City of Detroit Sewage Disposal Fund

Financial Report

June 30, 2016

Contents

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Independent Auditor's Report

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

Report on the Financial Statements

We have audited the accompanying financial statements of the Sewage Disposal Fund of the City of Detroit, Michigan as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the City of Detroit, Michigan'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 accounting principles generally accepted in the United States of America and this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America 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.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Sewage Disposal Fund of the City of Detroit, Michigan as of June 30, 2016, and the changes in its financial position and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

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

Emphasis of Matter

We draw attention to Note 1, which explains that these financial statements present only the Sewage Disposal Fund and do not purport to, and do not, present fairly the financial position of the City of Detroit, Michigan as of June 30, 2016, the changes in its financial position, and the changes in its cash flows, where applicable, thereof, for the year then ended in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

We draw attention to Note 2 (p), which explains that this reporting entity includes the activity related to providing sewage disposal services to customers within the City of Detroit, Michigan and its suburban customers through December 31, 2015, and beginning January 1, 2016, includes only in-city customers. Effective January 1, 2016, a regional authority, the Great Lakes Water Authority, began providing services to the suburban customers. The effects of this transaction are reported as a special item. Also, as discussed in Note 15, the two parties are still negotiating the specific provisions related to transition of assets and liabilities, and the amounts included in these financial statements may change in the year ended June 30, 2017. Our opinion is not modified with respect to this matter.

Other Matters

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated May 26, 2017 on our consideration of the City of Detroit, Michigan's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, 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 the 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 City of Detroit, Michigan's internal control over financial reporting and compliance.

Plante & Moran, PLLC

May 26, 2017

Statement of Net Position

June 30, 2016

Assets	
Current assets:	
Cash and cash equivalents	$ 20,627,334
Accounts receivable:	
Billed accounts receivable	50,587,925
Unbilled accounts receivable	17,697,455
Other receivables	5,668,488
Total accounts receivable	73,953,868
Allow ance for uncollectible accounts	(11,471,508)
Total accounts and contracts receivable - Net	62,482,360
Due from other funds	4,445,319
Due from other governmental agencies	8,618,573
Inventory	3,019,611
Total current assets	99,193,197
Noncurrent assets:	
Restricted - Cash and cash equivalents	6,100,200
Receivables from Great Lakes Water Authority	606,050,852
Capital assets:	
Assets not subject to depreciation	7,936,002
Assets subject to depreciation - Net	472,456,992
Total capital assets - Net	480,392,994
Total noncurrent assets	1,092,544,046
Total assets	1,191,737,243
Deferred Outflows of Resources	5,172,335

Statement of Net Position (Continued)

June 30, 2016

Liabilities	
Current liabilities:	
Accounts and contracts payable	$ 9,560,716
Accrued salaries and wages	10,758
Due to other funds	16,028,635
Due to fiduciary funds	1,784,358
Due to component units	-
Due to other governmental agencies	41,948,060
Accrued interest	6,541,465
Other liabilities	86,099
Unearned revenue	-
Bonds, notes, and capital leases	432,761
Contractual obligations payable	8,928,590
Accrued compensated absences	1,078,262
Accrued workers' compensation and claims and judgments	10,250
Total current liabilities	86,409,954
Noncurrent liabilities:	
Bonds and notes payable - Net	49,548,750
Contractual obligations payable	302,045,100
Net pension liability	29,637,827
Accrued compensated absences	946,755
Accrued workers' compensation and claims and judgments	25,947
Accrued other postemployment benefits	308,433
Total noncurrent liabilities	382,512,812
Total liabilities	468,922,766
Deferred Inflows of Resources	6,187,507
Net Position	
Net investment in capital assets	169,419,304
Restricted for improvements and extensions	508,500
Restricted for budget stabilization	5,591,700
Unrestricted	546,279,801
Total net position	**$ 721,799,305**

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

Year Ended June 30, 2016

Operating Revenue	
General customers	$ 267,185,702
Wholesale customers	133,308,355
Sewage surcharge	1,838,726
Miscellaneous	3,160,012
Total operating revenue	405,492,795
Operating Expenses	
Wastewater treatment plant	65,106,990
Pumping stations	85,916
Combined sewage overflow control basins	860,038
Interceptors	160,837
Sewer	328,730
Industrial waste control	1,671,732
Meters	97,730
Commercial	8,772,375
Operations and maintenance	6,961,816
Administrative and general	37,314,514
Pension expense (reduction)	(164,466,622)
GLWA wholesale charges	86,063,830
Other items - Nonrecurring capital asset adjustment	(176,330)
Total operating expenses before depreciation	42,781,556
Depreciation	66,806,875
Total operating expenses	109,588,431
Operating Income	295,904,364
Nonoperating Revenue (Expenses)	
Investment earnings	185,564
Interest expense - Net of capitalized interest	(78,391,855)
Asset Impairment	(63,986,080)
Bonds cost of issuance	(2,651,133)
Other revenue	10,558,988
Total nonoperating expenses - Net	(134,284,516)
Income - Before special item	161,619,848
Special Item - Bifurcation (Note 2 (p))	808,913,176
Change in Net Position	970,533,024
Net Position (Deficit) - Beginning of year	(248,733,719)
Net Position (Deficit) - End of year	**$ 721,799,305**

See accompanying notes to financial statements.

Statement of Cash Flows

Year Ended June 30, 2016

Cash Flows from Operating Activities	
Receipts from customers	$ 379,352,936
Payments to other funds	(30,853,485)
Payments to suppliers	(80,574,182)
Payments to employees	(74,867,501)
Net cash provided by operating activities	193,057,768
Cash Flows from Noncapital Financing Activities	
Cash transferred to GLWA at bifurcation	(525,228,426)
Receipts on GLWA contract receivable	18,747,000
Principal paid on bonds	(133,671)
Interest paid on bonds	(1,247,477)
Miscellaneous nonoperating financing	10,618,237
Net cash used in noncapital financing activities	(497,244,337)
Cash Flows from Capital and Related Financing Activities	
Acquisition and construction of capital assets	(65,359,939)
Principal paid on bonds, notes, and capital leases	(108,656,830)
Interest paid on bonds, notes, and leases - Net	(66,441,052)
Net cash used in capital and related financing activities	(240,457,821)
Cash Flows from Investing Activities	
Proceeds from sales and maturities of investments	68,986,760
Earnings from investment securities	185,564
Net cash provided by investing activities	69,172,324
Net Decrease in Cash and Cash Equivalents	(475,472,066)
Cash and Cash Equivalents - Beginning of year	502,199,600
Cash and Cash Equivalents - End of year	**$ 26,727,534**
Statement of Net Position Classification	
Cash and cash equivalents - Unrestricted	$ 20,627,334
Cash and cash equivalents - Restricted	6,100,200
Total cash and cash equivalents	**$ 26,727,534**

Statement of Cash Flows (Continued)

Year Ended June 30, 2016

Reconciliation of Operating Income to Net Cash from Operating Activities		
Operating income	$	295,904,358
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization		66,803,875
Changes in assets and liabilities:		
Accounts and contracts receivable		(41,173,824)
Inventory		3,740,288
Net pension liability		(317,650,451)
Prepaid expenses		1,706,766
Due from other funds		(13,166,829)
Due from fiduciary funds		1,219,903
Accounts and contracts payable		(39,409,205)
Due to other funds		(17,686,656)
Due to fiduciary funds		41,935,664
Accrued workers' compensation and claims and judgments		(20,400,671)
Death benefit obligation		25,904
Claims and judgments payable		(13,816,600)
Accrued salaries and wages		(655,113)
Decrease in deferred outflows of pension resources		245,680,359
Net cash provided by operating activities	**$**	**193,057,768**

As discussed in Note 2, effective January 1, 2016, the Sewer Fund leased the regional sewer system assets and assigned all sewer system revenue and all sewer bond liabilities to the Great Lakes Water Authority. This reduced assets and liabilities in the Sewer Fund of approximately $217 million (liabilities accepted were greater than assets accepted). In addition, there were asset impairments during the year of $64 million in the Sewer Fund.

(1) Reporting Entity

The City of Detroit, Michigan (the City) Charter established the Detroit Water and Sewerage Department (the DWSD) in the year 1836 to supply water, drainage, and sewage service within and outside the City. The Sewage Disposal Fund (the Fund), an enterprise fund, separately accounts for the portion of the Sewage Disposal System (the System) that it operates. The DWSD is governed by a seven-member Board of Water Commissioners (the Board), each of whom is appointed by the mayor of Detroit. The Board's governance structure, authority, and level of operational autonomy is established by four standing federal court orders dated September 9, 2011 (creation of the Root Cause Committee), November 4, 2011 (adoption of the Root Cause Committee Plan of Action), October 5, 2012 (clarification of the November 4, 2011 Order), December 14, 2012 (adoption of Root Cause Committee's Plan of Action Clarification), and December 15, 2015 (opinion and order on Joint Motion for Relief of Judgment).

These court orders resulted largely from federal court oversight of the DWSD for most of the time from May 6, 1977 through March 27, 2013. The nature of this case was alleged violations of the Clean Water Act involving the DWSD's wastewater treatment plant (WWTP) and its National Pollutant Discharge Elimination System (NPDES) permit. On March 15, 2013, the DWSD's director was required to submit the final director's report of compliance for federal court review. The report summarized progress made in implementing the changes granted by four of the court orders noted above. On March 27, 2013, the federal court judge entered an order closing the case based upon "tremendous progress" by the empowered Board of Water Commissioners, implementation of human resource functions, and improved procurement policy; the court found that the DWSD's compliance record vastly improved. The resulting order was "that the existing ACO [Administrative Consent Order] is a sufficient mechanism to ensure sustained compliance with the DWSD's NPDES permit and the Clean Water Act and this Court shall therefore close this case …." During and for a year following the City's exit from bankruptcy in December 2014, the court continued to mediate the possible establishment of a regional authority to lease and operate the regional assets historically operated by DWSD and resolution of various other disputes, and reopened the case in December 2015 for the purpose of approving aspects of the establishment and role of the regional authority and the related lease transaction described in Note 2(p) below, as well as certain labor and governance methods, including ratemaking. The final court order reiterated that the court retains limited jurisdiction for enforcement of its orders issued on September 9, 2011, November 4, 2011, October 5, 2012, December 14, 2012, and December 15, 2015.

Authority granted by the federal court to the DWSD includes operational independence in the areas of law, finance, human resources, and procurement. Specifically, while they restored some provisions in the Charter relating to the appointment and removal of members of the Board, these orders enjoined the City from applying any existing or future Charter provisions, ordinances, resolutions, executive orders, city policies, regulations, procedures or similar rules or practices that are inconsistent with the express terms of the court's orders. Further, the orders granted the DWSD the authority to purchase its own information technology systems; establish its own subunits and programs within its finance division including debt management, accounts payable, accounts receivable, accounting, budget, establish new rates and charges; cash management, asset management, and deferred compensation; independence from city finance policies; be exempt from the application of city ordinances, the City's human resources policies and regulations, Civil Service Commission rules, and city resolutions and orders, pertaining to payroll, employee benefits, and employee and labor relations; establish bank accounts in its own name; establish its own self-insurance fund; and, prior to the effectiveness of the lease of the regional sewer system and the assignment of all DWSD bonds and revenue to the Great Lakes Water Authority (GLWA or the "Authority"), approve the issuance of debt and to refinance debt upon the sole approval of the Board of Water Commissioners. The basic financial statements of the Fund have been included in the City's Comprehensive Annual Financial

Report and reported as an enterprise fund. Copies of these reports, along with other financial information, can be obtained at the Fund's administrative office located at 735 Randolph, Detroit, Michigan 48226 and on its website at *www.dwsd.org*.

(2) Summary of Significant Accounting Policies

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

(a) Basis of Accounting

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

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

(b) Cash and Cash Equivalents

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

(c) Investments

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

(d) Inventories and Prepaid Items

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

(e) Capital Assets

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

Land improvements	67 years
Building and structures	40 years
Interceptors and regulators	100 years
Machinery, equipment, and fixtures	3–20 years

The Fund capitalizes qualifying net interest costs of the System on bonds issued for capital construction in accordance with GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 2989 FASB and AICPA Pronouncements*, as amended. Accordingly, capitalized interest for the year ended June 30, 2016 was $207,310.

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

(f) Taxes and City Services

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

(g) Shared Costs

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

(h) Compensated Absences

The liability for compensated absences reported in the basic financial statements consists of unpaid, accumulated vacation and sick leave balances. 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. Vacation leave is accrued as benefits are earned by employees and it is probable the City will compensate the employees for the benefits through paid time off or other means, such as cash payments at termination or retirement. 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 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 are matured; for example, as a result of employee resignations or retirements.

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

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

(j) Deferred Outflows/Inflows of Resources

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

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element represents an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources (revenue) until that time. The Fund has included the deferred amounts on swap termination in this reporting category. The deferred amount results from amounts transferred plus tender and redemption premiums paid upon debt refunding. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt. The Fund also included the deferred amounts on changes in actuarial assumptions and actual vs. projected assumptions in investment earnings related to implementation of GASB No. 68, *Accounting and Financial Reporting for Pensions*, in this reporting category. The amount for the changes in actuarial assumptions is deferred and amortized over the estimated remaining service life. The amount for the difference between actual vs. projected assumptions in investment earnings is deferred and amortized over five years.

(k) Net Position

Fund net position is categorized as follows:

Net Investment in Capital Assets – This consists of capital assets, net of accumulated depreciation, and the DWSD's revenue requirement related to GLWA debt.

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

Unrestricted – This consists of assets that do not meet the definition of "restricted" or "net investment in capital assets."

(l) Unbilled Revenue

The Fund records unbilled revenue for services provided by the DWSD and GLWA prior to year end by accruing actual revenue billed in the subsequent month.

(m) Interest Expense

Interest expense in the statement of revenue, expenses, and changes in fund net position includes amounts related to the portion of rates and charges collected by the DWSD which relate to the accretion of obligations payable to Great Lakes Water Authority in respect of interest payable on the Authority's bonds.

(n) Classification of Revenue and Expenses

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

Operating revenue include activities that have the characteristics of exchange transactions, such as revenue from charges for services. Such revenue has been shown net of allowances of $11,471,508.

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

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

(o) Use of Estimates

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

(p) Special Item – Bifurcation

On January 1, 2016, the City of Detroit, Michigan effectuated a lease agreement with the Great Lakes Water Authority for the regional sewer system for a term of 40 years, to be extended automatically to coincide with the final maturity of any bonds issued to finance improvements to the regional or local sewer systems. The agreement and a corresponding lease of the regional water system collectively provide for an annual lease payment of $50 million (of which $27,500,000 is currently allocated to the Sewer Fund), in exchange for a leasehold interest in the System's wastewater treatment plant, certain public sewers, wastewater interceptors, and certain other assets including cash and investments held by the Fund as of December 31, 2015, assignment of all revenue of the regional and local sewer systems and the assumption of all DWSD bonded debt and certain liabilities. The transaction resulted in a gain as follows:

Special Item Description		
Present value of consideration received	$	591,938,565
Cash, cash equivalents, and investments at December 31, 2015		(525,228,426)
Receivables assumed by Great Lakes Water Authority		(248,776,115)
Assets leased to Great Lakes Water Authority		(2,295,028,738)
Bonds assumed by Great Lakes Water Authority		3,093,035,814
Other liabilities assumed by Great Lakes Water Authority		184,060,576
Day one cash		8,911,500
Total gain from special item	$	808,913,176

Present Value of Consideration Received

Annual lease payments received and to be received from the Great Lakes Water Authority were discounted using the effective interest method with the applicable interest rate, inclusive of issuance costs, being estimated from market data. The effective discount rate utilized approximates 3.67 percent.

Cash, Cash Equivalents, and Investments

On January 2, 2016, all cash balances and investments relating to or resulting from the operation of the System as of December 31, 2015 were transferred to the Great Lakes Water Authority, with the exception of one-month operating cash and an amount equal to 1/12 of the budgeted annual operating expenses of the local sewer system described below. These balances include all cash and investments held under the DWSD Master Bond Ordinance and related trust indenture for the DWSD Sewer Bonds, which were assigned to the Great Lakes Water Authority.

Receivables Assumed by and Revenue Assigned to Great Lakes Water Authority

Pursuant to the lease agreement between the DWSD and the Great Lakes Water Authority, all the accounts receivable from the operation of the System as well as all benefits of contracts and agreements relating to the operation of regional assets of the sewer system as of December 31, 2015 were transferred without recourse to the Great Lakes Water Authority on the effective date of the lease. The DWSD also assigned its rights to collect all revenue for the sewer system to the Great Lakes Water Authority.

Assets Leased to the Great Lakes Water Authority

Assets leased by the DWSD to the Great Lakes Water Authority include all real and tangible personal property owned by the City and providing sewage disposal treatment service to regional wholesale customers from the point of connection to the Detroit local sewer system. These assets are more fully set forth in the lease between the DWSD and the Great Lakes Water Authority and include, but are not limited to, sewer treatment plants, pumping stations, meters, and the related machinery, equipment, and rolling stock thereto.

DWSD Bonds Assumed by the Great Lakes Water Authority

As part of the lease transaction in which the City leased the regional water and sewer system of DWSD to the Great Lakes Water Authority, all DWSD revenue bonds outstanding as of December 31, 2015, including those purchase by the Michigan Finance Authority under its state revolving loan program, were assumed by GLWA with the consent of bond holders.

Per the Water and Sewer Services Agreement between the DWSD and GLWA dated June 12, 2015 and Master Bond Ordinances dated October 7, 2015, as amended, the Detroit retail class continues to pay its common-to-all share of debt service and its allocated share of debt service associated with improvements to the local water and sewer systems. Payments on the debt service incurred by the Great Lakes Water Authority on the outstanding revenue bonds assumed as of December 31, 2015 are to be allocated using an agreed-upon percentage of total debt service associated with the bond-financed local improvements over the life of such bonds, though the bonds themselves continue to be secured by the net revenue of GLWA, which includes all revenue payable by the Detroit retail class. As of June 30, 2016, the parties were still working to resolve the allocation percentage. DWSD management estimates the percentage to approximately 9.4 percent and 17.1 percent for Sewer Disposal Fund and Water Fund, respectively. The resulting estimated debt liability allocation of $310,973,690 and $395,639,923 for the Sewage Disposal Fund and the Water Fund, respectively, has been recognized as a long-term obligation to the Great Lakes Water Authority.

Other Net Liabilities Assumed by the Great Lakes Water Authority

Pursuant to the lease agreement between the DWSD and the Great Lakes Water Authority, all liabilities associated with the operation of the System prior to December 31, 2015 were assumed by the Great Lakes Water Authority. These include all residual costs and liabilities associated with (i) the lease of the leased sewer facilities and the transfer and assignment of DWSD contracts and certain DWSD employees to the Authority, including unemployment and separation costs (excluding salaries beyond required notice periods) related to DWSD regional system employees who declined to transfer to the Authority, (ii) excess capacity resulting from the establishment by the Authority of separate capacity performing the same function during and for any period the Authority has contracted for such capacity from the City, to the extent agreed to by the City and the Authority, and (iii) claims against the City by third parties whose contracts or rights were transferred to and assumed by the Authority under the terms of the lease.

Day One Cash

Pursuant to the lease transaction with the Great Lakes Water Authority, in addition to initial lease payments received, the DWSD retained one month of operating cash to fund certain aspects of the enterprise. Under the terms of the Water and Sewer Services Agreement between the DWSD and the Great Lakes Water Authority, the Authority appointed the DWSD as its agent to bill, collect, and enforce payment of rates and charges by retail sewer system customers served by the DWSD and under the Great Lakes Water Authority's Master Bond Ordinance, the Authority continues to remit monthly to the DWSD amounts to pay expenses incurred by the DWSD in operating and maintaining the local sewer system (including the current portion of amounts payable by the DWSD to the General Retirement System), and additional sums required to be deposited in the Detroit Local Improvement and Extension Fund.

(q) Upcoming Accounting Pronouncements

In June 2015, the GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. This statement addresses accounting and reporting by employer governments that provide OPEB benefits to their employees. After adoption of GASB 75, the Fund will recognize on the face of the financial statements its net OPEB liability. The Fund is currently evaluating the impact this standard will have on the financial statements when adopted. GASB 75 is effective for the fiscal years beginning July 1, 2017.

(3) Deposits and Investments

The deposits and investments of the Fund at June 30, 2016 are reported in the financial statements as follows:

	Cash and Cash Equivalents	Investments
Current unrestricted assets	$ 20,627,334	$ —
Noncurrent restricted assets	6,100,200	—
Total cash and investments	$ 26,727,534	$ —

State law authorizes the Fund to make deposits in the accounts of federally insured financial institutions. Cash held by fiscal agents or by trustees is secured in accordance with the requirements of the agency or trust agreement.

The Fund is authorized to invest in obligations of the U.S. government or its agencies, certificates of deposit, savings and depository accounts of insured institutions, commercial paper of certain investment quality, repurchase agreements, banker's acceptances, mutual funds of certain investment quality, and investment pools as authorized by state law.

(a) Custodial Credit Risk of Bank Deposits

Custodial credit risk is the risk that in the event of bank failure, the Fund's deposits may not be returned by the bank. The Fund does not have a deposit policy for custodial credit risk. At June 30, 2016, the Fund had $19,898,030 of bank deposits (certificates of deposit, checking, and savings accounts) that were uninsured and uncollateralized. The Fund believes that due to the dollar amount of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the Fund evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

(b) Custodial Credit Risk of Investments

Custodial credit risk is the risk that in the event of failure of the counterparty, the Fund will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Fund does not have a policy for custodial credit risk. As of June 30, 2016, the Fund had no investments subject to custodial credit risk.

(c) Interest Rate Risk

Interest rate risk is the risk that, over time, the value of investments will decrease as a result of an increase in interest rates. The Fund's investment policy does not specifically restrict investment maturities other than commercial paper, which can only be purchased with a 270-day maturity. The Fund's policy minimizes interest rate risk by requiring that the Fund attempt to match its investments with anticipated cash flow requirements. Unless related to a specific cash flow, the Fund is generally not permitted to directly invest in securities maturing more than 10 years from the original date of purchase. As of June 30, 2016, the Fund did not have any interest rate risk.

(d) Credit Risk

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

As of June 30, 2016, the fund had no investments subject to credit risk.

(e) Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of the Fund's investment in a single issuer. The Fund's policy specifies a number of limitations to minimize concentration of credit risk, including prohibiting investing more than 5 percent of the portfolio in securities (other than U.S. government agencies, mutual funds, external investment pools, and other pooled investments) of any one issuer. As of June 30, 2016, the Fund had no investments subject to concentration of credit risk.

(4) Restricted Assets

Restricted assets, principally cash and investments, are available for improvements, enlargements, extensions, and construction, and to pay the current portion of the DWSD's annual payment obligation to the General Retirement System. In certain instances, the Board of Water Commissioners requires certain funds to be held in reserve or for use for other activities of the Sewer Fund.

The DWSD collects rates and charges from the Detroit retail class, and remits such revenue to the trustee appointed under the Master Bond Ordinance for the Great Lakes Water Authority's bonds. The revenue requirement for the Detroit retail class includes amounts allocated to the Detroit retail class to fund a portion of the following requirements under the Master Bond Ordinance, in accounts which are held by the trustee, unless otherwise noted:

(1) After provision has been made for expenses of operation and maintenance for the Great Lakes Water Authority and DWSD systems, a sum proportionately sufficient to provide for payment, when due, of the current principal and interest is set aside in the Authority's Bond and Interest Redemption Fund. The Bond Reserve Account is part of the Bond and Interest Redemption Fund, which resides with GLWA and the amounts credited to this account are to be used only to pay principal and interest on the bonds when current revenue is not sufficient.

(2) After meeting the requirements of the foregoing funds, monthly deposits are made to the Pension Obligation Payment Fund, in an amount equal to one-twelfth of the annual required obligation. The deposits are to be used to fund the nonoperating portion of the pension obligation for both the DWSD and GLWA.

(3) After meeting the requirements of the foregoing funds, monthly deposits are made to the Water Residential Assistance Program Fund in an amount equal to one-twelfth of .4 percent of the budgeted annual operating revenue of GLWA for the fiscal year must be deposited to fund the program. The WRAP was set up in accordance with the Memorandum of Understanding and the creation of GLWA. The program provides assistance to indigent residential customers within the GLWA service area. This fund remains an asset of GLWA until it is disbursed to the administrator for recipients.

(4) After meeting the requirements of the foregoing funds, monthly deposits are made to the Budget Stabilization Fund from the DWSD payments in an amount equal to one-twelfth of two times 20 percent of a two-year average of bad debt expense for the Detroit Retail System. The initial calculation equaled $16,548,000; this amount will be funded over three years, with an annual amount of $5,516,000. These monies in the Budget Stabilization Fund may be applied by the Authority in its discretion for any lawful purpose of the System in the event of shortfalls in the retail revenue attributable to unfavorable variances between actual bad debt expenses and budgeted bad debt expenses of retail sewer customers as a class.

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

(6) After the above deposits have been made, remaining amounts are deposited in the Improvement and Extension Fund, established for the payment of improvements, enlargements, repairs, extensions, or betterment to the System. There are separate Improvement and Extension Funds for the Detroit Local System and the Great Lakes Water Authority. The DWSD holds the fund for the Detroit Local System.

(7) With respect to the Construction Fund, the portion of the proceeds of the sale of bonds for building or improving the Local DWSD System is deposited in this fund. A separate depository account held by the Great Lakes Water Authority is required for each series of bonds. Similarly, bond proceeds for DWSD improvements are deposited in a local system account in the Construction Fund for each series of such bonds, which is held by the DWSD. Proceeds for construction purposes received from federal and state grants and other sources that restrict the use of such proceeds are also deposited into the GLWA or DSWD account, as applicable. The Sewage Disposal Fund's reserves consist of the following cash and investments classified on the statement of net position as either restricted or unrestricted as follows:

Cash/Investment classified on the statement of net position as:

	Unrestricted	Restricted	Total
Flow of funds (per GLWA ordinance)			
Cash in trust for GLWA	$ -	$ -	$ -
Operations and maintenance	20,627,334	-	20,627,334
Budget Stabilization Fund	-	5,591,700	5,591,700
Improvement and Extension Fund	-	508,500	508,500
Total cash, cash equivalents, and investments	$ 20,627,334	$ 6,100,200	$ 26,727,534

Surety coverage includes series specific policies; therefore, it represents the lesser of the maximum amount of the policy, or amount of reserve requirement allocated to the specific series covered by such policy. Surety coverage is maintained by the Great Lakes Water Authority with a portion of the cost allocated to the DWSD.

The "variance from ordinance requirement" amount represents excess funds assigned to the Improvement and Extension Fund and available for capital improvements.

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

(5) Capital Assets

Capital asset activity for the year ended June 30, 2016 was as follows:

See Note 13 for discussion of commitments related to construction activities.

	June 30, 2015	Additions	Disposals	June 30, 2016
Nondepreciable assets:				
Land and land rights	$ 37,926,842	$ -	$ (37,854,516)	$ 72,326
Construction in progress	336,990,773	5,021,599	(334,148,696)	7,863,676
Total nondepreciable assets	374,917,615	5,021,599	(372,003,212)	7,936,002
Depreciable assets:				
Land improvements	76,800,884	649,042	(70,753,486)	6,696,440
Buildings and structures	2,131,248,725	91,892,290	(1,732,544,873)	490,596,142
Interceptors and regulators	205,749,861	-	(205,527,893.50)	221,968
Machinery, equipment, and fixtures	1,763,074,059	25,583,427	(1,684,135,502.81)	104,521,983
Total depreciable assets	4,176,873,529	118,124,759	(3,692,961,755)	602,036,533
Less accumulated depreciation:				
Land improvements	(23,597,272)	(594,835)	22,687,825	(1,504,282)
Buildings and structures	(704,399,210)	(26,013,006)	647,872,659	(82,539,557)
Interceptors and regulators	(74,818,550)	(973,479)	75,745,693	(46,336)
Machinery, equipment, and fixtures	(879,830,554)	(39,225,554)	873,566,742	(45,489,366)
Total accumulated depreciation	(1,682,645,586)	(66,806,874)	1,619,872,919	(129,579,541)
Net capital assets	$ 2,869,145,558	$ 56,339,484	$ (2,445,092,048)	$ 480,392,993

(6) Long-term Obligations

Changes in long-term obligations for the year ended June 30, 2016 were as follows:

	Balance, June 30, 2015	Increase	Decrease	Balance, June 30, 2016	Amount Due Within One Year
Revenue bonds	$ 2,845,745,000	$ –	$ (2,845,745,000)	$ –	$ –
Capital appreciation bonds	32,890,000	–	(32,890,000)	–	–
Discount on capital appreciation bonds	(5,081,829)	–	5,081,829	–	–
State revolving loans	494,320,660		(494,320,660)		
Contractual obligation to GLWA		310,973,690	–	310,973,690	8,928,590
Total revenue bonds	3,367,873,831	310,973,690	(3,367,873,831)	310,973,690	8,928,590
Add unamortized premiums	115,151,824	–	(115,151,824)	–	–
Total revenue bonds - Net	3,483,025,655	310,973,690	(3,483,025,655)	310,973,690	8,928,590
Financial recovery bonds, 2014 Series B	44,233,463	–	(3)	44,233,460	–
Financial recovery bonds, 2014 Series C	6,160,204	–	(412,153)	5,748,051	432,761
Total financial recovery bonds	50,393,667	–	(412,156)	49,981,511	432,761
Other long-term liabilities:					
Net pension liability	224,309,908	224,930,253	(419,602,334)	29,637,827	–
Accrued compensated absences	4,620,794	1,350,011	(3,945,788)	2,025,017	1,078,262
Accrued workers' compensation	7,764,540	3,603,192	(11,331,535)	36,197	10,250
Claims and judgments	13,816,600	65,100	(13,881,700)	–	
Other accrued liabilties	11,084,151		(10,998,052)	86,099	86,099
Accrued other postemployment benefits	282,529	34,864	(8,960)	308,433	–
Total other long-term liabilities	261,878,522	229,983,420	(459,768,369)	32,093,573	1,174,611
Total	$ 3,795,297,844	$ 540,957,110	$ (3,943,206,180)	$ 393,048,774	$ 10,535,962

(7) Assumption of Revenue Bonds Payable and Long-term Obligation Due to GLWA

As part of the lease transaction in which the City leased the regional water and sewer system of the Detroit Water and Sewerage Department to the Great Lakes Water Authority, all DWSD revenue bonds outstanding as of December 31, 2015, including those purchased by the Michigan Finance Authority under its state revolving loan program, were assumed by GLWA with the consent of bond holders. Total bonds assumed by GLWA totaled $3,308,230,742.

Per the Water and Sewer Services Agreement between the DWSD and GLWA dated June 12, 2015 and the Master Bond Ordinances dated October 7, 2015, as amended, the Detroit retail class continues to pay its common-to-all share of debt service revenue requirements and its allocated share of debt service revenue requirements associated with improvements to the local water and sewer systems. Payments on the debt service incurred by the Great Lakes Water Authority on the outstanding revenue bonds assumed as of December 31, 2015 are to be allocated using an agreed-upon percentage of total debt service associated with bond-financed local improvements over the life of such bonds, though the bonds themselves continue to be secured by the net revenue of GLWA, which includes all revenue payable by the Detroit retail class. As of June 30, 2016, the parties were still working to resolve the allocation percentage. DWSD management estimates the percentage to approximate 9.4 percent. The resulting estimated debt liability allocation of $310,973,690 has been recognized as a long term obligation to the Great Lakes Water Authority.

(a) Debt Service on Long-term Obligation

As of June 30, 2016, aggregate debt service revenue requirements associated with the Detroit retail class's long term obligation to GLWA relating to bond-financed local system improvements were as follows. These amounts assume that current interest rates on variable-rate bonds underlying the obligation will remain the same for their term. As these rates vary, interest payments on the underlying bonds will vary.

	Principal	Interest	Total Requirements
Year(s) ending June 30:			
2017	$ 8,928,590	$ 13,580,051	$ 22,508,641
2018	9,257,590	13,206,575	22,464,165
2019	9,588,470	12,865,826	22,454,296
2020	9,907,130	12,506,440	22,413,570
2021	10,334,360	12,133,574	22,467,934
2022-2026	55,018,698	54,202,938	109,221,636
2027-2031	68,589,895	41,298,745	109,888,640
2032-2036	76,661,766	25,802,557	102,464,323
2037-2041	51,105,921	8,117,111	59,223,032
2042-2046	11,581,270	1,191,979	12,773,249
	$ 310,973,690	$ 194,905,796	$ 505,879,486

(8) 2014 Financial Recovery Bonds

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

The Financial Recovery Bonds, Series 2014-C total $88,430,021. The bonds bear interest at 5.0 percent per annum. The bonds mature on December 10, 2026. The bonds are unsecured but city revenue from its parking garages will provide the required debt service. If the parking garage revenue is 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. As part of the Plan of Adjustment, GLWA remains responsible to pay a portion of the debt; however, the entire debt remains in the City's name. GLWA's portion of the debt is 42.14 percent. The DWSD's share is 16.86 percent.

The following is a schedule of the Financial Recovery Bonds payable at June 30, 2016:

General Obligation Bonds-Limited Tax

	Bond Date		Amount Issued	Range of Interest Rates	Maturity Date		Balance June 30, 2016
Series 2014-B(1)	12/10/2014	$	44,233,463	4.00 to 6.00 %	4/1/25-44	$	44,233,460
Series 2014-C	12/10/2014		6,382,990	5.00	2/11/2027		5,748,051
Total General Obligation Bonds - Limited Tax						$	49,981,511

As of June 30, 2016, aggregate debt service requirements of the Financial Recovery Bonds were as follows:

		Principal		Interest		Total Requirements
Year(s) ending June 30:						
2017	$	432,761	$	2,056,742	$	2,489,503
2018		454,399		2,035,103		2,489,502
2019		477,119		2,012,383		2,489,502
2020		500,975		1,988,528		2,489,503
2021		526,024		1,963,479		2,489,503
2022-2026		7,475,289		9,307,104		16,782,393
2027-2031		11,363,195		7,084,128		18,447,323
2032-2036		11,058,365		5,706,117		16,764,482
2037-2041		11,058,365		3,981,012		15,039,377
2042-2044		6,635,019		796,203		7,431,222
	$	49,981,511	$	36,930,799	$	86,912,310

(9) Risk Management

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

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

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

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

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

Changes in the balance of claim liabilities for the years ended June 30, 2016 and 2015 are as follows:

	2016	2015
Balance at beginning of year	$ 21,581,140	$ 6,396,958
Current year claims and changes in estimates	–	17,611,080
Eliminated due to sale	(21,816,087)	
Claims payments	234,947	(2,426,898)
Balance at end of year	$ –	$ 21,581,140

(10) Pension Plan

(a) Plan Administration

The Sewer Fund participates in the City of Detroit General Employees' Retirement System (GRS). GRS is a single-employer plan composed of a defined benefit plan component and a defined contribution annuity plan component. The plan provides retirement, disability, and survivor benefits to plan members and beneficiaries. The plan is administered by its own board of trustees. Plan members include active employees, retirees, and beneficiaries from various departments within the City. Benefit terms have been established by contractual agreements between the City and the employees' collective bargaining units; amendments are subject to the same process.

GRS issues publicly available financial reports that include financial statements and the required supplementary information. The reports can be obtained from City of Detroit Retirement Systems, One Detroit Center, 500 Woodward Ave., Suite 3000, Detroit, MI 48226 or obtained from systems' website (www.rscd.org). Detailed information about the pension plan's fiduciary net position is available in the separately issued financial report. For the purpose of determining the Fund's net pension liability, the pension plan's fiduciary net position has been determined on the same basis used by the pension plan. GRS uses the economic resources measurement focus and the full accrual basis of accounting. Investments are stated at fair value or estimated fair value. Plan member contributions are recognized in the period in which the contributions are due. Employer contributions to the plan are recognized when due pursuant to legal requirements. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan.

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

In June 2014, separate and apart from the bankruptcy proceedings and resulting POA, the emergency manager directed the City and its professional pension advisors to undertake efforts to prepare documentation and Emergency Manager Orders necessary to freeze the existing plans as of June 30, 2014, and establish a new hybrid plan for GRS effective July 1, 2014. The emergency manager effectuated this action pursuant to authority under PA 436, separate and apart from those pension changes requiring bankruptcy court approval. The plan in existence for each system as of June 30, 2014 is known as the "legacy plan" or "Component II". As of July 1, 2014, all eligible employees began participating in the new hybrid pension plan, or Component I. Eligible city employees will receive the benefits they have earned under the legacy Component II plan for services performed through June 30, 2014, plus an additional benefit under the new hybrid plan formula for services after June 30, 2014.

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

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

(b) Plan Membership

Membership of the plan at June 30, 2016 (measurement date) consisted of the following:

Inactive plan members or beneficiaries currently receiving benefits	11,884
Inactive plan members entitled to but not yet receiving benefits (includes DROP members of Police and Fire System)	2,732
Active plan members	4,688

As of June 30, 2014, the Component II plan has 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

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

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

Component II plan members upon retirement will receive an annuity which shall be the actuarial equivalent of the member's accumulated contributions in the 1973 Defined Contribution Annuity Savings Fund at the time of retirement. In addition, each member will receive a basic service and a membership service pension. Basic service pension will consist of $12.00 per annum multiplied by the number of years and fractions of years of credited service, not to exceed 10 years. The membership service pension will be calculated as follows:

(1) For members who retire on or before June 30, 1992, a membership service pension of 1.5 percent of average final compensation for the first 10 years of service and 1.63 percent for service in excess of 10 years.

(2) For members who retire on or after July 1, 1992 but prior to July 1, 1998, a membership service pension of 1.5 percent of average final compensation for each year of service for the first 10 years, plus 1.7 percent of average final compensation for each year of service in excess of 10 years up to 20 years of service, plus 1.9 percent of average final compensation for each year of service in excess of 20 years. In no event shall benefits paid by the retirement system exceed 90 percent of average final compensation.

(3) For members who retire on or after July 1, 1998, a membership service pension for service rendered prior to July 1, 2012 of 1.6 percent of average final compensation for each year of service for the first 10 years, plus 1.8 percent of average final compensation for each year of service in excess of 10 years, up to 20 years of service, plus 2 percent of average final compensation for each year of service in excess of 20 years up to 25 years, plus 2.2 percent of average final compensation for each year of service in excess of 25 years; plus, for service rendered after July 1, 2012 and prior to July 1, 2014, 1.5 percent of average final compensation for each year of service; plus $12 for each year of city service not to exceed $120. Notwithstanding the foregoing, for members of the Michigan Council 25 of the American Federation of State, County and Municipal Employees, AFL-CIO Local 2920 and the Detroit Senior Water Systems Chemists Association bargaining units, the effective date of the 1.5 percent multiplier was April 1, 2013 for all years of service rendered after that date. In no case shall benefits paid by the retirement system exceed 90 percent of average final compensation.

In the event the eligible retiree’s estimated adjusted annual household income in any calendar year after the first year that the eligible retiree receives a benefit from the Income Stabilization Fund is less than 105 percent of the federal poverty level in that year, the eligible retiree will receive an additional income stabilization benefit plus benefit commencing as of the next following July 1.

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

(d) Contributions

Article 9, Section 24 of the State of Michigan constitution requires that financial benefits arising on account of employee service rendered in each year be funded during that year. Accordingly, in the past, GRS retained an independent actuary to determine the annual contribution. Until 2024, contributions are based on specific provisions of the Plan of Adjustment. After 2024, contributions will be actuarially determined based on a 30-year level principal closed amortization.

Employer Contributions

Component II: During fiscal year 2016, employer contributions to the General Retirement System were determined by the provisions of the Plan of Adjustment detailed under Exhibit II.B.3.r.ii.A. Included within contributions in Component II are the Foundation for Detroit's Future (the "Foundation") in the amount of $32.9 million in debt service payments on certain other employer contributions include $4.0 million Unlimited Tax General Obligation Bonds (UTGO) which were assigned by bond holders under the terms of the POA and approximately $67.9 million of contributions from the City and related entities. Employer contributions were also made into the Income Stabilization Fund for $1,689,857 from the assigned UTGO debt service payments.

The Plan of Adjustment specifies annual contributions inclusive of plan administration costs, to be $45.4 million per year in total for both Water and Sewer employees (of the DWSD and the Great Lakes Water Authority, until 2023. The portion allocable to the Sewer Fund was $5.1 million for fiscal year 2016. Subsequent to 2023, employer contributions will again be actuarially determined will be actuarially determined based on a 30-year level principal closed amortization.

Component I: During fiscal year 2016, employer contributions are not actuarially determined but determined by the provisions of the combined plan detailed under Section 9.3 of Component I. Per section 9.3, commencing July 1, 2014 and ending in July 1, 2023, the City is required to contribute 5 percent of compensation of active members. A portion of the employer's annual contribution for each plan year as determined by the City shall be credited to the Rate Stabilization Fund reserve with the remainder allocated to the Pension Accumulation Fund reserve. During fiscal year 2016, the City and related entities contributed $9 million into the hybrid plan. Beginning in 2024, the employer contributions will be actuarially determined based on the amount necessary to fund the plan on an actuarial basis.

Employee Contributions

Component II: Contribution requirements of plan members are established and may be amended by the board of trustees in accordance with the City Charter, union contracts, and plan provisions. For the year ended June 30, 2016, there were no employee contributions into Component II, as the plan was frozen as of June 30, 2014. Effectively, employee contributions were allowed only until August 1, 2014.

Component I: Contributions of plan members are established by Sections 9.3 and 10.1 of Component I of the combined plan. For the fiscal year ended June 30, 2016, the required active member contribution rate for employees was 4 percent of annual pay. Additionally, employees can make voluntary contributions of 3 percent, 5 percent, or 7 percent of annual pay. Contributions into Component I began with the members' first payroll date occurring in August 2014. Any contributions received prior to August 1, 2014 were recorded into Component II. During 2016, the plan received mandatory and voluntary employee contributions of $12.6 million.

(e) Net Pension Liability of the City

Component II: As permitted by GASB 68, the City has chosen to use June 30, 2015 as its measurement date for the net pension liability. The net pension liability was calculated using a measure of the total pension liability and the pension net position as of June 30, 2015. The June 30, 2015 total pension liability was determined by an actuarial valuation performed as of June 30, 2014, which used update procedures to roll forward the estimated liability to June 30, 2015. Changes in the net pension liability for the General Retirement System during the measurement year were as follows:

	Increase (Decrease)		
GRS Changes in Net Pension Liability	Total Pension Liability	Plan Net Position	Net Pension Liability
Balance at July 1, 2014	$ 3,801,649,071	$ 2,015,207,879	$ 1,786,441,192
Changes for the year:			
Service cost	-	-	-
Interest	263,007,329	-	263,007,329
Changes in benefits	(731,824,895)	-	(731,824,895)
Experience differences	24,644,531	-	24,644,531
Changes in assumptions	(101,559,893)	-	(101,559,893)
Contributions - Employer	-	85,482,095	(85,482,095)
Contributions - State and Foundation	-	103,800,000	(103,800,000)
Contributions - Employees	-	609,073	(609,073)
Net investmetn income	-	93,054,981	(93,054,981)
ASF recoupment	-	135,280,369	(135,280,369)
Benefit payments, including refunds	(297,538,990)	(297,538,991)	1
Administrative expenses	-	(4,617,194)	4,617,194
Net changes	(843,271,918)	116,070,333	(959,342,251)
Balances at June 30, 2015	$ 2,958,377,153	$ 2,131,278,212	$ 827,098,941

Component I: As permitted by GASB 68, the City has chosen to use June 30, 2015 as its measurement date for the Component I net pension liability. The net pension liability was calculated using a measure of the total pension liability and the pension net position as of June 30, 2015. The June 30, 2015 total pension liability was determined by an actuarial valuation performed as of June 30, 2014, which used update procedures to roll forward the estimated liability to June 30, 2015.

Fiscal year 2015 was the first year of existence for the Component I plan. Therefore, the total pension liability was $0 as of the beginning of the year. Activity in the Component I net pension liability for the General Employees Retirement System during the measurement year were as follows:

GRS Changes in Net Pension Liability	Increase (Decrease) Total Pension Liability	Plan Net Position	Net Pension Liability
Balance at July 1, 2014	$ -	$ -	$ -
Changes for the year:			
Service cost	19,318,576	-	19,318,576
Interest	695,469	-	695,469
Changes in benefits	(1,202,108)	-	(1,202,108)
Experience differences	-	-	-
Changes in assumptions	-	-	-
Contributions - Employer	-	8,811,369	(8,811,369)
Contributions - Employees	-	6,970,544	(6,970,544)
Net investment income	-	20,690	(20,690)
Voluntary contributions	5,775,885	5,775,885	-
Benefit payments, including refunds	-	-	-
Administrative expenses	-	(1,481,590)	1,481,590
Net changes	24,587,822	20,096,898	4,490,924
Balances at June 30, 2015	$ 24,587,822	$ 20,096,898	$ 4,490,924

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

Component II: For the year ended June 30, 2016, the Sewer Fund recognized Component II pension expense of $164,466,622 (an expense reduction). At June 30, 2016, the Sewer Fund reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Net difference between projected and actual earnings on pension plan investments	$ -	$ 3,323,926
Assumption changes	-	2,686,074
Employer contributions to the plan subsequent to the measurement date	5,105,100	-
Total	$ 5,105,100	$ 6,010,000

The $5,105,100 reported as deferred outflows of resources resulting from employer contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2016. Included in those amounts are amounts sourced from the sale of city-owned artwork with proceeds from the State of Michigan and several other services as outlined in the POA (also referred to as “the Grand Bargain”). The deferred inflows of resources related to the change in actuarial assumptions and the net differences between projected and actual earnings on pension plan investments will be amortized and recognized as an a reduction of pension expense as follows:

Year Ended June 30	Amount
2017	$ 3,904,619
2018	1,218,545
2019	1,218,545
2020	(331,708)

Component I: For the year ended June 30, 2016, the Sewer Fund recognized Component I pension expense of $1,338,393. At June 30, 2016, the Sewer Fund reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

		Deferred Outflows of Resources		Deferred Inflows of Resources
Net difference between projected and actual earnings on pension plan investments	$	67,235	$	-
Assumption changes		-		177,507
Employer contributions to the plan subsequent to the measurement date		-		-
Total	$	67,235	$	177,507

The $1,073,930 reported as deferred outflows of resources resulting from employer contributions subsequent to the measurement date and will be recognized as a reduction of the net pension liability in the year ended June 30, 2016.

The deferred inflows of resources related to the change in actuarial assumptions and the deferred outflows related to the net differences between projected and actual earnings on pension plan investments will be amortized and recognized as a reduction of pension expense as follows:

Year Ended June 30		Amount
2017	$	6,715
2018		6,715
2019		6,715
2020		6,715
2021		23,524
Thereafter		59,888

(g) Actuarial Assumptions

The significant actuarial assumptions used to measure the June 30, 2016 total pension liability were as follows:

Inflation	N/A
Salary increases	N/A
Investment rate of return	7.61%

The actuarial assumptions were based on the results of an actuarial experience study for the period from July 1, 2008 to June 30, 2013. As a result of this experience study, the mortality assumption was updated for the June 30, 2015 measurement to the RP-2014 Blue Collar Mortality Tables, Employees and Health Annuitants for males and females with fully generational mortality projections using the two-dimensional Mortality Improvement Scale MP-2014. For the General Retirement System, the table was set forward one year for males and females. In addition, the assumed discount rate was changed for both plans; for the 2014 measurement, the GRS used 5.88 percent. For certain active members, depending upon bargaining group, benefits are increased annually by 2.25 percent of the original pension amounts at retirement.

(h) Discount Rate

The discount rate used to measure the total pension liability as of June 30, 2015 was 7.61 percent; however, the single discount rate used at the beginning of the year was 7.29 percent. The projection of cash flows used to determine the discount rate assumed that employee contributions would cease as of June 30, 2014 and that city contributions, including contributions sourced from the proceeds of the sale of artwork and from the State of Michigan, will be made at rates equal to those set by the final Plan of Adjustment through June 30, 2023 and a 30-year closed level dollar amortization thereafter. Based on those assumptions, the pension plans' fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return as of June 30, 2015 for each major asset class included in the pension plan's target asset allocation, as disclosed in the investment footnote, are summarized in the following table:

	Target Allocation		Long-term Expected Real Rate of Return	
Global asset allocation/risk parity	21.00	%	5.15	%
Global multi-sector fixed	6.00		2.70	
Global equity	43.00		6.19	
Absolute return fixed	4.00		2.25	
Long duration fixed	2.00		1.96	
Real estate	10.00		4.41	
Private equity	8.00		7.35	
Hedge funds	5.00		4.66	
Cash	1.00		1.23	

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

The following presents the net pension liability of the City and Sewer Fund, calculated using the discount rate of 7.61 percent, as well as what the net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower (6.61 percent) or 1 percentage point higher (8.61 percent) than the current rate:

		1% Decrease (6.61%)	Current Discount Rate (7.61%)	1% Increase (8.61%)
Net pension liability of the GRS plan:				
Component II	$	1,087,645,854	827,098,942	605,720,872
Component I		7,551,424	4,490,924	1,940,584
Net pension liability of the Sewer Fund		41,497,671	29,637,827	23,021,839

(j) Proportion of Net Pension Liability Attributed to Sewer

The net pension liability of the Sewer Fund is $29,637,827.

(11) Other Postemployment Benefits

In prior years, the City offered retiree health care, life insurance, and supplemental death benefits. Under the City's Plan of Adjustment approved in the bankruptcy case, the City restructured retiree health benefits through the creation of two voluntary employee beneficiary associations (or VEBAs). The Employee Health and Life Insurance Benefit Plan was significantly reduced on March 1, 2014 and terminated on December 31, 2014. The supplemental death benefits plan was also closed as of December 10, 2014; benefits to be paid to individuals retiring prior to that date are limited to the assets allocated to the closed plan. There are no further contribution requirements for the City or for plan members.

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

(a) Plan Description

The Supplemental Death Benefit Plan (Supplemental Plan) is a prefunded single-employer defined benefit plan administered by the Employee Benefit Board of Trustees and is accounted for in the Employee Death Benefits Fund. The Supplemental Plan does not issue a separate stand-alone financial statement. The money is held in the City of Detroit Employee Benefit Trust and the City uses the trust fund to account for the Supplemental Plan. In accordance with Section 13, Article 8 of the Code of Ordinances, effective July 1, 1999 and prior to the member's retirement from the City, a death benefit of $10,000 will be paid. After retirement of the member from the City, the amount of death benefits paid is based upon the retiree's years of city service ranging from $1,860 (for 8 to 10 years of service) to $3,720 (for 30 years of service). For years of service beyond 30 years, $93.00 will be added per year for each additional year of service.

(b) Funding Policy

The City is under no legal obligation to prefund the plan benefits. Plan members have no contribution requirements. While the City has made contributions in prior years, no contributions were made during the year ended June 30, 2016.

(c) Annual OPEB Costs and Net OPEB Obligation

The annual other postemployment benefit (OPEB) cost (expense) is calculated based on the annual required contribution (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pension*. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal costs each year and amortize any unfunded actuarial accrued liabilities (or funding excess) over a period not to exceed 30 years.

The following table shows the components of the Sewer Fund's annual OPEB cost for the year ended June 30, 2016, the amount actually contributed to the Employee Supplemental Death Benefit Plan, and changes in the City's net OPEB obligation for the benefit plan:

Annual required contributions (ARC)	$	24,586
Interest on net OPEB obligation		10,736
Adjustment to ARC		(6,691)
Annual OPEB cost (expense)		28,631
Contributions made		(2,727)
Changes in net OPEB obligation		25,904
Net OPEB obligation, beginning of year		282,529
Net OPEB obligation, end of year	$	308,433

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

	Year Ended	Annual OPEB Cost	Actual Contributions	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
Supplemental Death	June 30, 2016	$ 25,904	$ —	0.00 %	$ 308,433
Benefit Plan	June 30, 2015	28,413	—	0.00	282,529
	June 30, 2014	17,437	7,350	42.2	254,116

(d) Funding Status and Funding Progress

As of June 30, 2015, the most recent actuarial valuation date for the Supplemental Plan, the actuarial accrued liability for benefits related to all City employees was $6,517,394 and the actuarial value of assets was $3,840,000, resulting in an unfunded actuarial accrued liability (UAAL) of $2,677,394. The covered payroll (annual payroll of all active city employees covered by the plan) was $423,011,570 and the ratio of the UAAL to the covered payroll was 0.6 percent. The preceding figures do not include the closed plan. The closed plan includes assets of approximately $30.4 million which equals the actuarial accrued liability of the plan as of June 30, 2016.

(e) Actuarial Methods and Assumptions

Actuarial valuations of the ongoing plans involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the Plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedules of funding progress are presented following these notes to the financial statements as required supplemental information and present multi-year trend information about whether the actuarial values of plan net assets are increasing or decreasing over time relative to the actuarial accrued liability for benefits.

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and the plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the June 30, 2015, actuarial valuation, the individual entry age actuarial cost method was used. The actuarial assumptions included a 3.80 percent discount rate, which is the long-term municipal bond rate from Federal Reserve release H.15 as of June 30, 2015. This also approximates a blend of the Board's assumed investment rate of return of 7.0 percent of plan assets and the expected rate of return of the City's own assets. The actuarial value of assets was determined using techniques that spread the effects of short-term volatility in the market value of investments over a three-year period. The UAAL is being amortized over 30 years as a level dollar amount, on an open basis.

In the June 30, 2015 actuarial valuation for the Supplemental Death Benefit Plan, the mortality tables used by the City's plan to evaluate death benefits to be paid for General, EMS, and Department of Transportation (D.O.T.) retirees was 120 percent of the RP 2000 Combined Male and 120 percent of the RP 2000 Combined Female table 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.

(12) Interfund Balances and Activity

(a) Due from/to Other Funds

During the course of operations, numerous transactions occur between individual funds and other city funds for goods provided or services rendered. Related receivables and payables are classified as "due from other funds" or "due to other funds," respectively, on the statement of net assets will be settled within one year, and are summarized as follows as of June 30, 2016:

Due from other funds - Water Fund	$	4,445,319
Due to other funds:		
Fiduciary funds	$	1,784,358
Water Fund		16,028,634
Total due to other funds	$	17,812,992

(13) Capital Improvement Program

The Fund is engaged in a variety of projects that are a part of its five-year Capital Improvement Program (the Program). The total cost of this Program is anticipated to be approximately $282,135 million through fiscal year 2021. The Program is being financed primarily from revenue of the Fund and proceeds from the issuance of revenue bonds by the Great Lakes Water Authority for the betterment of the System.

The total amount of construction contract commitments outstanding at June 30, 2016 was approximately $11.9 million.

(14) Contingencies

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

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

(15) Bifurcation Uncertainties

The DWSD has been in negotiations with the Great Lakes Water Authority since February 2016 regarding a multitude of open items related to the January 1, 2016 bifurcation of the DWSD. These items include the following:

- Establishment of responsibility for certain assets and impaired assets
- Allocation of debt service responsibilities and initial cash balances
- Clarification and interpretation of certain aspects of the lease
- Allocation of certain other liabilities (e.g., pensions, OPEB, etc.)

In concert with the bifurcation, DWSD finance has made certain assumptions regarding the discount rate and methodology to be used when valuing the consideration receivable from GLWA as a result of the lease. Variation in the assumptions from the rate considered by GLWA could cause a material variation from the consideration payable recorded by GLWA.

Though DWSD and GLWA agree on approximately 99 percent of the assets recorded as of December 31, 2015, $55.6 million in net book value (NBV) assets remain in contention. In addition to contention around certain assets, the DWSD and GLWA have yet to agree on a methodology for the allocation of debt for the recording of the DWSD retail class obligation payable to GLWA.

Currently, the revenue requirement for GLWA debt service is allocated 17.1 percent and 9.4 percent to the Water System and the System, respectively, for debt outstanding as of December 31, 2015. The amounts were determined by an independent consultant in October 2015 based on a preliminary allocation of assets and have been used for the past two fiscal years in the establishment of the relative allocation of debt service as between the regional system and the Detroit retail class of rate payers. Switching allocation to another method could increase the allocation of Water System and System debt service to be collected from Detroit retail ratepayers to approximately 26.0 percent and 17.7 percent respectively. Given the wide range and uncertainty of potential allocations, the DWSD has continued to estimate debt allocation using the initial estimates.

Due to the current status of negotiations all of these items could cause the DWSD to make an adjustment to the accounting currently being used in the June 30, 2016 financial statements.