591 |
| Debt Issuance and Other Costs | 2014 A/B Income Tax Bonds | 3,740,347 |
| | Total Bonds | 1,282,954,956 |
| | | |
| Income Stabilization Fund for Two Pension Funds | Original UTGO Bonds | 43,349,210 |
| Settlement Credits | Non-Cash | 25,000,000 |
| | Total Other Sources | 68,349,210 |
| | | |
| Transfer of Detroit Institute of Arts (DIA) Assets to DIA Trustee | DIA Assets (Book Value) | 86,568,800 |
| | | |
| | Grand Total | $ 1,548,000,503 |

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

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

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

| | | Primary Government | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | | Assets & Obligations | | | Cash & Assets Used & New Obligations | | | |
| Description | | Eliminated | Applied or Assigned | | Cash & Assets | New Debt Obligations | Other | Net Benefit |
| ASSETS | | | | | | | | |
| Net Pension Asset | (1) | $ (1,206,321,236) | $ - | | $ - | $ - | $ - | $ (1,206,321,236) |
| Capital Assets (Net Book Value) | | - | - | (10) | 86,568,800 | - | - | (86,568,800) |
| Deferred Charges | (2) | (34,452,367) | - | | - | - | - | (34,452,367) |
| Total Assets | | (1,240,773,603) | - | | 86,568,800 | - | - | (1,327,342,403) |
| DEFERRED OUTFLOWS OF RESOURCES | (3) | (17,682,877) | | | | | | (17,682,877) |
| LIABILITIES | | | | | | | | |
| Accounts Payable | | - | - | (11) | 36,461,114 | - | - | (36,461,114) |
| Accrued Interest Payable | | 53,306,470 | - | | - | - | - | 53,306,470 |
| Derivative Instruments - Swap Liability | | 302,463,879 | - | | 17,662,479 | 37,969,929 | - | 246,831,471 |
| Defaulted Debt Due to Insurers | (4) | 143,085,398 | - | | - | - | - | 143,085,398 |
| Other Defaulted Debt | (5) | 25,000,000 | - | | - | - | - | 25,000,000 |
| Contingent Liabilities | | - | - | | - | - | 25,000,000 | (25,000,000) |
| Long-Term Obligations | (6) | 2,961,435,753 | 43,349,210 | | 56,003,944 | 1,244,985,027 | 43,349,210 | 1,660,446,782 |
| Total Liabilities | | 3,485,291,500 | 43,349,210 | | 110,127,537 | 1,282,954,956 | 68,349,210 | 2,067,209,007 |
| DEFERRED INFLOWS OF RESOURCES | (7) | 34,844,753 | - | | - | - | - | 34,844,753 |
| Total Net Position (Deficit) | | 2,261,679,773 | 43,349,210 | | 196,696,337 | 1,282,954,956 | 68,349,210 | 757,028,480 |
| Other Obligations Not In Financial Statements | | | | | | | | |
| Long-Term Obligations - OPEB | (8) | 4,723,511,843 | - | | - | - | - | 4,723,511,843 |
| Long-Term Obligations - Net Pension Liability | (9) | 1,326,824,448 | - | | - | - | - | 1,326,824,448 |
| Total Other Obligations | | 6,050,336,291 | - | | - | - | - | 6,050,336,291 |
| Grand Total Net Position (Deficit) | | $ 8,312,016,064 | $ 43,349,210 | | $ 196,696,337 | $ 1,282,954,956 | $ 68,349,210 | $ 6,807,364,771 |

(1) Net Pension Asset eliminated with bankruptcy and GASB 67 and upcoming GASB 68 requirements
(2) Prepaid insurance costs related to eliminated obligations
(3) Deferred charges related to eliminated obligations
(4) Principal and interest paid by insurers for defaulted debt including POC and LTGO debt
(5) Uninsured LTGO (2008 A(2)) bonds principal defaulted on
(6) Includes $1.4 billion POC; $994.8 million OPEB eliminated for year ended June 30, 2014; $287.5 million restructured UTGO; and $117.6 million LTGO obligations
(7) Deferred Swap Termination Fees
(8) Last OPEB valuation (June 11, 2011) $5,718,286,228 less $994,774,385 included in Long-Term Obligations
(9) Net Pension Liability Reduction ($2,918,025,938 pre-bankruptcy and $1,591,201,490 post-bankruptcy)
(10) DIA Assets transferred to DIA Trustee
(11) Funding for Professional Fee Reserve

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





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

***UTGO Settlement***

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

***LTGO Settlement***

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

***Retiree Health Benefits***

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

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

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

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

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

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

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

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

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







***Pension Settlements***

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

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

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

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

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

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

| Source of Pension Contributions | Required or Paid FY 2015 | Contributions Through June 30, 2023 | Beneficiary |
|---|---|---|---|
| Detroit Water and Sewerage Department | $ 65,400,000 | $ 428,500,000 | GRS |
| State Contribution | 98,800,000 | 98,800,000 | GRS |
| DIA | 5,000,000 | 45,000,000 | GRS |
| General Fund | 12,100,000 | 92,100,000 | GRS |
| Library | 2,500,000 | 22,500,000 | GRS |
| Stub UTGO Bond Millage Assignment to Income Stabilization Fund | 4,400,000 | 31,700,000 | GRS |
| Total GRS Contributions Through June 30, 2023 | $ 188,200,000 | $ 718,600,000 | |
| | | | |
| Foundation For Detroit's Future | $ 18,300,000 | $ 164,700,000 | PFRS |
| State Contribution | 96,000,000 | 96,000,000 | PFRS |
| Total PFRS Contributions Through June 30, 2023 | $ 114,300,000 | $ 260,700,000 | |

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

***Great Lakes Water Authority***

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

- The City retains control and ownership of the Detroit Systems.
- The Authority is incorporated for the purpose of acquiring, owning, leasing, improving, enlarging, extending, financing, refinancing and operating a water supply system and a sewage disposal system, including a storm water collection and treatment system, or a combination of such systems, and for exercising any of the powers of the Authority under these Articles and for purposes authorized under Article 7, Section 28 of the Michigan Constitution and other Michigan law.
- The City shall lease the Detroit Systems (except the Detroit local system infrastructure) to the authority for an initial term of 40 years, extendable to at least match the term of any outstanding bonds of the Authority.
- Consideration for the Lease shall be a $50 million charge per year to be held by the Authority and used at the City’s discretion to fund any or a combination of the following: Detroit local system infrastructure improvements, debt service associated with such improvements or the City’s share of the cost of common-to-all improvements. Initially, 45% of the charge shall be allocated to Water Supply System customers and 55% shall be allocated to Sewage Disposal System customers. The City is forbidden to use the charge to support the General Fund.





- The State shall allow the Authority to use the Michigan Finance Authority to issue bonds on behalf of the Authority.
- The Authority will contribute $4.5 million in fiscal year 2014-15 and 0.5% of base operating revenues of the Authority per year to a Water Residential Affordability Program Fund to assist customers who are financially unable to afford water or sewer service and agree to undertake conservation measures.
- The existing recognitions of the City’s ownership and system support in the water and sewer system rate structures (return on equity for water and per settlement for sewer) will be frozen and continue at $26.216 million per year ($20,700,000 as the rate of return for the water system and $5,516,600 pursuant to settlements for the sewer system) during the term of the Authority.
- The transfer of the Detroit Systems to the Authority shall not cause impairment of tax treatment of outstanding DWSD bonds. New debt and refunding bonds shall be issued pursuant to the Revenue Bond Act (PA 94 of 1933) or other statutory authority.
- The financial analysis undertaken by the parties to the Memorandum of Understanding assumes that the Authority will issue bonds to prepay its Pension Liability or identify other savings should such financing prove infeasible and the Pension Liability is paid over the schedule provided in the Plan of Adjustment. Within 90 days after the establishment of the Authority, the Authority working with the City and Investment Committee of the GRS, shall develop a process to reach agreement on the dollar amount which the Authority would need to deposit with the GRS as a one-time payment in lieu of the Pension Liability payments payable at $42.9 million per year (not including the $2.5 million in annual administrative expenses or the one-time restructuring cost payment of $20 million in fiscal year 2014-15) over nine years pursuant to the Plan of Adjustment.
- The GRS will continue to: (a) track DWSD retirees, deferred retirees, active vested members, pension benefits paid and actuarial accrued liabilities separately from other GRS members; and b) shall allocate to the DWSD/Authority an undivided interest in GRS administrative expenses and in each investment and class of investment in the GRS, to enable the Authority to verify the appropriateness of allocations to the Authority.
- Each Detroit System is assumed to experience revenue requirement increases of not more than 4% for each of the first 10 years under the Authority management.
- The City and each wholesale customer shall retain responsibility for all obligations associated with their individual revenue requirements.
- The City has the right to continue to operate and retain employees to operate, maintain, repair and improve the local system in Detroit, including capital improvements and repairs, billing and collection services, and any other services.
- The City shall continue to develop the capital improvement program for the Detroit local system infrastructure and may elect to administer the maintenance and improvements to that system, and in any event, will direct the expenditure of all funds dedicated for those purposes.
- The Authority will finance Detroit local system improvements through the issuance of Authority bonds under the Revenue Bond Act, with the debt service to be allocated solely to Detroit local subsystem ratepayers.
- The Authority may provide services and issue bonds to finance improvements for other local systems within its service areas.
- The State agrees to identify ways to facilitate access and eligibility for the Authority to the Clean Water State Revolving Fund and Drinking Water State Revolving Fund (SRF) grants and other sources of State funding to mitigate the cost of improvements for the Detroit Systems and local system improvements.

- The City will assign all customer and vendor contracts to the Authority.
- The Authority shall be a successor employer to DWSD for those employees transferring to the Authority, and will assume and honor DWSD's collective bargaining agreements for those employees.
- The Authority shall, in connection with its assumption of or substitution for outstanding DWSD bonds, covenant to:

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

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

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

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

On June 12, 2015, the Authority's Board of Directors voted in favor of a resolution approving the lease of the Detroit Systems to the Authority for an initial term of 40 years.

***The Syncora Settlement***

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

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

In accordance with the Syncora Development Agreement, Syncora was granted options of 4, 5, and 7 years to acquire certain properties owned by the City including the former Police Headquarters located at 1300 Beaubien. If Syncora exercises the option on any of those properties, it would have 15 months to commence development of such property into parking facilities, residential housing, commercial retail space or any other suitable use that is consistent with the City's urban planning policies and comprehensive development plan. If Syncora does not begin development of the property within 15 months after the option is exercised, ownership of the property will revert to the City. Syncora must also complete construction within three years and three months of exercising the option. Syncora may exercise its option with respect to individual properties and is not required to exercise its option on all of those properties.







The Syncora Option Agreement includes a one-year option, exercisable from the Effective Date of the Plan for Syncora to enter into a 30 year concession with respect to the parking garage located under Grand Circus Park. If Syncora exercises the option, it will have the right to operate the garage and will also be obligated to invest at least $13.5 million in capital expenditures within the first five years of assuming garage operations. The Syncora Option Agreement contemplates that Syncora will retain all revenues from the parking garage until it has recouped 140% of its initial capital expenditures of $13.5 million. After that, Syncora will be required to pay the City 25% of the free cash flow of the garage.

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

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

***FGIC/COP Settlement***

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

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

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

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

FGIC also had asserted claims against the City relating to the swap agreements. In settlement of those claims, FGIC has an allowed Class 14 claim for $6.15 million to share pro rata with other Class 14 creditors in the $20.4 million of 2014 B(1) bonds and $0.2 million of 2014 B(2) bonds issued December 10, 2014. In addition, the Downtown Development Authority assigned to FGIC its right, title and interest to its distribution of 2014 B (1) Bonds under the plan on account of its $33.6 million Class 13 Claim.

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

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

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

***Swap Settlement***

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

***Financial Review Commission***

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

***Liabilities Subject to Compromise***

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



City of Detroit, Michigan
COMPREHENSIVE ANNUAL FINANCIAL REPORT
For the Year Ended June 30, 2014

| | Total Primary Government | | Bankruptcy Compromise | Debt Added Effective Date | Proforma Balance |
|---|---|---|---|---|---|
| **Long-Term Obligations Subject to Compromise** | | | | | |
| Net Pension Liability GRS (Note IX (i)) | $ 1,786,441,192 | | $ (786,592,176) | $ - | $ 999,849,016 |
| Net Pension Liability PFRS (Note IX (i)) | 1,131,584,746 | | (540,232,272) | - | 591,352,474 |
| OPEB Employee Health and Life Insurance Benefit Plan | 5,718,286,228 | | (5,718,286,228) | - | - |
| General Obligation Bonds Unlimited Tax (Note VII (b)) | 330,910,000 | | (287,560,790) | - | 43,349,210 |
| General Obligation Bonds Limited Tax (Note VII (b)) | 117,550,000 | | (117,550,000) | - | - |
| General Obligation Financial Recovery Bonds (Note VII (b)) | 120,000,000 | | (120,000,000) | - | - |
| Revenue Bonds (Note VII [c]) | - | | - | - | - |
| POC (Note VII (d)) | 1,399,155,000 | | (1,399,155,000) | - | - |
| Premium On UTGO and LTGO Bonds | 8,795,578 | | (8,795,578) | - | - |
| 2014 A1-K2 Bonds (Restructured UTGO) | - | | - | 287,560,790 | 287,560,790 |
| 2014 A Income Tax Bonds | - | | - | 134,725,000 | 134,725,000 |
| 2014 B Income Tax Bonds | - | | - | 140,275,000 | 140,275,000 |
| 2014 B(1) Bonds | - | | - | 616,560,047 | 616,560,047 |
| 2014 B(2) Bonds | - | | - | 15,404,098 | 15,404,098 |
| 2014 C Bonds | - | | - | 88,430,021 | 88,430,021 |
| Notes & Loans Payable (Note VII (a) and (e)) | 33,600,000 | | (33,600,000) | - | - |
| Claims and Judgements (Note VII (a)) | 53,612,145 | (1) | TBD | - | 53,612,145 |
| Total Long-Term Obligations Subject to Compromise | $ 10,699,934,889 | | $ (9,011,772,044) | $ 1,282,954,956 | $ 2,971,117,801 |
| **Current Obligations Subject to Compromise** | | | | | |
| Accounts Payable | $ 16,329,862 | (1) | $ TBD | $ - | $ 16,329,862 |
| Accrued Interest Payable | 53,306,471 | | (53,306,471) | - | - |
| Pension Contributions Due Retirement Systems | 200,858,070 | | (200,858,070) | - | - |
| Swap Liability | 302,463,879 | | (302,463,879) | - | - |
| LTGO P&I due Insurer | 22,953,172 | | (22,953,172) | - | - |
| UTGO P&I Due Insurer | 56,949,551 | | (56,949,551) | - | - |
| POC P&I Due Insurer | 63,182,675 | | (63,182,675) | - | - |
| Other Unpaid Defaulted Debt (2008 A(2) Uninsured LTGO Bonds) | 25,000,000 | | (25,000,000) | - | - |
| Deferred Inflows of Resources | 34,844,753 | | (34,844,753) | - | - |
| Total Current Obligations Subject to Compromise | $ 775,888,433 | | $ (759,558,571) | $ - | $ 16,329,862 |

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

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

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

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

***Pro-Forma General Fund Balance Sheet***

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

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

| GENERAL FUND | Balance June 30, 2014 | Bankruptcy Compromise | Pro-Forma Balance June 30, 2014 |
|---|---|---|---|
| ASSETS | | | |
| Cash and Cash Equivalents | $ 376,272,685 | $ - | $ 376,272,685 |
| Investments | 5,009,151 | - | 5,009,151 |
| Accounts and Contracts Receivable: | | | |
| Estimated Withheld Income Taxes Receivable | 24,694,559 | - | 24,694,559 |
| Utility Users' Taxes Receivable | 2,505,618 | - | 2,505,618 |
| Property Taxes Receivable | 260,081,217 | - | 260,081,217 |
| Income Tax Assessments | 58,485,008 | - | 58,485,008 |
| Special Assessments | 24,669,919 | - | 24,669,919 |
| Trade Receivables | 211,692,008 | - | 211,692,008 |
| Total Accounts and Contracts Receivable | 582,128,329 | - | 582,128,329 |
| Allowance for Uncollectible Accounts | (513,781,842) | - | (513,781,842) |
| Total Accounts and Contracts Receivable - Net | 68,346,487 | - | 68,346,487 |
| Due from Other Funds | 10,729,220 | - | 10,729,220 |
| Due from Fiduciary Funds | 2,538,863 | - | 2,538,863 |
| Due from Component Units | 1,808,025 | - | 1,808,025 |
| Due from Other Governmental Agencies | 156,927,661 | - | 156,927,661 |
| Other Advances | 805,485 | - | 805,485 |
| Other Assets | 348,865 | - | 348,865 |
| Total Assets | 622,786,442 | - | 622,786,442 |
| DEFERRED OUTFLOWS OF RESOURCES | - | - | - |
| Total Assets and Deferred Outflows of Resources | $ 622,786,442 | $ - | $ 622,786,442 |
| LIABILITIES | | | |
| Accounts and Contracts Payable | $ 50,239,629 | $ - | $ 50,239,629 |
| Accrued Liabilities | 68,690,505 | - | 68,690,505 |
| Accrued Salaries and Wages | 17,141,508 | - | 17,141,508 |
| Due to Other Funds | 181,615,738 | (138,359,015) | 43,256,723 |
| Due to Fiduciary Funds | 32,167,402 | - | 32,167,402 |
| Due to Other Governmental Agencies | 87,700,587 | - | 87,700,587 |
| Due to Component Units | 9,295,244 | - | 9,295,244 |
| Income Tax Refunds Payable | 3,862,477 | - | 3,862,477 |
| Deposits from Vendors and Customers | 5,440,699 | - | 5,440,699 |
| Unearned Revenue | 5,051,341 | - | 5,051,341 |
| Defaulted Debt Due to Insurer | 22,953,172 | (22,953,172) | - |
| Other Defaulted Debt | 25,000,000 | (25,000,000) | - |
| Other Liabilities | 14,639,129 | - | 14,639,129 |
| Accrued Interest Payable | 3,890,348 | (3,890,348) | - |
| Claims and Judgments | 628,806 | - | 628,806 |
| Total Liabilities | 528,316,585 | (190,202,535) | 338,114,050 |
| DEFERRED INFLOWS OF RESOURCES | 41,063,488 | - | 41,063,488 |
| FUND BALANCES (DEFICIT) | | | |
| Restricted for: | | | |
| Capital Acquisitions | 42,000,000 | - | 42,000,000 |
| Unspent Bond Proceeds | 979,826 | - | 979,826 |
| Committed for: | | | |
| Risk Management Operations | 79,267,054 | - | 79,267,054 |
| Quality of Life Program | 77,067,071 | - | 77,067,071 |
| Unassigned: | | | |
| General Fund (Deficit) | (145,907,582) | 190,202,535 | 44,294,953 |
| Total Fund Balances (Deficit) | 53,406,369 | 190,202,535 | 243,608,904 |
| Total Liabilities, Deferred Inflows of Resources, and Fund Balances (Deficit) | $ 622,786,442 | $ - | $ 622,786,442 |





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

***Long-Term Debt Compromised in Bankruptcy***

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

| | Balance June 30, 2014 | Discharged or Refunded | Effective Date Financing | Balance December 10, 2014 |
|---|---|---|---|---|
| Limited Tax General Obligation Bonds | | | | |
| Self Insurance 2012C | $ 129,520,000 | $ - | $ - | $ 129,520,000 |
| Subtotal | 129,520,000 | - | - | 129,520,000 |
| Series 2005-A(1) | 3,950,000 | (3,950,000) | - | - |
| Series 2005-A(1) | 52,175,000 | (52,175,000) | - | - |
| Series 2005-A(2) | 745,000 | (745,000) | - | - |
| Series 2005-A(2) | 9,475,000 | (9,475,000) | - | - |
| Series 2005-B | 1,000,000 | (1,000,000) | - | - |
| Series 2005-B | 6,940,000 | (6,940,000) | - | - |
| Series 2008-A(1) | 43,265,000 | (43,265,000) | - | - |
| Subtotal | 117,550,000 | (117,550,000) | - | - |
| Distributable State Aid 2010 | 249,790,000 | - | - | 249,790,000 |
| 2014 A Income Tax Bonds | - | - | 134,725,000 | 134,725,000 |
| 2014 B Income Tax Bonds | - | - | 140,275,000 | 140,275,000 |
| 2014 B(1) Bonds | - | - | 616,560,047 | 616,560,047 |
| 2014 B(2) Bonds | - | - | 15,404,098 | 15,404,098 |
| 2014 C Bonds | - | - | 88,430,021 | 88,430,021 |
| Series 2014 - QOL Financial Recovery Bonds | 120,000,000 | (120,000,000) | - | - |
| Total Limited Tax General Obligation Bonds | 616,860,000 | (237,550,000) | 995,394,166 | 1,374,704,166 |
| Unlimited Tax General Obligation Bonds | | | | |
| Series 1999-A | 15,765,000 | (13,699,785) | - | 2,065,215 |
| Series 2001-A (1) | 74,800,000 | (65,001,200) | - | 9,798,800 |
| Series 2002 | 6,645,000 | (5,774,505) | - | 870,495 |
| Series 2003-A | 31,675,000 | (27,525,575) | - | 4,149,425 |
| Series 2004-A(1) | 39,270,000 | (34,125,630) | - | 5,144,370 |
| Series 2004-B(1) | 29,365,000 | (25,518,185) | - | 3,846,815 |
| Series 2004-B(2) | 575,000 | (499,675) | - | 75,325 |
| Series 2005-B | 4,695,000 | (4,079,955) | - | 615,045 |
| Series 2005-B | 37,920,000 | (32,952,480) | - | 4,967,520 |
| Series 2005-C | 4,730,000 | (4,110,370) | - | 619,630 |
| Series 2005-C | 10,795,000 | (9,380,855) | - | 1,414,145 |
| Series 2008-A | 12,385,000 | (10,762,565) | - | 1,622,435 |
| Series 2008-A | 43,510,000 | (37,810,190) | - | 5,699,810 |
| Series 2008-B(1 | 18,780,000 | (16,319,820) | - | 2,460,180 |
| Series 2014 A1 - K2 | - | - | 13,321,425 | 13,321,425 |
| Series 2014 A1 - K2 | - | - | 63,206,000 | 63,206,000 |
| Series 2014 A1 - K2 | - | - | 5,615,025 | 5,615,025 |
| Series 2014 A1 - K2 | - | - | 26,765,375 | 26,765,375 |
| Series 2014 A1 - K2 | - | - | 33,183,150 | 33,183,150 |
| Series 2014 A1 - K2 | - | - | 24,813,425 | 24,813,425 |
| Series 2014 A1 - K2 | - | - | 485,875 | 485,875 |
| Series 2014 A1 - K2 | - | - | 36,009,675 | 36,009,675 |
| Series 2014 A1 - K2 | - | - | 13,118,625 | 13,118,625 |
| Series 2014 A1 - K2 | - | - | 47,231,275 | 47,231,275 |
| Series 2014 A1 - K2 | - | - | 15,869,100 | 15,869,100 |
| Series 2014 A1 - K2 | - | - | 378,360 | 378,360 |
| Series 2014 A1 - K2 | - | - | 1,795,200 | 1,795,200 |
| Series 2014 A1 - K2 | - | - | 159,480 | 159,480 |
| Series 2014 A1 - K2 | - | - | 760,200 | 760,200 |
| Series 2014 A1 - K2 | - | - | 942,480 | 942,480 |
| Series 2014 A1 - K2 | - | - | 704,760 | 704,760 |
| Series 2014 A1 - K2 | - | - | 13,800 | 13,800 |
| Series 2014 A1 - K2 | - | - | 1,022,760 | 1,022,760 |
| Series 2014 A1 - K2 | - | - | 372,600 | 372,600 |
| Series 2014 A1 - K2 | - | - | 1,341,480 | 1,341,480 |
| Series 2014 A1 - K2 | - | - | 450,720 | 450,720 |
| Subtotal | 330,910,000 | (287,560,790) | 287,560,790 | 330,910,000 |
| Series 2010-E | 100,000,000 | - | - | 100,000,000 |
| Total General Obligation Unlimited Tax Bonds | $ 430,910,000 | $ (287,560,790) | $ 287,560,790 | $ 430,910,000 |

| | Balance June 30, 2014 | Discharged or Refunded | Effective Date Financing | Balance December 10, 2014 |
|---|---|---|---|---|
| Revenue Bonds | | | | |
| Sewer Revenue Bonds | $ 2,785,567,772 | $ - | $ - | $ 2,785,567,772 |
| Water Revenue Bonds | 2,484,925,000 | - | - | 2,484,925,000 |
| Total Revenue Bonds | 5,270,492,772 | - | - | 5,270,492,772 |
| State Revolving Loans | | | | |
| Sewer Revolving Loans | 459,787,878 | - | - | 459,787,878 |
| Water Revolving Loans | 20,123,761 | - | - | 20,123,761 |
| Total State Revolving Loans | 479,911,639 | - | - | 479,911,639 |
| PLAD Bonds | 60,000,000 | - | - | 60,000,000 |
| Governmental Notes Payable | | | | |
| Federal Note — Ferry Project | 1,635,000 | - | - | 1,635,000 |
| Federal Note — Garfield Project | 525,000 | - | - | 525,000 |
| Federal Note — Stuberstone Project | 90,000 | - | - | 90,000 |
| Federal Note — New Amsterdam Project | 7,750,000 | - | - | 7,750,000 |
| Federal Note — Mexicantown Welcome Center | 3,210,000 | - | - | 3,210,000 |
| Federal Note — Vernor Lawndale Project | 1,340,000 | - | - | 1,340,000 |
| Federal Note — Book Cadillac | 7,300,000 | - | - | 7,300,000 |
| Federal Note — Garfield II Note 1 | 6,372,000 | - | - | 6,372,000 |
| Federal Note — Garfield II Note 2 | 2,058,000 | - | - | 2,058,000 |
| Federal Note — Fort Shelby | 17,750,000 | - | - | 17,750,000 |
| Federal Note — Book Cadillac II | 9,984,000 | - | - | 9,984,000 |
| Federal Note — Woodward Garden | 7,050,000 | - | - | 7,050,000 |
| Federal Note — Woodward Garden Note 2 | 6,197,000 | - | - | 6,197,000 |
| Federal Note — Garfield II Note 3 | 6,697,000 | - | - | 6,697,000 |
| Federal Note — Garfield II Note 4 (interim) | 1,473,000 | - | - | 1,473,000 |
| Federal Note — Woodward Garden Note 3 | 5,753,000 | - | - | 5,753,000 |
| Total Governmental Notes Payable | 85,184,000 | - | - | 85,184,000 |
| Loan Payable to Downtown Development Authority | 33,600,000 | (33,600,000) | - | - |
| Loans Payable-IBM - Schedule-001 | 3,093,164 | - | - | 3,093,164 |
| Total Governmental Loans Payable | 36,693,164 | (33,600,000) | - | 3,093,164 |
| Pension Obligation Certificates | | | | |
| Series 2005A | 450,615,000 | (450,615,000) | - | - |
| Series 2006A and 2006B | 948,540,000 | (948,540,000) | - | - |
| Total Pension Obligation Certificates | 1,399,155,000 | (1,399,155,000) | - | - |
| Unamortized Premiums & Discounts | 167,391,362 | (8,795,578) | - | 158,595,784 |
| Total Other Financing Costs | 167,391,362 | (8,795,578) | - | 158,595,784 |
| OPEB Obligation | 19,307,371 | - | - | 19,307,371 |
| Pollution Remediation | 51,265 | - | - | 51,265 |
| Accrued Compensated Absences | 77,671,327 | - | - | 77,671,327 |
| Claims & Judgments | 53,612,145 | - | - | 53,612,145 |
| Other | 47,563,087 | - | - | 47,563,087 |
| Workers Compensation | 87,287,979 | - | - | 87,287,979 |
| Total Other Long-Term Debt | 285,493,174 | - | - | 285,493,174 |
| Grand Total Long-Term Debt | 8,832,091,111 | (1,966,661,368) | 1,282,954,956 | 8,148,384,699 |
| Defaulted Debt | 168,085,398 | (168,085,398) | - | - |
| Total Primary Government | $ 9,000,176,509 | $ (2,134,746,766) | $ 1,282,954,956 | $ 8,148,384,699 |







The Primary Government long-term obligations, as of June 30, 2014, discharged or refinanced in bankruptcy totaled $2.0 billion. This includes: (1) $1.4 billion of POC debt; and (2) $237.6 million of LTGO debt including the cost of refunding the $120.0 million 2014 Financial Recovery Bonds (Quality of Life) issued in April 2014. In addition, the City's OPEB obligations totaling $1.0 billion at June 30, 2013 were eliminated during the year ended June 30, 2014 because the Employee Health and Life Insurance Benefit Plan was significantly reduced on March 1, 2014 and terminated on December 31, 2014 in accordance with the Plan of Adjustment and settlements reached with retirees in the Bankruptcy Case. The City's only OPEB obligations to retirees were the $19.3 million ($17.5 million Health Plan and $1.8 million Death Benefit Plan) included in the City's long-term obligations at June 30, 2014, which were payable through December 31, 2014 in accordance with the Plan (the "Retiree Health Care Settlement Agreement"). In addition, $168.1 million of defaulted debt owed to the insurers as subrogees and bond holders including the $25.0 million of uninsured LTGO bonds was discharged. The obligations that were discharged or refinanced in the Plan were satisfied in part by the issuance and distribution, on the Effective Date, of $1.3 billion of new debt. The net Plan impact was a $1.7 billion ($1.0 billion OPEB and $0.7 billion other Long-Term debt) reduction in the Primary Government long-term obligations at June 30, 2014.

***Pro-Forma Statement of Net Position (Government-Wide)***

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

| | Primary Government | | | |
|---|---|---|---|---|
| | June 30, 2014 Balance | Bankruptcy Compromise | Added Bankruptcy | Pro-Forma Primary Government |
| ASSETS | | | | |
| Cash and Cash Equivalents | $ 1,113,676,509 | $ - | $ (110,127,537) | $ 1,003,548,972 |
| Investments | 392,313,638 | - | - | 392,313,638 |
| Accounts and Contracts Receivable - Net | 288,158,532 | - | - | 288,158,532 |
| Due from Component Units | 3,592,899 | - | - | 3,592,899 |
| Due from Other Governmental Agencies | 178,184,774 | - | - | 178,184,774 |
| Inventory | 19,816,345 | - | - | 19,816,345 |
| Prepaid Expenses | 1,051,783 | - | - | 1,051,783 |
| Prepaid Insurance on Debt | 73,173,163 | (34,452,367) | - | 38,720,796 |
| Long-Term Receivable | 10,219,051 | - | - | 10,219,051 |
| Advance to Component Unit/Library | 24,016,604 | - | - | 24,016,604 |
| Other Assets | 2,059,941 | - | - | 2,059,941 |
| Net Pension Asset | 1,206,321,236 | (1,206,321,236) | - | - |
| Capital Assets: | | | | |
| Non-Depreciable | 939,136,821 | - | (10,800) | 939,126,021 |
| Depreciable, Net | 5,678,448,948 | - | (86,558,000) | 5,591,890,948 |
| Total Capital Assets - Net | 6,617,585,769 | - | (86,568,800) | 6,531,016,969 |
| Total Assets | 9,930,170,244 | (1,240,773,603) | (196,696,337) | 8,492,700,304 |
| DEFERRED OUTFLOWS OF RESOURCES | 346,369,340 | (17,682,877) | - | 328,686,463 |
| LIABILITIES | | | | |
| Accounts and Contracts Payable | 230,753,975 | - | - | 230,753,975 |
| Accrued Liabilities | 89,850,714 | - | - | 89,850,714 |
| Accrued Salaries and Wages | 21,183,213 | - | - | 21,183,213 |
| Accrued Interest Payable | 197,216,027 | (53,306,471) | - | 143,909,556 |
| Due to Other Governmental Agencies | 134,026,126 | - | - | 134,026,126 |
| Due to Component Units | 13,069,229 | - | - | 13,069,229 |
| Deposits and Refunds | 10,102,587 | - | - | 10,102,587 |
| Unearned Revenue | 17,983,338 | - | - | 17,983,338 |
| Derivative Instruments - Swap Liability | 302,463,879 | (302,463,879) | - | - |
| Defaulted Debt Due to Insurers | 143,085,398 | (143,085,398) | - | - |
| Other Defaulted Debt | 25,000,000 | (25,000,000) | - | - |
| Other Liabilities | 19,286,339 | - | 25,000,000 | 44,286,339 |
| Long-Term Obligations: | | | | |
| Due within one year | 412,290,238 | - | - | 412,290,238 |
| Due in more than one year | 8,419,800,873 | (1,966,661,368) | 1,282,954,956 | 7,736,094,461 |
| Total Liabilities | 10,036,111,936 | (2,490,517,116) | 1,307,954,956 | 8,853,549,776 |
| DEFERRED INFLOWS OF RESOURCES | 52,033,918 | (34,844,753) | - | 17,189,165 |
| NET POSITION (DEFICIT) | | | | |
| Net Investment in Capital Assets | 940,478,218 | - | - | 940,478,218 |
| Restricted for: | | | | |
| Highway and Street Improvement | 48,941,150 | - | - | 48,941,150 |
| Endowments and Trust (Expendable) | 765,245 | - | - | 765,245 |
| Endowments and Trust (Non-Expendable) | 937,861 | - | - | 937,861 |
| Capital Projects and Acquisitions | 187,742,180 | - | - | 187,742,180 |
| Donations | 1,135,691 | - | - | 1,135,691 |
| Debt Service | 335,582,345 | - | - | 335,582,345 |
| Unrestricted (Deficit) | (1,327,188,960) | 1,266,905,389 | (1,504,651,293) | (1,564,934,864) |
| Total Net Position (Deficit) | $ 188,393,730 | $ 1,266,905,389 | $ (1,504,651,293) | $ (49,352,174) |







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

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

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

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

## NOTE XIV. SUBSEQUENT EVENTS

### a. Bankruptcy Exit

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

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

**Retiree Health Benefits**

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

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

**Pension Plans**

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

Pursuant to the Global Retiree Settlement, on January 2, 2015, excess interest totaling, in the aggregate, approximately $55.4 million was debited from the annuity savings fund ("ASF") accounts of substantially all current account holders. Each annuity savings fund participant who previously received a distribution of the contents of his or her account has been provided the opportunity to elect to return excess interest in the form of a lump-sum payment, and the election period closed on January 21, 2015. Reductions in pension payments to ASF participants who declined to make a lump-sum payment commenced on March 1, 2015. For each ASF participant who elected to make a lump-sum payment but fails to timely remit the ASF Recoupment Cash Payment, deductions of annuitized excess amounts will begin after May 1, 2015.

**Syncora Settlement**

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

**FGIC Settlement**

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

**Settlement Credits**

On the Effective Date, pursuant to the Syncora Settlement and the FGIC/POC Settlement, the City transferred settlement credits to a trustee (on behalf of Syncora and FGIC) in the aggregate amount of $25.0 million that may be applied to the purchase price of certain eligible City assets, subject to the terms and conditions of those settlement credits.

**DIA Assets**

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

**Implementation of Reinvestment Initiatives**

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





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**Budget Implementation**

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

For more details on the Bankruptcy Case, see Footnote XIII.

**b. Restoration of Mayor and City Council Authority**

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

**c. Financial Review Commission**

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

Compliance with Public Act 181 includes the following:

- Providing to the Commission any documents, records or other information requested of City officials by the Commission or its staff, including any documents, records or other information specifically required by PA 181.
- Appearing before the Commission to provide testimony, documents, records or other information as and when requested by the Commission or its staff.
- Providing to the Commission upon its request verification of compliance by the City with all of the following consistent with the requirements of Section 6(3) of PA 181:

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

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

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

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

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

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

**d. Finance Department Restructuring**

On September 25, 2014, the EM issued order number 41, which established a centralized financial management organization, under the direction of the Chief Financial Officer (CFO). Order number 41 places under the CFO all of the authority and responsibilities of the Finance Director under Sections 6-301 and 6-302 of the City Charter and of the Budget Director under Section 6-101, as well as the additional duties and responsibilities outlined in order number 41. Order number 41 includes the following:

- The CFO is directed to establish a centralized financial management organizational structure, to be called the Office of the Chief Financial Officer ("Office of the CFO"). The Office of the CFO will provide management oversight, control, and direction to the existing Budget Department, Finance Department and all their subordinate components, and all finance, budget, and grant related components of other City departments, divisions, and agencies. The Office of the CFO shall oversee, control, direct, and coordinate the City's activities relating to budgets, financial plans, financial management, grants management, financial reporting, financial analysis, and compliance with the budget and financial plan of the City.

- The Office of the CFO will be comprised of the following organizational components which shall be considered to be "Divisions" of the Office of the CFO:

  A. Office of the Assessor (Assessments Division);

  B. Office of the Treasury (Treasury Division);

  C. Office of the Controller (Accounts Division);

  D. Office of Contracting and Procurement (Purchasing Division);

  E. Office of Grants Management (Grants Management Department);

  F. Office of Budget (Budget Department); and

  G. Office of Financial Planning & Analysis.







- All finance, budget, and grants management related positions in each of the City's departments, divisions, and agencies shall report to the CFO. Each department, division, and agency will include in their annual budgets the full funding of all finance, budget, and grant related positions performing financial and/or budget management functions. The CFO may transfer finance, budget, and grant related position and their full funding into the Office of the CFO from any department, division, and agency. The CFO will seek input from each department, division, and agency in the selection of the finance, budget, and grant related positions that will be housed in a department, division, and agency and will seek input from such entities in the management of those positions.

- The CFO shall have the authority to write-off accounts receivable without City Council approval if such accounts receivable: (a) are older than the statute of limitations; (b) have been absolved by a legal proceeding such as the confirmed Plan of Adjustment; or (c) are older than one year provided that the CFO obtains the written approval of the Mayor.

- Notwithstanding any City or human resources rule, regulation, policy, agreement, ordinance or practice to the contrary, including, but not limited to, the City's Civil Service Rules, in consultation with the Human Resource Department, the CFO shall create a new classification and compensation system for the positions under the authority of the CFO. The CFO shall have the authority to create compensation and salary schedules and to change said schedules based on future needs and compensation surveys to ensure competitive salaries for City finance and related positions. In all events, the CFO shall comply with the terms of applicable collective bargaining agreements and provide required notices to impacted employees and labor unions, if applicable.

**e. Human Resources Department Restructuring**

On September 25, 2014, the EM issued order number 40, directing the restructuring of the City's Human Resources Department. Order number 40 requires the HR Director to create a new classification and compensation system for the City. Order number 40 includes the following:

- The Human Resources Director shall have direct and indirect oversight of the Human Resource related functions, including bargaining obligations with employee representatives.

- The Human Resources Department shall be comprised of the following six organization components which shall be deemed to be "Divisions" of the Human Resources Department:

  A. Office of the Human Resource Director;

  B. Office of Human Resource Operations;

  C. Office of Talent and Performance Management;

  D. Office of Classification and Compensation;

  E. Office of Policy and Planning; and

  F. Office of Labor and Employee Relations (Labor Relations Division).

- The Human Resources Director is required to create a new classification and compensation system for the City.

- Notwithstanding any City or human resources rule, regulation, policy, agreement, ordinance or practice to the contrary, the HR Director shall create a performance management and evaluation system for the employees of the City. In connection with these efforts, the HR Director shall comply with the terms of applicable collective bargaining agreements and provide required notices to impacted employees and labor unions, if applicable.

- Notwithstanding any City or human resources rule, regulation, policy, agreement, ordinance or practice to the contrary, the HR Director shall create a Center for Workforce Development, which will be responsible for the training and development of City employees.

- The HR Director shall initiate, conduct and, upon completion, implement, a full review of all existing Civil Service rules and regulations in an effort to ensure these rules and regulations meet the needs of the City Government.

- Notwithstanding any City or human resources rule, regulation, policy, agreement, ordinance, or practice to the contrary, including, but not limited to, the City's Civil Service Rules, the HR Director shall have the authority to:

  A. Determine the placement of all human resource positions, including the selection and removal of incumbents, within the HR Department;

  B. Create or modify job titles, roles, responsibilities and positions in support of the City's human resource functions, within the HR Department and other City departments, divisions, and agencies; and

  C. Make recruitment, hiring, retention, promotion, demotion, reassignment, and any other related personnel decisions affecting the City's human resource functions.

**f. Department of Innovation and Technology**

On September 25, 2014, the EM issued order number 39, which created a centralized information technology management organization within the Information Technology Services Department, under the direction of the Chief Information Officer ("CIO"). Order number 39 includes the following:

- The CIO is directed to establish a Department of Innovation and Technology (the "Department of DOIT"). The CIO shall be the director of the Department of DOIT. The Department of Information Technology Services shall become a division of the Department of DOIT.

- The CIO is directed to establish a centralized information technology organizational structure in the Department of DOIT. The Department of DOIT shall provide centralized management oversight, control and direction to all information technology related components of other City departments, divisions, and agencies. The CIO shall have the power, with the consent of the Mayor, to appoint up to eight employees within the Department of DOIT who report to the CIO for purposes of carrying out the functions of the Department of DOIT and serve at the pleasure of the Mayor.

- All information technology related positions in each of the City's departments, divisions, and agencies shall report to the CIO. Each department, division, and agency shall include in its annual budgets the full funding of all information technology related positions performing information technology functions.

- No department, division or agency may acquire or otherwise deploy any information technology without the express approval of the CIO. It is understood that department directors have a major role deciding whether the system application meets the programmatic requirements of a department, division or agency.

**g. Housing and Revitalization Department ("HRD")**

On September 25, 2014, the EM issued order number 38, which established the new Housing and Revitalization Department (the "HRD") to perform certain functions previously performed by the Planning and Development Department. Order number 38 includes the following:

- The HRD shall strategically manage the City's Federal entitlement and related resources and shall be comprised of the following three divisions: (a) Administration; (b) Public/Private Partnership; and (c) Underwriting.





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- The Administration Division shall be comprised of the following operational components: (a) Program Management, Reporting and Data Collection; (b) Labor Standards and Section 3 Compliance; and (c) Administrative support.

- The Public/Private Partnership Division shall lead initiatives to attract public and private investment in city neighborhoods using public land and financing.

- The Underwriting Division shall invest the City's entitlement funds in affordable, mixed income and mixed-use housing developments, and related public improvements in addition to leading the planning associated with Community Development Block Grants, Emergency Solutions Grant Program, HOME funds and Neighborhood Opportunity Fund, and the implementation of a City-wide investment strategy.

- All finance, accounting, and grant management positions in the City's Planning and Development Department ("PDD") and their respective appropriations shall be transferred to the Office of the Chief Financial Officer. The City's Chief Financial Officer ("CFO") or his designee will identify the specific positions that will be transferred, the appropriations to be transferred, and the timing of these transfers.

- The PDD will be comprised of the following operational components: overseeing the development of a City-wide Master Plan of Policies; strategic oversight of land acquisition and land sales in partnership with HRD; site plan review for community planning implementation and coordination; assisting with administering Historic and Environmental regulations, data management, and GIS mapping.

**h. Great Lakes Water Authority**

On November 26, 2014, the Bankruptcy Court entered a Mediation Order, ordering parties "to continue to engage in facilitative mediation of any matters regarding the formation of the Great Lakes Water Authority….". A Board of Directors for the Authority has been appointed and began meeting, on a bimonthly basis, in December 2014. The State has awarded a \$3.8 million grant to the Authority for payment of costs associated with the transition of operations and oversight. Professionals have been hired to assist in all aspects of the transition and currently are preparing documents related to: (a) the lease of the City's regional water supply and sewer disposal systems; (b) bondholder consents to the transfer and assumption of outstanding City water and sewer bonds by the Authority; and (c) the issuance of the Great Lakes Water Authority bonds. On June 12, 2015, the Authority's Board of Directors voted in favor of a resolution approving the lease of the Detroit Systems to the Authority for an initial term of 40 years.

**i. New Pension Plan**

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

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

Adjustment, plus an additional benefit under the new hybrid plan formula, as long as they satisfy vesting requirements. Assets supporting the new hybrid pension programs will be accounted separately from accounting of assets supporting the frozen pension programs.

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

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

**j. Acquisition of 77 Detroit Public Schools Properties**

On October 18, 2014, the Mayor and the Detroit Public Schools (DPS) Emergency Manager announced a deal regarding disposition of 77 blighted DPS properties, and forgiveness of DPS' $11.6 million debt to the City. DPS will turn over control of 57 vacant schools (31 secured and 26 unsecured) and an additional 20 vacant lots where schools once stood. A total of $4.3 million in federal Neighborhood Stabilization Program (NSP) funds administered by the State was available to demolish ten to twelve (10-12) of the buildings.

Initially, the properties will be placed in escrow, pending the results of environmental assessments. The city will conduct an environmental analysis of each school property to determine how much remediation may be required. During that time, the City will assume responsibility for maintaining and securing the properties.

Once each assessment is completed on each property, title will be transferred to the City of Detroit. If the City determines that the level of contamination at a property would make it prohibitively expensive to clean up, it will return the property to DPS, which will have the option to offer another vacant property to the City or reimburse the City in an amount originally assigned to the property. Several of the closed schools still have playground equipment and are being used by the neighborhoods as a recreation area. These playgrounds will be maintained by the City General Services Department as City parks and maintained within the parks budget.

Demolition of other schools will come later as additional funding is identified. Former school buildings on these properties that are still viable, as well as vacant lots, will be marketed for redevelopment by the City. Approximately half of the 57 school structures are currently open to trespass, posing a threat to the community. To address this, the City will secure the vacant buildings.

**k. Other Restructuring Initiatives**

**<u>New Financial Management System (FMS)</u>**

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

**l. Debt Ratings**

On October 20, 2014, Moody’s Investment Service (Moody’s) downgraded the City’s POCs from “Ca” to “C”. On December 5, 2014, Moody’s upgraded the rating on the City’s third lien Distributable State Aid bonds, Series 2012C, from “A3” to “A2”. The outlook on all three liens was revised to stable from negative. The Aa3 rating applies to the Distributable State Aid General Obligation (Limited Tax) Bonds, Series 2010; the A1 rating applies to the Local Government Loan Program Revenue Bonds (City of Detroit Unlimited Tax General Obligation - Second Lien), Series 2010E; and the A2 rating applies to the Local Government Loan Program Revenue Loan Bonds (City of Detroit Limited Tax General Obligation - Third Lien), Series 2012C. All three



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series of bonds are backed by a general obligation pledge of Detroit and also by a direct intercept of Distributable State Aid (DSA) from the State of Michigan. On December 16, 2014, Standard & Poor’s withdrew its ratings on the City’s UGTO and LGTO bonds and the POCs. On December 22, 2014, Standard & Poor’s assigned an A- rating to the $287.6 million of Unlimited Tax General Obligation Bonds (2014 A1 to 2014 K2) issued by the Michigan Finance Authority on December 10, 2014 for the City of Detroit secured by the City’s unlimited tax general obligation pledge and a fourth-lien pledge of Distributable State Aid (DSA) revenues. At the same time, Standard and Poor’s affirmed its ratings on Detroit’s DSA bond series 2010 (‘AA’; closed first lien), series 2010E and 2012B (‘AA-‘; second lien) bonds, and series 2012C (‘A+’; third lien), bonds. On March 11, 2015, Moody’s gave the City a B3 stable issuer rating.

On August 20, 2014, Standard & Poor’s increased the rating on the Water and Sewage Disposal Funds senior and second lien debt from CCC/CCC to BBB+/BBB+. Moody’s increased the ratings on the same debt from B1/B2 to Ba2/Ba3. Fitch also increased the ratings on the senior and second lien debt from BB+/BB to BBB-/BB+.

**m. New Debt Issues**

On the December 10, 2014 Effective Date, the City issued approximately $1.3 billion of debt. Certain bonds (2014 A1-K2, 2014 A, and 2014 B (Exit Financing) bonds) were initially sold to the Michigan Finance Authority (MFA). The MFA then issued bonds secured by the City’s bonds. This debt and uses of the proceeds are summarized and described below.

| Debt Issued | | Amount |
|---|---|---|
| 2014 B(1) Bonds | $ | 616,560,047 |
| 2014 B(2) Bonds | | 15,404,098 |
| 2014 C Bonds | | 88,430,021 |
| 2014 A Bonds (Exit Financing) | | 134,725,000 |
| 2014 B Bonds (Exit Financing) | | 140,275,000 |
| 2014 A1-K2 Bonds | | 287,560,790 |
| Total New Debt Issued | $ | 1,282,954,956 |

**<u>2014 B(1) and B(2) Bonds</u>**

The Financial Recovery Bonds, Series 2014 B(1) and Series B(2) total $616,560,047 and $15,404,098, respectively. They are federally taxable. The bonds’ interest rate is 4.0% per annum from December 10, 2014 to and including March 31, 2034 and 6% 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 distribution of the 2014 B(1) and B(2) Bonds is detailed in the table below.

| Use | | Series B(1) | | Series B(2) | | Total |
|---|---|---|---|---|---|---|
| GRS VEBA | $ | 233,414,249 | $ | 5,365,910 | $ | 238,780,159 |
| PFRS VEBA | | 248,245,662 | | 5,655,337 | | 253,900,999 |
| LTGO Class 9 Settlement | | 13,138,835 | | 4,163,026 | | 17,301,861 |
| Class 14 Other Unsecured Claims | | 20,376,922 | | 219,825 | | 20,596,747 |
| FGIC Settlement DDA Recovery | | 3,691,591 | | - | | 3,691,591 |
| POC Settlement with Syncora | | 23,500,000 | | - | | 23,500,000 |
| POC Settlement with FGIC | | 74,192,788 | | - | | 74,192,788 |
| Total | $ | 616,560,047 | $ | 15,404,098 | $ | 631,964,145 |

**2014 C Bonds**

The Financial Recovery Bonds, Series 2014 C total $88,430,021. The bonds bear interest at 5% 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 bonds were distributed as follows:

| Use | Series C Bonds |
|---|---|
| POC Settlement with Syncora | $ 21,271,804 |
| POC Settlement with FGIC | 67,158,217 |
| Total | $ 88,430,021 |

**2014 A and B Bonds**

The Financial Recovery Income Tax Revenue and Refunding Bonds, Series 2014 A and Series 2014 B total $134,725,000 and $140,275,000, respectively. The bonds' interest rate is currently variable but will be reoffered to the public and converted to a fixed rate. The Series 2014 A Bonds are tax exempt and mature on October 1, 2029 and the Series B Bonds are taxable and mature on October 1, 2022. The City's income tax revenues are pledged to and secure the payment of debt service on these bonds. The bond proceeds were used to: (1) refund the Series 2014 Financial Recovery Bonds, "Quality of Life", issued in April 2014; (2) fund a debt service reserve for the bonds; (3) provide additional funding for the City's reinvestment and revitalization initiatives; (4) pay the final installment of the settlement of the Class 5 POC Swap Claims; and (5) pay the costs of issuance of the bonds. Detailed in the table below are the use of proceeds for each series.

| Use | Series A | Series B | Total |
|---|---|---|---|
| Refund Quality of Life Financing | $ 61,353,638 | $ 58,751,363 | $ 120,105,001 |
| Debt Service Reserve | 13,472,500 | 14,027,500 | 27,500,000 |
| Issuance and Other Costs | 1,834,028 | 1,906,319 | 3,740,347 |
| Restructuring Initiatives (RRI) | 58,064,834 | 27,619,890 | 85,684,724 |
| Derivatives (Swap Settlement pay-off) | - | 37,969,929 | 37,969,929 |
| Total | $ 134,725,000 | $ 140,275,001 | $ 275,000,001 |

**2014 A1-2014 K2 Bonds**

The UTGO (Unlimited Tax General Obligation) Restructured Local Project Bonds Fourth Lien total $287,560,790. The City's unlimited tax annual debt millage levy will provide the debt service requirements for these bonds. If the debt millage is insufficient, then the City's distributable state aid and General Fund will be required to make up any deficiency. The bonds were issued to restructure $287,560,790 of the original UTGO bonds outstanding before the Effective Date. The UTGO debt has been restructured by the issuance and delivery to the Michigan Finance Authority (MFA) of 22 series of new City bonds, each corresponding to an equivalent principal amount of the eleven series of original, prepetition UTGO bonds, with the same interest rate, maturity and redemption provisions as the original UTGO bonds. The bonds are comprised of subseries (2014 A1 - K2). The 2014 A1 - K2 bonds total $287,560,790 and on the Effective Date, $279,618,950 of the bonds were delivered to the original UTGO bondholders and $7,941,840 of the bonds were delivered to the UTGO bond insurers.





City of Detroit, Michigan
COMPREHENSIVE ANNUAL FINANCIAL REPORT
For the Year Ended June 30, 2014

The $287,560,790 principal amount of the original UTGO bonds, which has been restructured as described above has been cancelled and discharged. The principal amount of the original UTGO bonds of $43,349,210 ("Stub UTGO Bonds") remains outstanding. The Plan assigned the City's collections of the debt service millage for the Stub UTGO Bonds primarily to the income stabilization funds, as part of the City's original General Retirement (GRS) and Police and Fire Retirement (PFRS) systems, for additional distributions to those retirees who meet certain income eligibility criteria established, pursuant to the Plan. The insurers remain responsible for the payment of debt service to the original bondholders on the remaining $43.3 million UTGO bonds, as part of the Class 8 UTGO Settlement and in accordance with the Plan.

**Water and Sewer Revenue Bonds**

On August 21, 2014, the Board of Water Commissioners accepted revenue bond tender offers of $752,450,000 and $715,220,000 for the Water and Sewage Disposal Funds, respectively. Subsequently, on August 26, 2014, the Water and Sewage Disposal Funds issued refunding revenue Series 2014D bonds in the amount of $854,850,000 and Series 2014C bonds in the amount of $785,170,000, respectively, as a conduit financing through the Michigan Finance Authority. In addition, the Sewage fund issued $150,690,000 of new revenue bonds. The net present value savings from the refunding transactions were $57 million and $53 million for the Water and the Sewage Disposal Funds, respectively.

# REQUIRED SUPPLEMENTARY INFORMATION

**COMPARISON - GENERAL FUND BUDGET TO ACTUAL**

**(UNAUDITED)**





City of Detroit, Michigan
COMPREHENSIVE ANNUAL FINANCIAL REPORT
For the Year Ended June 30, 2014

## NOTES TO BUDGET TO ACTUAL COMPARISON

**Budgeting Policy:** The City's annual budget constitutes a financial plan for the next fiscal year, which is required to set forth estimated revenues from all sources and all appropriations. Proposed capital appropriations are included in separate sections of the budget. Any surplus or deficit during the preceding year is entered into the budget for the next fiscal year as either revenue (surplus) or appropriation (deficit), in accordance with the City Charter. The total of proposed expenditures cannot exceed the total of estimated revenues, so that the budget as submitted is a balanced budget. Budgets are prepared for all agencies of the City. All budgets are adopted at the function level within a department, the legal level of budgetary control.

**Budgetary Compliance:** On or before April 12 of each year, the Mayor submits to the City Council a proposed annual budget for the next fiscal year. A public hearing in the manner provided by law or ordinance is held on the proposed budget before adoption. After the public hearing, the City Council adopts the budget with or without amendment. Consideration of the budget is completed by the City Council no later than May 24. If the Mayor disapproves of amendments made by the City Council, the Mayor, within seven days, submits to the City Council in writing the reasons for the disapproval. The City Council proceeds to reconsider any budget item so disapproved. If, after reconsideration, a two-thirds majority of the City Council serving agrees to sustain any of the City Council's amendments to the budget, those amendments so sustained are of full force and effect. The City Council's reconsideration of the budget must be concluded within three business days after receipt of the Mayor's disapproval.

The budget has been prepared in accordance with U.S. generally accepted accounting principles, except that transfers to/from other funds have been included in revenue and expenditures. The adoption of the budget provides for: (1) appropriations of specific amounts from funds indicated; (2) a specific levy of property tax; and (3) provision for the issuance of bonds specified in the capital program. The budget as adopted becomes the basis for establishing revenues and expenditures for the fiscal year. The appropriations for the functions of each City department are fixed. Expenditures may not exceed the original appropriations without City Council approval. If during the fiscal year the Mayor advises the City Council that there are available appropriations and revenues in excess of those estimated in the budget, the City Council may make supplemental appropriations for the year up to the amount of the excess. In the case of estimated revenue shortfalls, the Mayor may request that the City Council decrease certain appropriations. In any case, the Mayor is under no obligation to spend an entire appropriation. Also, at any time during the fiscal year, the City Council, upon written request by the Mayor, may transfer all or part of any unencumbered appropriation balance among programs, services, or activities within an agency or from one agency to another.

# City of Detroit, Michigan
## SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
## GENERAL FUND
## For the Year Ended June 30, 2014

| | Budgeted Amounts Original | Budgeted Amounts Final | Actual Amounts | Variance With Final Budget- Positive (Negative) |
|---|---|---|---|---|
| REVENUES: | | | | |
| Taxes, Assessments, Interest, and Penalties: | | | | |
| Property Taxes | $ 117,407,486 | $ 118,422,879 | $ 129,413,195 | $ 10,990,316 |
| Municipal Income Tax | 275,825,435 | 257,178,325 | 253,769,874 | (3,408,451) |
| Utility Users' Tax | 34,250,000 | 34,250,000 | 42,386,549 | 8,136,549 |
| Wagering Taxes | 170,000,000 | 170,000,000 | 167,924,023 | (2,075,977) |
| Other Taxes and Assessments | 9,918,253 | 8,902,860 | 6,480,150 | (2,422,710) |
| Interest and Penalties on Taxes | 4,000,000 | 4,000,000 | 896,735 | (3,103,265) |
| Total Taxes, Assessments, Interest, and Penalties | 611,401,174 | 592,754,064 | 600,870,526 | 8,116,462 |
| Licenses, Permits, and Inspection Charges: | | | | |
| Business Licenses | 2,435,000 | 2,435,000 | 2,091,850 | (343,150) |
| Permits | 519,500 | 519,500 | 810,448 | 290,948 |
| Inspection Charges | 5,801,000 | 5,801,000 | 5,696,205 | (104,795) |
| Other Licenses | (18,420,923) | 226,137 | 86,940 | (139,197) |
| Total Licenses, Permits, and Inspection Charges | (9,665,423) | 8,981,637 | 8,685,443 | (296,194) |
| Intergovernmental: | | | | |
| Federal | 27,257,819 | 132,322,105 | 39,930,125 | (92,391,980) |
| State: | | | | |
| State Shared Revenue | 183,677,124 | 183,640,899 | 189,756,901 | 6,116,002 |
| State Returnable Liquor License Fees | 575,000 | 575,000 | 607,547 | 32,547 |
| Other State Sourced Revenue | 2,009,400 | 104,956,882 | 24,333,026 | (80,623,856) |
| Other | 3,440,375 | 44,400,566 | 223,381 | (44,177,185) |
| Total Intergovernmental | 216,959,718 | 465,895,452 | 254,850,980 | (211,044,472) |
| Sales and Charges for Services: | | | | |
| Maintenance and Construction | 76,000 | 76,000 | — | (76,000) |
| Electrical | 39,810,412 | 39,810,412 | 40,101,687 | 291,275 |
| Steam | 1,015,000 | 1,015,000 | — | (1,015,000) |
| Recreation Fees | 16,000 | 16,000 | 212,996 | 196,996 |
| Collection Fees | 5,194,148 | 5,224,148 | 4,266,749 | (957,399) |
| Other Fees | 44,108,686 | 41,768,001 | 41,811,576 | 43,575 |
| Personal Services | 340,267 | (1,395,479) | 48,973,280 | 50,368,759 |
| Other Departmental Sales | 43,653,131 | 51,739,120 | 22,010,861 | (29,728,259) |
| Total Sales and Charges for Services | 134,213,644 | 138,253,202 | 157,377,149 | 19,123,947 |
| Ordinance Fines and Forfeitures | 16,699,625 | 16,699,625 | 15,946,936 | (752,689) |
| Revenue from Use of Assets: | | | | |
| Investment Earnings | — | (200,704) | 180,623 | 381,327 |
| Real Estate Rentals | 1,987,983 | 2,288,791 | 2,753,762 | 464,971 |
| Concessions | 277,568 | 277,568 | 262,817 | (14,751) |
| Sale of Real Property | 5,300,000 | 6,807,238 | 4,551,919 | (2,255,319) |
| Total Revenue from Use of Assets | 7,565,551 | 9,172,893 | 7,749,121 | (1,423,772) |
| Other Revenue | 36,195,604 | 84,168,956 | 64,735,592 | (19,433,364) |
| Total Revenues | 1,013,369,893 | 1,315,925,829 | 1,110,215,747 | (205,710,082) |

(Continued)




# City of Detroit, Michigan
## SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
## GENERAL FUND
## For the Year Ended June 30, 2014


| | Budgeted Amounts Original | Budgeted Amounts Final | Actual Amounts | Variance With Final Budget- Positive (Negative) |
|---|---|---|---|---|
| EXPENDITURES: | | | | |
| Public Protection: | | | | |
| Consumer Affairs | $ — | $ 450 | $ — | $ 450 |
| Construction Code | — | — | 766,094 | (766,094) |
| Fire | 176,819,773 | 197,732,768 | 116,736,177 | 80,996,591 |
| Human Rights | 663,930 | 642,785 | 441,755 | 201,030 |
| Ombudsperson | 1,005,863 | 944,256 | 858,481 | 85,775 |
| Parking Enforcement | 7,715,373 | 7,655,793 | 5,740,191 | 1,915,602 |
| Police | 368,928,805 | 348,943,316 | 272,011,477 | 76,931,839 |
| Office of the Inspector General | 1,259,480 | 1,369,085 | 939,775 | 429,310 |
| Detroit Office of Homeland Security | — | 10,282,358 | 23,038 | 10,259,320 |
| 36th District Court | 31,723,315 | 30,818,884 | 28,586,016 | 2,232,868 |
| Total Public Protection | 588,116,539 | 598,389,695 | 426,103,004 | 172,286,691 |
| Department of Health | 14,781,612 | 145,076,347 | 46,424,431 | 98,651,916 |
| Recreation and Culture: | | | | |
| Culture, Arts, and Tourism | — | 974,536 | — | 974,536 |
| Historical | — | 23,413 | — | 23,413 |
| Recreation | 12,206,277 | 29,625,908 | 15,979,864 | 13,646,044 |
| Senior Citizens | — | 790,539 | — | 790,539 |
| Zoological Institute | — | (6,241) | — | (6,241) |
| Total Recreation and Culture | 12,206,277 | 31,408,155 | 15,979,864 | 15,428,291 |
| Economic Development — Civic Center | — | 130,527 | — | 130,527 |
| Housing Supply and Conditions - Planning and Development | 2,933,605 | 11,363,624 | 6,966,303 | 4,397,321 |
| Total Housing Supply and Conditions | 2,933,605 | 11,363,624 | 6,966,303 | 4,397,321 |
| Physical Environment: | | | | |
| Environmental Affairs | — | 1,058,181 | — | 1,058,181 |
| Public Lighting | 56,938,382 | 64,019,162 | 58,904,626 | 5,114,536 |
| Public Works | 1,853,357 | 3,449,725 | 671,258 | 2,778,467 |
| Total Physical Environment | 58,791,739 | 68,527,068 | 59,575,884 | 8,951,184 |
| Development and Management: | | | | |
| Auditor General | 2,959,901 | 5,362,197 | 4,231,780 | 1,130,417 |
| Budget | 2,155,354 | 2,045,519 | 1,676,706 | 368,813 |
| City Clerk | 2,219,961 | 2,138,967 | 1,831,010 | 307,957 |
| City Council | 5,543,396 | 5,738,696 | 5,375,413 | 363,283 |
| Communications and Creative Services | — | 568 | — | 568 |
| Elections | 7,679,733 | 7,932,011 | 7,063,206 | 868,805 |
| Finance | 31,399,785 | 28,668,903 | 23,884,697 | 4,784,206 |
| General Services | 52,089,441 | 55,807,255 | 54,273,511 | 1,533,744 |
| Law | 16,435,159 | 15,852,025 | 11,636,230 | 4,215,795 |
| Mayor's Office | 2,895,451 | 6,513,417 | 5,043,567 | 1,469,850 |
| Human Resources | 9,965,598 | 9,980,628 | 8,420,966 | 1,559,662 |
| Information Technology Services | 16,872,565 | 23,555,121 | 15,026,236 | 8,528,885 |
| Board of Zoning Appeals | 525,463 | 614,704 | 513,041 | 101,663 |
| Detroit Workforce Development Department | — | 640,820 | — | 640,820 |
| Administrative Hearings | 1,245,358 | 1,348,604 | 1,065,256 | 283,348 |
| Non Departmental | 195,892,138 | 156,350,346 | 156,488,422 | (138,076) |
| Total Development and Management | 347,879,303 | 322,549,781 | 296,530,041 | 26,019,740 |
| Capital Outlay | — | 35,678,482 | 15,175,250 | 20,503,232 |

(Continued)

City of Detroit, Michigan
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
GENERAL FUND
For the Year Ended June 30, 2014

| | Budgeted Amounts Original | Budgeted Amounts Final | Actual Amounts | Variance With Final Budget-Positive (Negative) |
|---|---|---|---|---|
| Debt Service: | | | | |
| Principal | $ — | $ 387,438 | $ 44,546,910 | $ (44,159,472) |
| Interest on Bonded Debt | — | 22,720,648 | 29,081,981 | (6,361,333) |
| Bond Issuance Costs | — | — | 3,379,410 | (3,379,410) |
| Total Debt Service | — | 23,108,086 | 77,008,301 | (53,900,215) |
| Total Expenditures | 1,024,709,075 | 1,236,231,765 | 943,763,078 | 292,468,687 |
| Excess (Deficiency) of Revenues Over (Under) Expenditures | (11,339,182) | 79,694,064 | 166,452,669 | 86,758,605 |
| OTHER FINANCING SOURCES (USES): | | | | |
| Sources: | | | | |
| Transfers In | 20,482,893 | 20,471,221 | 9,010,944 | (11,460,277) |
| Proceeds from Bond and Note Issuance | — | — | 120,000,000 | 120,000,000 |
| Total Other Financing Sources | 20,482,893 | 20,471,221 | 129,010,944 | 108,539,723 |
| Uses: | | | | |
| Transfers Out | (9,143,711) | (94,999,174) | (169,076,495) | (74,077,321) |
| Total Other Financing Uses | (9,143,711) | (94,999,174) | (169,076,495) | (74,077,321) |
| Total Other Financing Sources (Uses) | 11,339,182 | (74,527,953) | (40,065,551) | 34,462,402 |
| Net Change in Fund Balance | — | 5,166,111 | 126,387,118 | 121,221,007 |
| Fund Deficit at Beginning of Year | (72,980,749) | (72,980,749) | (72,980,749) | — |
| Fund Deficit at End of Year | $ (72,980,749) | $ (67,814,638) | $ 53,406,369 | $ 121,221,007 |

See notes to budget to actual comparison.







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# REQUIRED SUPPLEMENTARY INFORMATION

## SCHEDULES OF EMPLOYER CONTRIBUTIONS AND FUNDING PROGRESS

(UNAUDITED)

IV-96





## REQUIRED SUPPLEMENTARY INFORMATION

**Schedule of Funding Progress (In millions):**

**General Retirement System**

| Actuarial Valuation Date June 30 | Actuarial Value of Assets | Actuarial Accrued Liability (AAL) | Funded Ratio | Unfunded AAL (UAAL) | Covered Payroll | UAAL as a Percentage of Covered Payroll |
|---|---|---|---|---|---|---|
| 2008 | 3,641.2 | 3,609.6 | 100.9 | (31.6) | 368.5 | (8.6) |
| 2009 | 3,412.4 | 3,689.1 | 92.5 | 276.7 | 357.1 | 77.5 |
| 2010 | 3,238.1 | 3,719.6 | 87.1 | 481.5 | 334.3 | 144.0 |
| 2011 | 3,080.3 | 3,720.2 | 82.8 | 639.9 | 303.4 | 210.9 |
| 2012 | 2,806.5 | 3,644.2 | 77.0 | 837.7 | 258.0 | 324.7 |
| 2013 | 2,524.9 | 3,609.1 | 70.0 | 1,084.2 | 213.3 | 508.3 |

**Police and Fire Retirement System**

| Actuarial Valuation Date June 30 | Actuarial Value of Assets | Actuarial Accrued Liability (AAL) | Funded Ratio | Unfunded AAL (UAAL) | Covered Payroll | UAAL as a Percentage of Covered Payroll |
|---|---|---|---|---|---|---|
| 2008 | 4,316.3 | 4,071.1 | 106.0 | (245.2) | 232.8 | - |
| 2009 | 3,945.2 | 4,221.3 | 93.5 | 276.1 | 231.8 | 119.1 |
| 2010 | 3,853.3 | 3,767.4 | 102.3 | (85.9) | 228.8 | - |
| 2011 | 3,804.8 | 3,808.6 | 99.9 | 3.9 | 220.5 | 1.8 |
| 2012 | 3,675.5 | 3,822.7 | 96.1 | 147.2 | 205.8 | 71.5 |
| 2013 | 3,474.5 | 3,890.1 | 89.3 | 415.6 | 186.7 | 222.6 |

**Supplemental Death Benefit Plan**

| Actuarial Valuation Date June 30 | Actuarial Value of Assets | Actuarial Accrued Liability (AAL) | Funded Ratio | Unfunded AAL (UAAL) | Covered Payroll | UAAL as a Percentage of Covered Payroll |
|---|---|---|---|---|---|---|
| 2010 | $ 24.1 | $ 35.2 | 68.5 % | $ 11.1 | $ 567.3 | 2.0 % |
| 2011 | 25.7 | 34.6 | 74.3 | 8.9 | 444.4 | 2.0 |
| 2013 | 31.3 | 32.4 | 96.6 | 1.2 | 397.0 | 0.3 |

## REQUIRED SUPPLEMENTARY INFORMATION

**Schedule of Employer Contributions (In millions):**

| General Retirement System | | | | Police and Fire Retirement System | | | |
|---|---|---|---|---|---|---|---|
| Year Ended June 30 | Annual Required Contribution | Percentage Contributed | Net Pension Asset | Year Ended June 30 | Annual Required Contribution | Percentage Contributed | Net Pension Asset |
| 2009 | $ 41.4 | 100 | $ 727.7 | 2009 | $ 61.2 | 59 | $ 621.4 |
| 2010 | 37.3 | 100 | 740.1 | 2010 | 57.8 | 57 | 613.6 |
| 2011 | 55.1 | 100 | 754.2 | 2011 | 81.6 | 100 | 617.7 |
| 2012 | 64.1 | 100 | 756.0 | 2012 | 49.8 | 100 | 613.7 |
| 2013 | 60.3 | 63 | 750.6 | 2013 | 43.9 | (66) | 535.7 |
| 2014 | 68.0 | 40 | 727.2 | 2014 | 51.4 | - | 479.1 |

**Schedule of Employer Contributions (In millions):**

| Supplemental Death Benefit Plan | | |
|---|---|---|
| Year Ended June 30 | Annual Required Contribution | Percentage Contributed |
| 2012 | $ 0.596 | 33 % |
| 2013 | 0.596 | 19 |
| 2014 | 0.119 | 84 |







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# OTHER SUPPLEMENTARY INFORMATION SECTION

## COMBINING NON-MAJOR GOVERNMENTAL FUNDS FINANCIAL STATEMENTS







## SPECIAL REVENUE FUNDS

**SPECIAL REVENUE FUNDS ARE ESTABLISHED TO ACCOUNT FOR THE PROCEEDS OF SPECIFIC REVENUE SOURCES (OTHER THAN CERTAIN MAJOR CAPITAL FACILITIES) THAT ARE RESTRICTED BY LAW AND ADMINISTRATIVE ACTION TO EXPENDITURES FOR SPECIFIED PURPOSES**

| | |
|---|---|
| **Community Development Block Grant Fund** | To account for activities financed by Federal Government Grants under Title I of the Housing and Community Development Act of 1974 |
| **Construction Code Fund** | In accordance with State of Michigan Public Act No. 245 of 1999, to account for financing activities related to the acts and services performed by the Building and Safety Fund including, without limitation, issuance of building permits, examination of plans and specifications, inspection of construction undertaken pursuant to a building permit, the issuance of certificates of use and occupancy, and hearing appeals in accordance with this act |
| **Urban Development Fund** | To account for funding received from the Federal Government earmarked for the acquisition and site preparation of property for future development |
| **Detroit Workforce Development Fund** | To account for employment and training program grants received from government sources |
| **Drug Law Enforcement Fund** | To account for forfeited narcotics proceeds that are used for the enhancement of narcotics enforcement |
| **Human Services Fund** | To account for Federal and State Grant revenues that are to be used to finance certain social service programs |
| **Solid Waste Management Fund** | To account for local revenues collected for curbside rubbish pick-up and discard |
| **Street Fund** | To account for Michigan State Gas and Weight Tax revenues and other related grants used for the construction and maintenance of major and local streets |
| **Targeted Business Development Fund** | To account for revenues received via the casino development agreements earmarked to foster the presence of minority businesses in the City |
| **Telecommunications Fund** | To account for State grant revenues received as a result of Public Act 48 of 2002 (Metropolitan Extension Telecommunications Rights-of-Way Oversight Act), which was designed to promote expanded telecommunication services in Michigan |
| **Renewable Energy Fund** | To account for Public Act 295 of 2008, Clean, Renewable, and Efficient Energy Act activities of the Public Lighting Department |
| **Donated Monies Fund** | To account for donated funding received for Recreation Bequest Fund |

## DEBT SERVICE FUND

**THE DEBT SERVICE FUND IS ESTABLISHED TO ACCOUNT FOR THE ACCUMULATION OF RESOURCES FOR THE PAYMENT OF DEBT AND PRINCIPAL AND INTEREST OF CERTAIN PROPRIETARY FUNDS' GENERAL OBLIGATIONS**

## CAPITAL PROJECTS FUND

**THE CAPITAL PROJECTS FUND IS ESTABLISHED TO ACCOUNT FOR FINANCIAL RESOURCES TO BE USED FOR THE ACQUISITION OR CONSTRUCTION OF MAJOR CAPITAL FACILITIES (OTHER THAN THOSE FINANCED BY SPECIAL REVENUE FUNDS AND PROPRIETARY FUNDS)**

## PERMANENT FUNDS

**PERMANENT FUNDS ACCOUNT FOR PRINCIPAL TRUST AMOUNTS RECEIVED AND RELATED INTEREST INCOME. THE INTEREST PORTION OF THE TRUST IS USED TO MAINTAIN THE COMMUNITY CEMETERY**

## PERPETUAL CARE - BEQUEST FUNDS

**TO ACCOUNT FOR INCOME AND DISBURSEMENTS OF BEQUESTS ACCEPTED BY THE CITY**



# City of Detroit, Michigan
# COMBINING BALANCE SHEET
# OTHER GOVERNMENTAL FUNDS
# June 30, 2014

| | Special Revenue Funds | Debt Service Fund | Capital Projects Fund | Permanent Funds and Bequest Funds | Total |
|---|---|---|---|---|---|
| ASSETS AND DEFERRED OUTFLOWS OF RESOURCES | | | | | |
| Assets: | | | | | |
| Cash and Cash Equivalents | $ 117,541,829 | $ 10,134,681 | $ 28,539,595 | $ 1,717,577 | $ 157,933,682 |
| Investments | 7,293,827 | — | 43,411,534 | — | 50,705,361 |
| Accounts and Contracts Receivable: | | | | | |
| Property Taxes Receivable | — | 102,587,983 | — | — | 102,587,983 |
| Special Assessments | — | — | 541,890 | — | 541,890 |
| Loans Receivable | 18,000,000 | — | — | — | 18,000,000 |
| Trade Receivables | 4,554,526 | — | 3,305,983 | — | 7,860,509 |
| Total Accounts and Contracts Receivable | 22,554,526 | 102,587,983 | 3,847,873 | — | 128,990,382 |
| Allowance for Uncollectible Accounts | (21,659,434) | (102,587,984) | (1,061,949) | — | (125,309,367) |
| Total Accounts and Contracts Receivable - Net | 895,092 | (1) | 2,785,924 | — | 3,681,015 |
| Due from Other Funds | 9,743,319 | 66,901,888 | 323 | — | 76,645,530 |
| Due from Fiduciary Funds | 652,824 | — | — | — | 652,824 |
| Due from Component Units | 9,114 | — | — | — | 9,114 |
| Due from Other Governmental Agencies | 13,476,236 | — | — | — | 13,476,236 |
| Other Assets | 742,976 | — | 162,615 | — | 905,591 |
| Total Assets | 150,355,217 | 77,036,568 | 74,899,991 | 1,717,577 | 304,009,353 |
| Deferred Outflows of Resources: | — | — | — | — | — |
| Total Assets and Deferred Outflows of Resources | $ 150,355,217 | $ 77,036,568 | $ 74,899,991 | $ 1,717,577 | $ 304,009,353 |
| LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES | | | | | |
| Liabilities: | | | | | |
| Accounts and Contracts Payable | $ 5,565,462 | $ — | $ 8,661,510 | $ 14,159 | $ 14,241,131 |
| Accrued Liabilities | 20,456,967 | 5 | 702,925 | 312 | 21,160,209 |
| Accrued Salaries and Wages | 859,219 | — | — | — | 859,219 |
| Due to Other Funds | 7,492,380 | — | 2,415,104 | — | 9,907,484 |
| Due to Fiduciary Funds | 204 | — | — | — | 204 |
| Due to Component Units | — | 1,955,771 | — | — | 1,955,771 |
| Due to Other Governmental Agencies | 19,196,569 | 5,526,477 | — | — | 24,723,046 |
| Deposits from Vendors and Customers | 799,411 | — | — | — | 799,411 |
| Unearned Revenues | 357,514 | — | — | — | 357,514 |
| Other Liabilities | 509,404 | — | 96,599 | — | 606,003 |
| Defaulted Debt Due to Insurers | — | 56,949,551 | — | — | 56,949,551 |
| Accrued Compensated Absences | — | — | 9,539 | — | 9,539 |
| Total Liabilities | 55,237,130 | 64,431,804 | 11,885,677 | 14,471 | 131,569,082 |
| Deferred Inflows of Resources: | 4,200,835 | — | 68,027 | — | 4,268,862 |
| Fund Balances: | | | | | |
| Nonspendable: | | | | | |
| Permanent Fund Principal | — | — | — | 937,861 | 937,861 |
| Restricted for: | | | | | |
| Highway and Street Improvements | 48,941,150 | — | — | — | 48,941,150 |
| Police | 9,690,016 | — | — | — | 9,690,016 |
| Endowments and Trusts | — | — | — | 765,245 | 765,245 |
| Capital Acquisitions | — | — | 62,946,287 | — | 62,946,287 |
| Local Business Growth | 478,084 | — | — | — | 478,084 |
| Rubbish Collection and Disposal | 19,109,922 | — | — | — | 19,109,922 |
| Construction Code | 2,395,287 | — | — | — | 2,395,287 |
| Grants | 10,302,793 | — | — | — | 10,302,793 |
| Assigned for: | | | | | |
| Debt Service | — | 12,604,764 | — | — | 12,604,764 |
| Total Fund Balances | 90,917,252 | 12,604,764 | 62,946,287 | 1,703,106 | 168,171,409 |
| Total Liabilities, Deferred Inflows of Resources, and Fund Balances | $ 150,355,217 | $ 77,036,568 | $ 74,899,991 | $ 1,717,577 | $ 304,009,353 |

See accompanying independent auditor's report.

## City of Detroit, Michigan
## COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
## OTHER GOVERNMENTAL FUNDS
## For the Year Ended June 30, 2014

| | Special Revenue Funds | Debt Service Fund | Capital Projects Fund | Permanent Funds and Bequest Funds | Totals |
|---|---|---|---|---|---|
| REVENUES: | | | | | |
| Taxes: | | | | | |
| Property Taxes | $ — | $ 65,214,710 | $ — | $ — | $ 65,214,710 |
| Gas and Weight Tax | 53,904,485 | — | — | — | 53,904,485 |
| Interest and Penalties on Taxes | — | 373,049 | — | — | 373,049 |
| Other Taxes and Assessments | — | 2,123,482 | — | — | 2,123,482 |
| Licenses, Permits, and Inspection Charges | 20,021,186 | — | — | — | 20,021,186 |
| Intergovernmental: | | | | | |
| Federal | 56,977,258 | — | — | — | 56,977,258 |
| State | 24,893,308 | — | — | — | 24,893,308 |
| Other | 5,778,004 | — | — | — | 5,778,004 |
| Sales and Charges for Services | 49,941,428 | — | 668,451 | — | 50,609,879 |
| Ordinance Fines and Forfeitures | 1,904,202 | — | — | — | 1,904,202 |
| Investment Earnings | 82,987 | 2,621 | — | 34,166 | 119,774 |
| Other Revenue | 24,191,567 | 3,344,270 | 879,453 | — | 28,415,290 |
| Total Revenues | 237,694,425 | 71,058,132 | 1,547,904 | 34,166 | 310,334,627 |
| EXPENDITURES: | | | | | |
| Current: | | | | | |
| Public Protection | 23,519,280 | — | — | — | 23,519,280 |
| Health | 2,357,772 | — | — | — | 2,357,772 |
| Recreation and Culture | (36,063) | — | — | 88,791 | 52,728 |
| Economic Development | 48,725,786 | 1,411,664 | 1,041,320 | — | 51,178,770 |
| Physical Environment | 37,865,258 | — | — | — | 37,865,258 |
| Transportation Facilitation | 36,505,709 | — | — | — | 36,505,709 |
| Development and Management | 1,156,350 | — | — | — | 1,156,350 |
| Debt Service: | | | | | |
| Principal | 3,126,000 | 38,205,000 | — | — | 41,331,000 |
| Interest | 3,723,095 | 26,736,406 | — | — | 30,459,501 |
| Capital Outlay | 49,222,191 | — | 16,931,863 | — | 66,154,054 |
| Total Expenditures | 206,165,378 | 66,353,070 | 17,973,183 | 88,791 | 290,580,422 |
| Excess (Deficiency) of Revenues Over (Under) Expenditures | 31,529,047 | 4,705,062 | (16,425,279) | (54,625) | 19,754,205 |
| OTHER FINANCING SOURCES (USES): | | | | | |
| Sources: | | | | | |
| Transfers In | 11,115,472 | — | — | — | 11,115,472 |
| Uses: | | | | | |
| Transfers Out | (20,126,416) | — | — | — | (20,126,416) |
| Total Other Financing Sources (Uses) | (9,010,944) | — | — | — | (9,010,944) |
| Net Change in Fund Balances | 22,518,103 | 4,705,062 | (16,425,279) | (54,625) | 10,743,261 |
| Fund Balances at Beginning of Year, as restated | 68,399,149 | 7,899,702 | 79,371,566 | 1,757,731 | 157,428,148 |
| Fund Balances at End of Year | $ 90,917,252 | $ 12,604,764 | $ 62,946,287 | $ 1,703,106 | $ 168,171,409 |



See accompanying independent auditor's report.





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# City of Detroit, Michigan
## COMBINING BALANCE SHEET
## OTHER GOVERNMENTAL FUNDS
## SPECIAL REVENUE FUNDS
## For the Year Ended June 30, 2014

| | Community Development Block Grant Fund | Construction Code Fund | Urban Development Fund | Detroit Workforce Development Fund | Drug Law Enforcement Fund |
|---|---|---|---|---|---|
| ASSETS | | | | | |
| Cash and Cash Equivalents | $ 5,623,571 | $ 2,365,724 | $ 3,168,540 | $ 1,487,676 | $ 10,632,589 |
| Investments | 7,293,827 | — | — | — | — |
| Accounts and Contracts Receivable: | | | | | |
| Loans Receivable | 18,000,000 | — | — | — | — |
| Trade Receivables | 235,552 | 685,273 | — | — | — |
| Total Accounts and Contracts Receivable | 18,235,552 | 685,273 | — | — | — |
| Less: Allowance for Uncollectible Accounts | (18,010,693) | (685,273) | — | — | — |
| Total Accounts and Contracts Receivable - Net | 224,859 | — | — | — | — |
| Due from Other Funds | 235,083 | 2,574,411 | 3,129 | 31,355 | 672 |
| Due from Fiduciary Funds | 527,824 | — | — | — | — |
| Due from Component Units | — | 2,478 | — | — | — |
| Due from Other Governmental Agencies | 4,493,217 | — | — | 192 | — |
| Other Assets | 5,101 | — | — | — | — |
| Total Assets | $ 18,403,482 | $ 4,942,613 | $ 3,171,669 | $ 1,519,223 | $ 10,633,261 |
| Deferred Outflows of Resources | — | — | — | — | — |
| Total Assets and Deferred Outfolws of Resources | $ 18,403,482 | $ 4,942,613 | $ 3,171,669 | $ 1,519,223 | $ 10,633,261 |
| LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES (DEFICITS) | | | | | |
| Liabilities: | | | | | |
| Accounts and Contracts Payable | $ 1,028,763 | $ 65,113 | $ 2,613 | $ — | $ 351,758 |
| Accrued Liabilities | 5,773,409 | 23,344 | 26,850 | — | 303,969 |
| Accrued Salaries and Wages | 99,832 | 360,168 | 5,578 | — | 16,330 |
| Due to Other Funds | 4,853,852 | 1,322,881 | 156,278 | 216,941 | 271,104 |
| Due to Fiduciary Fund | 120 | — | — | — | 84 |
| Due to Other Governmental Agencies | 1,991,941 | — | 122,325 | 1,181,146 | — |
| Deposits from Vendors and Customers | 743,856 | — | 55,555 | — | — |
| Unearned Revenue | 56,181 | — | 246,815 | — | — |
| Other Liabilities | — | 347,069 | 41,199 | 121,136 | — |
| Total Liabilities | 14,547,954 | 2,118,575 | 657,213 | 1,519,223 | 943,245 |
| Deferred Inflows of Resources | — | 428,751 | — | — | — |
| Fund Balances: | | | | | |
| Restricted for: | | | | | |
| Highway and Street Improvements | — | — | — | — | — |
| Police | — | — | — | — | 9,690,016 |
| Local Business Growth | — | — | — | — | — |
| Rubbish Collection and Disposal | — | — | — | — | — |
| Construction Code | — | 2,395,287 | — | — | — |
| Grants | 3,855,528 | — | 2,514,456 | — | — |
| Total Fund Balances (Deficits) | 3,855,528 | 2,395,287 | 2,514,456 | — | 9,690,016 |
| Total Liabilities, Deferred Inflows of Resources, and Fund Balances | $ 18,403,482 | $ 4,942,613 | $ 3,171,669 | $ 1,519,223 | $ 10,633,261 |





| | Human Services Fund | Solid Waste Management Fund | Street Fund | Targeted Business Development Fund | Telecommunications Fund | Renewable Energy Fund | Donated Monies Fund | Totals |
|---|---|---|---|---|---|---|---|---|
| ASSETS | | | | | | | | |
| Cash and Cash Equivalents | $ 3,261,476 | $ 32,725,859 | $ 47,805,587 | $ 5,015,203 | $ 5,102,550 | $ 220,221 | $ 132,833 | $ 117,541,829 |
| Investments | — | — | — | — | — | — | — | 7,293,827 |
| Accounts and Contracts Receivable: | | | | | | | | |
| Loans Receivable | — | — | — | — | — | — | — | 18,000,000 |
| Trade Receivables | — | 243,938 | 2,943,205 | — | — | 446,558 | — | 4,554,526 |
| Total Accounts and Contracts Receivable | — | 243,938 | 2,943,205 | — | — | 446,558 | — | 22,554,526 |
| Less: Allowance for Uncollectible Accounts | — | (228,685) | (2,288,225) | — | — | (446,558) | — | (21,659,434) |
| Total Accounts and Contracts Receivable - Net | — | 15,253 | 654,980 | — | — | — | — | 895,092 |
| Due from Other Funds | 203,618 | 2,900,000 | 3,707,547 | — | 20,653 | 61,813 | 5,038 | 9,743,319 |
| Due from Fiduciary Funds | — | 125,000 | — | — | — | — | — | 652,824 |
| Due from Component Units | — | — | — | — | — | 6,636 | — | 9,114 |
| Due from Other Governmental Agencies | — | — | 8,982,827 | — | — | — | — | 13,476,236 |
| Other Assets | — | — | 737,875 | — | — | — | — | 742,976 |
| Total Assets | $ 3,465,094 | $ 35,766,112 | $ 61,888,816 | $ 5,015,203 | $ 5,123,203 | $ 288,670 | $ 137,871 | $ 150,355,217 |
| Deferred Outflows of Resources | — | — | — | — | — | — | — | — |
| Total Assets and Deferred Outfolws of Resources | $ 3,465,094 | $ 35,766,112 | $ 61,888,816 | $ 5,015,203 | $ 5,123,203 | $ 288,670 | $ 137,871 | $ 150,355,217 |
| LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES (DEFICITS) | | | | | | | | |
| Liabilities: | | | | | | | | |
| Accounts and Contracts Payable | $ — | $ 891,402 | $ 2,551,105 | $ — | $ 674,708 | $ — | $ — | $ 5,565,462 |
| Accrued Liabilities | — | 2,587,347 | 6,467,189 | 4,537,119 | 712,490 | 25,250 | — | 20,456,967 |
| Accrued Salaries and Wages | — | 155,486 | 221,825 | — | — | — | — | 859,219 |
| Due to Other Funds | 585,892 | — | — | — | — | — | 85,432 | 7,492,380 |
| Due to Fiduciary Fund | — | — | — | — | — | — | — | 204 |
| Due to Other Governmental Agencies | 2,879,202 | 13,021,955 | — | — | — | — | — | 19,196,569 |
| Deposits from Vendors and Customers | — | — | — | — | — | — | — | 799,411 |
| Unearned Revenue | — | — | — | — | — | — | 54,518 | 357,514 |
| Other Liabilities | — | — | — | — | — | — | — | 509,404 |
| Total Liabilities | 3,465,094 | 16,656,190 | 9,240,119 | 4,537,119 | 1,387,198 | 25,250 | 139,950 | 55,237,130 |
| Deferred Inflows of Resources | — | — | 3,707,547 | — | 20,653 | 38,847 | 5,037 | 4,200,835 |
| Fund Balances: | | | | | | | | |
| Restricted for: | | | | | | | | |
| Highway and Street Improvements | — | — | 48,941,150 | — | — | — | — | 48,941,150 |
| Police | — | — | — | — | — | — | — | 9,690,016 |
| Local Business Growth | — | — | — | 478,084 | — | — | — | 478,084 |
| Rubbish Collection and Disposal | — | 19,109,922 | — | — | — | — | — | 19,109,922 |
| Construction Code | — | — | — | — | — | — | — | 2,395,287 |
| Grants | — | — | — | — | 3,715,352 | 224,573 | (7,116) | 10,302,793 |
| Total Fund Balances (Deficits) | — | 19,109,922 | 48,941,150 | 478,084 | 3,715,352 | 224,573 | (7,116) | 90,917,252 |
| Total Liabilities, Deferred Inflows of Resources, and Fund Balances | $ 3,465,094 | $ 35,766,112 | $ 61,888,816 | $ 5,015,203 | $ 5,123,203 | $ 288,670 | $ 137,871 | $ 150,355,217 |

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# City of Detroit, Michigan
## COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
## OTHER GOVERNMENTAL FUNDS
## SPECIAL REVENUE FUNDS
## For the Year Ended June 30, 2014

| | Community Development Block Grant Fund | Construction Code Fund | Urban Development Fund | Detroit Workforce Development Fund | Drug Law Enforcement Fund | Human Services Fund | Solid Waste Management Fund | Street Fund | Targeted Business Development Fund | Telecommunications Fund | Renewable Energy Fund | Donated Monies Fund | Totals |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| REVENUES: | | | | | | | | | | | | | |
| Taxes: | | | | | | | | | | | | | |
| Gas and Weight Tax | $ — | $ — | $ — | $ — | $ — | $ — | $ — | $ 53,904,485 | $ — | $ — | $ — | $ — | $ 53,904,485 |
| Licenses, Permits, and Inspection Charges | — | 20,021,186 | — | — | — | — | — | — | — | — | — | — | 20,021,186 |
| Intergovernmental: | | | | | | | | | | | | | |
| Federal | 46,739,186 | 242,966 | 9,937,287 | — | — | 57,819 | — | — | — | — | — | — | 56,977,258 |
| State | — | — | — | — | — | — | — | 22,485,269 | — | 2,408,039 | — | — | 24,893,308 |
| Other | — | — | — | — | — | — | — | 5,699,689 | — | — | — | 78,315 | 5,778,004 |
| Sales and Charges for Services | — | — | — | — | — | — | 49,941,428 | — | — | — | — | — | 49,941,428 |
| Ordinance Fines and Forfeitures | — | 12,017 | — | — | 1,772,048 | — | 120,137 | — | — | — | — | — | 1,904,202 |
| Investment Earnings | 4,581 | — | 11,487 | — | — | — | 7,751 | 55,303 | — | 3,865 | — | — | 82,987 |
| Other Revenue | 774,552 | — | 2,696,631 | — | — | — | 949,708 | 19,595,351 | — | — | 175,325 | — | 24,191,567 |
| Total Revenues | 47,518,319 | 20,276,169 | 12,645,405 | — | 1,772,048 | 57,819 | 51,019,024 | 101,740,097 | — | 2,411,904 | 175,325 | 78,315 | 237,694,425 |
| EXPENDITURES: | | | | | | | | | | | | | |
| Current: | | | | | | | | | | | | | |
| Public Protection | — | 21,427,490 | — | — | 2,091,790 | — | — | — | — | — | — | — | 23,519,280 |
| Health | — | — | — | — | — | 2,357,772 | — | — | — | — | — | — | 2,357,772 |
| Recreation and Culture | (121,494) | — | — | — | — | — | — | — | — | — | — | 85,431 | (36,063) |
| Economic Development | 35,925,445 | — | 12,800,341 | — | — | — | — | — | — | — | — | — | 48,725,786 |
| Physical Environment | — | — | — | — | — | — | 37,830,974 | — | — | — | 34,284 | — | 37,865,258 |
| Transportation Facilitation | — | — | — | — | — | — | — | 35,891,765 | — | 613,944 | — | — | 36,505,709 |
| Development and Management | 1,156,350 | — | — | — | — | — | — | — | — | — | — | — | 1,156,350 |
| Debt Service: | | | | | | | | | | | | | |
| Principal | 3,126,000 | — | — | — | — | — | — | — | — | — | — | — | 3,126,000 |
| Interest | 3,723,095 | — | — | — | — | — | — | — | — | — | — | — | 3,723,095 |
| Capital Outlay | — | — | — | — | — | — | — | 47,876,380 | — | 1,345,811 | — | — | 49,222,191 |
| Total Expenditures | 43,809,396 | 21,427,490 | 12,800,341 | — | 2,091,790 | 2,357,772 | 37,830,974 | 83,768,145 | — | 1,959,755 | 34,284 | 85,431 | 206,165,378 |
| Excess (Deficiency) of Revenues Over (Under) Expenditures | 3,708,923 | (1,151,321) | (154,936) | — | (319,742) | (2,299,953) | 13,188,050 | 17,971,952 | — | 452,149 | 141,041 | (7,116) | 31,529,047 |
| Other Financing Sources (Uses): | | | | | | | | | | | | | |
| Transfers In | — | 2,986,274 | — | — | — | — | — | 8,129,198 | — | — | — | — | 11,115,472 |
| Transfers Out | (2,986,274) | — | — | — | — | — | — | (17,140,142) | — | — | — | — | (20,126,416) |
| Total Other Financing Sources (Uses) | (2,986,274) | 2,986,274 | — | — | — | — | — | (9,010,944) | — | — | — | — | (9,010,944) |
| Net Change in Fund Balances | 722,649 | 1,834,953 | (154,936) | — | (319,742) | (2,299,953) | 13,188,050 | 8,961,008 | — | 452,149 | 141,041 | (7,116) | 22,518,103 |
| Fund Balances at Beginning of Year | 3,132,879 | 560,334 | 2,669,392 | — | 10,009,758 | 2,299,953 | 5,921,872 | 39,980,142 | 478,084 | 3,263,203 | 83,532 | — | 68,399,149 |
| Fund Balances (Deficits) at End of Year | $ 3,855,528 | $ 2,395,287 | $ 2,514,456 | $ — | $ 9,690,016 | $ — | $ 19,109,922 | $ 48,941,150 | $ 478,084 | $ 3,715,352 | $ 224,573 | $ (7,116) | $ 90,917,252 |

See accompanying independent auditor's report.

## City of Detroit, Michigan
## COMBINING BALANCE SHEET ACCOUNTS
## OTHER GOVERNMENTAL FUNDS - STREET FUND
## June 30, 2014

| | Major Account | Local Account | Totals |
|---|---|---|---|
| ASSETS | | | |
| Cash and Cash Equivalents | $ 35,762,704 | $ 12,042,883 | $ 47,805,587 |
| Accounts and Contracts Receivable - Trade | 2,943,205 | — | 2,943,205 |
| Total Accounts and Contracts Receivable | 2,943,205 | — | 2,943,205 |
| Less: Allowance for Uncollectible Accounts | (2,288,225) | — | (2,288,225) |
| Total Accounts and Contracts Receivable - Net | 654,980 | — | 654,980 |
| Due from Other Funds | 3,335,806 | 371,741 | 3,707,547 |
| Due from Other Governmental Agencies | 7,032,798 | 1,950,029 | 8,982,827 |
| Other Assets | 737,875 | — | 737,875 |
| Total Assets | $ 47,524,163 | $ 14,364,653 | $ 61,888,816 |
| LIABILITIES AND FUND BALANCES | | | |
| Liabilities: | | | |
| Accounts and Contracts Payable | $ 1,607,555 | $ 943,550 | $ 2,551,105 |
| Accrued Salaries and Wages | 221,825 | — | 221,825 |
| Accrued Liabilities | 4,503,484 | 1,963,705 | 6,467,189 |
| Total Liabilities | 6,332,864 | 2,907,255 | 9,240,119 |
| Deferred Inflows of Resources: | 3,335,806 | 371,741 | 3,707,547 |
| Fund Balances: | | | |
| Restricted for Highway and Street Improvements | 37,855,493 | 11,085,657 | 48,941,150 |
| Total Fund Balances | 37,855,493 | 11,085,657 | 48,941,150 |
| Total Liabilities, Deferred Inflows of Resources and Fund Balances | $ 47,524,163 | $ 14,364,653 | $ 61,888,816 |



## City of Detroit, Michigan
## COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE ACCOUNTS
## OTHER GOVERNMENTAL FUNDS - STREET FUND
## For the Year Ended June 30, 2014

| | Major Account | Local Account | Totals |
|---|---|---|---|
| Revenues: | | | |
| Gas and Weight Tax | $ 42,056,844 | $ 11,847,641 | $ 53,904,485 |
| Intergovernmental: | | | |
| State | 17,543,242 | 4,942,027 | 22,485,269 |
| Other | 5,699,689 | — | 5,699,689 |
| Investment Earnings | 38,557 | 16,746 | 55,303 |
| Other Revenue | 11,173,999 | 8,421,352 | 19,595,351 |
| Total Revenues | 76,512,331 | 25,227,766 | 101,740,097 |
| Expenditures: | | | |
| Transportation Facilitation | 23,006,867 | 12,884,898 | 35,891,765 |
| Capital Outlay | 28,963,863 | 18,912,517 | 47,876,380 |
| Total Expenditures | 51,970,730 | 31,797,415 | 83,768,145 |
| Excess of Revenues Over Expenditures | 24,541,601 | (6,569,649) | 17,971,952 |
| Other Financing Sources (Uses): | | | |
| Transfers In | — | 8,129,198 | 8,129,198 |
| Transfers Out | (17,140,142) | — | (17,140,142) |
| Total Other Financing Sources (Uses) | (17,140,142) | 8,129,198 | (9,010,944) |
| Net Change in Fund Balances | 7,401,459 | 1,559,549 | 8,961,008 |
| Fund Balances at Beginning of Year | 30,454,034 | 9,526,108 | 39,980,142 |
| Fund Balances at End of Year | $ 37,855,493 | $ 11,085,657 | $ 48,941,150 |

## City of Detroit, Michigan
## COMBINING BALANCE SHEET
## OTHER GOVERNMENTAL PERMANENT FUNDS
## June 30, 2014

| | Permanent Funds – Bequest Funds: Other Trust | Permanent Funds – Bequest Funds: Cemetery Trust | Totals |
|---|---|---|---|
| ASSETS | | | |
| Cash and Cash Equivalents | $ 49,351 | $ 1,668,226 | $ 1,717,577 |
| Investments | — | — | — |
| Total Assets | $ 49,351 | $ 1,668,226 | $ 1,717,577 |
| LIABILITIES AND FUND BALANCES | | | |
| Liabilities: Accounts and Contracts Payable | $ — | $ 14,159 | $ 14,159 |
| Accrued Liabilities | — | 312 | 312 |
| Total Liabilities | — | 14,471 | 14,471 |
| Fund Balance | | | |
| Nonspendable - Permanent Fund Principal | 40,349 | 897,512 | 937,861 |
| Restricted for Endowments and Trusts | 9,002 | 756,243 | 765,245 |
| Total Liabilities and Fund Balances | $ 49,351 | $ 1,668,226 | $ 1,717,577 |

See accompanying independent auditor's report.



## City of Detroit, Michigan
## STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
## OTHER GOVERNMENTAL PERMANENT FUNDS
## BEQUEST FUNDS
## For the Year Ended June 30, 2014

| | Permanent Funds – Bequest Funds: Other Trust | Permanent Funds – Bequest Funds: Cemetery Trust | Totals |
|---|---|---|---|
| Revenues - Investment Earnings | $ 23 | $ 34,143 | $ 34,166 |
| Expenditures - Recreation and Culture | — | 88,791 | 88,791 |
| Excess of Revenues Over Expenditures | 23 | (54,648) | (54,625) |
| Fund Balances at Beginning of Year | 49,328 | 1,708,403 | 1,757,731 |
| Fund Balances at End of Year | $ 49,351 | $ 1,653,755 | $ 1,703,106 |

See accompanying independent auditor's report.

## City of Detroit, Michigan
## BUDGETARY COMPARISON SCHEDULES
## OTHER GOVERNMENTAL FUNDS
## COMMUNITY DEVELOPMENT BLOCK GRANT FUND
## For the Year Ended June 30, 2014

| | Budgeted Amounts | | Actual | Variance With Final Budget- Positive |
|---|---|---|---|---|
| | Original | Final | Amounts | (Negative) |
| Revenues: | | | | |
| Intergovernmental - Federal | $ 34,589,553 | $ 133,812,041 | $ 46,739,186 | $ (87,072,855) |
| Investment Earnings | — | (881,474) | 4,581 | 886,055 |
| Other Taxes and Assessments | — | (42,872) | — | 42,872 |
| Other Revenue | 1,442,419 | 28,456,549 | 774,552 | (27,681,997) |
| Total Revenues | 36,031,972 | 161,344,244 | 47,518,319 | (113,825,925) |
| Expenditures: | | | | |
| Current: | | | | |
| Recreation and Culture | — | — | (121,494) | 121,494 |
| Economic Development | 28,857,478 | 156,397,434 | 35,925,445 | 120,471,989 |
| Development and Management | — | — | 1,156,350 | (1,156,350) |
| Debt Service | 7,114,682 | 14,421,031 | 6,849,095 | 7,571,936 |
| Capital Outlay | 59,812 | 1,575,547 | — | 1,575,547 |
| Total Expenditures | 36,031,972 | 172,394,012 | 43,809,396 | 128,584,616 |
| Excess (Deficiency) of Revenues Over (Under) Expenditures | — | (11,049,768) | 3,708,923 | 14,758,691 |
| Other Financing Sources (Uses): | | | | |
| Transfers In | — | 1,040,155 | — | (1,040,155) |
| Transfers Out | — | — | (2,986,274) | (2,986,274) |
| Total Other Financing Sources (Uses) | — | 1,040,155 | (2,986,274) | (4,026,429) |
| Net Change in Fund Balance | — | (10,009,613) | 722,649 | 10,732,262 |
| Fund Balance at Beginning of Year | 3,132,879 | 3,132,879 | 3,132,879 | — |
| Fund Balance (Deficit) at End of Year | $ 3,132,879 | $ (6,876,734) | $ 3,855,528 | $ 10,732,262 |





## City of Detroit, Michigan
## BUDGETARY COMPARISON SCHEDULES
## OTHER GOVERNMENTAL FUNDS
## CONSTRUCTION CODE FUND
## For the Year Ended June 30, 2014

| | Budgeted Amounts | | Actual | Variance With Final Budget- Positive |
|---|---|---|---|---|
| | Original | Final | Amounts | (Negative) |
| Revenues: | | | | |
| Licenses, Permits, and Inspection Charges | $ 20,293,404 | $ 21,431,278 | $ 20,021,186 | $ (1,410,092) |
| Intergovernmental: | | | | |
| Federal | — | 32,004,617 | 242,966 | (31,761,651) |
| Sales and Charges for Services | 145,318 | 447,535 | — | (447,535) |
| Ordinance Fines and Forfeitures | 800,000 | 2,258,122 | 12,017 | (2,246,105) |
| Total Revenues | 21,238,722 | 56,141,552 | 20,276,169 | (35,865,383) |
| Expenditures: | | | | |
| Public Protection | 21,204,348 | 50,764,622 | 21,427,490 | 29,337,132 |
| Debt Service | 6,600 | 13,200 | — | 13,200 |
| Capital Outlay | 27,774 | 31,260 | — | 31,260 |
| Total Expenditures | 21,238,722 | 50,809,082 | 21,427,490 | (29,381,592) |
| Excess (Deficiency) of Revenues Over (Under) Expenditures | — | 5,332,470 | (1,151,321) | (6,483,791) |
| Other Financing Sources: | | | | |
| Transfers In | — | — | 2,986,274 | 2,986,274 |
| Transfers Out | — | (5,469,972) | — | 5,469,972 |
| Total Other Financing Sources | — | (5,469,972) | 2,986,274 | 8,456,246 |
| Net Change in Fund Balance | — | (137,502) | 1,834,953 | 1,972,455 |
| Fund Balance at Beginning of Year | 560,334 | 560,334 | 560,334 | — |
| Fund Balance (Deficit) at End of Year | $ 560,334 | $ 422,832 | $ 2,395,287 | $ 1,972,455 |

# City of Detroit, Michigan
## BUDGETARY COMPARISON SCHEDULES
## OTHER GOVERNMENTAL FUNDS
## URBAN DEVELOPMENT FUND
## For the Year Ended June 30, 2014

| | Budgeted Amounts Original | Budgeted Amounts Final | Actual Amounts | Variance With Final Budget- Positive (Negative) |
|---|---|---|---|---|
| Revenues: | | | | |
| Intergovernmental - Federal | $ 5,833,389 | $ 22,788,818 | $ 9,937,287 | $ (12,851,531) |
| Investment Earnings | — | (291,671) | 11,487 | 303,158 |
| Other Revenue | 5,500,000 | 7,779,920 | 2,696,631 | (5,083,289) |
| Total Revenues | 11,333,389 | 30,277,067 | 12,645,405 | (17,631,662) |
| Expenditures: | | | | |
| Economic Development | 11,333,389 | 23,518,894 | 12,800,341 | 10,718,553 |
| Capital Outlay | — | 300,321 | — | 300,321 |
| Total Expenditures | 11,333,389 | 23,819,215 | 12,800,341 | 11,018,874 |
| Excess of Revenues Over Expenditures | — | 6,457,852 | (154,936) | (6,612,788) |
| Other Financing Uses - Transfers Out | — | (6,189,563) | — | 6,189,563 |
| Total Other Financing Uses | — | (6,189,563) | — | 6,189,563 |
| Net Change in Fund Balance | — | 268,289 | (154,936) | (423,225) |
| Fund Balance at Beginning of Year | 2,669,392 | 2,669,392 | 2,669,392 | — |
| Fund Balance at End of Year | $ 2,669,392 | $ 2,937,681 | $ 2,514,456 | $ (423,225) |

See accompanying independent auditor’s report.



# City of Detroit, Michigan
## BUDGETARY COMPARISON SCHEDULES
## OTHER GOVERNMENTAL FUNDS
## DETROIT WORKFORCE DEVELOPMENT FUND
## For the Year Ended June 30, 2014

| | Budgeted Amounts Original | Budgeted Amounts Final | Actual Amounts | Variance With Final Budget- Positive (Negative) |
|---|---|---|---|---|
| Revenues: | | | | |
| Intergovernmental: | | | | |
| Federal | $ — | $ (94,925) | $ — | $ 94,925 |
| Other Revenue | — | 400 | — | (400) |
| Total Revenues | — | (94,525) | — | 94,525 |
| Expenditures: | | | | |
| Educational Development | — | 1,696,233 | — | 1,696,233 |
| Capital Outlay | — | (272) | — | (272) |
| Total Expenditures | — | 1,695,961 | — | 1,695,961 |
| Excess (Deficiency) of Revenues Over (Under) Expenditures | — | (1,790,486) | — | 1,790,486 |
| Net Change in Fund Balance | — | (1,790,486) | — | 1,790,486 |
| Fund Balance at Beginning of Year | — | — | — | — |
| Fund Balance at End of Year | $ — | $ (1,790,486) | $ — | $ 1,790,486 |

See accompanying independent auditor’s report.

City of Detroit, Michigan
BUDGETARY COMPARISON SCHEDULES
OTHER GOVERNMENTAL FUNDS
DRUG LAW ENFORCEMENT FUND
For the Year Ended June 30, 2014

| | Budgeted Amounts Original | Budgeted Amounts Final | Actual Amounts | Variance With Final Budget-Positive (Negative) |
|---|---|---|---|---|
| Revenues: | | | | |
| Ordinance Fines and Forfeitures | $ — | $ — | $ 1,772,048 | $ 1,772,048 |
| Investment Earnings | — | (1,082) | — | 1,082 |
| Other Revenue | 1,234,974 | 10,500,911 | — | (10,500,911) |
| Total Revenues | 1,234,974 | 10,499,829 | 1,772,048 | (8,727,781) |
| Expenditures: | | | | |
| Public Protection | 1,234,974 | 10,407,317 | 2,091,790 | 8,315,527 |
| Capital Outlay | — | 1,788,546 | — | 1,788,546 |
| Total Expenditures | 1,234,974 | 12,195,863 | 2,091,790 | 10,104,073 |
| Excess (Deficiency) of Revenues Over (Under) Expenditures | — | (1,696,034) | (319,742) | 1,376,292 |
| Fund Balance at Beginning of Year | 10,009,758 | 10,009,758 | 10,009,758 | — |
| Fund Balance at End of Year | $ 10,009,758 | $ 8,313,724 | $ 9,690,016 | $ 1,376,292 |

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City of Detroit, Michigan
BUDGETARY COMPARISON SCHEDULES
OTHER GOVERNMENTAL FUNDS
HUMAN SERVICES FUND
For the Year Ended June 30, 2014

| | Budgeted Amounts Original | Budgeted Amounts Final | Actual Amounts | Variance With Final Budget-Positive (Negative) |
|---|---|---|---|---|
| Revenues: | | | | |
| Intergovernmental: | | | | |
| Intergovernmental - Federal | $ — | $ 148,746,788 | $ 57,819 | $ (148,688,969) |
| Investment Earnings | — | (224,899) | — | 224,899 |
| Other Revenues | — | 12,518,348 | — | (12,518,348) |
| Total Revenues | — | 161,040,237 | 57,819 | (160,982,418) |
| Expenditures: | | | | |
| Health | — | 143,453,100 | 2,357,772 | 141,095,328 |
| Capital Outlay | — | 128,356 | — | 128,356 |
| Total Expenditures | — | 143,581,456 | 2,357,772 | 141,223,684 |
| Excess (Deficiency) of Revenues Over (Under) Expenditures | — | 17,458,781 | (2,299,953) | (19,758,734) |
| Other Financing Sources - Transfers In | — | 270 | — | (270) |
| Net Change in Fund Balance | — | 17,459,051 | (2,299,953) | (19,759,004) |
| Fund Balance at Beginning of Year | 2,299,953 | 2,299,953 | 2,299,953 | — |
| Fund Balance at End of Year | $ 2,299,953 | $ 19,759,004 | $ — | $ (19,759,004) |

**City of Detroit, Michigan**
**BUDGETARY COMPARISON SCHEDULES**
**OTHER GOVERNMENTAL FUNDS**
**SOLID WASTE MANAGEMENT FUND**
**For the Year Ended June 30, 2014**

| | Budgeted Amounts | | Actual | Variance With Final Budget- Positive |
|---|---|---|---|---|
| | Original | Final | Amounts | (Negative) |
| Revenues: | | | | |
| Sales and Charges for Services | $ 41,018,000 | $ 44,285,194 | $ 49,941,428 | $ 5,656,234 |
| Ordinance Fines and Forfeitures | 95,110 | 129,583 | 120,137 | (9,446) |
| Investment Earnings (Losses) | — | 19,795 | 7,751 | (12,044) |
| Other Revenue | 95,000 | (449,539) | 949,708 | 1,399,247 |
| Total Revenues | 41,208,110 | 43,985,033 | 51,019,024 | 7,033,991 |
| Expenditures: | | | | |
| Physical Environment | 40,879,371 | 59,315,343 | 37,830,974 | 21,484,369 |
| Capital Outlay | 557,739 | 933,910 | — | 933,910 |
| Total Expenditures | 41,437,110 | 60,249,253 | 37,830,974 | 22,418,279 |
| Excess (Deficiency) of Revenues Over (Under) Expenditures | (229,000) | (16,264,220) | 13,188,050 | 29,452,270 |
| Other Financing Sources - Transfers In | 229,000 | 697,545 | — | (697,545) |
| Net Change in Fund Balance | — | (15,566,675) | 13,188,050 | 28,754,725 |
| Fund Balance at Beginning of Year | 5,921,872 | 5,921,872 | 5,921,872 | — |
| Fund Balance (Deficit) at End of Year | $ 5,921,872 | $ (9,644,803) | $ 19,109,922 | $ 28,754,725 |





**City of Detroit, Michigan**
**BUDGETARY COMPARISON SCHEDULES**
**OTHER GOVERNMENTAL FUNDS**
**MAJOR STREET FUND**
**For the Year Ended June 30, 2014**

| | Budgeted Amounts | | Actual | Variance With Final Budget- Positive |
|---|---|---|---|---|
| | Original | Final | Amounts | (Negative) |
| Revenues: | | | | |
| Gas and Weight Tax | $ 51,429,000 | $ 70,003,395 | $ 42,056,844 | $ (27,946,551) |
| Intergovernmental: | | | | |
| State | — | 27,284,276 | 17,543,242 | (9,741,034) |
| Other | — | 2,819,052 | 5,699,689 | 2,880,637 |
| Investment Earnings | 174,000 | 156,600 | 38,557 | (118,043) |
| Other Revenue | 19,497,042 | 198,014,195 | 11,173,999 | (186,840,196) |
| Total Revenues | 71,100,042 | 298,277,518 | 76,512,331 | (221,765,187) |
| Expenditures: | | | | |
| Transportation Facilitation | 51,823,072 | 181,069,856 | 23,006,867 | 158,062,989 |
| Capital Outlay | 19,756,970 | 122,110,488 | 28,963,863 | 93,146,625 |
| Total Expenditures | 71,580,042 | 303,180,344 | 51,970,730 | (251,209,614) |
| Excess (Deficiency) of Revenues Over (Under) Expenditures | (480,000) | (4,902,826) | 24,541,601 | 29,444,427 |
| Other Financing Sources (Uses): | | | | |
| Transfers In | 480,000 | 74,728,116 | — | (74,728,116) |
| Transfers Out | — | (26,726,546) | (17,140,142) | 9,586,404 |
| Total Other Financing Sources (Uses) | 480,000 | 48,001,570 | (17,140,142) | (65,141,712) |
| Net Change in Fund Balance | — | 43,098,744 | 7,401,459 | (35,697,285) |
| Fund Balance at Beginning of Year | 30,454,034 | 30,454,034 | 30,454,034 | — |
| Fund Balance at End of Year | $ 30,454,034 | $ 73,552,778 | $ 37,855,493 | $ (35,697,285) |

## City of Detroit, Michigan
## BUDGETARY COMPARISON SCHEDULES
## OTHER GOVERNMENTAL FUNDS
## LOCAL STREET FUND
## For the Year Ended June 30, 2014

| | Budgeted Amounts | | Actual | Variance With Final Budget- Positive |
|---|---|---|---|---|
| | Original | Final | Amounts | (Negative) |
| Revenues: | | | | |
| Gas and Weight Tax | $ — | $ 11,501,596 | $ 11,847,641 | $ 346,045 |
| Intergovernmental: | | | | |
| State | — | — | 4,942,027 | 4,942,027 |
| Investment Earnings | — | 39,856 | 16,746 | (23,110) |
| Other Revenues | — | 910,673 | 8,421,352 | 7,510,679 |
| Total Revenues | — | 12,452,125 | 25,227,766 | 12,775,641 |
| Expenditures: | | | | |
| Transportation Facilitation | — | 28,628,596 | 12,884,898 | 15,743,698 |
| Capital Outlay | — | 38,947,378 | 18,912,517 | 20,034,861 |
| Total Expenditures | — | 67,575,974 | 31,797,415 | 35,778,559 |
| Excess (Deficiency) of Revenues Over (Under) Expenditures | — | (55,123,849) | (6,569,649) | 48,554,200 |
| Other Financing Sources (Uses): | | | | |
| Transfers In | — | 16,610,379 | 8,129,198 | (8,481,181) |
| Total Other Financing Sources (Uses) | — | 16,610,379 | 8,129,198 | (8,481,181) |
| Net Change in Fund Balance | — | (38,513,470) | 1,559,549 | 40,073,019 |
| Fund Balance at Beginning of Year | 9,526,108 | 9,526,108 | 9,526,108 | — |
| Fund Balance (Deficit) at End of Year | $ 9,526,108 | $ (28,987,362) | $ 11,085,657 | $ 40,073,019 |



## City of Detroit, Michigan
## BUDGETARY COMPARISON SCHEDULES
## OTHER GOVERNMENTAL FUNDS
## TARGETED BUSINESS DEVELOPMENT FUND
## For the Year Ended June 30, 2014

| | Budgeted Amounts | | Actual | Variance With Final Budget- Positive |
|---|---|---|---|---|
| | Original | Final | Amounts | (Negative) |
| Revenues | $ — | $ 4,537,119 | $ — | $ (4,537,119) |
| Expenditures - Economic Development | — | — | — | — |
| Excess (Deficiency) of Revenues Over (Under) Expenditures | — | 4,537,119 | — | (4,537,119) |
| Fund Balance at Beginning of Year | 478,084 | 478,084 | 478,084 | — |
| Fund Balance at End of Year | $ 478,084 | $ 5,015,203 | $ 478,084 | $ (4,537,119) |

City of Detroit, Michigan
BUDGETARY COMPARISON SCHEDULES
OTHER GOVERNMENTAL FUNDS
TELECOMMUNICATIONS FUND
For the Year Ended June 30, 2014

| | Budgeted Amounts Original | Budgeted Amounts Final | Actual Amounts | Variance With Final Budget-Positive (Negative) |
|---|---|---|---|---|
| Revenues: | | | | |
| Intergovernmental - State | $ 2,480,000 | $ (1,454,237) | $ 2,408,039 | $ 3,862,276 |
| Investment Earnings | — | (44,711) | 3,865 | 48,576 |
| Total Revenues | 2,480,000 | (1,498,948) | 2,411,904 | 3,910,852 |
| Expenditures: | | | | |
| Transportation Facilitation | — | 289,430 | 613,944 | (324,514) |
| Capital Outlay | 2,480,000 | 3,142,512 | 1,345,811 | 1,796,701 |
| Total Expenditures | 2,480,000 | 3,431,942 | 1,959,755 | 1,472,187 |
| Excess (Deficiency) of Revenues Over (Under) Expenditures | — | (4,930,890) | 452,149 | 5,383,039 |
| Fund Balance at Beginning of Year | 3,263,203 | 3,263,203 | 3,263,203 | — |
| Fund Balance (Deficit) at End of Year | $ 3,263,203 | $ (1,667,687) | $ 3,715,352 | $ 5,383,039 |



City of Detroit, Michigan
BUDGETARY COMPARISON SCHEDULES
OTHER GOVERNMENTAL FUNDS
RENEWABLE ENERGY FUND
For the Year Ended June 30, 2014

| | Budgeted Amounts Original | Budgeted Amounts Final | Actual Amounts | Variance With Final Budget-Positive (Negative) |
|---|---|---|---|---|
| Revenues - Other | $ 628,000 | $ 1,602,959 | $ 175,325 | $ (1,427,634) |
| Expenditures | 628,000 | 2,070,563 | 34,284 | 2,036,279 |
| Excess (Deficiency) of Revenues Over (Under) Expenditures | — | (467,604) | 141,041 | 608,645 |
| Fund Balance at Beginning of Year | 83,532 | 83,532 | 83,532 | — |
| Fund Balance at End of Year | $ 83,532 | $ (384,072) | $ 224,573 | $ 608,645 |

## City of Detroit, Michigan
## BUDGETARY COMPARISON SCHEDULES
## OTHER GOVERNMENTAL FUNDS
## DONATED MONIES FUND
## For the Year Ended June 30, 2014

| | Budgeted Amounts Original | Budgeted Amounts Final | Actual Amounts | Variance With Final Budget-Positive (Negative) |
|---|---|---|---|---|
| Revenues | $ — | $ 132,833 | $ 78,315 | $ (54,518) |
| Expenditures | — | 132,833 | 85,431 | 47,402 |
| Excess (Deficiency) of Revenues Over (Under) Expenditures | — | — | (7,116) | (7,116) |
| Fund Balance at Beginning of Year | — | — | — | — |
| Fund Balance at End of Year | $ — | $ — | $ (7,116) | $ (7,116) |





## City of Detroit, Michigan
## BUDGETARY COMPARISON SCHEDULES
## OTHER GOVERNMENTAL FUNDS
## DEBT SERVICE FUND
## For the Year Ended June 30, 2014

| | Budgeted Amounts Original | Budgeted Amounts Final | Actual Amounts | Variance With Final Budget-Positive (Negative) |
|---|---|---|---|---|
| Revenues: | | | | |
| Property Taxes | $ 57,262,551 | $ 57,262,551 | $ 65,214,710 | $ 7,952,159 |
| Other Taxes and Assessments | 9,591,453 | 9,591,453 | 2,496,531 | (7,094,922) |
| Investment Earnings | — | — | 2,621 | 2,621 |
| Other Revenue | 1,364,819 | 1,364,819 | 3,344,270 | 1,979,451 |
| Total Revenues | 68,218,823 | 68,218,823 | 71,058,132 | 2,839,309 |
| Expenditures: | | | | |
| Economic Development | 3,277,417 | 3,277,417 | 1,411,664 | 1,865,753 |
| Debt Service: | | | | |
| Principal | 38,205,000 | 38,205,000 | 38,205,000 | — |
| Interest | 26,736,406 | 26,736,406 | 26,736,406 | — |
| Total Expenditures | 68,218,823 | 68,218,823 | 66,353,070 | 1,865,753 |
| Deficiency of Revenues Under Expenditures | — | — | 4,705,062 | 4,705,062 |
| Fund Balance at Beginning of Year | 7,899,702 | 7,899,702 | 7,899,702 | — |
| Fund Balance at End of Year | $ 7,899,702 | $ 7,899,702 | $ 12,604,764 | $ 4,705,062 |

City of Detroit, Michigan
BUDGETARY COMPARISON SCHEDULES
OTHER GOVERNMENTAL FUNDS
CAPITAL PROJECTS FUND
For the Year Ended June 30, 2014

| | Budgeted Amounts Original | Budgeted Amounts Final | Actual Amounts | Variance With Final Budget-Positive (Negative) |
|---|---|---|---|---|
| Revenues: | | | | |
| Intergovernmental - Federal | $ — | $ 1,524,845 | $ — | $ (1,524,845) |
| Investment Earnings | — | (986,267) | — | 986,267 |
| Sales and Charges for Services | — | — | 668,451 | 668,451 |
| Other Revenue | — | 5,506,258 | 879,453 | (4,626,805) |
| Total Revenues | — | 6,044,836 | 1,547,904 | (4,496,932) |
| Expenditures: | | | | |
| Economic Development | — | — | 1,041,320 | (1,041,320) |
| Capital Outlay | — | 93,826,996 | 16,931,863 | 76,895,133 |
| Bond Issuance Costs | — | (15,284) | — | (15,284) |
| Total Expenditures | — | 93,811,712 | 17,973,183 | 75,838,529 |
| Deficiency of Revenues Under Expenditures | — | (87,766,876) | (16,425,279) | (80,335,461) |
| Other Financing Sources (Uses): | | | | |
| Sources: | | | | |
| Transfers In | — | 26,570,616 | — | (26,570,616) |
| Bond and Notes Issued | — | 29,497,571 | — | (29,497,571) |
| Uses: | | | | |
| Transfers Out | — | (16,377,212) | — | 16,377,212 |
| Interest Paid to Bond Agent for Refunded Bonds | — | (4,331,334) | — | 4,331,334 |
| Total Other Financing Sources (Uses) | — | 35,359,641 | — | (35,359,641) |
| Net Change in Fund Balance | — | (52,407,235) | (16,425,279) | 35,981,956 |
| Fund Balance at Beginning of Year | 79,371,566 | 79,371,566 | 79,371,566 | — |
| Fund Balance at End of Year | $ 79,371,566 | $ 26,964,331 | $ 62,946,287 | $ 35,981,956 |

See accompanying independent auditor's report.





# COMBINING STATEMENT OF OTHER ENTERPRISE FUNDS

## City of Detroit, Michigan
## COMBINING STATEMENT OF NET POSITION
## OTHER ENTERPRISE FUNDS
## For the Year Ended June 30, 2014

| | Airport Fund | Public Lighting Authority Fund | Totals |
|---|---|---|---|
| ASSETS | | | |
| Current Assets: | | | |
| Cash and Cash Equivalents | $ 1,909,438 | $ 15,531,767 | $ 17,441,205 |
| Accounts and Contracts Receivable: | | | |
| Other Receivables - Trade | 1,382,512 | 757,500 | 2,140,012 |
| Allowance for Uncollectible Accounts | (1,029,232) | — | (1,029,232) |
| Total Accounts and Contracts Receivable - Net | 353,280 | 757,500 | 1,110,780 |
| Due from Other Funds | 25,315 | — | 25,315 |
| Due from Other Governmental Agencies | 12,044 | — | 12,044 |
| Prepaid Expenses | 23,079 | — | 23,079 |
| Total Current Assets | 2,323,156 | 16,289,267 | 18,612,423 |
| Noncurrent Assets: | | | |
| Restricted: | | | |
| Investments | — | 52,349,183 | 52,349,183 |
| Capital Assets: | | | |
| Land and Land Rights | 17,349,458 | — | 17,349,458 |
| Land Improvements | 8,020,718 | — | 8,020,718 |
| Buildings and Structures | 5,853,773 | — | 5,853,773 |
| Vehicles and Buses | 1,326,693 | — | 1,326,693 |
| Machinery, Equipment, and Fixtures | 1,825,327 | 42,081 | 1,867,408 |
| Construction in Progress | 112,500 | 19,190,049 | 19,302,549 |
| Total Capital Assets | 34,488,469 | 19,232,130 | 53,720,599 |
| Less: Accumulated Depreciation | (15,950,394) | (5,050) | (15,955,444) |
| Capital Assets - Net | 18,538,075 | 19,227,080 | 37,765,155 |
| Total Noncurrent Assets | 18,538,075 | 71,576,263 | 90,114,338 |
| Total Assets | 20,861,231 | 87,865,530 | 108,726,761 |
| Deferred Outflows of Resources | — | — | — |
| Total Assets and Deferred Outflows of Resources | $ 20,861,231 | $ 87,865,530 | $ 108,726,761 |

(Continued)





City of Detroit, Michigan
COMBINING STATEMENT OF NET POSITION
OTHER ENTERPRISE FUNDS
For the Year Ended June 30, 2014

| | Airport Fund | Public Lighting Authority Fund | Totals |
|---|---|---|---|
| LIABILITIES AND NET POSITION (DEFICIT) | | | |
| Current Liabilities: | | | |
| Accounts and Contracts Payable | $ 72,690 | $ 11,324,033 | $ 11,396,723 |
| Accrued Salaries and Wages | 5,454 | — | 5,454 |
| Due to Other Funds | 635,996 | — | 635,996 |
| Due to Fiduciary Funds | 368,435 | — | 368,435 |
| Other Liabilities | 2,662,263 | — | 2,662,263 |
| Bonds, Notes, and Capital Leases | — | 60,000,000 | 60,000,000 |
| Accrued Compensated Absences | 19,078 | — | 19,078 |
| Accrued Other Postemployment Benefits | 6,967 | — | 6,967 |
| Accrued Workers' Compensation and Claims and Judgments | 88,000 | — | 88,000 |
| Total Current Liabilities | 3,858,883 | 71,324,033 | 75,182,916 |
| Noncurrent Liabilities: | | | |
| Accrued Workers' Compensation and Claims and Judgments | 186,800 | — | 186,800 |
| Accrued Other Postemployment Benefits | 2,052 | — | 2,052 |
| Total Noncurrent Liabilities | 188,852 | — | 188,852 |
| Total Liabilities | 4,047,735 | 71,324,033 | 75,371,768 |
| Deferred Inflows of Resources | — | — | — |
| Net Position: | | | |
| Net Investment in Capital Assets | 18,538,075 | 8,124,999 | 26,663,074 |
| Restricted | — | 8,416,498 | 8,416,498 |
| Unrestricted (Deficit) | (1,724,579) | — | (1,724,579) |
| Total Net Position (Deficit) | 16,813,496 | 16,541,497 | 33,354,993 |
| Total Liabilities, Deferred Inflows of Resources, and Net Position | $ 20,861,231 | $ 87,865,530 | $ 108,726,761 |

**City of Detroit, Michigan**
**COMBINING STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION**
**OTHER ENTERPRISE FUNDS**
**For the Year Ended June 30, 2014**

| | Airport Fund | Public Lighting Authority Fund | Totals |
|---|---|---|---|
| Operating Revenues: | | | |
| Sales and Charges for Services | $ 1,430 | $ — | $ 1,430 |
| Rentals, Fees, and Surcharges | 502,071 | 757,500 | 1,259,571 |
| Miscellaneous | 1,823,313 | 1,000 | 1,824,313 |
| Total Operating Revenues | 2,326,814 | 758,500 | 3,085,314 |
| Operating Expenses: | | | |
| Salaries, Wages, and Benefits | 570,351 | 476,657 | 1,047,008 |
| Operating | 1,962,566 | 823,276 | 2,785,842 |
| Maintenance | 24,674 | — | 24,674 |
| Materials, Supplies, and Other Expenses | 35,103 | — | 35,103 |
| Depreciation | 130,252 | 5,050 | 135,302 |
| Total Operating Expenses | 2,722,946 | 1,304,983 | 4,027,929 |
| Operating Income (Loss) | (396,132) | (546,483) | (942,615) |
| Non-Operating Revenues (Expenses): | | | |
| Investment Earnings (Losses) | — | 1,660 | 1,660 |
| Interest on Bonds, Notes Payable, and Loans | — | (585,489) | (585,489) |
| Special Item - OPEB Plan Termination | 46,317 | — | 46,317 |
| Bond Issuance Costs | — | (916,636) | (916,636) |
| Total Non-Operating Revenues (Expenses), Net | 46,317 | (1,500,465) | (1,454,148) |
| Net Income (Loss) Before Contributions and Transfers | (349,815) | (2,046,948) | (2,396,763) |
| Transfers In | 623,595 | 17,549,994 | 18,173,589 |
| Increase (Decrease) in Net Position | 273,780 | 15,503,046 | 15,776,826 |
| Net Position (Deficit) - Beginning of Year | 16,539,716 | 1,038,451 | 17,578,167 |
| Net Position (Deficit) - End of Year | $ 16,813,496 | $ 16,541,497 | $ 33,354,993 |





**City of Detroit, Michigan**
**COMBINING STATEMENT OF CASH FLOWS**
**OTHER ENTERPRISE FUNDS**
**For the Year Ended June 30, 2014**

| | Airport Fund | Public Lighting Authority Fund | Totals |
|---|---|---|---|
| Cash Flows from Operating Activities: | | | |
| Receipts from Customers | $ 2,550,213 | $ — | $ 2,550,213 |
| Receipts from (to) Other Funds | (94,363) | 1,000 | (93,363) |
| Payments to Suppliers | (1,467,158) | (679,683) | (2,146,841) |
| Payments to Employees | (367,245) | (460,654) | (827,899) |
| Net Cash Provided by (Used in) Operating Activities | 621,447 | (1,139,337) | (517,890) |
| Cash Flows from Non-Capital Financing Activities: | | | |
| Transfers from Other Funds | 623,595 | 17,549,994 | 18,173,589 |
| Miscellaneous Non-Capital Financing | — | — | — |
| Net Cash Provided by Non-Capital Financing Activities | 623,595 | 17,549,994 | 18,173,589 |
| Cash Flows from Capital and Related Financing Activities: | | | |
| Acquisition and Construction of Capital Assets | — | (8,130,049) | (8,130,049) |
| Proceeds from Bond and Note Issuances | — | 59,083,364 | 59,083,364 |
| Interest Paid on Bonds, Notes, and Leases - Net | — | (585,489) | (585,489) |
| Net Cash Provided by (Used in) Capital and Related Financing Activities | — | 50,367,826 | 50,367,826 |
| Cash Flows from Investing Activities: | | | |
| Purchases of Investments | — | (52,349,183) | (52,349,183) |
| Earnings (Losses) from Investment Securities | — | 1,660 | 1,660 |
| Net Cash Provided by (Used in) Investing Activities | — | (52,347,523) | (52,347,523) |
| Net Increase (Decrease) in Cash and Cash Equivalents | 1,245,042 | 14,430,960 | 15,676,002 |
| Cash and Cash Equivalents at Beginning of Year | 664,396 | 1,100,807 | 1,765,203 |
| Cash and Cash Equivalents at End of Year | $ 1,909,438 | $ 15,531,767 | $ 17,441,205 |

(Continued)

| | Airport Fund | Public Lighting Authority Fund | Totals |
|---|---|---|---|
| Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used in) Operating Activities: | | | |
| Operating Income (Loss) | $ (396,132) | $ (546,483) | $ (942,615) |
| Adjustments to Reconcile Operating Income (Loss) to Net Cash | | | |
| Depreciation and Amortization | 130,252 | 5,050 | 135,302 |
| Changes in Assets and Liabilities: | | | |
| Accounts and Contracts Receivable | (142,802) | (757,500) | (900,302) |
| Prepaid Expenses | (23,079) | 600 | (22,479) |
| Due from Other Funds | 5,851 | — | 5,851 |
| Accounts and Contracts Payable | 336,497 | 158,996 | 495,493 |
| Due to Other Funds | (100,214) | — | (100,214) |
| Other Liabilities | 607,968 | — | 607,968 |
| Accrued Compensated Absences | 1,729 | — | 1,729 |
| Accrued Workers' Compensation and Claims and Judgments | 191,800 | — | 191,800 |
| Accrued Other Postemployment Benefits | 7,060 | — | 7,060 |
| Accrued Salaries and Wages | 2,517 | — | 2,517 |
| Net Cash Provided by (Used in) Operating Activities | $ 621,447 | $ (1,139,337) | $ (517,890) |
| Noncash activities: | | | |
| Special Item - OPEB Plan Termination | $ (46,317) | $ — | $ (46,317) |
| Acquisition of Capital Assets under Accounts Payable | — | 11,102,081 | 11,102,081 |







# COMBINING STATEMENT OF FIDUCIARY FUNDS

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**City of Detroit, Michigan**
**COMBINING STATEMENT OF FIDUCIARY NET POSITION**
**FIDUCIARY FUNDS - PENSION AND OTHER EMPLOYMENT BENEFITS TRUSTS**
**June 30, 2014**

| | Pension | | Other Employee Benefits | | | |
|---|---|---|---|---|---|---|
| | General Retirement System | Policemen & Firemen Retirement System | Other Post-Employment Benefits Fund | Employee Death Benefits Fund | Employee Disability Income Protection Fund | Total Pension and Other Employee Benefit Trusts |
| ASSETS | | | | | | |
| Cash and Cash Equivalents | $ 25,742,786 | $ 52,165,913 | $ 5,980,994 | $ 1,265,391 | $ 44,117 | $ 85,199,201 |
| Investments at Fair Value: | | | | | | |
| Short-Term Investments | 74,423,479 | 82,894,855 | 9,711,055 | 25,240,270 | — | 192,269,659 |
| Bonds and Stocks | 1,259,143,400 | 1,992,712,378 | — | 6,912,333 | — | 3,258,768,111 |
| Mortgage-Backed Securities | 21,970,772 | 63,374,032 | — | 6,780 | — | 85,351,584 |
| Mortgage and Construction Loans | 99,652,517 | 122,456,980 | — | — | — | 222,109,497 |
| Equity Interest in Real Estate | 211,811,951 | 299,951,543 | — | — | — | 511,763,494 |
| Real Estate Investment Trusts Held by Custodian | — | 176,517,750 | — | — | — | 176,517,750 |
| Government Investment Pools | 7,870,265 | 380,018,039 | — | — | — | 387,888,304 |
| Private Placements | 322,419,977 | 67,792,405 | — | 1,955,305 | — | 392,167,687 |
| Total Investments | 1,997,292,361 | 3,185,717,982 | 9,711,055 | 34,114,688 | — | 5,226,836,086 |
| Accrued Interest Receivable | 3,220,916 | 20,814,915 | — | — | — | 24,035,831 |
| Accounts Receivable: | | | | | | |
| Due from Primary Government | — | — | 36,363,516 | 112,665 | 1,071,230 | 37,547,411 |
| Due from Component Units | — | — | — | 4,275 | 10,461 | 14,736 |
| Receivables from Investment Sales | 13,646,430 | 23,616,000 | — | — | — | 37,262,430 |
| Other Receivables | 9,696,855 | 18,162,046 | 669,965 | — | — | 28,528,866 |
| Prepaid Expenditures | — | — | 1,085,025 | — | — | 1,085,025 |
| Cash and Investments Held as Collateral for Securities Lending | 30,949,483 | 79,546,235 | — | — | — | 110,495,718 |
| Capital Assets | 1,333,145 | 1,288,922 | — | — | — | 2,622,067 |
| Total Assets | 2,081,881,976 | 3,381,312,013 | 53,810,555 | 35,497,019 | 1,125,808 | 5,553,627,371 |
| LIABILITIES | | | | | | |
| Accounts and Contracts Payable | — | — | 14,013,505 | — | 808 | 14,014,313 |
| Payables for Investment Purchases | 15,593,379 | 7,098,366 | — | — | — | 22,691,745 |
| Benefits and Claims Payable | 11,692,026 | 4,341,612 | — | — | — | 16,033,638 |
| Due to Primary Government | 1,156,317 | — | 7,172,366 | — | 125,000 | 8,453,683 |
| Due to Component Units | — | — | 99,221 | — | — | 99,221 |
| Amount Due to Broker for Securities Lending | 35,241,386 | 87,552,210 | — | — | — | 122,793,596 |
| Other Liabilities | 2,990,989 | 6,116,526 | 23,401,865 | — | — | 32,509,380 |
| Total Liabilities | 66,674,097 | 105,108,714 | 44,686,957 | — | 125,808 | 216,595,576 |
| NET POSITION | | | | | | |
| Net Position Held in Trust for Pension and Other Employee Benefits | 2,015,207,879 | 3,276,203,299 | 9,123,598 | — | — | 5,300,534,776 |
| Death Benefit and Disability Income Protection | — | — | — | 35,497,019 | 1,000,000 | 36,497,019 |
| Total Net Position | $ 2,015,207,879 | $ 3,276,203,299 | $ 9,123,598 | $ 35,497,019 | $ 1,000,000 | $ 5,337,031,795 |

See accompanying independent auditor's report.

## City of Detroit, Michigan
## COMBINING STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
## FIDUCIARY FUNDS - PENSION AND OTHER EMPLOYMENT BENEFITS TRUSTS
## For the Year Ended June 30, 2014

| | Pension | | Other Employee Benefits | | | |
|---|---|---|---|---|---|---|
| | General Retirement System | Policemen & Firemen Retirement System | Other Post-Employment Benefits Fund | Employee Death Benefits Fund | Employee Disability Income Protection Plan | Total Pension and Other Employee Benefit Trusts |
| ADDITIONS: | | | | | | |
| Employer Contributions | $ 25,126,131 | $ — | $ 205,205,826 | $ 99,776 | $ 1,171,556 | $ 231,603,289 |
| Plan Member Contributions | 10,241,761 | 7,783,141 | 31,014,734 | 80,585 | — | 49,120,221 |
| Other Income | — | — | 5,957,863 | — | — | 5,957,863 |
| Total Contributions | 35,367,892 | 7,783,141 | 242,178,423 | 180,361 | 1,171,556 | 286,681,373 |
| Investment Earnings: | | | | | | |
| Interest and Dividend Income | 21,065,114 | 101,041,852 | 1,090,993 | 4,676,705 | — | 127,874,664 |
| Net Appreciation (Depreciation) in Fair Value | 269,067,717 | 477,575,447 | — | — | — | 746,643,164 |
| Investment Expense | (8,947,895) | (14,983,143) | — | — | — | (23,931,038) |
| Securities Lending Income, Net | 161,964 | 498,646 | — | — | — | 660,610 |
| Net Gain on Collateralized Securities | 838,430 | 2,105,876 | — | — | — | 2,944,306 |
| Other Income | 7,604,277 | 2,522,115 | — | — | — | 10,126,392 |
| Total Investment Earnings | 289,789,607 | 568,760,793 | 1,090,993 | 4,676,705 | — | 864,318,098 |
| Total Additions | 325,157,499 | 576,543,934 | 243,269,416 | 4,857,066 | 1,171,556 | 1,150,999,471 |
| DEDUCTIONS: | | | | | | |
| Pension and Annuity Benefits | 253,683,194 | 285,512,629 | — | — | — | 539,195,823 |
| Premiums to Insurers and Damage Claims | — | — | 242,214,209 | 1,838,845 | 1,171,556 | 245,224,610 |
| Member Refunds and Withdrawals | 144,050,613 | 38,027,844 | — | — | — | 182,078,457 |
| General and Administrative Expenses | 11,237,767 | 11,373,226 | 6,847 | 40,524 | — | 22,658,364 |
| Total Deductions | 408,971,574 | 334,913,699 | 242,221,056 | 1,879,369 | 1,171,556 | 989,157,254 |
| Net Increase (Decrease) | (83,814,075) | 241,630,235 | 1,048,360 | 2,977,697 | — | 161,842,217 |
| Net Position, Beginning of Year | 2,099,021,954 | 3,034,573,064 | 8,075,238 | 32,519,322 | 1,000,000 | 5,175,189,578 |
| Net Position, End of Year | $ 2,015,207,879 | $ 3,276,203,299 | $ 9,123,598 | $ 35,497,019 | $ 1,000,000 | $ 5,337,031,795 |





## City of Detroit, Michigan
## COMBINING STATEMENT OF ASSETS AND LIABILITIES
## AGENCY FUNDS
## For the Year Ended June 30, 2014

| | Fire Insurance Escrow Fund | Other Agency Funds | Totals |
|---|---|---|---|
| ASSETS | | | |
| Cash and Cash Equivalents | $ 21,473,322 | $ 170,381 | $ 21,643,703 |
| Total Assets | $ 21,473,322 | $ 170,381 | $ 21,643,703 |
| LIABILITIES | | | |
| Accounts and Contracts Payable | $ 218,687 | $ 170,381 | $ 389,068 |
| Other Liabilities | 20,712,703 | — | 20,712,703 |
| Due to Primary Government | 541,932 | — | 541,932 |
| Total Liabilities | $ 21,473,322 | $ 170,381 | $ 21,643,703 |

City of Detroit, Michigan
COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
AGENCY FUNDS
For the Year Ended June 30, 2014

| | Balance June 30, 2013 | Additions | Deductions | Balance June 30, 2014 |
|---|---|---|---|---|
| **Fire Insurance Escrow Fund** | | | | |
| ASSETS | | | | |
| Cash and Cash Equivalents | $ 956,494 | $ 396,434 | $ — | $ 1,352,928 |
| Investments at Fair Value | 20,606,287 | — | 485,893 | 20,120,394 |
| Total Assets | $ 21,562,781 | $ 396,434 | $ 485,893 | $ 21,473,322 |
| LIABILITIES | | | | |
| Accounts and Contracts Payable | $ 50,994 | $ 167,693 | $ — | $ 218,687 |
| Due to Primary Government | 611,380 | — | 69,448 | 541,932 |
| Other Liabilities | 20,900,407 | — | 187,704 | 20,712,703 |
| Total Liabilities | $ 21,562,781 | $ 167,693 | $ 257,152 | $ 21,473,322 |
| **Other Agency Funds** | | | | |
| ASSETS | | | | |
| Cash and Cash Equivalents | $ 243,910 | $ — | $ 73,529 | $ 170,381 |
| Total Assets | $ 243,910 | $ — | $ 73,529 | $ 170,381 |
| LIABILITIES | | | | |
| Accounts and Contracts Payable | $ 243,910 | $ — | $ 73,529 | $ 170,381 |
| Total Liabilities | $ 243,910 | $ — | $ 73,529 | $ 170,381 |
| **Total Agency Funds** | | | | |
| ASSETS | | | | |
| Cash and Cash Equivalents | $ 1,200,404 | $ 396,434 | $ 73,529 | $ 1,523,309 |
| Investments at Fair Value | 20,606,287 | — | 485,893 | 20,120,394 |
| Total Assets | $ 21,806,691 | $ 396,434 | $ 559,422 | $ 21,643,703 |
| LIABILITIES | | | | |
| Accounts and Contracts Payable | $ 294,904 | $ 167,693 | $ 73,529 | $ 389,068 |
| Due to Other Funds | 611,380 | — | 69,448 | 541,932 |
| Other Liabilities | 20,900,407 | — | 187,704 | 20,712,703 |
| Total Liabilities | $ 21,806,691 | $ 167,693 | $ 330,681 | $ 21,643,703 |

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See accompanying independent auditor's report.





# STATISTICAL SECTION

# (UNAUDITED)

*The Statistical Section Contains:*

**Financial Trends Information**
**Revenue Capacity Information**
**Debt Capacity Information**
**Demographic and Employment Information**
**Operating Information**

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City of Detroit, Michigan
COMPREHENSIVE ANNUAL FINANCIAL REPORT
For the Year Ended June 30, 2014

## Description of Statistical Section

This part of the Comprehensive Annual Financial Report presents information as a context for understanding what the information in the financial statements, note disclosures, and required supplementary information says about the City's overall health.

**Contents**

The statistical section is organized into the following main categories:

**Financial Trends:**
These schedules contain trend information to help the reader understand how the City's financial performance and well-being have changed over time.

**Revenue Capacity:**
These schedules contain information to help the reader assess the City's most significant local revenue source, the property tax.

**Debt Capacity:**
These schedules contain information to help the reader assess the affordability of the City's current levels of outstanding debt and the City's ability to issue additional debt in the future.

**Demographic and Economic Information:**
These schedules offer demographic and economic indicators to help the reader understand the environment within which the City's financial activities take place.

**Operating Information:**
These schedules contain service and infrastructure data to help the reader understand how the information in the City's financial report relates to the services the City provides and the activities it performs.

**Schedule 1**
**City of Detroit, Michigan**
**Financial Trends - Net Position by Component, Last Ten Fiscal Years**
**(Accrual Basis of Accounting)**
**(Unaudited)**

| | Fiscal Year | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | **2014** | **2013** | **2012** | **2011** | **2010** | **2009** | **2008** | **2007** | **2006** | **2005** |
| **Governmental Activities** | | | | | | | | | | |
| Net Investment in Capital Assets | $ 886,141,054 | $ 832,127,493 | $ 803,653,672 | $ 711,987,330 | $ 717,589,037 | $ 631,821,536 | $ 558,340,662 | $ 592,161,746 | $ 603,086,043 | $ 562,311,648 |
| Restricted | 102,047,103 | 75,055,537 | 73,786,466 | 110,223,372 | 93,496,558 | 142,704,927 | 158,523,041 | 157,360,360 | 29,492,455 | 30,488,595 |
| Unrestricted (deficit) | (1,034,577,802) | (1,714,975,464) | (1,557,840,700) | (1,360,282,090) | (1,278,954,788) | (956,905,000) | (687,464,129) | (602,506,410) | (608,735,544) | (586,294,194) |
| Total governmental activities net position | (46,389,645) | (807,792,434) | (680,400,562) | (538,071,388) | (467,869,193) | (182,378,537) | 29,399,574 | 147,015,696 | 23,842,954 | 6,506,049 |
| **Business-type Activities** | | | | | | | | | | |
| Net Investment in Capital Assets | 54,337,164 | 525,963,518 | 1,047,594,007 | 435,962,058 | 781,976,263 | 698,477,050 | 743,865,611 | 1,150,524,897 | 914,032,397 | 1,050,443,297 |
| Restricted | 473,057,369 | 244,039,925 | 461,972,732 | 303,235,683 | 284,696,404 | 347,303,231 | 304,273,113 | 266,995,240 | 385,379,957 | 287,778,927 |
| Unrestricted (deficit) | (292,611,158) | (640,389,229) | (1,201,140,082) | (230,134,710) | (333,688,853) | 36,681,530 | 185,998,204 | 175,648,800 | 377,799,324 | 280,769,875 |
| Total business-type activities net position | 234,783,375 | 129,614,214 | 308,426,657 | 509,063,031 | 732,983,814 | 1,082,461,811 | 1,234,136,928 | 1,593,168,937 | 1,677,211,678 | 1,618,992,099 |
| **Primary Government** | | | | | | | | | | |
| Net Investment in Capital Assets | 940,478,218 | 1,358,091,011 | 1,851,247,679 | 1,147,949,388 | 1,499,565,300 | 1,330,298,586 | 1,302,206,273 | 1,742,686,643 | 1,517,118,440 | 1,612,754,945 |
| Restricted | 575,104,472 | 319,095,462 | 535,759,198 | 413,459,055 | 378,192,962 | 490,008,158 | 462,796,154 | 424,355,600 | 414,872,412 | 318,267,522 |
| Unrestricted (deficit) | (1,327,188,960) | (2,355,364,693) | (2,758,980,782) | (1,590,416,800) | (1,612,643,641) | (920,223,470) | (501,465,925) | (426,857,610) | (230,936,220) | (305,524,319) |
| Total primary government net position | $ 188,393,730 | $ (678,178,220) | $ (371,973,905) | $ (29,008,357) | $ 265,114,621 | $ 900,083,274 | $1,263,536,502 | $1,740,184,633 | $1,701,054,632 | $1,625,498,148 |

Source: City of Detroit, Comprehensive Annual Financial Reports for Fiscal Years Ended June 30, 2005 through 2014

**Schedule 2**
**City of Detroit, Michigan**
**Financial Trends - Changes in Net Position, Last Ten Fiscal Years**
**(Accrual Basis of Accounting)**
**(Unaudited)**

| | Fiscal Year | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | **2014** | **2013** | **2012** | **2011** | **2010** | **2009** | **2008** | **2007** | **2006** | **2005** |
| **Expenses** | | | | | | | | | | |
| Governmental Activities: | | | | | | | | | | |
| Public Protection | $ 539,831,117 | $ 694,708,112 | $ 800,229,437 | $ 816,928,579 | $ 779,613,390 | $ 789,055,092 | $ 761,894,177 | $ 633,174,260 | $ 681,052,276 | $ 876,156,606 |
| Health | 49,563,178 | 38,070,128 | 142,584,167 | 170,235,039 | 170,843,954 | 158,906,848 | 158,826,732 | 153,368,566 | 177,363,962 | 170,039,930 |
| Recreation and Culture | 30,467,345 | 26,856,182 | 30,113,031 | 31,397,867 | 17,963,496 | 37,180,607 | 36,295,041 | 36,050,284 | 69,192,054 | 75,145,276 |
| Economic Development | 59,701,870 | 81,455,649 | 73,599,973 | 87,938,305 | 61,906,827 | 73,307,206 | 87,717,239 | 93,705,705 | 95,641,855 | 114,865,586 |
| Educational Development | - | 37,040,734 | 51,974,801 | 58,840,456 | 90,450,821 | 76,728,812 | 57,474,770 | 57,658,134 | 64,670,870 | 73,770,757 |
| Housing Supply and Conditions | 8,465,345 | 5,086,777 | 4,431,697 | 6,328,619 | 8,381,813 | 10,592,858 | 10,591,479 | 7,904,903 | 14,737,981 | 17,980,767 |
| Physical Environment | 110,555,039 | 121,192,467 | 130,991,572 | 125,325,346 | 119,713,562 | 185,864,791 | 226,460,478 | 213,287,711 | 243,949,975 | 277,305,834 |
| Transportation Facilitation | 55,831,652 | 20,745,859 | 33,697,252 | 33,720,569 | 84,039,822 | 73,805,481 | 70,563,909 | 71,947,094 | 79,343,398 | 46,272,594 |
| Development and Management | 328,243,425 | 205,937,823 | 195,167,837 | 201,031,612 | 268,716,249 | 350,974,262 | 304,815,026 | 297,443,586 | 240,246,357 | 214,746,647 |
| Interest on Long-Term Debt | 135,130,618 | 133,545,027 | 129,097,503 | 132,827,437 | 129,458,620 | 126,344,699 | 107,754,007 | 140,861,674 | 126,659,186 | 65,252,896 |
| Total Government Activities Expenses | 1,317,789,589 | 1,364,638,758 | 1,591,887,270 | 1,664,573,829 | 1,731,088,554 | 1,882,760,656 | 1,822,392,858 | 1,705,401,917 | 1,792,857,914 | 1,931,536,893 |
| Business-type Activities: | | | | | | | | | | |
| Sewage Disposal | 482,723,501 | 523,909,799 | 456,113,053 | 517,645,238 | 431,575,246 | 450,278,148 | 429,112,536 | 427,788,717 | 311,303,765 | 192,421,480 |
| Transportation | 163,841,194 | 166,024,287 | 212,856,759 | 215,880,853 | 207,620,142 | 206,705,724 | 212,652,767 | 200,555,312 | 190,358,944 | 204,913,780 |
| Water | 392,920,925 | 398,086,572 | 370,558,112 | 345,180,580 | 346,637,749 | 349,734,605 | 360,778,077 | 335,000,188 | 282,149,274 | 195,085,657 |
| Automobile Parking | 14,714,363 | 20,089,165 | 11,643,400 | 11,305,474 | 18,190,081 | 16,511,077 | 14,361,352 | 16,306,759 | 19,474,446 | 26,295,677 |
| Airport | 4,613,418 | 1,910,151 | 2,119,837 | 2,392,911 | 2,437,571 | 2,685,756 | 3,502,904 | 2,960,042 | 3,044,030 | 3,140,746 |
| Total Business-type Activities Expenses | 1,058,813,401 | 1,110,019,974 | 1,053,291,161 | 1,092,405,056 | 1,006,460,789 | 1,025,915,310 | 1,020,407,636 | 982,611,018 | 806,330,459 | 621,857,340 |
| Total Primary Government Expenses | 2,376,602,990 | 2,474,658,732 | 2,645,178,431 | 2,756,978,885 | 2,737,549,343 | 2,908,675,966 | 2,842,800,494 | 2,688,012,935 | 2,599,188,373 | 2,553,394,233 |
| **Program Revenues** | | | | | | | | | | |
| Governmental Activities: | | | | | | | | | | |
| Charges for Services: | | | | | | | | | | |
| Public Protection | 75,017,759 | 76,800,124 | 75,900,731 | 89,521,773 | 78,076,978 | 92,986,299 | 90,415,439 | 99,021,130 | 51,757,423 | 90,825,019 |
| Health | 2,389,178 | 224,847 | 9,652,314 | 5,090,487 | 12,495,600 | 14,752,057 | 15,108,413 | 14,987,496 | 14,224,550 | 13,026,677 |
| Recreation and Culture | 17,106,690 | 17,697,563 | 18,170,830 | 17,796,165 | 17,510,499 | 17,736,396 | 24,489,607 | 17,233,370 | 27,367,110 | 11,474,294 |
| Economic Development | 3,344,270 | 7,192,630 | 850,741 | 1,358,479 | 121,725 | 72,714 | 694,676 | 9,010,210 | 13,946,969 | 5,427,118 |
| Educational Development | - | - | - | 499,058 | 1,528,487 | 760,494 | - | 2,781,677 | - | - |
| Housing Supply and Conditions | 3,509,934 | 3,196,447 | 2,734,182 | 3,566,331 | 3,780,682 | 3,572,588 | 5,989,939 | 127,757 | 1,636,711 | 6,700,117 |
| Physical Environment | 93,846,458 | 102,363,179 | 97,094,653 | 80,905,220 | 92,793,872 | 111,380,814 | 127,140,951 | 133,048,222 | 74,915,029 | 81,944,899 |
| Transportation Facilitation | 22,728,698 | - | 1,647,825 | 46,986 | 927,229 | 516,728 | 902,039 | 79,156 | 1,355 | - |
| Development and Management | 128,991,615 | 81,496,108 | 103,694,387 | 101,982,537 | 109,253,875 | 142,032,307 | 123,151,397 | 154,386,499 | 156,799,556 | 198,570,684 |
| Operating Grants and Contributions | 176,787,827 | 211,471,358 | 326,570,380 | 370,730,317 | 356,347,310 | 310,525,464 | 306,575,011 | 271,970,335 | 245,061,788 | 246,248,865 |
| Capital Grants and Contributions | 30,592,996 | 19,740,930 | 24,516,521 | 44,338,905 | 28,304,777 | 35,257,895 | 26,365,200 | 65,941,108 | 91,806,940 | 135,504,749 |
| Total Governmental Activities Program Revenues | 554,315,425 | 520,183,186 | 660,832,564 | 715,836,258 | 701,141,034 | 729,593,756 | 720,832,672 | 768,586,960 | 677,517,431 | 789,722,422 |
| Business-type Activities: | | | | | | | | | | |
| Charges for Services: | | | | | | | | | | |
| Sewage Disposal | 475,770,844 | 440,863,260 | 437,654,891 | 410,719,075 | 365,537,390 | 390,126,398 | 346,908,831 | 346,906,614 | 354,455,204 | 254,350,136 |
| Transportation | 19,374,841 | 26,643,760 | 22,558,000 | 27,418,297 | 26,565,119 | 28,191,056 | 28,918,328 | 26,047,091 | 25,173,805 | 22,959,490 |
| Water | 349,369,362 | 355,527,761 | 336,129,945 | 316,002,201 | 285,470,426 | 274,095,463 | 292,983,220 | 268,286,093 | 276,230,766 | 193,954,987 |
| Automobile Parking | 10,341,324 | 11,992,637 | 10,617,480 | 8,136,744 | 15,037,679 | 17,667,031 | 18,556,018 | 18,114,461 | 21,125,510 | 13,627,650 |
| Airport | 3,085,314 | 726,855 | 993,050 | 799,122 | 967,234 | 1,125,015 | 1,123,934 | 1,087,844 | 989,722 | 1,180,584 |
| Operating Grants and Contributions | 61,597,871 | 70,142,182 | 77,296,998 | 77,553,273 | 75,343,618 | 74,811,471 | 79,008,781 | 81,959,301 | 73,801,668 | 88,110,603 |
| Capital Grants and Contributions | 9,943,047 | 11,854,628 | 30,344,607 | 29,793,987 | 47,947,235 | 33,897,154 | 39,540,356 | 14,097,605 | 9,502,218 | 15,080,720 |
| Total Business-type Activities Program Revenues | 929,482,603 | 917,751,083 | 915,594,971 | 870,422,699 | 816,868,701 | 819,913,588 | 807,039,468 | 756,499,009 | 761,278,893 | 589,264,170 |
| Total Primary Government Program Revenues | $ 1,483,798,028.00 | $ 1,437,934,269.00 | $ 1,576,427,535.00 | $ 1,586,258,957.00 | $ 1,518,009,735.00 | $ 1,549,507,344.00 | $ 1,527,872,140.00 | $ 1,525,085,969.00 | $ 1,438,796,324.00 | $ 1,378,986,592.00 |

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**Schedule 2 (Continued)**
**City of Detroit, Michigan**
**Financial Trends - Changes in Net Position, Last Ten Fiscal Years**
**(Accrual Basis of Accounting)**
**(Unaudited)**

| | Fiscal Year | | | | Fiscal Year | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 2014 | 2013 | 2012 | 2011 | 2010 | 2009 | 2008 | 2007 | 2006 | 2005 |
| **Net (Expense) Revenue** | | | | | | | | | | |
| Governmental Activities | $ (763,474,164) | $ (844,455,572) | $ (931,054,706) | $ (948,737,571) | $ (1,029,947,520) | $ (1,153,166,900) | $ (1,101,560,186) | $ (936,814,957) | $ (1,115,340,483) | $ (1,141,814,471) |
| Business-type Activities | (129,330,798) | (192,268,891) | (137,696,190) | (221,982,357) | (189,592,088) | (206,001,722) | (213,368,168) | (226,112,009) | (45,051,566) | (32,593,170) |
| Total Primary Government Net Expense | (892,804,962) | (1,036,724,463) | (1,068,750,896) | (1,170,719,928) | (1,219,539,608) | (1,359,168,622) | (1,314,928,354) | (1,162,926,966) | (1,160,392,049) | (1,174,407,641) |
| **General Revenues and Other Changes in Net Position** | | | | | | | | | | |
| Governmental Activities: | | | | | | | | | | |
| Taxes: | | | | | | | | | | |
| Property Taxes | 194,680,186 | 199,191,923 | 216,931,618 | 235,857,331 | 218,008,102 | 231,428,726 | 225,602,203 | 241,428,477 | 243,621,932 | 239,507,939 |
| Municipal Income Tax | 253,769,874 | 248,017,356 | 233,035,540 | 228,303,884 | 216,522,405 | 240,824,363 | 276,485,035 | 278,309,191 | 284,111,220 | 282,501,875 |
| Utility Users' Tax | 42,386,549 | 35,299,844 | 39,828,340 | 44,640,365 | 44,190,132 | 49,900,471 | 51,590,794 | 53,768,977 | 122,824,621 | 52,939,839 |
| Wagering Tax | 167,569,541 | 174,357,416 | 181,574,627 | 177,046,311 | 183,466,226 | 172,912,862 | 186,277,275 | 179,763,570 | 156,588,917 | 137,970,347 |
| State Hotel and Liquor Tax | - | - | - | - | 2,969,380 | 17,367,715 | 16,220,140 | 17,579,292 | 16,287,676 | 16,310,767 |
| Other Taxes and Assessments | 8,603,632 | 14,384,429 | 16,528,509 | 17,373,679 | 15,404,967 | 12,878,272 | 13,283,748 | 16,201,899 | 13,602,597 | - |
| State Shared Taxes | 189,756,901 | 182,454,314 | 173,292,222 | 239,342,109 | 239,047,211 | 268,246,565 | 272,569,363 | 272,635,060 | 280,818,221 | 282,914,217 |
| State Returnable Liquor License Fees | 607,547 | 604,206 | - | - | - | - | - | - | - | - |
| Interest and Penalties on Taxes | 1,269,784 | 924,928 | 4,264,747 | 7,554,054 | 9,332,781 | 10,696,529 | 10,857,112 | 10,342,478 | 9,181,155 | 11,712,960 |
| Investment Earnings | (4,170,808) | (88,533,105) | 8,366,960 | 8,606,985 | 8,832,971 | 7,056,295 | 19,189,619 | 24,075,811 | 18,396,691 | 14,464,802 |
| Miscellaneous Revenue | 7,549,098 | 11,854,410 | 2,578,822 | 3,595,798 | 6,618,964 | 9,273,309 | 13,586,014 | 37,634,868 | 22,780,845 | 9,984,374 |
| Gain (Loss) on Disposal of Capital Assets | (359,223) | (8,829,927) | - | (528,568) | (27,775) | (5,204,095) | (278,706) | (31,728) | (308,855) | (3,551,036) |
| Special Item | 766,046,174 | - | - | (9,865,937) | 49,980,314 | - | - | - | - | - |
| Transfers | (79,432,723) | (52,662,094) | (87,675,853) | (73,390,635) | (74,579,168) | (73,992,223) | (101,438,533) | (71,720,196) | (35,227,632) | (89,585,306) |
| Total Governmental Activities | 1,548,276,532 | 717,063,700 | 788,725,532 | 878,535,376 | 919,766,510 | 941,388,789 | 983,944,064 | 1,059,987,699 | 1,132,677,388 | 955,170,778 |
| Business-type Activities: | | | | | | | | | | |
| Investment Earnings (Loss) | 5,609,449 | (46,468,811) | (152,915,970) | 9,837,046 | (42,428,588) | 25,458,070 | 58,176,113 | - | 39,193,811 | 22,808,775 |
| Bond Issuance Costs | (22,173,885) | - | - | - | - | - | - | - | - | - |
| Miscellaneous Revenues (Expenses) | (13,956,786) | 7,265,917 | 2,299,933 | 6,310,694 | 788,385 | (8,435,836) | (3,990,512) | 69,331,846 | 2,879,273 | (6,850,110) |
| Gain (Loss) on Disposal of Capital Assets | (1,259,818) | (2,752) | - | (91,476,801) | - | - | - | 1,017,226 | 25,970,429 | - |
| Special Item | 228,728,211 | - | - | - | - | (36,900,173) | (141,962,894) | - | - | - |
| Transfers | 79,432,723 | 52,662,094 | 87,675,853 | 73,390,635 | 74,579,168 | 73,992,223 | 101,438,533 | 71,720,196 | 35,227,632 | 89,585,306 |
| Total Business-type Activities | 276,379,894 | 13,456,448 | (62,940,184) | (1,938,426) | 32,938,965 | 54,114,284 | 13,661,240 | 142,069,268 | 103,271,145 | 105,543,971 |
| Total Primary Government | 1,824,656,426 | 730,520,148 | 725,785,348 | 876,596,950 | 952,705,475 | 995,503,073 | 997,605,304 | 1,202,056,967 | 1,235,948,533 | 1,060,714,749 |
| **Change in Net Position** | | | | | | | | | | |
| Governmental Activities | 784,802,368 | (127,391,872) | (142,329,174) | (70,202,195) | (110,181,010) | (211,778,111) | (117,616,122) | 123,172,742 | 17,336,905 | (186,643,693) |
| Business-type Activities | 147,049,096 | (178,812,443) | (200,636,374) | (223,920,783) | (156,653,123) | (151,887,438) | (199,706,928) | (84,042,741) | 58,219,579 | 72,950,801 |
| Total Primary Government | $ 931,851,464 | $ (306,204,315) | $ (342,965,548) | $ (294,122,978) | $ (266,834,133) | $ (363,665,549) | $ (317,323,050) | $ 39,130,001 | $ 75,556,484 | $ (113,692,892) |

Source: City of Detroit, Comprehensive Annual Financial Reports for Fiscal Years Ended June 30, 2005 through 2014

**Schedule 3**
**City of Detroit, Michigan**
**Financial Trends - Fund Balances, Governmental Funds**
**Last Ten Fiscal Years**
**(Modified Accrual Basis of Accounting)**
**(Unaudited)**

| | Fiscal Year | | | | | Fiscal Year | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 2014 | 2013 | 2012 | 2011 | 2010 | 2009 | 2008 | 2007 | 2006 | 2005 |
| **General Fund:** | | | | | | | | | | |
| Reserved | $ - | $ - | $ - | $ - | $ 64,597,471 | $ 65,191,371 | $ 77,472,983 | $ 64,169,704 | $ 66,502,619 | $ 121,809,601 |
| Unreserved (Deficit) | - | - | - | - | (155,692,159) | (331,925,012) | (219,158,137) | (155,575,800) | (173,678,707) | (155,404,035) |
| Nonspendable | - | 4,050,006 | 20,940,729 | 20,692,552 | - | - | - | - | - | - |
| Restricted | 42,979,826 | 979,826 | 979,826 | 979,826 | - | - | - | - | - | - |
| Committed | 156,334,125 | 54,550,314 | 35,234,345 | 26,833,858 | - | - | - | - | - | - |
| Assigned | - | - | - | - | - | - | - | - | - | - |
| Unassigned (Deficit) | (145,907,582) | (132,560,895) | (326,641,557) | (196,577,910) | - | - | - | - | - | - |
| Total General Fund | $ 53,406,369 | $ (72,980,749) | $ (269,486,657) | $ (148,071,674) | $ (91,094,688) | $ (266,733,641) | $ (141,685,154) | $ (91,406,096) | $ (107,176,088) | $ (33,594,434) |
| **Retirement Service Funds:** | | | | | | | | | | |
| Reserved | $ - | $ - | $ - | $ - | $ 24,496,356 | $ 24,574,826 | $ 24,851,160 | $ 24,927,727 | $ 24,955,781 | $ 46,884,125 |
| Unreserved (Deficit) | - | - | - | - | - | - | (276,334) | - | - | - |
| Nonspendable | 24,016,604 | 24,016,604 | 24,016,604 | 24,295,379 | - | - | - | - | - | - |
| Total Retirement System Service Funds | $ 24,016,604 | $ 24,016,604 | $ 24,016,604 | $ 24,295,379 | $ 24,496,356 | $ 24,574,826 | $ 24,574,826 | $ 24,927,727 | $ 24,955,781 | $ 46,884,125 |
| **All Other Governmental Funds:** | | | | | | | | | | |
| Special Revenue Funds | | | | | | | | | | |
| Reserved | $ - | $ - | $ - | $ - | $ 41,022,881 | $ 43,974,045 | $ 66,158,392 | $ 72,014,875 | $ 14,657,665 | $ 14,946,632 |
| Unreserved (Deficit) | - | - | - | - | 12,313,800 | 17,785,520 | 16,865,024 | 22,230,294 | 77,241,086 | 76,896,645 |
| Nonspendable | - | - | 1,457,015 | 1,597,869 | - | - | - | - | - | - |
| Restricted | 90,917,252 | 69,437,600 | 65,845,376 | 70,907,819 | - | - | - | - | - | - |
| Capital Projects Funds | | | | | | | | | | |
| Reserved | - | - | - | - | 90,526,155 | 99,750,093 | 126,274,973 | 88,507,405 | 134,433,861 | 139,812,882 |
| Restricted | 62,946,287 | 79,371,566 | 129,888,278 | 148,878,121 | - | - | - | - | - | - |
| Debt Service Fund | | | | | | | | | | |
| Reserved | - | - | - | - | 6,135,145 | 52,194,439 | 42,825,432 | 39,781,836 | 27,799,931 | 29,061,404 |
| Assigned | 12,604,764 | 7,899,702 | 6,314,687 | 4,561,750 | - | - | - | - | - | - |
| Permanent Funds | | | | | | | | | | |
| Reserved | - | - | - | - | 1,588,224 | 1,574,670 | 1,494,202 | 1,445,462 | 1,291,569 | 1,253,623 |
| Nonspendable | 937,861 | 937,861 | 937,861 | 937,861 | - | - | - | - | - | - |
| Restricted | 765,245 | 819,870 | 778,733 | 748,159 | - | - | - | - | - | - |
| Total All Other Governmental Funds | $ 168,171,409 | $ 158,466,599 | $ 205,221,950 | $ 227,631,579 | $ 151,586,205 | $ 215,278,767 | $ 253,618,023 | $ 223,979,872 | $ 255,424,112 | $ 261,971,186 |

Source: City of Detroit, Comprehensive Annual Financial Reports for Fiscal Years Ended June 30, 2005 through 2014

Note: The fund balance classifications changed in fiscal year 2011 when the City implemented GASB Statement No. 54.
This statement requires fund balances to now be classified as nonspendable, restricted, assigned, committed, and unassigned.

**Schedule 4**
**City of Detroit, Michigan**
**Financial Trends - Changes in Fund Balances of Governmental Funds**
**Last Ten Fiscal Years**
**(Modified Accrual Basis of Accounting)**
**(Unaudited)**

| | Fiscal Year | | | | | Fiscal Year | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | **2014** | **2013** | **2012** | **2011** | **2010** | **2009** | **2008** | **2007** | **2006** | **2005** |
| **Revenues** | | | | | | | | | | |
| Taxes: | | | | | | | | | | |
| Property Taxes | $ 194,627,905 | $ 199,191,923 | $ 216,931,618 | $ 252,020,089 | $ 201,845,344 | $ 230,833,394 | $ 225,890,313 | $ 257,003,325 | $ 243,621,932 | $ 238,771,142 |
| Municipal Income Tax | 253,769,874 | 248,017,356 | 233,035,540 | 228,303,884 | 216,522,405 | 240,824,363 | 276,485,035 | 278,309,191 | 284,111,220 | 282,501,875 |
| Utility Users' Tax | 42,386,549 | 35,299,844 | 39,828,340 | 44,640,365 | 44,190,132 | 49,900,667 | 51,590,599 | 53,768,977 | 60,019,626 | 52,939,839 |
| Wagering Taxes | 167,924,023 | 174,599,992 | 181,443,475 | 176,899,280 | 183,338,299 | 173,026,122 | 180,365,237 | 179,763,570 | 156,588,917 | 137,970,347 |
| Gas and Weight Tax | 53,904,485 | 52,081,247 | 53,142,793 | 58,623,860 | 57,775,086 | 58,813,648 | 61,070,748 | 62,080,522 | 62,804,995 | 63,476,425 |
| Other Taxes and Assessments | 8,603,632 | 14,384,429 | 16,528,509 | 17,373,670 | 15,404,967 | 12,878,272 | 13,283,748 | 16,201,899 | 13,583,421 | 13,565,118 |
| State Hotel and Liquor Tax | - | - | - | - | 2,969,380 | 17,367,715 | 16,220,140 | 17,579,292 | 16,287,676 | 16,310,767 |
| Interest and Penalties on Taxes | 1,269,784 | 924,928 | 4,264,747 | 7,554,054 | 9,332,781 | 10,696,529 | 10,857,112 | 10,342,478 | 9,181,155 | 11,491,470 |
| Licenses, Permits, and Inspection Charges | 28,706,629 | 32,615,445 | 27,100,204 | 27,095,599 | 27,669,454 | 32,471,933 | 35,138,940 | 32,536,815 | 35,585,150 | 35,609,100 |
| Intergovernmental: | | | | | | | | | | |
| Federal | 96,907,383 | 152,579,860 | 253,933,239 | 301,484,858 | 265,421,498 | 233,526,888 | 222,675,031 | 219,592,658 | 218,119,145 | 276,372,474 |
| State | | | | | | | | | | |
| State Shared Revenue | 189,756,901 | 182,454,314 | 172,704,390 | 239,320,847 | 263,060,088 | 266,032,168 | 249,027,299 | 272,084,669 | 279,467,063 | 282,914,217 |
| State Returnable Liquor License Fees | 607,547 | 604,206 | - | - | - | - | - | - | - | - |
| Other State Sourced Revenue | 49,226,334 | 25,994,536 | 37,269,243 | 46,887,654 | 47,852,739 | 40,049,141 | 41,062,686 | 41,878,552 | 75,774,530 | 36,867,375 |
| State Equity Grant | - | - | - | - | - | - | - | - | - | 1,076,931 |
| Other | 6,001,385 | 6,029,547 | 6,663,482 | 8,347,440 | 6,788,282 | 14,500,644 | 4,026,591 | 14,359,711 | 25,192,384 | 16,346,773 |
| Sales and Charges for Services | 207,987,028 | 176,029,645 | 197,066,068 | 201,253,031 | 196,333,386 | 237,044,188 | 258,599,558 | 243,533,764 | 189,253,428 | 183,294,833 |
| Ordinance Fines and Forfeitures | 17,851,138 | 21,154,594 | 16,972,056 | 21,152,772 | 18,872,226 | 23,747,573 | 20,850,629 | 25,680,231 | 21,525,257 | 27,481,642 |
| Revenue from Use of Assets | 7,568,498 | 12,017,348 | 2,069,012 | 3,595,798 | 6,618,964 | 27,013,424 | 13,560,617 | 37,634,876 | 22,780,845 | 16,782,057 |
| Investment Earnings | 300,397 | (399,654) | 445,251 | 685,276 | 911,263 | 7,056,295 | 19,189,619 | 24,075,811 | 18,396,691 | 14,464,802 |
| Other Revenue | 95,010,394 | 35,958,150 | 64,241,114 | 77,135,224 | 64,761,863 | 72,117,140 | 73,606,042 | 123,867,578 | 106,521,883 | 131,657,892 |
| Total Revenues | 1,422,409,886 | 1,369,537,710 | 1,523,639,081 | 1,712,373,701 | 1,629,668,157 | 1,747,900,104 | 1,773,499,944 | 1,910,293,919 | 1,838,815,318 | 1,839,895,079 |
| **Expenditures** | | | | | | | | | | |
| Current: | | | | | | | | | | |
| Public Protection | 449,622,284 | 476,940,028 | 675,359,091 | 735,650,626 | 641,884,276 | 654,450,029 | 660,230,564 | 654,137,306 | 687,251,414 | 1,423,581,547 |
| Health | 48,782,203 | 37,448,812 | 142,365,025 | 169,338,220 | 170,489,091 | 155,442,680 | 157,414,372 | 154,283,807 | 177,723,221 | 197,473,468 |
| Recreation and Culture | 16,032,592 | 13,345,639 | 16,976,912 | 18,210,536 | 18,155,021 | 21,041,925 | 21,265,879 | 24,648,968 | 55,390,716 | 99,296,179 |
| Economic Development | 51,178,770 | 76,109,395 | 67,115,000 | 79,792,267 | 57,522,689 | 65,217,992 | 99,342,897 | 86,454,732 | 88,424,272 | 99,655,593 |
| Educational Development | - | 37,126,254 | 52,430,587 | 58,526,359 | 90,527,365 | 75,409,235 | 57,388,638 | 58,021,384 | 64,427,129 | 77,259,012 |
| Housing Supply and Conditions | 6,966,303 | 4,188,991 | 4,215,134 | 5,871,310 | 8,240,422 | 9,022,633 | 9,607,906 | 8,412,644 | 14,786,461 | 27,863,296 |
| Physical Environment | 97,441,142 | 106,802,886 | 113,603,551 | 113,296,648 | 104,042,673 | 159,233,592 | 202,986,951 | 197,682,760 | 220,208,683 | 301,784,627 |
| Transportation Facilitation | 36,505,709 | 1,749,362 | 14,990,983 | 26,836,954 | 71,517,424 | 66,567,770 | 58,595,880 | 72,482,752 | 79,343,398 | 46,272,594 |
| Development and Management | 297,686,391 | 191,052,907 | 176,507,779 | 180,366,148 | 237,069,025 | 305,203,444 | 298,231,422 | 310,231,013 | 233,297,837 | 495,348,897 |
| Debt Service: | | | | | | | | | | |
| Principal | 109,976,923 | 103,880,615 | 97,498,429 | 87,904,525 | 89,653,619 | 129,696,883 | 140,216,435 | 95,599,337 | 88,150,364 | 73,544,336 |
| Interest | 126,945,753 | 133,319,492 | 126,728,009 | 131,087,371 | 124,280,049 | 124,716,178 | 110,841,259 | 138,408,774 | 120,956,704 | 51,462,415 |
| Audit | | | | | | | - | - | | |
| Bond Issuance Costs | 3,379,410 | 1,612,046 | 485,599 | 1,416,768 | 2,487,193 | - | 3,182,053 | - | 56,147,009 | 44,262,505 |
| Capital Outlay | 81,329,304 | 127,079,320 | 97,650,840 | 102,395,459 | 49,231,014 | 77,094,313 | 88,458,549 | 69,848,815 | 175,169,666 | 282,545,708 |
| Total Expenditures | 1,325,846,784 | 1,310,655,747 | 1,585,926,939 | 1,710,693,191 | 1,665,099,861 | 1,843,096,674 | 1,907,762,805 | 1,870,212,292 | 2,061,276,874 | 3,220,350,177 |
| Excess (Deficiency) of Revenues Over (Under) Expenditures | 96,563,102 | 58,881,963 | (62,287,858) | 1,680,510 | (35,431,704) | (95,196,570) | (134,262,861) | 40,081,627 | (222,461,556) | (1,380,455,098) |
| **Other Financing Sources (Uses)** | | | | | | | | | | |
| Sources: | | | | | | | | | | |
| Transfers In | 109,770,188 | 174,825,814 | 179,921,845 | 173,340,882 | 171,409,769 | 210,043,052 | 208,766,473 | 176,069,587 | 129,799,480 | 141,075,789 |
| Pension Obligation Certificates Issued | - | - | - | - | - | - | - | - | 771,087,137 | 1,170,607,421 |
| Swap Termination Fee | - | - | - | - | - | - | - | - | 38,969,807 | - |
| Proceeds of Section 108 Federal Note | - | - | - | - | - | - | - | 14,958,000 | 1,800,000 | 7,789,000 |
| Proceeds of Capital Leases | - | - | - | - | - | - | - | - | 34,892,659 | 315,351 |
| Proceeds from Debt Issuances | 120,000,000 | 134,438,642 | 5,753,000 | 100,000,000 | 258,210,000 | 6,197,000 | 281,783,578 | - | 81,903,071 | 353,830,000 |
| Premium from Debt Issuances | - | 9,092,046 | - | - | 1,873,225 | - | 4,974,370 | - | 3,778,114 | 13,014,675 |
| Total Other Financing Sources | 229,770,188 | 318,356,502 | 185,674,845 | 273,340,882 | 431,492,994 | 216,240,052 | 495,524,421 | 191,027,587 | 1,062,230,268 | 1,686,632,236 |
| Uses: | | | | | | | | | | |
| Transfers Out | (189,202,911) | (227,487,908) | (267,597,697) | (246,731,517) | (245,988,937) | (284,035,275) | (310,205,006) | (247,789,783) | (165,027,112) | (230,661,095) |
| Principal Paid to Bond Agent for Refunded Bonds | - | - | - | - | (35,810,944) | - | (72,410,000) | - | (764,864,391) | (161,800,000) |
| Interest Paid to Bond Agent for Refunded Bonds | - | - | - | - | - | - | (1,314,181) | - | (1,741,161) | (10,865,420) |
| Total Other Financing Uses | (189,202,911) | (227,487,908) | (267,597,697) | (246,731,517) | (281,799,881) | (284,035,275) | (383,929,187) | (247,789,783) | 931,632,664 | 403,326,515 |
| Total Other Financing Sources (Uses) | 40,567,277 | 90,868,594 | (81,922,852) | 26,609,365 | 149,693,113 | (67,795,223) | 111,595,234 | (56,762,196) | 130,597,604 | 1,283,305,721 |
| Special Item | - | - | - | (9,865,937) | - | - | - | - | - | - |
| Net Change in Fund Balances | 137,130,379 | 149,750,557 | (144,210,710) | 18,423,938 | 114,261,409 | (162,991,793) | (22,667,627) | (16,680,569) | (91,863,952) | (97,149,377) |
| Fund Balance (Deficit) at Beginning of Year, as Restated | 108,464,003 | (40,248,103) | 103,855,284 | 84,987,873 | (26,880,048) | 136,507,695 | 157,501,503 | 173,203,805 | 275,260,877 | 387,865,195 |
| Increase (Decrease) in Inventories | - | - | 107,323 | 443,473 | (2,393,488) | (395,950) | 1,673,819 | 978,267 | (10,193,120) | (15,454,941) |
| Fund Balance (Deficit) at End of Year | $ 245,594,382 | $ 109,502,454 | $ (40,248,103) | $ 103,855,284 | $ 84,987,873 | $ (26,880,048) | $ 136,507,695 | $ 157,501,503 | $ 173,203,805 | $ 275,260,877 |
| Debt service as a percentage of noncapital expenditures | 19.31% | 20.18% | 15.10% | 13.70% | 13.39% | 14.41% | 13.97% | 13.00% | 14.06% | 5.76% |

Source: City of Detroit, Comprehensive Annual Financial Reports for Fiscal Years Ended June 30, 2005 through 2014

**Schedule 5**
**City of Detroit, Michigan**
**Revenue Capacity - Assessed and Actual Value of Taxable Property**
**Last Ten Fiscal Years**
**(Dollars in Thousands)**
**(Unaudited)**

| Fiscal Year Ended June 30 | Assessed Value: Residential Property | Assessed Value: Commercial Property | Assessed Value: Industrial Property | Assessed Value: Personal Property | Assessed Value: Total | Total Direct Tax Rate (Per Thousand of Taxable Value) |
|---|---|---|---|---|---|---|
| 2014 | $ 4,292,795 | $ 2,270,629 | $ 555,507 | $ 1,862,607 | $ 8,981,538 | 28.95 % |
| 2013 | 4,850,303 | 2,417,371 | 576,900 | 1,592,878 | 9,437,452 | 29.57 |
| 2012 | 5,475,901 | 2,617,911 | 660,159 | 1,369,132 | 10,123,104 | 29.51 |
| 2011 | 5,885,070 | 2,670,279 | 707,866 | 1,563,433 | 10,826,648 | 28.87 |
| 2010 | 6,331,071 | 2,561,853 | 711,088 | 1,516,382 | 11,120,394 | 28.87 |
| 2009 | 7,427,227 | 2,714,762 | 718,520 | 1,637,134 | 12,497,643 | 27.43 |
| 2008 | 8,815,609 | 2,766,213 | 750,693 | 1,612,957 | 13,945,472 | 28.02 |
| 2007 | 9,063,123 | 2,542,439 | 861,157 | 1,646,722 | 14,113,441 | 31.34 |
| 2006 | 8,622,589 | 2,299,266 | 877,750 | 1,655,570 | 13,455,175 | 30.02 |
| 2005 | 8,649,348 | 2,252,275 | 856,344 | 1,654,261 | 13,412,228 | 30.44 |

| Fiscal Year Ended June 30 | Taxable Value: Residential Property | Taxable Value: Commercial Property | Taxable Value: Industrial Property | Taxable Value: Personal Property | Taxable Value: Total | Taxable Assessed Value as a Percentage of Actual Taxable Value |
|---|---|---|---|---|---|---|
| 2014 | $ 3,948,186 | $ 1,995,109 | $ 495,211 | $ 1,862,684 | $ 8,301,190 | 92.43 % |
| 2013 | 4,265,567 | 2,082,686 | 506,261 | 1,592,856 | 8,447,370 | 89.51 |
| 2012 | 4,591,719 | 2,181,621 | 612,936 | 1,369,138 | 8,755,414 | 86.49 |
| 2011 | 4,955,961 | 2,232,730 | 659,172 | 1,563,439 | 9,411,302 | 86.93 |
| 2010 | 4,896,647 | 2,055,557 | 643,296 | 1,516,382 | 9,111,882 | 81.94 |
| 2009 | 5,291,055 | 2,145,967 | 651,786 | 1,637,112 | 9,725,920 | 77.82 |
| 2008 | 5,660,265 | 2,166,189 | 645,372 | 1,609,442 | 10,081,268 | 72.29 |
| 2007 | 5,615,395 | 1,899,540 | 737,484 | 1,646,722 | 9,899,141 | 70.14 |
| 2006 | 5,240,724 | 1,649,966 | 753,566 | 1,654,018 | 9,298,274 | 69.11 |
| 2005 | 4,943,144 | 1,574,914 | 730,307 | 1,623,886 | 8,872,251 | 66.15 |

Source: City of Detroit, Finance Department - Assessor's Office - Assessment and Tax Roll Certificate and Warrant for the City of Detroit

**Schedule 6**
**City of Detroit, Michigan**
**Revenue Capacity - Direct and Overlapping Property Tax Rates**
**Last Ten Fiscal Years**
**(Rate Per $1,000 of Assessed Value)**
**(Unaudited)**

| | City Direct Rates | | | Overlapping Rates | | | | |
|---|---|---|---|---|---|---|---|---|
| | | | | Detroit Public Schools | | | | |
| Fiscal Year | Basic General City Rate (Note 1) | Debt Service (Note 1) | Total Direct | Homestead (Note 2) | Non-Homestead (Note 2) | Library (Note 1) | County (Note 3) | State Education Tax (Note 1) |
| 2014 | 19.9520 | 8.9952 | 28.9472 | 13.1423 | 31.1422 | 4.6307 | 15.0417 | 6.0000 |
| 2013 | 19.9520 | 9.6136 | 29.5656 | 13.0969 | 30.9277 | 4.6307 | 13.7768 | 6.0000 |
| 2012 | 19.9520 | 9.5558 | 29.5078 | 13.2996 | 31.1304 | 4.6307 | 14.0778 | 6.0000 |
| 2011 | 19.9520 | 8.9157 | 28.8677 | 13.1015 | 30.9323 | 4.6307 | 14.0778 | 6.0000 |
| 2010 | 19.9520 | 8.9157 | 28.8677 | 13.0000 | 30.8308 | 4.6307 | 14.0778 | 6.0000 |
| 2009 | 19.9520 | 7.4779 | 27.4299 | 13.0000 | 30.8308 | 4.6307 | 14.0778 | 6.0000 |
| 2008 | 19.9520 | 8.0683 | 28.0203 | 13.0000 | 31.0000 | 4.6307 | 13.9778 | 6.0000 |
| 2007 | 22.9448 | 8.3951 | 31.3399 | 13.0000 | 31.0000 | 4.6307 | 13.9980 | 6.0000 |
| 2006 | 22.9448 | 7.0753 | 30.0201 | 13.0700 | 30.6236 | 4.6307 | 13.9778 | 6.0000 |
| 2005 | 22.9563 | 7.4796 | 30.4359 | 13.0000 | 31.0000 | 3.6331 | 13.9861 | 6.0000 |

Note 1 Source: City of Detroit's Budget Department
(Red Books for 2005 through 2014)
Note 2 Source: State of Michigan website
Note 3 Source: City of Detroit, Finance Department - Treasury Division - PBC R-11 Millage Report

**Schedule 7**
**City of Detroit, Michigan**
**Revenue Capacity - Principal Property Tax Payers**
**Current Year and Nine Years Ago**
**(Taxable Assessed Value - Expressed in Thousands)**
**(Unaudited)**

| | 2014 | | | 2005 (Note 3) | | |
|---|---|---|---|---|---|---|
| Taxpayer | Taxable Assessed Value (Note 1) | Rank | Percentage of Total City Taxable Assessed Value (Note 2) | Taxable Assessed Value | Rank | Percentage of Total City Taxable Assessed Value |
| Marathon Oil Company | $ 499,756,169 | 1 | 6.02 % | N/A | N/A | N/A |
| Detroit Edison Company | 434,069,845 | 2 | 5.23 | $ 359,498,298 | 2 | 4.31 % |
| Vanguard Health Systems - Hospitals | 275,814,550 | 3 | 3.32 | N/A | N/A | N/A |
| MGM Grand Detroit LLC | 209,301,949 | 4 | 2.52 | N/A | N/A | N/A |
| Riverfront Holdings Inc. | 106,721,950 | 5 | 1.29 | 123,150,856 | 5 | 1.48 |
| Chrysler Group LLC | 97,381,954 | 6 | 1.17 | 738,867,260 | 1 | 8.86 |
| Greektown Casino LLC | 65,928,741 | 7 | 0.79 | 40,376,351 | 9 | 0.48 |
| Detroit Entertainment LLC | 61,968,988 | 8 | 0.75 | 37,144,564 | 10 | 0.45 |
| General Motors LLC | 46,781,160 | 9 | 0.56 | 178,212,853 | 3 | 2.14 |
| International Transmission Co. | 44,770,681 | 10 | 0.54 | N/A | N/A | N/A |

Note 1 Source: City of Detroit - Assessor's Office
Note 2 Source: City of Detroit, Finance Department - Assessor's Office
Note 3 Source: City of Detroit, June 30, 2005 Comprehensive Annual Financial Report (Exhibit AA-14)

**Schedule 8**
**City of Detroit, Michigan**
**Revenue Capacity - Property Tax Levies and Collections**
**Last Ten Fiscal Years**
**(Amounts Expressed in Thousands)**
**(Unaudited)**

| Fiscal Year Ended June 30 | Taxes Levied for the Fiscal Year | Collected within the Fiscal Year of the Levy | | Total Collections to Date | | |
|---|---|---|---|---|---|---|
| | | Amount | Percentage of Levy | Collections in Subsequent Years | Amount | Percentage of Levy |
| 2014 | $ 222,550 | $ 153,897 | 69.15 % | * | $ 153,897 | 69.15 % |
| 2013 | 239,186 | 163,443 | 68.33 | * | 163,443 | 68.33 |
| 2012 | 251,399 | 210,359 | 83.68 | * | 210,359 | 83.68 |
| 2011 | 257,448 | 205,741 | 79.92 | * | 205,741 | 79.92 |
| 2010 | 261,380 | 224,235 | 85.79 | * | 224,235 | 85.79 |
| 2009 | 269,556 | 234,049 | 86.83 | * | 234,049 | 86.83 |
| 2008 | 271,516 | 251,530 | 92.64 | 1,349 | 252,879 | 93.14 |
| 2007 | 268,630 | 255,353 | 95.06 | * | 255,353 | 95.06 |
| 2006 | 263,532 | 244,189 | 92.66 | 2,493 | 246,682 | 93.61 |
| 2005 | 254,533 | 238,059 | 93.53 | 8,942 | 247,001 | 97.04 |

* Information not available for years 2007, 2009-2014

Source: City of Detroit, Finance Department - Treasury Division
Note: The methodology for compiling the information in this schedule was changed for 2013 and was not applied retroactively.

**Schedule 9**
**City of Detroit, Michigan**
**Debt Capacity - Ratios of Outstanding Debt by Type**
**Last Ten Fiscal Years**
**(Dollars in Thousands, Except Per Capita)**
**(Unaudited)**

| | Governmental Activities (Note 1) | | | | | |
|---|---|---|---|---|---|---|
| Fiscal Year | General Obligation Bonds | Detroit Building Authority Bonds | Revenue Bonds | Notes Payable | Loans Payable | Pension Obligation Certificates |
| 2014 | $ 1,060,963 | $ - | $ - | $ 85,184 | $ 36,693 | $ 1,137,404 |
| 2013 | 1,024,819 | - | - | 88,310 | 37,820 | 1,194,228 |
| 2012 | 971,213 | - | - | 89,391 | 34,207 | 1,194,270 |
| 2011 | 1,049,088 | - | - | 88,926 | 36,595 | 1,208,030 |
| 2010 | 1,028,036 | 2,655 | - | 89,506 | 37,944 | 1,216,977 |
| 2009 | 858,446 | 4,230 | 82,707 | 81,626 | 47,016 | 1,220,881 |
| 2008 | 969,868 | 5,650 | 94,453 | 77,681 | 56,316 | 1,220,923 |
| 2007 | 919,620 | 6,955 | 105,600 | 41,940 | 62,688 | 1,220,965 |
| 2006 | 953,275 | 8,322 | 114,183 | 28,315 | 74,442 | 1,206,770 |
| 2005 | 967,895 | 9,922 | 125,013 | 27,795 | 45,370 | 1,170,607 |

| | Business-type Activities (Note 1) | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Sewage Disposal Fund | | Transportation Fund | | Water Fund | | Automobile Parking Fund | | |
| Fiscal Year | Revenue Bonds | Pension Obligation Certificates | General Obligation Bonds | Pension Obligation Certificates | Revenue Bonds | Pension Obligation Certificates | Revenue Bonds | Total Primary Government | Per Capita |
| 2014 | $ 3,345,812 | $ 85,843 | $ 5,458 | $ 100,159 | $ 2,553,333 | $ 75,748 | $ - | $ 8,486,598 | $ 11,890 |
| 2013 | 3,190,578 | 90,151 | 5,458 | 105,185 | 2,488,622 | 79,555 | 9,125 | 8,313,850 | 11,648 |
| 2012 | 3,250,005 | 90,154 | 6,272 | 105,189 | 2,518,913 | 79,558 | 10,261 | 8,349,432 | 11,698 |
| 2011 | 2,894,198 | 91,193 | 6,272 | 106,401 | 2,159,832 | 80,474 | 11,341 | 7,732,348 | 10,833 |
| 2010 | 2,940,530 | 91,868 | 6,272 | 107,188 | 2,190,140 | 81,070 | 40,931 | 7,833,116 | 8,234 |
| 2009 | 2,980,741 | 92,163 | 6,272 | 107,532 | 2,298,509 | 81,330 | 42,616 | 7,904,069 | 8,309 |
| 2008 | 3,006,776 | 92,166 | 6,272 | 107,536 | 2,328,126 | 81,333 | 44,165 | 8,091,264 | 8,506 |
| 2007 | 3,018,976 | 9,140 | - | 107,539 | 2,344,255 | 159,196 | 45,668 | 8,042,542 | 8,455 |
| 2006 | 2,657,446 | 9,031 | - | 106,268 | 1,971,744 | 162,415 | 54,230 | 7,346,442 | 7,723 |
| 2005 | 2,653,827 | 8,761 | - | 103,084 | 1,991,615 | 157,548 | 60,845 | 7,322,282 | 7,697 |

Note 1 Source: City of Detroit - Comprehensive Annual
Financial Report for Fiscal Years Ended June 30, 2005 through 2014

**Schedule 10**
**City of Detroit, Michigan**
**Debt Capacity - Ratios of General Bonded Debt Outstanding**
**Last Ten Fiscal Years**
**(Dollars in Thousands, Except Per Capita)**
**(Unaudited)**

| | General Bonded Debt (Note 1) | | | | | General Bonded Debt (Note 1) | | |
|---|---|---|---|---|---|---|---|---|
| Fiscal Year | General Bonds | Detroit Building Authority Bonds | Pension Obligation Certificates | Restricted for Debt Service | Total (Net of Restricted for Debt Service) | Taxable Value (Note 2) | Percentage of Actual Taxable Value of Property (Note 2) | Per Capita |
| 2014 | $ 1,047,770 | $ - | $ 1,137,404 | $ (14,781) | $ 2,170,392 | $ 8,301,190 | 26.15 % | $ 3,040.71 |
| 2013 | 1,009,395 | - | 1,180,285 | (31,916) | 2,157,764 | 8,447,370 | 25.54 | 3,023.02 |
| 2012 | 963,400 | - | 1,180,285 | (30,331) | 2,113,354 | 8,755,414 | 24.14 | 2,960.80 |
| 2011 | 1,039,505 | - | 1,194,003 | (28,857) | 2,204,651 | 9,111,881 | 24.20 | 3,088.71 |
| 2010 | 1,013,920 | 2,655 | 1,202,909 | (30,632) | 2,188,852 | 9,725,919 | 22.51 | 2,300.98 |
| 2009 | 838,735 | 4,230 | 1,206,770 | (76,769) | 1,972,966 | 10,031,268 | 19.67 | 2,074.03 |
| 2008 | 942,850 | 5,650 | 1,206,770 | (67,400) | 2,087,870 | 9,896,705 | 21.10 | 2,194.82 |
| 2007 | 883,510 | 6,955 | 1,206,770 | (64,710) | 2,032,525 | 8,996,155 | 22.59 | 2,136.64 |
| 2006 | 953,275 | 8,322 | 1,206,770 | (28,201) | 2,140,166 | 8,749,830 | 24.46 | 2,249.80 |
| 2005 | 967,895 | 9,922 | 1,170,607 | (29,235) | 2,119,189 | 8,335,790 | 25.42 | 2,227.75 |

Note 1 Source: City of Detroit - Comprehensive Annual Financial Report for Fiscal Years Ended June 30, 2005 through 2014
Note 2 Source: City of Detroit's Budget Department (Red Books for 2005 through 2014)

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**Schedule 11**
**City of Detroit, Michigan**
**Debt Capacity - Direct and Overlapping Governmental Activities Debt**
**As of June 30, 2014**
**(Dollars in Thousands)**
**(Unaudited)**

| Governmental Unit | Debt Outstanding | Estimated Percent Applicable to City of Detroit | Estimated Share of Overlapping Debt |
|---|---|---|---|
| Debt repaid with property taxes: | | | |
| Detroit Public Schools | $ 1,685,757,335 | 100.00 % | $ 1,685,757,335 |
| Wayne County | 341,632,130 | 16.54 | 56,505,954 |
| Subtotal, overlapping debt | | | 1,742,263,289 |
| City of Detroit direct debt | 2,320,243,845 | 100.00 | 2,320,243,845 |
| **Total Direct and Overlapping Debt** | | | $ 4,062,507,134 |

Source: City of Detroit Finance Department, Debt Management Division

**Schedule 12**
**City of Detroit, Michigan**
**Debt Capacity - Legal Debt Margin Information**
**Last Ten Fiscal Years**
**(Dollars in Thousands)**
**(Unaudited)**

| | Fiscal Year | | | | | Fiscal Year | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | **2014** | **2013** | **2012** | **2011** | **2010** | **2009** | **2008** | **2007** | **2006** | **2005** |
| Debt limit | $ 1,587,704 | $ 1,558,064 | $ 1,033,010 | $ 1,218,147 | $ 1,218,793 | $ 1,388,266 | $ 1,505,243 | $ 1,527,708 | $ 1,443,061 | $ 1,390,749 |
| Total net debt applicable to limit | 1,034,669 | 1,039,011 | 957,128 | 1,033,233 | 919,650 | 820,400 | 820,400 | 758,805 | 815,002 | 728,229 |
| Legal debt margin | $ 553,035 | $ 519,053 | $ 75,882 | $ 184,914 | $ 299,143 | $ 567,866 | $ 684,843 | $ 768,903 | $ 628,059 | $ 662,520 |
| Total net debt applicable to the limit as a percentage of debt limit | 65.17% | 66.69% | 92.65% | 84.82% | 75.46% | 59.10% | 54.50% | 49.67% | 56.48% | 52.36% |

Source: City of Detroit Finance Department, Debt Management Division

**Schedule 13**
**City of Detroit, Michigan**
**Debt Capacity - Pledged Revenue Coverage**
**Last Ten Fiscal Years**
**(Dollars in Thousands)**
**(Unaudited)**

**Sewage Disposal Revenue Bonds**

| Fiscal Year | Total Available Revenues | Less: Operating Expenses | Net Available Revenue | Debt (b) Service | Debt (c) Coverage |
|---|---|---|---|---|---|
| 2005 | $ 297,214 | $ 163,400 | $ 133,814 | $ 136,635 | 97.94% |
| 2006 | 352,074 | 197,604 | 154,470 | 151,246 | 102.13 |
| 2007 | 403,992 | 199,955 | 204,037 | 156,616 | 130.28 |
| 2008 | 404,502 | 202,346 | 202,156 | 175,249 | 115.35 |
| 2009 | 410,960 | 195,530 | 215,430 | 195,545 | 110.17 |
| 2010 | 371,419 | 197,926 | 173,493 | 200,985 | 86.32 |
| 2011 | 413,968 | 230,811 | 183,157 | 209,064 | 87.61 |
| 2012 | 444,471 | 217,024 | 227,447 | 203,092 | 111.99 |
| 2013 | 440,663 | 209,785 | 230,878 | 225,223 | 102.51 |
| 2014 | 479,929 | 206,052 | 273,877 | 229,611 | 119.28 |

**Water Revenue Bonds**

| Fiscal Year | Total Available Revenues | Less: Operating Expenses | Net Available Revenue | Debt (b) Service | Debt (c) Coverage |
|---|---|---|---|---|---|
| 2005 | $ 267,727 | $ 156,954 | $ 110,773 | $ 105,575 | 104.92% |
| 2006 | 295,075 | 146,215 | 148,860 | 107,305 | 138.73 |
| 2007 | 302,351 | 146,327 | 156,024 | 115,450 | 135.14 |
| 2008 | 323,976 | 132,724 | 191,252 | 135,157 | 141.50 |
| 2009 | 287,906 | 149,859 | 138,047 | 156,775 | 88.05 |
| 2010 | 292,463 | 138,459 | 154,004 | 157,591 | 97.72 |
| 2011 | 320,066 | 146,880 | 173,186 | 164,436 | 105.32 |
| 2012 | 343,923 | 165,081 | 178,842 | 153,524 | 116.49 |
| 2013 | 361,091 | 151,204 | 209,887 | 172,459 | 121.70 |
| 2014 | 357,291 | 145,268 | 212,023 | 182,465 | 116.20 |

**Automobile Parking Revenue Bonds**

| Fiscal Year | Total (a) Available Revenues | Less: Operating Expenses | Net Available Revenue | Debt (b) Service | Debt Coverage |
|---|---|---|---|---|---|
| 2005 | $ 13,628 | $ 16,006 | $ (2,378) | $ 8,622 | -27.58% |
| 2006 | 21,126 | 10,315 | 10,811 | 10,604 | 101.95 |
| 2007 | 18,114 | 9,470 | 8,644 | 10,605 | 81.51 |
| 2008 | 18,556 | 7,998 | 10,558 | 6,374 | 165.64 |
| 2009 | 17,835 | 10,180 | 7,655 | 4,448 | 172.00 |
| 2010 | 15,038 | 12,804 | 2,234 | 4,594 | 48.63 |
| 2011 | 8,137 | 6,938 | 1,199 | 1,671 | 72.00 |
| 2012 | 10,617 | 7,911 | 2,706 | 1,665 | 162.56 |
| 2013 | 11,993 | 6,365 | 5,627 | 1,664 | 338.26 |
| 2014 | 10,341 | 11,111 | (770) | - | - |

Note: Details regarding the City's outstanding debt can be found in the notes to the financial statements. Operating expenses do not include interest, depreciation, or amortization expenses.

(a) Includes investment earnings on System Funds.
(b) Reflects accrued deposits to the Bond and Interest Redemption Funds for principal and interest payments due on January 1 and July 1. Excludes interest paid from capitalized interest funds. Includes principal and interest on State Revolving Fund Loans.
(c) This calculation is for statistical analysis only. The calculation of debt service coverage in accordance with the bond ordinance is beyond the scope of this presentation.



**Schedule 14**
**City of Detroit, Michigan**
**Demographic and Economic Information - Demographic and Economic Statistics**
**Last Ten Calendar Years**
**(Unaudited)**

| Year | Population (Note 1) | Unemployment Rate (Note 2) | Per Capita Personal Income (Note 3) | Total Personal Income (in Millions) |
|---|---|---|---|---|
| 2014 | 713,777 | 16.4 % | $ 14,721 | $ * |
| 2013 | 713,777 | 18.6 | 13,956 | * |
| 2012 | 713,777 | 18.3 | 15,062 | * |
| 2011 | 713,777 | 24.4 | * | * |
| 2010 | 951,270 | 22.7 | * | * |
| 2009 | 951,270 | 24.8 | 15,310 | 14,564 |
| 2008 | 951,270 | 16.0 | 15,310 | 14,564 |
| 2007 | 951,270 | 14.1 | 15,310 | 14,564 |
| 2006 | 951,270 | 13.6 | 15,310 | 14,564 |
| 2005 | 951,270 | 14.1 | 15,310 | 14,564 |

* Information Not Available at Date of Publication of CAFR

Note 1 Source: U.S. Bureau of Census for 2000; 2011 amount released from the 2010 Census
Note 2 Source: Bureau of Labor Statistics, Detroit, MI
Note 3 Source: U.S. Census Bureau, American Community Survey

**Schedule 15**
**City of Detroit, Michigan**
**Demographic and Economic Information - Principal Employers**
**Current Year and Ten Years Ago**
**(Unaudited)**

| | 2014 (Note 1) | | | 2004 (Note 2) | | |
|---|---|---|---|---|---|---|
| **Employer** | **Employees** | **Rank** | **Percentage of Total City Employment (Note 3)** | **Employees** | **Rank** | **Percentage of Total City Employment (Note 3)** |
| Detroit Medical Center | 11,497 | 1 | 4.0 % | 10,617 | 3 | 2.8 % |
| City of Detroit | 9,591 | 2 | 3.4 | 17,151 | 2 | 4.6 |
| Quicken Loans | 9,192 | 3 | 3.2 | N/A | N/A | N/A |
| Henry Ford Health System | 8,807 | 4 | 3.1 | 7,404 | 5 | 2.0 |
| Detroit Public Schools | 6,586 | 5 | 2.3 | 18,639 | 1 | 5.0 |
| U.S. Government | 6,308 | 6 | 2.2 | 5,458 | 8 | 1.5 |
| Wayne State University | 6,023 | 7 | 2.1 | 5,078 | 10 | 1.4 |
| Chrysler Group L.L.C. | 5,426 | 8 | 1.9 | 9,900 | 4 | 2.6 |
| Blue Cross/Blue Shield of Michigan | 5,415 | 9 | 1.9 | 2,694 | 17 | 0.7 |
| General Motors Co. | 4,327 | 10 | 1.5 | 6,311 | 7 | 1.7 |

Note 1 Source: Crain's Book of Lists, 2014 Edition (City of Detroit Based)
Note 2 Source: City of Detroit 2006-2007 Executive Budget Summary (Page E-4)
Note 3 Source (Total City employment): Bureau of Labor Statistics

**Schedule 16**
**City of Detroit, Michigan**
**Operating Information - Full-time Equivalent City Government Employees by Function/Program**
**Last Ten Fiscal Years**
**(Unaudited)**

| | FTE Employees as of June 30 | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| **FUNCTION/PROGRAM** | **2014** | **2013** | **2012** | **2011** | **2010** | **2009** | **2008** | **2007** | **2006** | **2005** |
| **General Governmental Agencies** | | | | | | | | | | |
| **Executive Agencies** | | | | | | | | | | |
| Arts | - | - | - | - | - | - | - | - | 1 | 1 |
| Budget | 10 | 15 | 15 | 16 | 20 | 23 | 22 | 23 | 23 | 28 |
| Building and Safety | 178 | 183 | 204 | 235 | 258 | 276 | 296 | 296 | 299 | 294 |
| Civic Center | - | - | - | - | - | 33 | 35 | 35 | 59 | 70 |
| Consumer Affairs | - | - | - | - | - | - | - | - | 14 | 13 |
| Cultural Affairs | - | - | - | - | - | - | - | - | - | 10 |
| Public Works | 407 | 503 | 542 | 639 | 649 | 737 | 750 | 748 | 873 | 1,226 |
| Workforce Development | - | - | 46 | 73 | 113 | 99 | 91 | 98 | 90 | 79 |
| Environmental | - | - | - | 3 | 10 | 51 | 53 | 51 | 21 | 23 |
| Finance | 176 | 224 | 235 | 266 | 285 | 310 | 327 | 310 | 298 | 402 |
| Fire | 1,154 | 1,093 | 1,257 | 1,330 | 1,355 | 1,406 | 1,444 | 1,479 | 1,511 | 1,723 |
| General Services | 436 | 384 | 343 | 447 | 481 | 528 | 676 | 670 | - | - |
| Health & Wellness Promotion | 7 | 31 | 185 | 243 | 262 | 317 | 348 | 335 | 434 | 505 |
| Historical | - | - | - | - | - | - | - | - | 6 | 24 |
| Human Resources | 83 | 82 | 107 | 176 | 171 | 168 | 175 | 179 | 174 | 232 |
| Human Rights | 1 | 7 | 6 | 8 | - | 12 | 13 | 7 | 7 | 19 |
| Human Services | - | - | 52 | 85 | 95 | 91 | 117 | 122 | 128 | 145 |
| Information Technology Services | 30 | 30 | 43 | 46 | 65 | 92 | 99 | 105 | 94 | 112 |
| Inspector General | 7 | 7 | - | - | - | - | - | - | - | - |
| Law | 82 | 88 | 94 | 105 | 113 | 122 | 127 | 134 | 140 | 180 |
| Mayor's Office | 47 | 22 | 39 | 52 | 63 | 74 | 108 | 107 | 59 | 97 |
| Planning and Development | 93 | 110 | 122 | 154 | 160 | 173 | 172 | 181 | 197 | 239 |
| Police | 2,769 | 2,561 | 3,016 | 3,195 | 3,288 | 3,688 | 3,421 | 3,499 | 3,589 | 4,103 |
| Communication and Creative Services | - | - | - | - | - | - | - | - | - | 21 |
| Public Lighting | 32 | 98 | 103 | 123 | 160 | 206 | 225 | 217 | 228 | 254 |
| Recreation | 185 | 203 | 300 | 510 | 508 | 385 | 471 | 464 | 399 | 465 |
| Senior Citizens | - | - | - | - | - | 3 | - | - | 5 | 8 |
| Youth | - | - | - | - | - | - | - | 1 | - | - |
| Zoological Institute | - | - | - | - | - | - | 1 | - | 86 | 194 |
| Administrative Hearings | 4 | 8 | 4 | 6 | 9 | 6 | 6 | 5 | 5 | 4 |
| Homeland Security | - | 3 | 2 | 2 | 1 | 5 | 5 | 5 | 4 | 6 |
| Housing | - | - | - | 3 | 3 | 3 | 3 | 3 | 3 | 3 |
| **Legislative Agencies** | | | | | | | | | | |
| Auditor General | 10 | 10 | 12 | 15 | 17 | 18 | 21 | 18 | 18 | 16 |
| Board of Zoning Appeals | 11 | 13 | 12 | 12 | 12 | 12 | 13 | 15 | 11 | 13 |
| City Council* | - | 118 | 52 | 61 | 74 | 97 | 90 | 91 | 92 | 104 |
| Ombudsman | 6 | 6 | 7 | 7 | 11 | 11 | 10 | 7 | 6 | 9 |
| City Clerk | 14 | 15 | 18 | 20 | 22 | 23 | 25 | 25 | 27 | 30 |
| Elections | 72 | 81 | 83 | 51 | 55 | 102 | 68 | 60 | 65 | 74 |
| **Judiciary Agency** | | | | | | | | | | |
| 36th District Court | 32 | 31 | 31 | 35 | 33 | 33 | 32 | 31 | 31 | 31 |
| **Other Agencies** | | | | | | | | | | |
| Non-Departmental | 40 | 24 | 14 | 20 | 21 | 33 | 44 | 37 | 41 | 44 |
| Library | 301 | 344 | 334 | 371 | 450 | 466 | 460 | 457 | 457 | 463 |
| **Total General Governmental Agencies** | **6,187** | **6,294** | **7,278** | **8,309** | **8,764** | **9,603** | **9,748** | **9,815** | **9,495** | **11,264** |
| **Enterprise Agencies** | | | | | | | | | | |
| Airport | 3 | 2 | 7 | 8 | 9 | 10 | 11 | 11 | 13 | 22 |
| Department of Transportation | 951 | 809 | 1,131 | 1,292 | 1,351 | 1,514 | 1,512 | 1,562 | 1,530 | 1,588 |
| Municipal Parking | 83 | 86 | 97 | 92 | 97 | 104 | 109 | 114 | 108 | 108 |
| Water and Sewage Disposal | 1,560 | 1,721 | 2,012 | 2,123 | 2,081 | 2,189 | 2,260 | 2,224 | 2,311 | 2,592 |
| **Total Enterprise Agencies** | **2,597** | **2,618** | **3,247** | **3,515** | **3,538** | **3,817** | **3,892** | **3,911** | **3,962** | **4,310** |
| **Grand Total** | **8,784** | **8,912** | **10,525** | **11,824** | **12,302** | **13,420** | **13,640** | **13,726** | **13,457** | **15,574** |

Source: City of Detroit, Michigan, Human Resources Department
*City Council Employees were all on Personal Service Contracts during 2014 and therefore not considered FTE's







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**Schedule 17**
**City of Detroit, Michigan**
**Operating Information - Miscellaneous Operating Indicators by Function/Program**
**Last Ten Fiscal Years**
**(Unaudited)**

| | Fiscal Year | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 2014 | 2013 | 2012 | 2011 | 2010 | 2009 | 2008 | 2007 | 2006 | 2005 |
| **Public Protection:** | | | | | | | | | | |
| **Police** | | | | | | | | | | |
| Number of Stations (Including 6 Mini-Stations) | 21 | 37 | 39 | 23 | 30 | 19 | 8 | 12 | 24 | 28 |
| Number of Employees (Uniform) | 2,346 | 2,389 | 2,637 | 2,771 | 2,928 | 2,971 | 3,005 | 3,126 | 3,162 | 3,658 |
| 911 Calls Received / Answered | 1,822,524 / 1,334,694 | 1,274,796 / 1,252,547 | 1,384,274 / 1,323,069 | 1,503,255 / 1,367,627 | 1,590,368 / 1,465,475 | N/A | N/A | N/A | N/A | N/A |
| Number of Narcotics Raids | 1,249 | 2,440 | 3,462 | 3,147 | N/A | N/A | N/A | N/A | N/A | N/A |
| Number of Community Policing Programs | 464 | 874 | 375 | 350 | 300 | N/A | N/A | N/A | N/A | N/A |
| **Fire** | | | | | | | | | | |
| Number of Fire Stations | 37 | 37 | 46 | 46 | 45 | 49 | 46 | 48 | 48 | 49 |
| Number of Employees | 1,172 | 1,292 | 1,455 | 1,455 | 1,535 | 1,480 | 1,535 | 1,479 | 1,511 | 1,723 |
| Number of Fire Fighting Vehicles | 78 | 78 | 78 | 76 | 93 | 93 | 90 | 212 | 256 | 238 |
| Number of Fire Hydrants | 28,000 | 28,000 | 28,000 | 28,000 | 28,000 | 28,000 | 28,000 | 38,000 | 38,000 | 38,000 |
| Responses to Fire Alarms (Including False Alarms) | 22,702 | 21,449 | 34,613 | 26,813 | 19,224 | 19,530 | 23,174 | 33,399 | 33,992 | 34,160 |
| Responses to Special Calls and Emergency Medical Service Calls | 114,133 | 109,237 | 126,099 | 136,705 | 144,101 | 143,694 | 142,573 | 142,370 | 132,432 | 151,285 |
| Estimated Fire Loss of Property | $ 256,817,197 | $ 245,851,910 | $ 149,261,205 | $ 285,142,382 | $ 467,135,907 | $ 549,374,611 | $ 397,605,618 | $ 1,190,738,018 | $ 96,771,056 | $ 1,921,197,050 |
| **Public Works** | | | | | | | | | | |
| Number of Employees | 563 | 554 | 625 | 655 | 729 | 730 | 753 | 748 | 873 | 1,124 |
| Miles of Streets (Paved + Unpaved) | 2,557 | 2,571 | 2,571 | 2,572 | 2,571 | 2,570 | 2,570 | 2,570 | 2,784 | 2,784 |
| Miles of Alleys (Paved + Unpaved) | 1,264 | 1,264 | 1,264 | 1,264 | 1,264 | 1,264 | 1,264 | 1,264 | 1,284 | 1,284 |
| Miles of Sidewalks | 4,243 | 4,243 | 4,243 | 4,243 | 4,243 | 4,243 | 4,243 | 4,243 | 4,265 | 4,265 |
| **Public Lighting** | | | | | | | | | | |
| Number of Street Lights | 87,000 | 88,000 | 88,000 | 88,000 | 88,000 | 88,000 | 87,500 | 87,500 | 88,000 | 87,500 |
| Number of Revenue Customers | 256 | 256 | 256 | 116 | 116 | 190 | 235 | 185 | 201 | 179 |
| Size of Generating Station in Kilowatts | 184,000 | 30,000 | 30,000 | 140,000 | 184,000 | 184,000 | 177,000 | 177,000 | 184,000 | 184,000 |
| Kilowatt Hours Generated (Net) | - | 164,000 | 191,320 | 29,352,500 | 121,769,000 | 134,189,000 | 136,207,800 | 94,000,300 | 256,395,400 | 308,391,000 |
| Kilowatt Hours Delivered to System | 488,639,040 | 487,465,000 | 604,471,560 | 549,972,720 | 576,292,000 | 449,929,000 | 608,442,800 | 631,299,700 | 634,026,280 | 567,529,080 |
| Steam Heating Plants - Steam Produced in Pounds | - | 95,670,000 | 87,505 | 57,840,415 | 54,729,562 | 79,773,679 | 104,544,579 | 85,000,000 | 62,306,014 | 71,852,887 |
| **Recreation and Culture** | | | | | | | | | | |
| Number of Parks, Ornamental Areas, Playfields, and Playgrounds Owned (5,108 Acres) | 354 | 354 | 354 | 354 | 354 | 354 | 354 | 387 | 391 | 391 |
| Number of Summer Camps (199 Acres) | - | - | - | - | - | - | - | - | 1 | 1 |
| Number of Recreation Centers, Playgrounds, and School Facilities Operated | 17 | 17 | 17 | 17 | 13 | 13 | 13 | 14 | 30 | 30 |
| Number of Skating Rinks | 2 | 2 | 2 | 2 | 2 | 2 | 1 | 2 | 1 | 1 |
| Number of Swimming Pools | 9 | 9 | 10 | 10 | 10 | 2 | 2 | 8 | 17 | 17 |
| Number of Municipal Beaches | - | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 |
| Total Playing Permits Issued at Five Municipal Golf Courses | 98,678 | 109,474 | 121,612 | 92,857 | 104,652 | 127,915 | 132,405 | 202,403 | 269,870 | 269,870 |
| **Library** | | | | | | | | | | |
| Number of Libraries (Including Two Bookmobiles) | 23 | 23 | 24 | 27 | 27 | 27 | 27 | 27 | 27 | 27 |
| Estimated Number of Books | 7,190,711 | 7,192,232 | 7,113,304 | 7,030,335 | 8,304,694 | 8,314,427 | 7,903,837 | 7,903,837 | 3,497,342 | 3,497,342 |
| Circulation | 1,468,234 | 1,790,839 | 2,260,177 | 2,588,135 | 2,446,842 | 2,308,336 | 1,199,736 | 1,199,736 | 889,315 | 981,689 |

**Schedule 17 (Continued)**
**City of Detroit, Michigan**
**Miscellaneous Operating Indicators by Function/Program**
**Last Ten Fiscal Years**
**(Unaudited)**

| | Fiscal Year 2014 | 2013 | 2012 | Fiscal Year 2011 | 2010 | 2009 | 2008 | 2007 | 2006 | 2005 |
|---|---|---|---|---|---|---|---|---|---|---|
| **Water System** | | | | | | | | | | |
| Number of Customer Accounts | 257,000 | 258,000 | 262,000 | 267,500 | 268,500 | 268,500 | 275,900 | 264,173 | 264,259 | 281,104 |
| Average Pumpage - Millions of Gallons per Day | 537.3 | 549.9 | 556.3 | 543.4 | 515.3 | 557.1 | 601.7 | 575.2 | 599.6 | 640.0 |
| Greatest Pumpage for a Single Day During Fiscal Year - Gallons | 742,000,000 | 957,200,000 | 983,100,000 | 968,000,000 | 793,800,000 | 963,500,000 | 1,097,900,000 | 1,031,300,000 | 1,049,800,000 | 1,060,500,000 |
| Greatest Pumpage for a Single Hour During Fiscal Year - Gallons | 32,875,000 | 42,917,000 | 44,833,000 | 43,625,000 | 37,750,000 | 42,583,000 | 51,992,000 | 49,125,000 | 50,333,000 | 52,208,000 |
| Filtration Plant Rated Capacity - Millions of Gallons per Day | 1,780 | 1,780 | 1,780 | 1,780 | 1,780 | 1,780 | 1,780 | 1,780 | 1,780 | 1,670 |
| Number of Miles of Water Mains | 3,840 | 3,840 | 3,840 | 3,840 | 3,840 | 3,840 | 3,840 | 3,840 | 3,840 | 3,840 |
| Average Cost (Includes Domestic, Industrial, and Commercial) per 1,000 Cubic Feet | $ 19.43 | $ 18.76 | $ 17.02 | $ 15.48 | $ 13.73 | $ 13.06 | $ 12.92 | $ 12.02 | $ 11.87 | $ 11.49 |
| **Sewage System** | | | | | | | | | | |
| Number of Sewage Disposal Plants | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 |
| Number of Pumping Stations | 11 | 11 | 11 | 11 | 12 | 12 | 12 | 12 | 12 | 12 |
| Miles of (Trunk Line + Lateral) Sewers | 2,913 | 2,913 | 2,913 | 2,913 | 2,913 | 2,913 | 2,913 | 2913 | 2913 | 3,383 |
| Miles of Lateral Sewers | 2,125 | 2,125 | 2,125 | 2,125 | 2,125 | 2,125 | 2,125 | - | - | - |
| **Transportation** | | | | | | | | | | |
| Number of Employees | 955 | 989 | 1,139 | 1,341 | 1,524 | 1,524 | 1,562 | 1,562 | 1,530 | 1,605 |
| Number of Revenue Vehicles | 403 | 444 | 465 | 445 | 445 | 445 | 541 | 541 | 550 | 561 |
| Seating Capacity | 15,915 | 17,534 | 18,363 | 17,570 | 17,570 | 17,355 | 21,916 | 21,916 | 22,278 | 22,065 |
| Number of Route Miles | 1,014 | 1,014 | 1,056 | 1,091 | 933 | 1,291 | 1,291 | 1,291 | 1,291 | 1,198 |
| Number of Passengers (Estimated) | 25,116,299 | 30,898,942 | 32,750,907 | 35,615,420 | 36,555,845 | 38,612,890 | 35,204,863 | 35,204,863 | 37,083,344 | 36,000,000 |
| Regular Fare | $ 1.50 | $ 1.50 | $ 1.50 | $ 1.50 | $ 1.50 | $ 1.50 | $ 1.50 | $ 1.50 | $ 1.50 | $ 1.50 |
| Tickets | N/A | N/A | N/A | N/A | N/A | N/A | N/A | 5 for $7.50 | 5 for $7.50 | 5 for $6.50 |
| Transfers | $ 0.25 | $ 0.25 | $ 0.25 | $ 0.25 | $ 0.25 | $ 0.25 | $ 0.25 | $ 0.25 | $ 0.25 | $ 0.25 |
| Weekly GO Pass | $ 14.40 | $ 14.40 | $ 14.40 | $ 14.40 | $ 14.40 | $ 14.40 | $ 14.40 | N/A | N/A | N/A |
| **Health** | | | | | | | | | | |
| Number of Employees | 216 | * | * | 271 | 308 | 339 | 338 | 335 | 434 | 508 |
| Birth Rate per Thousand | 15 | * | * | 21.6 | 15.1 | 12.9 | 13.3 | 14.6 | 14.3 | 14.8 |
| Death Rate per Thousand | 8 | * | * | * | 10.60 | 10.40 | 8.97 | 10.50 | 9.50 | 9.50 |
| Infant Mortality Rate per Thousand Live Births | * | * | * | 7.1 | 14.9 | 14.9 | 14.9 | 15.0 | 15.5 | 16.3 |
| **Educational Development** | | | | | | | | | | |
| School Enrollment | 48,511 | 51,318 | 66,745 | 75,152 | 84,877 | 95,494 | 106,485 | 118,394 | 130,718 | 141,148 |
| Operating Expenditures | $ 707,461,081 | $ 712,922,213 | $ 915,495,622 | $ 1,067,536,984 | $ 1,169,738,265 | $ 1,220,054,459 | $ 1,330,196,819 | $ 1,424,921,672 | $ 1,447,382,665 | $ 1,586,659,192 |
| Cost Per Pupil | $ 14,584 | $ 13,892 | $ 13,716 | $ 14,205 | $ 13,782 | $ 12,776 | $ 12,492 | $ 12,035 | $ 11,073 | $ 11,241 |
| Operating Revenues | * | * | * | * | $ 1,210,725,507 | $ 1,297,710,119 | $ 1,345,462,713 | $ 1,547,683,775 | $ 1,545,022,504 | $ 1,593,214,258 |
| Revenue Per Pupil | * | * | * | * | $ 14,264 | $ 13,589 | $ 12,635 | $ 13,072 | $ 11,820 | $ 11,288 |
| Total Teaching Staff | 3,398 | 3,398 | 4,396 | 4,982 | 5,222 | 5,797 | 6,269 | 7,064 | 7,628 | 8,149 |

Source: City of Detroit, Michigan, Various Departments
* Information Not Available at Date of Publication of CAFR


# Land Bank House Tour

The Detroit Land Bank Authority held an open house for homes for auction in the Boston-Edison and Osborn neighborhoods May 17-18, 2014. Busloads of prospective buyers were transported to homes in the two neighborhoods which were later auctioned off on the Building Detroit Web site. 1,000 people came out to see 12 houses. Land Bank open houses are still conducted regularly.

COMPREHENSIVE ANNUAL FINANCIAL REPORT

City of Detroit, Michigan



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## OUR SPECIAL THANKS TO:

## City of Detroit, Michigan
**www.detroitmi.gov**

**Finance Department**

**The General Accounting Section and Staff**

**including all Finance Department staff**
for its commitment and dedicated service in the preparation of this report

**City of Detroit Agencies**
for their full cooperation in providing us
all the necessary information needed to compile this report

**Randy K. Lane, P.C.**
**Plante & Moran, PLLC**

**KPMG LLP**
**and Staff**

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# APPENDIX V

## FORMS OF LEGAL OPINIONS

The enclosed legal opinions were issued December 10, 2014.

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TROY, MI 48084-3312
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December 10, 2014

Michigan Finance Authority

As Bond Counsel to the Michigan Finance Authority (the "**Authority**") we submit this opinion with respect to the issuance by the Authority of Local Government Loan Program Revenue Bonds, Series 2014F (City of Detroit Financial Recovery Income Tax Revenue and Refunding Local Project Bonds) (the "**Bonds**"), being issued under the type designation $275,000,000 City of Detroit Financial Recovery Income Tax Revenue and Refunding Local Project Bonds and in two subseries: (i) the $134,725,000 Michigan Finance Authority Local Government Loan Program Revenue Bonds, Series 2014F-1 (City of Detroit Financial Recovery Income Tax Revenue and Refunding Local Project Bonds) (the "**Series 2014F-1 Bonds**") and (ii) $140,275,000 Michigan Finance Authority Local Government Loan Program Revenue Bonds, Series 2014F-2 (City of Detroit Financial Recovery Income Tax Revenue and Refunding Local Project Bonds) (Federally Taxable) (the "**Series 2014F-2 Bonds**").

The Bonds are authorized to be issued pursuant to Executive Order 2010-2 and by Act No. 227, Public Acts of Michigan, 1985, as amended, (the "**Act**"), and by an amended and restated bond resolution adopted by the Michigan Finance Authority on May 15, 2014, as supplemented by a supplemental resolution adopted by the Authority on September 25, 2014 (collectively, the "**Resolutions**") and a Sixth Supplemental Indenture dated as of December 10, 2014 (the "**Sixth Supplemental Indenture**") between the Authority and UMB Bank, N.A., as Trustee (the Sixth Supplemental Indenture and the Resolutions are collectively referred to herein as the "**Indenture**").

The Bonds are being issued pursuant to the Act and the Resolutions to provide funding for the purchase of the City of Detroit Financial Recovery Income Tax Revenue and Refunding Bonds, Series 2014 (the "**Municipal Obligations**") to be issued by the City of Detroit, County of Wayne, State of Michigan (the "**Governmental Unit**") as set forth in the Resolutions and to pay costs of issuance of the Bonds. The Bonds are subject to redemption prior to maturity as set forth in the Resolutions and the Bonds.

We have examined the Constitution and statutes of the State of Michigan (the "**State**"), the Resolutions, a specimen of a Bond and such other information, records and documents as we deem necessary, including a non-arbitrage and tax compliance certificate of the Authority, and based on such examination we are of the opinion under existing law that:

1. The Authority is an autonomous public body corporate and politic validly existing under the laws of the State of Michigan with the power to adopt the Resolutions and enter into the Sixth Supplemental Indenture.

2. The Resolutions have been duly adopted by the Authority and the Sixth Supplemental Indenture has been duly authorized and each constitute legal, valid and binding actions of the Authority in accordance with their terms.

3. The Bonds are valid and legally binding limited obligations of the Authority enforceable in accordance with their terms, payable as to the principal of, premium, if any, and accrued interest thereon solely from the security pledged therefor under the Resolutions. The Bonds are not a general obligation of the Authority. Neither the State nor any political subdivision of the State is obligated to pay the principal of, premium, if any, or interest on the Bonds and neither the faith and credit nor the taxing power of the State or any political subdivision of the State is pledged to the payment of the principal of, premium, if any, or interest on the Bonds. The Authority has no taxing power.

4. The interest on the Series 2014F-1 Bonds (a) is excluded from gross income for federal income tax purposes and (b) is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations. It should be noted, however, that with respect to corporations (as defined for federal income tax purposes) such interest is taken into account in determining adjusted current earnings for the purpose of computing the alternative minimum tax imposed on such corporations. The opinion in (a) above is subject to the condition that the Authority and the Governmental Unit comply with all requirements of the Internal Revenue Code of 1986, as amended, that must be satisfied subsequent to the issuance of the Bonds in order that interest thereon be (or continue to be) excluded from gross income for federal income tax purposes. The requirements include rebating certain earnings to the United States. Failure to comply with such requirements could cause the interest on the Bonds to be included in gross income retroactive to the date of issuance of the Series 2014F-1 Bonds. The Authority has covenanted to comply with all such requirements to the extent permitted by law. We express no opinion regarding other federal tax consequences arising with respect to the Series 2014F-1 Bonds and the interest thereon.

5. The interest on the Series 2014F-2 Bonds is **included** in gross income for federal income tax purposes. We express no opinion regarding other federal tax consequences arising with respect to the Series 2014F-2 Bonds and the interest thereon.

6. The Bonds and the interest thereon are exempt from all taxation of the State or a subdivision thereof, except estate taxes and taxes on gains realized from the sale, payment or other disposition of the Bonds.

In rendering the foregoing opinion, no opinion is expressed as to the validity or enforceability of the Municipal Obligations, and we have, with your approval, relied upon the opinion of bond counsel to the Governmental Unit to the effect that interest on the Municipal Obligations is excluded from gross income for federal income tax purposes.

Enforceability of the Bonds and the Indenture may be subject to the application of general principles of equity including those related to equitable subordination, and to bankruptcy, insolvency, reorganization, moratorium, fraudulent conveyance and other similar laws affecting creditors' rights heretofore or hereafter enacted to the extent constitutionally applicable and their enforcement may be subject to the exercise of judicial discretion in appropriate cases.

Respectfully submitted,

Dickinson Wright PLLC

LANSING 40432-41 497499v5

STATE OF MICHIGAN
DEPARTMENT OF ATTORNEY GENERAL

P.O. BOX 30212
LANSING, MICHIGAN 48909

BILL SCHUETTE
ATTORNEY GENERAL

December 10, 2014

Michigan Finance Authority
Richard H. Austin Building
Lansing, Michigan 48909

In my capacity as Attorney General of the State of Michigan, I have caused to be examined a closing transcript and, in particular, the following documents relating to the issuance by the Michigan Finance Authority (the "Authority") of bonds designated MICHIGAN FINANCE AUTHORITY LOCAL GOVERNMENT LOAN PROGRAM REVENUE BONDS, SERIES, 2014F (CITY OF DETROIT FINANCIAL RECOVERY INCOME TAX REVENUE AND REFUNDING LOCAL PROJECT BONDS), (the "Bonds"), in the principal amount of $275,000,000, to be issued under the type and series designations: (i) Michigan Finance Authority Local Government Loan Program Revenue Bonds Series 2014F-1 (City of Detroit Financial Recovery Income Tax Revenue and Refunding Local Project Bonds) (the "Series 2014F-1 Bonds") and (ii) Michigan Finance Authority Local Government Loan Program Revenue Bonds, Series 2014F-2 (City of Detroit Financial Recovery Income Tax Revenue and Refunding Local Project Bonds) (Federally Taxable) (the "Series 2014F-2 Bonds").

(1) Executive Order 2010-2 of the Governor, which created the Authority and transferred the powers of the Michigan Municipal Bond Authority to it;

(2) the Shared Credit Rating Act, 1985 PA 227, as amended (the "Act"), which created the Michigan Municipal Bond Authority and empowered it to issue bonds;

(3) a certified copy of Resolution No. 2014-07 adopted by the Authority on May 15, 2014, as amended and supplemented, and a supplemental resolution adopted by the Authority on September 25, 2014, authorizing the issuance of the Bonds (the "Resolutions") and a Sixth Supplemental Indenture dated as of December 1, 2014 (the "Supplemental Indenture") and each between the Authority and UMB Bank, N.A., as Trustee;

(4) a Non-Arbitrage and Tax Compliance Certificate of the Authority; and

(5) one Bond, as executed, or a specimen thereof;

The Bonds are being issued for the purpose of providing funds which will be used to purchase the obligations (collectively, the "Municipal Obligation") of a governmental unit, the City of Detroit, County of Wayne, (the "Governmental Unit"), within the State of Michigan (the "State"), and to pay costs of issuance of the Bonds.

In rendering this opinion, no opinion is expressed as to the validity or enforceability of the Municipal Obligation and I have relied upon the opinion of Miller, Canfield, Paddock and Stone, PLC, bond counsel to the Governmental Unit, to the effect that interest on the Municipal Obligation is excluded from gross income for federal tax purposes and as to other matters set forth in that opinion.

Based on the foregoing, I am of the opinion that, under existing law as presently interpreted:

1. The Authority is a public body corporate and politic of the State duly organized and validly existing under the Constitution and the laws of the State, including particularly the Act.

2. The Authority has the power under the laws of the State to adopt the Resolutions and enter into the Supplemental Indenture. The Resolutions have been duly adopted by the Authority, are in full force and effect in the form adopted, and the Supplemental Indenture has been duly authorized and the Authorizing Resolutions and Supplemental Indenture are valid and binding actions of the Authority.

3. The Bonds have been duly authorized, executed, and delivered by the Authority and, when duly authenticated, will constitute a valid and binding limited obligation of the Authority enforceable in accordance with its terms, payable as to the principal of, premium, if any, and interest thereon solely from the security pledged therefor under the Resolutions and the Supplemental Indenture, which security includes the Municipal Obligation.

4. The Bonds are limited obligations of the Authority. The Bonds, including the interest thereon, are not general obligations of the Authority and do not constitute obligations, debts, or liabilities of the State and do not constitute a charge against the general credit of the Authority or a charge against the credit or taxing power of the State. The Authority has no taxing power.

5. The interest on the Series 2014 F-1 Bonds is (a) excluded from gross income for federal income tax purposes, (b) not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations. It should be noted, however, that with respect to corporations (as defined for federal income tax purposes) such interest is taken into account in determining adjusted current earnings for the purpose of computing the alternative minimum tax imposed on such corporations. The opinion in (a) above is subject to the condition that the Authority and the Governmental Unit comply with all requirements of the Internal Revenue Code of 1986, as amended, that must be satisfied subsequent to the issuance of the Bonds in order that interest thereon be (or continue to be) excluded from gross income for federal income tax purposes. The requirements include rebating certain earnings to the United States. Failure to comply with such requirements could cause the interest on the Bonds to be included in gross income retroactive to the date of issuance of the Bonds. The Authority has covenanted to comply with all such requirements to the extent permitted by law. I express no opinion regarding other federal tax consequences arising with respect to the Bonds.

6. The interest on the Series 2014F-2 Bonds is **included** in gross income for federal income tax purposes. We express no opinion regarding other federal tax consequences arising with respect to the Series 2014F-2 Bonds and the interest thereon.

7. The Bonds and the interest thereon are exempt from all taxation provided by the laws of the State except estate taxes and taxes on gains realized from the sale, payment, or other disposition thereof.

Enforceability of the Bonds, the Resolutions and the Supplemental Indenture may be subject to bankruptcy, insolvency, reorganization, moratorium, and other laws affecting creditors' rights heretofore or hereafter enacted to the extent constitutionally applicable and their enforcement may be subject to the exercise of judicial discretion including the application of general principles of equity.

I express no opinion on the investment quality of the Bonds or whether the facts, figures, or financial information or other statements made respecting the Governmental Unit or the State contained any untrue statement of material fact or omitted to state a material fact necessary in order to make those statements, in the light of the circumstances under which they were made, not misleading.

Sincerely,

Bill Schuette

BILL SCHUETTE
Attorney General

William Pettit
Assistant Attorney General

2014-0091189-A/MFA Muni LGLP (City of Detroit LTGO) 2014F/Opinion

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## APPENDIX VI

## FORMS OF CONTINUING DISCLOSURE UNDERTAKINGS

# CONTINUING DISCLOSURE UNDERTAKING

**Michigan Finance Authority**
**Local Government Loan Program Revenue Bonds, Series 2014F**
**(City of Detroit Financial Recovery Income Tax Revenue and Refunding Local Project Bonds)**

This Continuing Disclosure Undertaking (the "Undertaking") is executed and delivered by the Michigan Finance Authority (the "Authority") in connection with the reoffering of its Local Government Loan Program Revenue Bonds, Series 2014F (City of Detroit Financial Recovery Income Tax Revenue and Refunding Local Project Bonds) (the "Bonds"). The Bonds were issued pursuant to an amended and restated resolution adopted by the Board of Directors of the Authority on May 15, 2014, as supplemented by a supplemental resolution adopted by the Authority on September 25, 2014 and a Sixth Supplemental Indenture dated as of December 10, 2014, between the Authority and UMB Bank, N.A., as trustee (together "Resolution"). The Authority covenants and agrees as follows:

SECTION 1. Purpose of the Undertaking. This Undertaking is being executed and delivered by the Authority for the benefit of the Bondholders. The Authority acknowledges that the State of Michigan (the "State") has undertaken no responsibility with respect to any notices or disclosures provided or required under this Undertaking and has no liability to any person, including any Bondholders, with respect to any such notices or disclosures. The Authority acknowledges that this Undertaking does not address the scope of any application of Rule 10b-5 promulgated by the SEC pursuant to the 1934 Act to the notices of the Listed Events provided or required to be provided by the Authority pursuant to this Undertaking.

SECTION 2. Definitions. In addition to the definitions set forth in the Resolution, which apply to any capitalized term used in this Undertaking unless otherwise defined in this Undertaking, the following capitalized terms shall have the following meanings:

"Audited Financial Statements" means annual financial statements, if any, of a Material Obligated Person, audited by such auditor as shall then be required or permitted by State law, and prepared in accordance with GAAP applied on a consistent basis provided, however, that the Material Obligated Person may from time to time in accordance with GAAP and subject to applicable federal or State legal requirements modify the basis upon which its financial statements are prepared. Notice of any such modification shall be provided to the MSRB.

"Bondholders" shall mean the registered owner of any Bond and any person which (a) has the power, directly or indirectly, to vote or consent with respect to, or to dispose of ownership of, any of the Bonds (including persons holding Bonds through nominees, depositories or other intermediaries), or (b) is treated as the owner of any of the Bonds for federal income tax purposes.

"Dissemination Agent" shall mean the Authority, or any successor Dissemination Agent designated in writing by the Authority and which has filed with the Authority a written acceptance of such designation.

"EMMA" shall mean the Electronic Municipal Market Access system of the MSRB. As of the date of this Undertaking, the EMMA Internet Web site address is http://www.emma.msrb.org.

"GAAP" means generally accepted accounting principles, as such principles are prescribed, in part, by the Financial Accounting Standards Board and modified by the Government Accounting Standards Board and in effect from time to time.

"Listed Events" shall mean any of the events listed in Section 3(a) of this Undertaking.

"Material Obligated Person" shall mean a Governmental Unit meeting the objective criteria established by the Authority as provided in Section 4 of this Undertaking.

"MSRB" shall mean the Municipal Securities Rulemaking Board. As of the date of this Undertaking, the address and telephone and telecopy numbers of the MSRB are as follows:

Municipal Securities Rulemaking Board
1900 Duke Street, Suite 600
Alexandria, Virginia 22314
Tel: (703) 797-6600
Fax: (703) 797-6700

"1934 Act" shall mean the Securities Exchange Act of 1934, as amended.

"Rule" shall mean Rule 15c2-12 promulgated by the SEC pursuant to the 1934 Act, as the same may be amended.

"SEC" shall mean the United States Securities and Exchange Commission.

"Unaudited Financial Statements" means the same as Audited Financial Statements except that they shall not have been audited.

SECTION 3. Reporting of Significant Events.

(a) The Authority agrees to provide, or cause to be provided, in a timely manner notice of the occurrence of any of the following events in a timely manner not in excess of ten (10) business days after the occurrence of the event and, in accordance with the Rule:

(1) Principal and interest payment delinquencies;
(2) Non-payment related defaults, if material;
(3) Unscheduled draws on debt service reserves reflecting financial difficulties;

(4) Unscheduled draws on credit enhancements reflecting financial difficulties;
(5) Substitution of credit or liquidity providers, or their failure to perform;
(6) Adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701 TEB) or other material notices or determinations with respect to the tax status of the security, or other material events affecting the tax status of the Bonds;
(7) Modifications to rights of Bondholders, if material;
(8) Bond calls, if material;
(9) Defeasances;
(10) Release, substitution, or sale of property securing repayment of the Bonds, if material;
(11) Rating changes;
(12) Tender offers;
(13) Bankruptcy, insolvency, receivership or similar event of the obligated person;
(14) The consummation of a merger, consolidation, or acquisition involving an obligated person or the sale of all or substantially all of the assets of the obligated person, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; and
(15) Appointment of a successor or additional trustee or the change of name of a trustee, if material.

(b) Whenever the Authority obtains knowledge of the occurrence of a Listed Event described in subsection (a)(2), (7), (8), (10), (14) or (15), the Authority shall as soon as possible determine if such event would be material under applicable federal securities laws. The Authority covenants that its determination of materiality will be made in conformance with federal securities laws.

(c) If the Authority determines that (i) a Listed Event described in subsection (a)(1), (3), (4), (5), (6), (9), (11), (12) or (13) has occurred or (ii) the occurrence of a Listed Event described in subsection (a)(2), (7), (8), (10), (14) or (15) would be material under applicable federal securities laws, the Authority shall cause a notice of such occurrence to be filed with the MSRB within ten (10) business days of the occurrence of the Listed Event. In connection with providing a notice of the occurrence of a Listed Event described in subsection (a)(9), the Authority shall include in the notice explicit disclosure as to whether the Bonds have been escrowed to maturity or escrowed to call, as well as appropriate disclosure of the timing of maturity or call.

SECTION 4. Obligated Persons.

(a) The Authority hereby determines that for bonds issued under the Resolution as City of Detroit Financial Recovery Income Tax Revenue and Refunding Local Project Bonds that the City of Detroit, County of Wayne, State of Michigan (the "City") is a Material Obligated Person.

(b) The Authority agrees for the benefit of the Bondholders that it shall cause the City to enter into an undertaking to disclose information with respect to the City and the Municipal Obligations issued by the City and acquired by the Authority with proceeds of the Bonds.

SECTION 5. Termination of Reporting Obligation. The Authority's obligations under this Undertaking shall terminate upon the legal defeasance of the Bonds or upon the payment in full of all of the Bonds. Notwithstanding the foregoing, (i) if the Rule shall be amended, modified or changed so that all or any part of the information currently required to be provided thereunder shall no longer be required to be provided thereunder and the Authority has received an opinion of legal counsel experienced in the area of federal securities law to that effect, then such information shall no longer be required to be provided hereunder, and (ii) if and to the extent the Rule or any provision thereof shall be declared by a court of competent and final jurisdiction to be, in whole or in part, invalid, unconstitutional, null and void, or otherwise inapplicable to the Bonds, then the information required to be provided hereunder, insofar as it was required to be provided by a provision of the Rule so declared, shall no longer be required to be provided hereunder.

SECTION 6. Mandatory Electronic Filing with EMMA. All filings with the MSRB under this Undertaking shall be made by electronically transmitting such filings through the EMMA Dataport at http://www.emma.msrb.org as provided by the amendments to the Rule adopted by the SEC in Securities Exchange Act Release No. 59062 on December 5, 2008.

SECTION 7. Dissemination Agent. The Executive Director on behalf of the Authority, from time to time, may appoint or engage a Dissemination Agent to assist it in carrying out its obligations under this Undertaking and may discharge any such Agent, with or without appointing a successor Dissemination Agent.

SECTION 8. Amendment. Notwithstanding any other provision of this Undertaking, this Undertaking may be amended, without the consent of any Bondholder, if the Authority receives an opinion of legal counsel experienced in the area of federal securities law to the effect that:

(i) such amendment is made in connection with a change in circumstances that arises from a change in legal requirements, a change in law or a change in the identity, nature or status of the Authority, or types of activities in which the Authority or the State is engaged;

(ii) this Undertaking, as so amended, would have complied with the requirements of the Rule at the time of the primary offering of the Bonds, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; and

(iii) such amendment does not materially impair the interests of the Bondholders.

SECTION 9. Additional Information. Nothing in this Undertaking shall be deemed to prevent the Authority from disseminating any other information, using the means of dissemination set forth in this Undertaking or any other means of communication, or including any other information in any notice of occurrence of a Listed Event, in addition to that which is required by this Undertaking. If the Authority chooses to include any information in any notice of occurrence of a Listed Event in addition to that which is specifically required by this Undertaking, the Authority shall have no obligation under this Undertaking to update such information or include it in any future notice of occurrence of a Listed Event.

SECTION 10. Failure to Comply. In the event of a failure of the Authority to comply with any provision of this Undertaking, any Bondholder may take such actions as may be necessary and appropriate, including seeking specific performance by court order, to cause the Authority to comply with its obligations under this Undertaking. A failure to comply with this Undertaking shall not be deemed an Event of Default under the Resolution. The sole remedy under this Undertaking in the event of any failure of the Authority comply with this Undertaking shall be an action to compel performance, and no person or entity shall be entitled to recover monetary damages hereunder under any circumstances.

SECTION 11. Duties of Dissemination Agent. The Dissemination Agent shall have only such duties as are specifically set forth in this Undertaking.

SECTION 12. Beneficiaries. This Undertaking shall inure solely to the benefit of the Authority, the Dissemination Agent, and the Bondholders, and shall create no rights in any other person or entity.

SECTION 13. Governing Law. To the extent not governed by federal law, this Undertaking shall be governed by the law of the State.

[Signature Page Follows]

MICHIGAN FINANCE AUTHORITY

Dated: _____________, 2015

By:______________________________________
Mary G. Martin
Executive Director

**FORM OF CITY CONTINUING DISCLOSURE UNDERTAKING**

This Continuing Disclosure Undertaking (the "Undertaking") is executed and delivered by the City of Detroit, County of Wayne, State of Michigan (the "City" or "Obligated Person") in connection with the reoffering of the Michigan Finance Authority Local Government Loan Program Revenue Bonds, Series 2014F, of the Type designated City of Detroit Financial Recovery Income Tax Revenue and Refunding Local Project Bonds (the "MFA Bonds") by the Michigan Finance Authority (the "MFA"), which were issued to purchase, and are secured by the payments on, the City's Financial Recovery Income Tax Revenue and Refunding Bonds, Series 2014 (the "Municipal Obligations"). The City covenants and agrees for the benefit of the Bondholders, as hereinafter defined, as follows:

*(a)* *Definitions.* The following terms used herein shall have the following meanings:

"Audited Financial Statements" means the annual audited financial statement pertaining to the City prepared by an individual or firm of independent certified public accountants as required by Act 2, Public Acts of Michigan, 1968, as amended, which presently requires preparation in accordance with generally accepted accounting principles.

"Bondholders" shall mean the MFA and the registered owner of any MFA Bond or any person which (a) has the power, directly or indirectly, to vote or consent with respect to, or to dispose of ownership of, any MFA Bond (including any person holding an MFA Bond through a nominee, depository or other intermediary), or (b) is treated as the owner of any MFA Bond for federal income tax purposes.

"EMMA" shall mean the MSRB's Electronic Municipal Market Access System or such other system, Internet Web Site, or repository hereafter prescribed by the MSRB for the submission of electronic filings pursuant to the Rule.

"MFA Bond" means any bond reoffered by the MFA which is secured in whole or in part by payments to be received on the Municipal Obligations.

"MSRB" means the Municipal Securities Rulemaking Board.

"Rule" means Rule 15c2-12 promulgated by the SEC pursuant to the Securities Exchange Act of 1934, as amended.

"SEC" means the United States Securities and Exchange Commission.

*(b)* *Continuing Disclosure.* The City hereby agrees, in accordance with the provisions of the Rule, to provide or cause to be provided to the MSRB through EMMA, on or before the last day of the ninth ($9^{th}$) month following the end of the fiscal year of the City, commencing with the fiscal year ended June 30, 2015, in an electronic format as prescribed by the MSRB:

(1) Certain annual financial information and operating data reasonably available to the City in form and substance similar to the information appearing in the sections or tables in the Main Body and Appendix III of the Reoffering Memorandum relating to the MFA Bonds as described below:

a. Historical Income Tax Rates;
b. Historical income Tax Levies and Collections;
c. Historical Income Tax Revenue;
d. Monthly Historical Income Tax Collections and Disbursements;
e. Revenues and Expenditures of the General Fund;
f. Distributable State Aid;
g. City of Detroit Two Year Budget Summary
h. State Equalized Valuations and Taxable Valuations;
i. Tax Rates and Levies;
j. Tax Levies and Collections;
k. Ten Largest Property Taxpayers;
l. Legal Debt Margins Subject to State Limitations;
m. Statement of Direct Tax-Supported and Revenue Indebtedness;
n. Direct and Overlapping Debt;
o. Annual City Contributions to the Retirement Systems; and
p. Largest Principal Employers.

(2) The Audited Financial Statements. Provided, however, that if the Audited Financial Statements are not available by the date specified above, they shall be provided when available and unaudited financial statements will be filed by such date and the Audited Financial Statements will be filed as soon as available.

(3) Such additional financial information or operating data as may be determined by the City and its advisors as desirable or necessary to comply with the Rule.

Such annual financial information and operating data described above are expected to be provided directly by the City or by specific reference to other documents available to the public through EMMA or filed with the SEC, including official statements of debt issues of the City or related public entities.

If the fiscal year of the City is changed, the City shall send notice of such change to the MSRB through EMMA prior to the earlier of the ending date of the fiscal year prior to such change or the ending date of the fiscal year as changed.

*(c)* *Notice of Failure to Disclose.* The City agrees to provide or cause to be provided, in a timely manner, to the MSRB through EMMA, in an electronic format as prescribed by the MSRB, notice of a failure by the City to provide the annual financial information with respect to the City described in subsection (b) above on or prior to the dates set forth in subsection (b) above.

*(d)* *Occurrence of Events.* The City agrees to provide or cause to be provided to the MSRB through EMMA, in an electronic format as prescribed by the MSRB, in a timely manner not in excess of ten business days after the occurrence of the event, notice of the occurrence of any of the following events listed in (b)(5)(i)(C) of the Rule with respect to the Municipal Obligations:

(1) principal and interest payment delinquencies;
(2) non-payment related defaults, if material;

(3) unscheduled draws on debt service reserves reflecting financial difficulties;
(4) unscheduled draws on credit enhancements reflecting financial difficulties;
(5) substitution of credit or liquidity providers, or their failure to perform;
(6) adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the Municipal Obligations, or other material events affecting the tax status of the Municipal Obligations;
(7) modifications to rights of the holders of the Municipal Obligations, if material;
(8) bond calls, if material, and tender offers;
(9) defeasances;
(10) release, substitution, or sale of property securing repayment of the Municipal Obligations, if material;
(11) rating changes;
(12) bankruptcy, insolvency, receivership or similar event of the City, which is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent or similar officer for the City in a proceeding under the U.S. Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the City, or if such jurisdiction has been assumed by leaving the existing governing body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the City;
(13) the consummation of a merger, consolidation, or acquisition involving the City or the sale of all or substantially all of the assets of the City, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; or
(14) appointment of a successor or additional trustee or the change of name of a trustee, if material.

*(e) Materiality Determined Under Federal Securities Laws.* The City agrees that its determination of whether any event listed in subsection (d) is material shall be made in accordance with federal securities laws.

*(f) Termination of Reporting Obligation.* The City reserves the right to terminate their obligation to provide annual financial information and notices of material events, as set forth above, if and when the City is no longer an "obligated person" with respect to the MFA Bonds within the meaning of the Rule, including upon legal defeasance of all of the MFA Bonds.

*(g) Identifying Information.* All documents provided to the MSRB through EMMA shall be accompanied by the identifying information prescribed by the MSRB.

*(h)* *Benefit of Bondholders.* The City agrees that its undertaking pursuant to the Rule set forth in this Section is intended to be for the benefit of the Bondholders and shall be enforceable by any Bondholder; provided that, the right to enforce the provisions of this undertaking shall be limited to a right to obtain specific enforcement of the City's obligations hereunder and any failure by the City to comply with the provisions of this undertaking shall not constitute a default or an event of default with respect to the Municipal Obligations.

*(i)* *Amendments to the Undertaking.* Amendments may be made in the specific types of information provided or the format of the presentation of such information to the extent deemed necessary or appropriate in the judgment of the City, provided that the City agrees that any such amendment will be adopted procedurally and substantively in a manner consistent with the Rule, including any interpretations thereof by the SEC, which, to the extent applicable, are incorporated herein by reference. Such interpretations currently include the requirements that (a) the amendment may only be made in connection with a change in circumstances that arises from a change in legal requirements, change in law, or change in the identity, nature, or status of the City or the type of activities conducted thereby, (b) the undertaking, as amended, would have complied with the requirements of the Rule at the time of the reoffering of the MFA Bonds, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances, and (c) the amendment does not materially impair the interests of Bondholders, as determined by parties unaffiliated with the City (such as independent legal counsel), but such interpretations may be changed in the future. If the accounting principles to be followed by the City in the preparing of the Audited Financial Statements are modified, the annual financial information for the year in which the change is made shall present a comparison between the financial statements as prepared on the prior basis and the statements as prepared on the new basis, and otherwise shall comply with the requirements of the Rule, in order to provide information to investors to enable them to evaluate the ability of the City to meet its obligations. A notice of the change in accounting principles shall be sent to the MSRB through EMMA.

(j) *Municipal Advisory Council of the State of Michigan.* The City shall also file by electronic or other means any information or notice required to be filed with the MSRB through EMMA pursuant to this Undertaking in a timely manner with the Municipal Advisory Council of the State of Michigan.

CITY OF DETROIT
County of Wayne
State of Michigan

By________________________________________

Its: Chief Deputy CFO/Finance Director

Dated: ____________, 2015

Michigan Finance Authority • Local Government Loan Program Revenue Bonds, Series 2014F (City of Detroit Financial Recovery Income Tax Revenue and Refunding Local Project Bonds)

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