

City of Detroit

Comprehensive Annual Financial Report

for the Fiscal Year Ended June 30, 2012

Dave Bing, Mayor

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PHOTO CREDITS

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December 28, 2012

The City of Detroit
The Honorable Mayor Dave Bing and
The Honorable City Council

The management and staff of the Finance Department are pleased to submit the City of Detroit's Comprehensive Annual Financial Report (CAFR) for the fiscal year ended June 30, 2012 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. The CAFR contains all disclosures necessary to enable the reader to gain an understanding of the City's financial activities.

INTRODUCTION TO THE REPORT

Responsibility: The Finance Department 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.

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, PA 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:

Executive Branch: The Mayor heads the 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 City Council are also elected to a four-year term. Many significant decisions, including budget appropriations, procurement of goods and services, and certain policy matters must be approved by the City Council.

Other Agencies: The City Clerk's Office and the Election Commission are not classified under either of the two branches mentioned above.

LOCAL ECONOMY

Comerica Bank economists communicates that job growth in the Detroit metro area is easing in late 2012 after beating the U.S. average through 2011. Multiple factors are shaping overall job growth as we close out 2012. A major factor is the flattening out of manufacturing employment in the metro area. The auto industry bailout and the subsequent gain in auto sales have brought tens of thousands of jobs back to the Detroit area. With the ongoing fiscal crisis of the City of Detroit, government employment is falling. Total government employment in the Detroit metro area is down 5.2 percent on a year-ago basis in October. Housing prices in the Detroit metro area are firming, up 7.6 percent on a year-ago basis as of September.

LONG-TERM FINANCIAL PLANNING

The Administration will begin preparing a triennial budget commencing with the FY 2013-2014 proposed budget.

ACCOMPLISHMENTS/ACKNOWLEDGEMENTS

Accomplishments:

The Government Finance Officers Association of the United States and Canada (GFOA) has awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Detroit for its CAFR for the fiscal year ended June 30, 2011. This was the first time since 2005 that the City has received the prestigious award. This is the standard the City expects to consistently achieve.

Acknowledgements:

I wish to express my appreciation to the City's Finance Department, 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,



Cheryl R. Johnson
Finance Director/Group Executive



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Detroit, Michigan 48226
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Mark W. Lockridge
DEPUTY AUDITOR GENERAL

AUDITOR GENERAL'S LETTER

December 28, 2012

The Honorable Mayor Dave Bing
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, 2012, 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 4-205.

Respectfully,

Handwritten signature of Mark W. Lockridge in cursive.

Mark W. Lockridge
Deputy Auditor General

Certificate of Achievement for Excellence in Financial Reporting

Presented to

City of Detroit
Michigan

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2011

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



Christopher P. Morinell

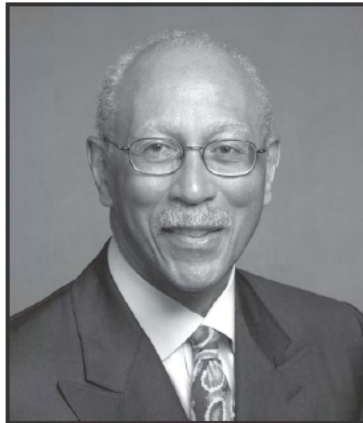
President

Jeffrey R. Emer

Executive Director

PRINCIPAL OFFICIALS OF THE CITY OF DETROIT, MICHIGAN

Executive (Elected)



Mayor
DAVE BING

Legislative (Elected)

City Council



CHARLES PUGH
President



GARY BROWN
President Pro Tem



SAUNTEEL JENKINS



KENNETH V. COCKREL JR.



BRENDA JONES



ANDRE SPIVEY



JAMES TATE



KWAME KENYETTA



JOANN WATSON

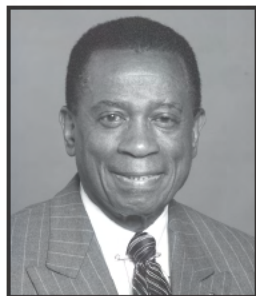
PRINCIPAL OFFICIALS OF THE CITY OF DETROIT, MICHIGAN

Legislative (Elected)



City Clerk
JANICE WINFREY

Other Executive Officials (Appointed)

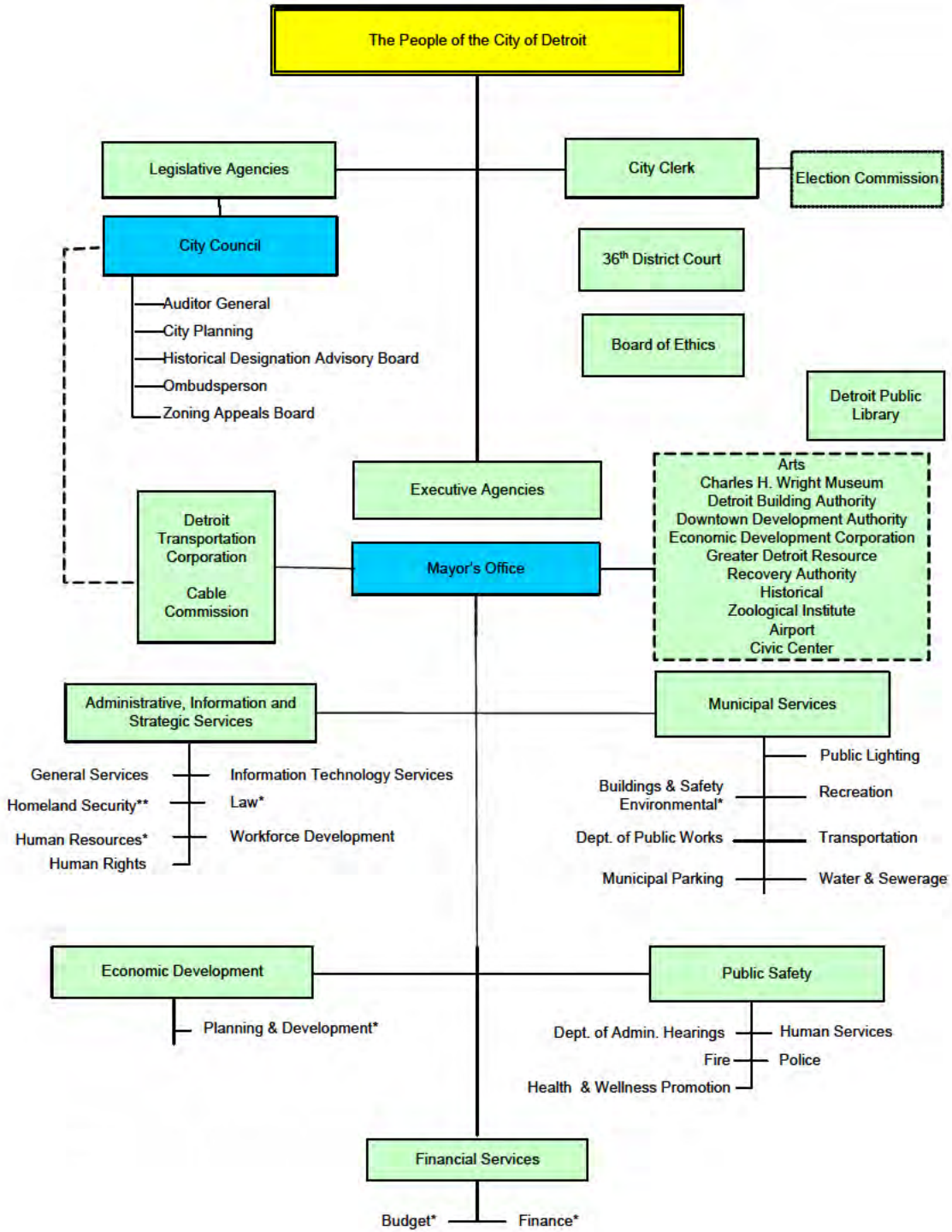


JACK MARTIN
Chief Financial Officer



CHERYL R. JOHNSON
Finance Director

Organization of City of Detroit Agencies



* Charter-mandated staff department
 ** Does not have departmental status

FINANCIAL

The Financial Section Contains:

Independent Auditors' Report
Management's Discussion and Analysis
Basic Financial Statements
Notes to Basic Financial Statements
Required Supplementary Information

INDEPENDENT AUDITOR'S REPORT



KPMG LLP
Suite 1900
150 West Jefferson
Detroit, MI 48226

Independent Auditors' Report

The Honorable Mayor Dave Bing and
the Honorable Members of the City Council
City of Detroit, Michigan:

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, 2012, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. 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), 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), and the Detroit Building Authority, which represent 95% and 49% of the assets and expenses/expenditures/deductions, respectively, of the aggregate remaining fund information. Those financial statements were audited by other auditors whose reports thereon were furnished to us, and our opinions, insofar as they relate to the amounts included in the aggregate discretely presented component units and aggregate remaining fund information, are based 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 of 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 includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the reports of other auditors provide a reasonable basis for our opinions.

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the 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, 2012, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with U.S. generally accepted accounting principles.

The City has an accumulated unassigned deficit in the General Fund of \$326.6 million as of June 30, 2012, which has resulted from operating deficits over the last several years. The deficits raise significant liquidity



risks regarding the City's ability to meet its financial obligations as they come due without raising revenues, cutting costs of services provided, and effectuating financial restructuring. The liquidity risks and management's plans are disclosed in note II(a).

As explained in note IX(b), the financial statements of the General Retirement System and the Police and Fire Retirement System include investments valued at \$691,000,000 and \$750,000,000, respectively, as of June 30, 2012 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 28, 2012 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 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* and should be considered in assessing the results of our audit.

U.S. generally accepted accounting principles require that the management's discussion and analysis and required supplementary information, listed in the accompanying 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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Detroit's basic financial statements. The introductory section, other supplementary information section, and statistical section listed in the accompanying table of contents, are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information 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. The other supplementary 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 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 is fairly stated in all material respects in relation to the basic financial statements as a whole. The introductory and statistical sections are presented for the purposes of additional analysis and are not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied by us or the other auditors in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on them.

KPMG LLP

Detroit, Michigan
December 28, 2012

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, 2012. 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.

FINANCIAL HIGHLIGHTS

- The Unassigned General Fund Balance (page 43) had a \$326.6 million cumulative deficit at June 30, 2012, a \$130.0 million increase from the \$196.6 million deficit at the end of fiscal year 2011. Due to the declining financial condition of the City, on December 6, 2011, the State of Michigan's Treasurer commenced a preliminary review of the City's finances in accordance with Public Act 4 of 2011 (Local Government and School District Fiscal Accountability Act). Public Act 4 authorized the State Treasurer to intervene in municipalities or school districts that experience severe financial stress or financial emergencies. The State Treasurer cited the City's liquidity risk and large debt including unfunded retiree health care costs to justify a preliminary financial review. On December 21, 2011, the Treasurer, after completing his preliminary review, issued a report to the Governor in which he made a determination that the City was in a state of "probable financial stress" under Public Act 4. On December 27, 2011, the Governor appointed a 10-member financial review team to undertake a more extensive financial review of the City. On March 26, 2012, the financial review team completed its review and reported to the Governor that the City was under a "financial emergency" and that no consent agreement between the City and State had been adopted. In its March 26, 2012, letter to the Governor, the financial review team stated that they preferred to see the City and State enter into a consent agreement. On April 4, 2012, the City entered into a Financial Stability Agreement with the State, under which a Financial Advisory Board was set up to oversee City finances.

The validity of the Financial Stability Agreement has been challenged unsuccessfully in court. A petition to repeal Public Act 4 was filed with the Michigan Secretary of State on February 29, 2012. The Michigan Supreme Court on August 3, 2012 held that the referendum petition was valid and directed the Board of State Canvassers to certify the petition. The referendum petition was certified by the Board of State Canvassers on August 8, 2012, thereby suspending Act 4 until the results of the November 2012 election. On November 6, 2012, the voters did not approve Proposal 1, which effectively repealed Public Act 4. The City expects challenges to the Financial Stability Agreement due to the repeal of Public Act 4. The Governor of the State of Michigan and Mayor of the City have taken the position that the repeal of Public Act 4 does not invalidate the Financial Stability Agreement. The City plans on continuing the reforms undertaken in accordance with the Financial Stability Agreement. The State of Michigan's Attorney General has determined that the old emergency manager law Public Act 72 of 1990 has been reinstated with the repeal of Public Act 4 and this has been upheld by the Michigan Court of Appeals. The Court of Appeals ruling has been appealed to the State Supreme Court where it currently is pending.

In the event of a material breach of the Financial Stability Agreement, the State Treasurer is authorized under Public Act 72 to recommend that the Governor appoint an emergency financial manager. An emergency financial manager acting under Public Act 72 has less authority than an emergency manager under Public Act 4. If, in the judgment of an emergency financial manager, no reasonable alternative to rectifying the financial emergency exists, then they may institute proceedings under Chapter 9 of the United States Bankruptcy Code. The effect of instituting bankruptcy proceedings would be to make the City a debtor under the United States Bankruptcy Code.

Under the Financial Stability Agreement, the City and State, acting through the State Treasurer, agree to jointly exercise powers relating to the financial affairs of the City, including but not limited to, public finance, budgeting and certain administrative matters. The Financial Advisory Board was established to administer and execute the Financial Stability Agreement. The Mayor and City Council continue to exercise all powers, privileges and authorities as granted under the City Charter. The Financial Stability Agreement Annex B includes reform actions required to be taken by the City to improve its financial condition. Phase I reforms include 21 separate items to assure effective delivery of essential government services and efficient financial operations. The initiative focuses on: (1) public lighting, safety, and transportation improvements; (2) system upgrades and process improvements; (3) employee benefits rationalization and labor reform; (4) improvements to permitting, planning, and development; and (5) restructuring long-term liabilities. Following the implementation of the Phase I reform actions, the City intends to implement a number of additional actions known as Phase II reforms. These actions include: (1) further consolidation and restructuring of City departments; (2) grants management restructuring; (3) property management review; and (4) implementation of "best practices" with respect to the City's pension and other post-employment benefits. In addition, the Financial Advisory Board approved the inclusion of four reform actions to Annex B of the Financial Stability Agreement: (1) revenue cycle initiative to review each revenue source to improve cash flow; (2) asset initiative to reduce asset ownership costs, improve efficiency, and identify asset sale opportunities; (3) review of all City departments to improve efficiency and reduce net cost; and (4) recreation initiative to create a recreation authority to improve service to citizens and reduce net cost.

The Financial Stability Agreement required that the City have new collective bargaining agreements in place by July 16, 2012. On July 12, 2012 the Financial Advisory Board approved City Employment Terms (CET) for employees in certain unions and non-union employees. These terms included 10% wage reductions, elimination of merit and step increases, vacation accrual cap, elimination of swing holidays and election day holiday, capping of sick leave banks at 300 hours, elimination of supplemental pay for Jury Duty, reduction of pension multiplier to 1.5 and escalator eliminated, elimination of supplemental unemployment benefit, elimination of daily overtime, reduction of holiday premium rate from double time to time and one-half, elimination of annual longevity pay, and changes to health care coverage. The terms will be implemented throughout the 2012-13 fiscal year with some terms effective as of July 17, 2012. As of the date of this report, the City has been unable to achieve collective bargaining agreements with the City unions and has imposed the City Employment Terms on union employees whose contracts have expired and on non-union employees. The Financial Stability Agreement suspends the Mayor's obligation to bargain thereby providing the Mayor with the authority to impose changes to the collective bargaining agreements once they have expired.

On July 18, 2012, the City's Chief Financial Officer issued a directive titled "Reduction in Force Activities" to achieve the fiscal year 2012-13 budget of 10,437 employees. The fiscal year 2011-12 fiscal year budget had 12,664 positions or 2,227 more than the fiscal year 2012-13 budget. Most of the 2,227 positions had been vacated in fiscal year 2011-12 through layoffs, retirement, and other attrition such as personnel obtaining work elsewhere. The City will use the same strategy to achieve the budget number for fiscal year 2012-13. Also, the directive restricted the hiring of new personnel and established accountability for Departments to stay within their budgets.

In August 2012, 10% wage reductions were imposed on Police and Fire uniform personnel and other union employees with expired contracts. City non-union personnel had their wages reduced 10% in fiscal year 2011-12.

As discussed in the Financial Stability Agreement, the City, on August 23, 2012, at a premium of \$9.1 million, issued \$129.5 million of limited tax general obligation bonds with maturities extending to November 2032, with the assistance of the State of Michigan through the Michigan Finance Authority. The \$138.6 million in bond proceeds were used to defease the \$76.5 million remaining of the \$80.0 million of short-term debt issued in March 2012, pay \$1.6 million of issuance costs, and the remainder totaling \$60.5 million was set aside with a trustee bank in an escrow account to provide funds for the City reforms and provide liquidity in fiscal year 2012-13. On November 13, 2012, the City and State of Michigan entered into a Memorandum of Understanding, which established conditions and due dates the City has to meet before it can draw funds from the escrow account. The first \$30.0 million drawn on the escrow account by the City is conditioned upon the following:

- Hiring a restructuring firm to advise the City's Program Management Office on and implement the City's reform programs to include: (1) the City's five-year outlook, given the constraints and opportunities the likely circumstances will present and (2) the means by which sustainability might be achieved, including considerations regarding long-term liabilities.
- Hiring an operational assistance firm to review the management and operations of the Property Tax and Assessors Office, Law Department, Police and Fire Departments, Public Lighting and Transportation Departments as well as the Income Tax function, Real Estate lease function, and Purchasing function. The firm will advise and recommend to the City a comprehensive operational improvement plan for each reviewed department including the estimated cost of the firm's efforts and the actions needed by the City to remove operating constraints.
- Select and retain a Workers' Compensation firm to advise the City on savings, efficiencies, and workplace safety improvements which may be achieved with the City's risk management system.
- Embark on process improvements in the Purchasing function to reduce the time required to complete contracts. The Administration and the City Council are required to cooperatively develop and City Council to vote on a revised Purchasing Ordinance, Privatization Ordinance, and any related regulations.
- City Council to vote on pending contracts for outside legal counsel and financial consultants to support the reform programs.
- Complete a review of the City's cashiering operations.
- Issuing and executing a contract for the City's medical benefit dependent audit.
- Issuing and executing a contract for payroll outsourcing.
- Completion of a plan regarding the City's Planning and Development Department that satisfies all necessary requirements for approval by the U.S. Department of Housing and Urban Development.

The Memorandum of Understanding further requires that the City maintain a minimum balance of \$50.0 million at all times in the escrow account set aside with the Trustee Bank. Any additional future draws will be contingent upon the following accomplished by the City:

- Streamlining the abandoned structure demolition process.
- Meeting timelines and metrics on its cashiering, property tax and assessing, payroll, and planning and development initiatives, with the planning and development initiatives providing for the reorganized delivery of services more efficiently and effectively with approval for continued funding by the U.S. Department of Housing and Urban Development.

- Meeting timelines and metrics on the Income Tax, Police, Fire, DDOT, and PLD initiatives.
- Implementing restructuring of the Departments of Health and Wellness Promotion, Workforce Development, and Human Services.
- Make satisfactory progress to the State Treasury Department on the restructuring of Detroit Department of Transportation.
- Completing medical benefit dependent audit.
- Obtained approval of revisions to the Purchasing function as detailed previously.

The City of Detroit, the Detroit Workforce Development Board (DWDD), and the Detroit Employment Solutions Corporation (DESC) became partners to a governance agreement dated June 28, 2012; wherein, DESC (a Michigan non-profit corporation) became the depository, primary administrative and fiscal agent effective July 1, 2012 for DWDD funds available to the Board and the City of Detroit. The City's administration determined that moving the City's workforce development operations and oversight to an external corporation would best serve the citizens of Detroit by improving service delivery and reducing costs. In addition, the non-profit entity has the ability to leverage corporate and philanthropic resources to sustain programs and supplement public funding. DWDD was accounted for in a Special Revenue Fund and primarily supported by federal and state grants. DWDD expenditures for the year ended June 30, 2012 were \$52.4 million. DWDD owed the City's General Fund \$1.9 million on June 30, 2012 for interagency billings such as central staff services and fringe benefits.

As of July 1, 2012, the Department of Human Services (DHS) Headstart programs have been transitioned to independent agencies. The remaining DHS operations are planned to be transitioned to independent agencies in January 2013. The City's administration determined that moving DHS operations and oversight to external agencies would best serve the citizens of Detroit by improving service delivery and reducing costs. DHS programs included Head Start and Community Services Block Grant (CSBG). DHS operations were accounted for in a Special Revenue Fund and were primarily supported by federal and state grant. DHS expenditures for the year ended June 30, 2012 were \$68.6 million. DHS owed the City's General Fund \$6.1 million on June 30, 2012 for loans from the General Fund, interagency billings, and fringe benefits.

On October 1, 2012, the state grant funded programs of the Department of Health and Wellness Promotion (DHWP) were transitioned to the Institute for Population Health, an independent agency. The City's administration, in conjunction with the state of Michigan, determined that moving the DHWP operations and oversight to the Institute for Population Health would best serve the citizens of Detroit by improving service delivery and reducing costs. DHWP operations were accounted for as a General Fund department. It is primarily supported by federal and state grants. It also received significant General Fund support. DHWP expenditures for the year ended June 30, 2012 were \$73.0 million of which \$13.1 million were incurred by the General Fund.

On January 1, 2012, management of the Detroit Department of Transportation (DDOT) was contracted out to a private corporation. The new management team was tasked with reducing DDOT costs and improving service. On March 3, 2012, service changes were implemented. The 24-hour service was discontinued, select weekday and weekend routes and services were pared down or eliminated to reduce costs for the department. As a result, the bus fleet was right-sized reducing maintenance and fuel costs. Service enhancements were realized with the implementation of the "4-15 Plan." This initiative included the four most traveled routes (representing approximately 34% of the daily ridership), with the goal of providing a coach every 15 minutes. An upgrade was made to the Automatic Vehicle Locator (AVL) GPS system. Tablets were provided to road supervisors with access to AVL which allows them to actively monitor on-time performance for schedule adherence. On September 4, 2012, the "TextMyBus" service was launched. This is a text messaging alert system that provides real-time bus arrival information in the City of Detroit and addresses public safety and quality of life issues for customers reliant on public transportation.

In November 2012, the City contracted to transition most of its human resources, payroll, and benefit operations to a private contractor. The transition is expected to be completed in March 2014. The City currently has two payroll systems: Payroll Personnel System (PPS) and Oracle Human Resources Management System (HRMS). These systems were not fully integrated and required intensive manual efforts to produce payrolls and benefit payments. The new system is expected to reduce technology, payroll, and personnel costs and improve accounting and reporting for payroll and benefits. In addition, approximately 50 police officers currently performing payroll timekeeping functions will be redeployed to perform police duties.

On December 11, 2012, the City's Financial Advisory Board requested the State of Michigan to begin a review of the City's finances due in part to the City's deteriorating liquidity. If the State's review team determines a serious financial problem exists, then the State Treasurer can recommend the appointment of an emergency financial manager. If, in the judgment of an emergency financial manager, no reasonable alternative to rectifying the financial emergency exists, then they may institute proceedings under Chapter 9 of the United States Bankruptcy Code. The Mayor of the City of Detroit has stated that "Until the State makes a final determination, I will continue to implement my Restructuring Plan on behalf of the citizens of Detroit."

- At June 30, 2012, the General Fund had a total fund balance deficit of \$269.5 million, an increase of \$121.4 million from the prior year. The fund balance deficit and unassigned fund balance deficit differs due to the other fund balance classifications (e.g., nonspendable, restricted, assigned, and committed, which are described below) which totaled \$57.1 million at June 30, 2012. Adversely impacting the City's deficit reduction efforts were the: (1) \$66.6 million decline in State revenue sharing due to State budget cuts, (2) \$34.9 million decrease in property taxes from the prior year, (3) \$12.9 million decrease in other revenue from the prior year mainly due to the \$20.0 million receipt in 2010-11 of one-time revenues such as from the Greater Detroit Resource Recovery Authority (GDRRA), (4) \$21.7 million liability for the Department of Transportation's default on employee benefit obligations, and (5) \$5.5 million subsidy to the Construction Code Fund to offset a deficit in the fund.

- General Fund deficit reduction efforts resulted in the following positive results when compared to the year ended June 30, 2011: (1) \$20.0 million reduction in salaries for the year ended June 30, 2012 due to 10% pay cuts, attrition, and layoffs, (2) \$31.5 million reduction in pension costs due primarily to improved market performance, which lowered the Police and Fire Retirement System contribution rate by 12.2%, and negotiated changes to the contribution requirements such as increased smoothing (increase in number of years to spread out changes in the pension fund for funding), multiplier reductions and elimination of the cost of living, and (3) \$17.5 million reduction in litigation costs mainly due to the reduction of large payouts and high risk cases. The failure to negotiate satisfactory contracts with the City's unions and achieve personnel reductions to reduce salaries and benefit costs during the last half of the fiscal year adversely impacted the City's deficit reduction efforts in 2012.
- The General Fund had liquidity problems at June 30, 2012. The budgetary challenges, economic uncertainties, accumulated deficit in the General Fund, and debt ratings below investment grade affected the City's ability to access credit markets as the City needed the State's assistance to borrow. On March 29, 2012, the City borrowed \$80.0 million with assistance of the State of Michigan through the Michigan Finance Authority. The proceeds were used to pay \$36.9 million of debt service on the City's limited tax self-insurance bonds due in April and May 2012 with the remainder set aside to pay for the City's self-insurance claims such as litigation and workers' compensation costs. In addition, the City's General Fund borrowed a total of \$92.2 million from other City funds such as the Risk Management, Solid Waste, and Street funds to provide additional liquidity for the year ended June 30, 2012. Also, due to lack of cash, the General Fund owed the General Retirement System \$8.6 million, Police and Fire Retirement System \$51.9 million, and Benefits Fund \$37.7 million at June 30, 2012. On August 23, 2012, the City issued \$129.5 million of limited tax general obligation bonds, at a premium of \$9.1 million, with maturities extending to November 2032, again with the assistance of the State through the Michigan Finance Authority (see details above). The General Fund's cash and investments totaled \$59.8 million at June 30, 2012 compared to \$73.7 million at June 30, 2011. The City's cash position declined because of continuing deficits in annual operations.
- The General Fund Public Lighting Department revenue increased \$14.5 million in 2012 from 2011 due to the collection of \$15.2 million from the Detroit Public Schools which mainly were delinquent collections, some of which were reserved as uncollectible in 2011. This also had a positive impact on the adjustment for the allowance for uncollectible receivables due to the collection of prior year receivables.
- For the year ended June 30, 2012, the City recorded \$84.0 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. For the year ended June 30, 2011, the liability totaled \$88.4 million. The \$4.4 million decrease in the liability for the year ended June 30, 2012 was due to improvements in county collections.

- The City's General Fund had an additional \$21.7 million liability because of the Detroit Department of Transportation's (DDOT) inability to pay its employee benefit costs. Due to DDOT's cash flow problems for the year ended June 30, 2012, it was unable to pay its employee benefit costs. The General Fund had to provide an additional subsidy of \$21.7 million to pay DDOT's benefit liability for the year ended June 30, 2012. This allowed DDOT to have a net assets surplus of \$4.5 million for the year ended June 30, 2012. Without the additional subsidy, DDOT would have had a \$17.2 million deficit.
- The City's pension obligations, retiree benefits, debt service, and derivatives associated with the pension obligation certificates (POCs), present a substantial financial challenge for the City and were a contributing factor in the State's decision to order a preliminary review of the City's finances. A total of \$439.3 million of the negative fair value of derivatives are interest rate swaps associated with the City's POCs. The POCs totaling \$1.5 billion were issued during the year ended June 30, 2005 to provide full funding for the City's two pension plans' obligations. The City has a \$1.5 billion long-term obligation at June 30, 2012 for the POCs. The City's two pension plans' obligations for retiree pensions total \$7.5 billion at June 30, 2011 (the most recent valuation date) of which \$643.8 million was unfunded. In addition, the City had a \$5.7 billion unfunded obligation for other postemployment benefits at June 30, 2011 (the most recent valuation date). The primary government's pension, retiree benefits, and other pension related costs totaled \$546.0 million for the year ended June 30, 2012.
- The 2011-12 hospitalization, dental, vision, and life insurance benefits costs for the General Fund were \$207.7 million up \$0.2 million from the \$207.5 million for 2010-11. The retiree share for 2011-12 was \$146.4 million or 70.5% of the entire hospitalization, vision, dental, and life insurance benefit costs. Active employees costs were \$61.3 million or 29.5%. This is one of the biggest challenges for the City and a major contributor to the structural deficit. The retiree share grew \$10.6 million from the \$135.8 million in 2010-11, while the active share decreased \$10.4 million. The City's retirements were up in 2011-12 due to the changes in pension and benefits. The number of retirees exceeds the number of active employees by nearly two to one.
- The City's business-type activities had net assets of \$308.4 million at June 30, 2012, a decrease of \$200.7 million from the \$509.1 million for the year ended June 30, 2011. The business-type activities cumulative unrestricted net assets was a deficit totaling \$1.2 billion, a \$971.0 million decrease from the \$230.1 million deficit at June 30, 2011. The Sewage Disposal Fund's net assets decreased by \$89.9 million, to \$157.5 million and the Water Fund's net assets decreased by \$113.6 million, to \$9.9 million for the year ended June 30, 2012. Losses from the liquidation of the Water and Sewage Disposal Funds non-POC swap obligations in 2011-12 was the primary reason for the decrease in net assets. The Water and Sewage Disposal Funds paid \$225.6 million and \$321.6 million, respectively, to liquidate the non-POC swaps, which was financed by the issuance of new debt.

- The City's total bonded debt increased by \$772.0 million during the fiscal year ended June 30, 2012. This was primarily due to the issuance of \$1.2 billion in new debt by the Water and Sewerage departments. The Governmental Funds retired \$76.1 million of general obligation bonds. The Sewage Disposal, Water, and Parking Funds retired \$192.3 million, \$139.8 million, and \$1.1 million, respectively, of revenue bonds for the year ended June 30, 2012.
- Total primary government long-term obligations were \$9.4 billion for the fiscal year ended June 30, 2012, an increase of \$0.7 billion from the \$8.7 billion for the fiscal year ended June 30, 2011. The long-term obligations increased mainly due to the \$1.2 billion issuance of revenue bonds by the Water and Sewerage departments. In addition, a \$177.8 million increase in the other postemployment benefits liability also contributed to the increase in long-term obligations. The POC long-term obligation decreased \$16.9 million from the \$1.5 billion at June 30, 2011 due to retirement of debt. Also, legal claims were down \$22.4 million from the prior year.
- On March 27, 2012, Standard and Poor's downgraded the City's Unlimited General Tax Obligation (UGTO) Bonds rating from "BB" to "B". On March 20, 2012, Moody's downgraded the ratings of the City's UGTO debt from "Ba3" to "B2". On March 22, 2012, Fitch downgraded the City's UGTO ratings to "B" from "BB-". On June 12, 2012, Fitch downgraded the City's UGTO ratings from "B" to "CCC". In June 2012, Moody's Investors Service downgraded the City's UGTO ratings from "B2" to "B3". On November 29, 2012, Moody's further downgraded the City's UGTO ratings to "Caa1". The downgrades in the City's credit ratings to a level below investment grade status limits the City's access to capital, including borrowing for cash flow purposes.
- The risk of the amended POC Swap Agreement termination arose with the credit ratings downgrade below "Ba3" and equivalent. The amount of swap termination payments would be based upon a variety of factors such as the various Swap Counterparties' financial pricing models, underlying variable debt, index or reference rates, and the point of pricing. Any termination payments would be allocated based on the notional allocation percentage of the affected POCs, between the governmental and business-type activities as of the point of liability accrual. If the Termination Events are not cured, there presently exists significant risk in connection with the City's ability to meet the cash demands under the terms of the amended Swap Agreements. As of this report date, the City is negotiating with the counterparties to come up with an acceptable course of action due to the credit rating downgrade. At June 30, 2012, the fair value of the POC swap liabilities was \$354.7 million for the governmental activities and totaled \$439.3 million for the primary government (see Note VIII (f) for more details).

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 Assets 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 Assets 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 Assets (page 39) presents all of the City's assets and liabilities, with the difference between the two reported as net assets. Over time, increases and decreases in net assets 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 assets changed during the most recent fiscal year. All changes in net assets 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 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 10 legally separate organizations including the Economic Development Corporation and the Museum of African American History 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 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 Assets and Changes in Fiduciary Net Assets (pages 58 and 59). 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 65 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 Assets

Net assets (assets less liabilities) serve as a useful indicator of a government's financial position. The City's liabilities exceeded assets by \$372.0 million at June 30, 2012. The net assets decreased \$343.0 million from the deficit of \$29.0 million for the fiscal year ended June 30, 2011.

Summary of Net Assets
June 30, 2012 and 2011
(In Thousands)

	Governmental Activities		Business-type Activities		Total Primary Government	
	2012	2011	2012	2011	2012	2011
Current and other non-current assets and deferred outflows of resources	\$ 1,830,577	\$ 1,769,406	\$ 1,638,711	\$ 1,408,188	\$ 3,469,288	\$ 3,177,594
Capital assets	1,480,001	1,464,566	5,361,908	5,387,953	6,841,909	6,852,519
Total assets and deferred outflows of resources	<u>3,310,578</u>	<u>3,233,972</u>	<u>7,000,619</u>	<u>6,796,141</u>	<u>10,311,197</u>	<u>10,030,113</u>
Current and other liabilities	871,310	653,526	392,871	725,157	1,264,181	1,378,683
Long-term obligations	3,119,669	3,118,517	6,299,321	5,561,921	9,418,990	8,680,438
Total liabilities	<u>3,990,979</u>	<u>3,772,043</u>	<u>6,692,192</u>	<u>6,287,078</u>	<u>10,683,171</u>	<u>10,059,121</u>
Net assets:						
Invested in capital assets, net of related debt	803,654	711,987	1,047,594	435,962	1,851,248	1,147,949
Restricted	73,786	110,224	461,973	303,236	535,759	413,460
Unrestricted (deficit)	(1,557,841)	(1,360,282)	(1,201,140)	(230,135)	(2,758,981)	(1,590,417)
Total net assets (deficit)	<u>\$ (680,401)</u>	<u>\$ (538,071)</u>	<u>\$ 308,427</u>	<u>\$ 509,063</u>	<u>\$ (371,974)</u>	<u>\$ (29,008)</u>

Total Primary Government

The City's net assets 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, 2012 was \$1.9 billion and \$703.3 million greater than the \$1.1 billion at June 30, 2011. The City uses capital assets to provide services to citizens; consequently, these assets are not available for future spending.

Restricted net assets totaling \$535.8 million are resources subject to external restrictions, constitutional provisions, or enabling legislation on how they can be used. The City presents restricted net assets in 2011-12 for Highway and Street Improvement (\$36.4 million), Capital Projects and Acquisitions (\$5.9 million), Debt Service (\$491.8 million), and Endowments and Trusts (\$1.7 million). The restricted net assets increased by \$122.3 million from the prior year mainly due to an increase in the net assets restricted for debt service in the Water and Sewage Disposal Funds.

The remaining balance is an unrestricted accumulated deficit of \$2.8 billion. 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 increased by \$1.2 billion from the \$1.6 billion at June 30, 2011. The increased deficit is primarily attributable to the losses from the Sewage Disposal and Water Funds liquidation of their non-POC swap obligations.

Governmental Activities

At June 30, 2012, the City's governmental activities had a net assets deficit (liabilities exceeded assets) of \$680.4 million, an increase of \$142.3 million from the deficit at June 30, 2011. Other postemployment benefits payable accounted for \$138.5 million of the governmental activities increases in the net assets deficit. In addition, the weak economy in 2011-12 and resulting high unemployment and depressed property values slowed revenue growth and contributed to the increase in the deficit. Expenses were down \$72.7 million due to the 10% pay cut, attrition and layoffs, and less pension contributions. However, revenues, mainly shared taxes (\$66.0 million decrease) and grants (\$64.0 million decrease) were down even more by \$140.4 million from the prior year.

Net assets invested in capital assets totaled \$803.7 million, an increase of \$91.7 million from the prior fiscal year. Restricted net assets totaled \$73.8 million. The remaining unrestricted net assets deficit totaled \$1.6 billion at June 30, 2012, a \$197.6 million increase from the \$1.4 billion deficit at June 30, 2011.

Business-type Activities

The business-type activities had net assets totaling \$308.4 million at June 30, 2012, a decrease of \$200.7 million from the \$509.1 million surplus at June 30, 2011. The unrestricted net assets deficit increased \$971.0 million to \$1.2 billion at June 30, 2012 from the \$230.1 million deficit at June 30, 2011. As mentioned previously, the increase in the deficit of business-type activities net assets was mainly attributable to the Water and Sewage Disposal Funds' losses from the liquidation of their non-POC swap obligations. The Water and Sewage Disposal Funds had net assets of \$9.9 million and \$157.5 million, respectively, at June 30, 2012. The Transportation Fund had \$65.3 million in net assets at June 30, 2012.

City of Detroit, Michigan
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended June 30, 2012
(UNAUDITED)

Government-wide Changes in Net Assets

The following condensed financial information was derived from the government-wide Statement of Activities and reflects how the City's net assets changed during the fiscal year:

Summary of Changes in Net Assets							
June 30, 2012 and 2011							
(In Thousands)							
	Governmental Activities		Business-type Activities		Total Primary Government		
	2012	2011	2012	2011	2012	2011	
Revenues:							
Program Revenues:							
Charges for Services	\$ 309,746	\$ 300,767	\$ 807,953	\$ 763,075	\$ 1,117,699	\$ 1,063,842	
Operating Grants and Contributions	326,570	370,730	77,297	77,553	403,867	448,283	
Capital Grants and Contributions	24,516	44,339	30,345	29,794	54,861	74,133	
General Revenues:							
Property Taxes	216,932	235,857	-	-	216,932	235,857	
Municipal Income Tax	233,036	228,304	-	-	233,036	228,304	
Utility Users Tax	39,828	44,640	-	-	39,828	44,640	
Wagering Tax	181,575	177,046	-	-	181,575	177,046	
Other Local Taxes	16,528	17,374	-	-	16,528	17,374	
State Shared Taxes	173,292	239,342	-	-	173,292	239,342	
Investment Earnings (Losses)	8,367	8,607	(152,916)	9,837	(144,549)	18,444	
Miscellaneous	6,843	10,623	2,300	(85,166)	9,143	(74,543)	
Total Revenues	1,537,233	1,677,629	764,979	795,093	2,302,212	2,472,722	
Expenses:							
Public Protection	800,229	816,929	-	-	800,229	816,929	
Health	142,584	170,235	-	-	142,584	170,235	
Recreation and Culture	30,112	31,398	-	-	30,112	31,398	
Economic Development	73,600	87,938	-	-	73,600	87,938	
Educational Development	51,975	58,840	-	-	51,975	58,840	
Housing Supply and Conditions	4,432	6,329	-	-	4,432	6,329	
Physical Environment	130,992	125,325	-	-	130,992	125,325	
Transportation Facilitation	33,697	33,721	-	-	33,697	33,721	
Development and Management	195,168	201,032	-	-	195,168	201,032	
Interest on Long-term Debt	129,098	132,827	-	-	129,098	132,827	
Sewage Disposal	-	-	456,113	517,645	456,113	517,645	
Transportation	-	-	212,857	215,881	212,857	215,881	
Water	-	-	370,558	345,181	370,558	345,181	
Automobile Parking	-	-	11,643	11,305	11,643	11,305	
Airport	-	-	2,120	2,393	2,120	2,393	
Total Expenses	1,591,887	1,664,574	1,053,291	1,092,405	2,645,178	2,756,979	
Excess (Deficiency) Before							
Transfers and Special Item	(54,654)	13,055	(288,312)	(297,312)	(342,966)	(284,257)	
Transfers, Net	(87,676)	(73,391)	87,676	73,391	-	-	
Special Item	-	(9,866)	-	-	-	(9,866)	
Decrease in Net Assets	(142,330)	(70,202)	(200,636)	(223,921)	(342,966)	(294,123)	
Net Assets, July 1	(538,071)	(467,869)	509,063	732,984	(29,008)	265,115	
Net Assets, June 30	\$ (680,401)	\$ (538,071)	\$ 308,427	\$ 509,063	\$ (371,974)	\$ (29,008)	

Total Primary Government

Total revenues for the fiscal year ended June 30, 2012 were \$2.3 billion; a decrease of \$170.5 million from the prior fiscal year. Charges for services increased \$53.9 million mainly due to water and sewer rate increases. Sewer and water revenues from customer charges for services increased \$26.5 million and \$18.2 million, respectively, from the prior year. Total tax revenues decreased by \$15.3 million from the prior year mainly due to the \$18.9 million decrease in property taxes. Income tax revenues were up \$4.7 million in 2012 as the economy and employment slightly improved. Wagering tax revenues were up \$4.5 million for the year ended June 30, 2012, due to a slight improvement in the economy. Utility user taxes were down \$4.8 million due to the declining population and tax base in the City. Shared taxes decreased \$66.0 million for the year ended June 30, 2012, as the State reduced the distribution of shared taxes and changed the methodology for receiving the taxes in 2012. Grant revenues decreased \$63.7 million for the year ended June 30, 2012, as the American Recovery and Reinvestment Act (ARRA) funding decreased as well as other grant revenue. Investment return decreased \$163.0 million mainly due to the liquidation of swap obligations (derivatives) by the Water and Sewage Disposal Funds. Miscellaneous revenues were up \$83.7 million from the prior year, primarily due to a one-time significant loss on disposal of capital assets recorded in the previous year.

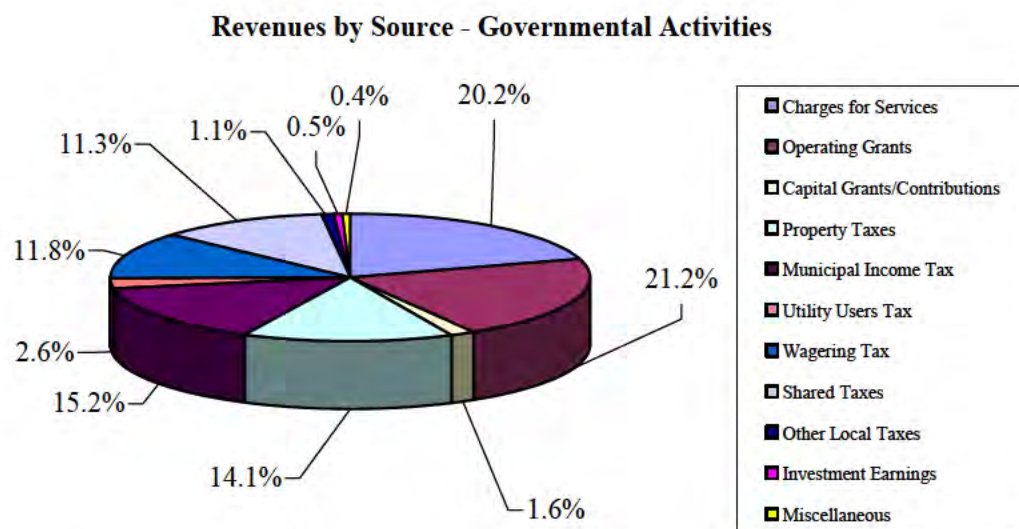
Total expenses were \$2.6 billion, a decrease of \$111.8 million from the prior fiscal year. The decrease is mainly attributable to the reduction in public protection, health, development and management, transportation, and Sewage Disposal Fund costs. The Sewage Disposal Fund expenses were \$61.5 million less for the year ended June 30, 2012 compared to the \$517.6 million of the prior year. Lower pension (police and fire), litigation, and salaries and wage costs contributed to the reduction of expenses for the year ended June 30, 2012. The Water Fund expenses were \$25.4 million higher for the year ended June 30, 2012, mainly due to an overall increase in operating expenses. The Transportation Fund expenses were \$3.0 million less than the prior year mainly due to a decrease of \$18.2 million in salaries and benefits due to layoffs and attrition offset by a \$10.6 million impairment loss on its assets and \$4.4 million increase in contractual costs.

Public protection expenses decreased \$16.7 million, primarily due to lower pension costs. Health expenses were down \$27.7 million, mainly due to the \$27.7 million reduction in Human Services grants and costs, specifically, the CDBG and weatherization programs. Economic development expenses were down \$14.3 million for the year ended June 30, 2012, mainly due to less grant funding of demolitions in the City and other stimulus grants. Educational Development expenses were down \$6.9 million for the year ended June 30, 2012 because grant funding for workforce development was cut significantly during the year. Development and management expenses decreased \$5.8 million from the prior fiscal year primarily due to: (1) a \$16.0 million decrease in long-term claims obligations and (2) hospitalization costs were down \$7.0 million from the prior year due to attrition and changes in benefits. The decrease in development and management expenses was partly offset by a \$15.1 million liability for interest and penalties due on unclaimed property tax overpayments that should have been escheated to the State of Michigan.

A special item of \$9.9 million, which decreased net assets for the year ended June 30, 2011, was recorded for the settlement of the Cobo Hall "Disputed Bond Funds" with the new authority. These were funds held by a trustee which were to be applied for Cobo Hall maintenance and improvements. There were no special items for the Governmental Funds for the year ended June 30, 2012.

Governmental Activities

The following chart depicts revenues of the governmental activities for the fiscal year ended June 30, 2012:

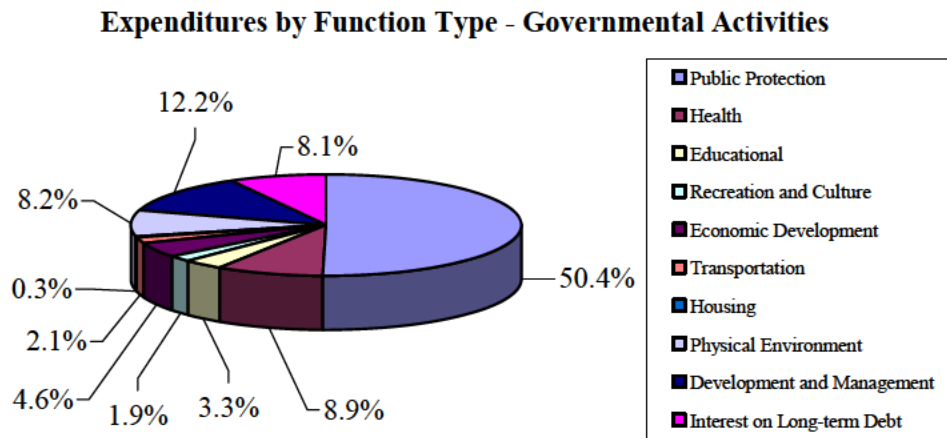


The governmental activities revenues totaled \$1.5 billion for the fiscal year ended June 30, 2012, a \$140.4 million decrease from the year ended June 30, 2011. The amount that taxpayers paid for these activities through City taxes was \$687.9 million. Income taxes were the largest category of taxes collected and totaled \$233.0 million, a \$4.7 million increase from the prior year mainly resulting from a slight improvement in the economy as unemployment lessened. Property taxes were \$18.9 million less than the prior year. Wagering (casino) tax revenues increased \$4.5 million from the prior year due to the slight improvement in the economy. Utility users taxes were down \$4.8 million, due to the declining tax base and population in the City. Other funding for governmental activities was provided from the following sources for the year ended June 30, 2012:

- Charges for services paid by those who directly benefited totaled \$309.7 million or 20.2% of total revenues. These services included permits, parking fines, licenses, and solid waste fees. Charges for services were \$8.9 million more than the \$300.8 million for the year ended June 30, 2011. Charges for services increased mainly due to the payment by the Detroit Public Schools of \$15.2 million mainly for delinquent bills, which were reserved as uncollectible in the prior year.

- Other governments and organizations subsidized programs such as health-related activities and community development projects with grants and contributions totaling \$351.1 million. This was \$64.0 million less than the \$415.1 million for the year ended June 30, 2011. A major reason for the decrease was the reduction in ARRA stimulus funding and grant funding for the City's Human Services and Health programs.
- Other revenues such as state aid (revenue sharing), interest, and miscellaneous income funded the "public benefit" portion of various programs and totaled \$188.5 million. This was \$70.1 million less than the \$258.6 million for the year ended June 30, 2011, mainly due to the State's reduction of revenue sharing to the City.

The following chart depicts expenses of the governmental activities for the fiscal year ended June 30, 2012:



The governmental activities expenses totaled \$1.6 billion, a \$72.7 million decrease from the \$1.7 billion for the year ended June 30, 2011. 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, 2011.

Public protection (police and fire protection) was the largest component of current expenses, accounting for 50.4% of total expenses. Public protection expenses decreased by \$16.7 million from the \$816.9 million for the year ended June 30, 2011, mainly due to decreases in pension and salaries costs for police and fire uniform employees. Also, legal claims costs were reduced by \$3.6 million from the prior year.

Development and management expense was the next largest component at 12.2% of total expenses. Development and management expenses totaled \$195.2 million for the year ended June 30, 2012 and declined by \$5.8 million from the \$201.0 million for the fiscal year ended June 30, 2011. Development and management expenses decreased from the prior fiscal year, primarily due to: (1) a \$16.0 million decrease in long-term claims obligations, as a large number of tax settlements were reached in 2011-12, which reduced the number of cases pending and (2) hospitalization costs were down \$7.0 million from the prior year, due to attrition and changes in benefits. The decrease in development and management expenses was partly offset by a \$15.1 million liability for interest and penalties due on property tax overpayments that should have been escheated to the State of Michigan.

Health expenses were 8.9% of total expenses and decreased \$27.7 million from the prior year. Health expenses are incurred by the Health and Human Service Departments. Health expenses were down \$27.7 million, mainly due to the \$27.7 million reduction in Human Services grants and costs, specifically, the CDBG and weatherization programs.

Physical environment expenses were 8.2% of total expenses and increased by \$5.6 million from the prior fiscal year. The increase was mainly due to a \$4.2 million increase in legal claims for the year ended June 30, 2012.

Economic development expenses were 4.6% of total expenses and decreased by \$14.3 million for the year ended June 30, 2012. The decrease was mainly due to less grant funding of demolitions and other grant programs.

Educational development expenses were 3.3% of total expenses and decreased by \$6.9 million for the year ended June 30, 2012 compared to the prior year. Grant funding for workforce development was cut significantly during the year.

Transportation facilitation expenses were 2.1% of total expenses and decreased slightly from the prior year. Transportation legal claims increased \$4.4 million. Also, depreciation expenses were \$2.9 million higher. These increases were offset by the \$12.4 million decrease in Street Fund transportation costs due to cuts in the gas and weight tax revenue by the State of Michigan.

Recreation and culture expenses were 1.9% of total expenses. Recreation and culture expenses decreased \$1.3 million for the year ended June 30, 2012 compared to the prior year. The decrease was mainly due to a \$0.8 million reduction in salary and wages.

Interest expense on long-term debt was 8.1% of total expenses. Interest expense on long-term debt decreased \$3.7 million from the \$132.8 million for the year ended June 30, 2011. This was mainly due to the large amount of debt retirements in the past several years.

Business-type Activities

The net assets of the business-type activities had a decrease of \$200.7 million to \$308.4 million for the fiscal year ended June 30, 2012. Detailed below are the results for the major business-type funds:

Water Fund

The Water Fund had a decrease in net assets of \$113.6 million for the year ended June 30, 2012. The \$108.8 million for interest expense and \$74.3 million for changes in the fair value of derivatives expense contributed to the decrease in net assets as revenues were insufficient to cover these non-operating expenses. As of June 30, 2012, the Water Fund had \$2.6 billion of revenue bonds payable issued in part for major infrastructure projects, which contributed to the \$108.8 million of interest expense for the year. Water sales revenues from Detroit and suburban customers increased \$18.2 million to \$330.1 million for the year ended June 30, 2012 compared to \$311.9 million for the year ended June 30, 2011. Water Fund contractual costs increased \$5.8 million for the year ended June 30, 2012 compared to the prior year.

Sewage Disposal Fund

The Sewage Disposal Fund had a decrease in net assets of \$89.9 million for the year ended June 30, 2012. The \$108.2 million for interest expense and \$66.0 million for changes in the fair value of derivatives expense contributed to the decrease in net assets as revenues were insufficient to cover these non-operating expenses. As of June 30, 2012, the Sewage Disposal Fund had \$2.9 billion of revenue bonds payable issued in part for major infrastructure projects, which contributed to the \$108.2 million of interest expense for the year. Sewage Disposal Fund revenues from Detroit and suburban customers totaled \$429.9 million for the fiscal year ended June 30, 2012, an increase of \$26.5 million from the \$403.4 million for the fiscal year ended June 30, 2011. The Sewage Disposal Funds salaries, wages and benefits increased \$3.7 million for the year ended June 30, 2012 compared to the prior year. Contractual costs were also up \$6.6 million. These increases were offset by a \$35.1 million decrease in depreciation, partly due to the sale of the Macomb-Oakland Interceptor in the prior year.

Transportation Fund

The Transportation Fund (DDOT) had an increase in net assets of \$4.5 million at June 30, 2012. However, as discussed previously, the Transportation Fund would have had a \$17.2 million deficit for the year ended June 30, 2012 had the General Fund not subsidized the Fund's employee benefits costs totaling \$21.7 million. Other post-employment benefits and an inefficient maintenance system continue to contribute to the Fund's inability to balance its budget. The Fund had a \$4.5 million decrease in farebox revenue from riders, as service was cut as part of the Fund's cost reduction efforts. In January 2012, the Fund outsourced its management to bring efficiencies to its operations. Salaries, wages, and benefits were reduced to \$113.3 million, an \$18.2 million decrease from the \$131.5 million for the year ended June 30, 2011. The reduction in salaries, wages, and benefits was due to layoffs and attrition, as service was reduced to bring the Fund's costs in-line with its revenues. The City's contribution to the Transportation Fund for the year ended June 30, 2012 was \$87.2 million or \$14.6 million more than the \$72.6 million contribution made in 2011. Also, DDOT was unable to pay \$16.4 million due the General Fund because of cash flow problems and was credited with an additional subsidy for this amount. DDOT also recorded a \$10.6 million loss for the costs of the Light Rail project that was discontinued during the year ended June 30, 2012. DDOT purchased 46 new buses in 2012 with ARRA grant funds.

Automobile Parking Fund

The Automobile Parking Fund recorded a decrease in net assets of \$1.1 million for the year ended June 30, 2012. Fund operating revenues totaled \$10.6 million for the fiscal year ended June 30, 2012, a \$2.5 million increase from the \$8.1 million for the fiscal year ended June 30, 2011. The Fund operating expenses increased by \$0.9 million for the year ended June 30, 2012. Salaries, wages and benefits increased \$0.8 million from the prior year.

Airport Fund (Other Enterprise Fund)

The Airport Fund had a \$0.6 million decrease in net assets for the year ended June 30, 2012. Airport revenues were \$1.0 million for the year ended June 30, 2012 compared to \$0.8 million for the prior year. Airport operating expenses were \$2.1 million or \$0.3 million less than in the prior year. The General Fund contribution to the Airport was \$0.5 million for the year ended June 30, 2012, which was \$0.3 million less than in the prior year.

FINANCIAL ANALYSIS OF THE CITY'S GOVERNMENTAL FUNDS

The City's governmental funds (statements begin on page 42) reported combined ending fund balance deficit of \$40.2 million at June 30, 2012, a \$144.1 million decrease from the \$103.9 million fund balance at June 30, 2011. The fund balances include an unassigned deficit of \$326.6 million, a \$130.0 million increase from the prior fiscal year. In addition, the remaining fund balances totaling \$286.4 million are classified as follows: (1) nonspendable - \$47.4 million, (2) restricted - \$197.5 million, (3) assigned - \$6.3 million, and (4) committed - \$35.2 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 fund (workers' compensation, legal, and other damage claims) and vehicle fund.

General Fund

The General Fund is the chief operating fund of the City. The fund had a \$269.5 million deficit at June 30, 2012, a \$121.4 million increase from the \$148.1 million deficit at June 30, 2011. The fund balance includes an unassigned deficit of \$326.6 million, a \$130.0 million increase from the \$196.6 million deficit at June 30, 2011. The remaining General Fund balance includes: (1) nonspendable (inventory and long-term receivables) - \$20.9 million, (2) restricted (capital acquisitions) - \$1.0 million, and (3) committed (risk management) - \$35.2 million.

General Fund Balance Sheet
 June 30, 2012 and 2011
 (in millions)

	2012	2011
Assets	\$ 246.9	\$ 290.2
Liabilities	516.4	438.3
Fund Balance		
Nonspendable	20.9	20.7
Restricted	1.0	1.0
Committed	35.2	26.8
Unassigned for General Fund		
Deficit	(326.6)	(196.6)
Total Fund Balance (Deficit)	(269.5)	(148.1)
Total Liabilities and Fund Balance (Deficit)	\$ 246.9	\$ 290.2

Adversely impacting the City's deficit reduction efforts were the: (1) \$66.6 million decline in State revenue sharing due to State budget cuts, (2) \$34.9 million decrease in property taxes from the prior year, (3) \$12.9 million decrease in other revenue from the prior year, mainly due to the \$20.0 receipt in 2010-11 of one-time revenues such as from the Greater Detroit Resource Recovery Authority (GDRRA), (4) \$21.7 million liability for the Department of Transportation's default on employee benefit obligations, and (5) \$5.5 million subsidy to the Construction Code Fund to offset a deficit in the fund.

City deficit reduction efforts resulted in the following positive financial results for the General Fund when compared to the year ended June 30, 2011: (1) a \$20.0 million reduction in salaries for the year ended June 30, 2012, due to 10% pay cuts, attrition, and layoffs, (2) a \$31.5 million reduction in pension costs due primarily to improved market performance, which lowered the Police and Fire Retirement System contribution rate by 12.2% and negotiated changes to the contribution requirements, such as increased smoothing (increase in number of years to spread out changes in the pension fund for funding), multiplier reductions, and elimination of the cost of living, and (3) a \$17.5 million reduction in litigation costs mainly due to the reduction of large payouts and high risk cases. The failure to negotiate satisfactory contracts with the City's unions and achieve personnel reductions to reduce salaries and benefit costs adversely impacted City's deficit reduction efforts in 2012.

General Fund Budgetary Highlights

The City's 2012 General Fund budget (pages 140-144) is \$1.6 billion. The City's 2012 General Fund budget contains no additions or material changes to existing taxes. Within the 2011-2012 adopted budget, the City Council appropriated \$208.9 million to reduce the prior years' deficit. The City's 2012 budget was approved by the City Council in June 2011.

The estimated revenues in the budget exceeded actual revenues by \$461.8 million for the fiscal year ended June 30, 2012. The revenue shortfall is mainly attributable to actual grant revenues, other revenues, and sales and charges for services being \$190.2 million, \$162.5 million, and \$63.5 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 \$35.8 million, which reduced the actual amount of other revenues and contributed to the budget variance. Sales and charges for services revenues were less than budget primarily due to less electrical revenue (\$15.8 million) because customers failed to pay timely. Also, personal services revenues due from other City funds such as DDOT were \$15.4 million less than budget, due to untimely payments and inability to pay. Tax revenues were \$28.7 million less than budget mainly because income taxes were \$37.0 million less than budget because initiatives to improve income taxes, such as collections from non-filers, not being carried out. Property taxes were \$10.0 million over budget due to better than expected collections and reductions to the chargeback liability.

City of Detroit, Michigan
MANAGEMENT'S DISCUSSION AND ANALYSIS
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Actual expenditures were less than budgeted expenditures by \$476.6 million for the fiscal year ended June 30, 2012 due to grant expenditures being less than budgeted (see explanation below), appropriation of \$208.9 million for the prior year deficit, elimination of intra-fund transactions, and unfilled positions. Public protection expenses were \$78.1 million less than the budgeted appropriations mainly due to salary and pension reductions and litigation cost reductions. Development and management expenditures were \$134.5 million under the budgeted appropriations mainly due to the carry-forward of the prior years' deficit and elimination of intra-fund billings such as the Risk Management Fund premium. Health Department expenditures were \$103.2 million less than budget due to grant revenues not received.

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 \$288.6 million and a total net increase in appropriations of \$183.2 million. The difference was offset by a total net decrease in other financing sources and uses of \$105.4 million.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

Total Government

At the end of the fiscal year 2012, the City had invested \$6.8 billion, net of accumulated depreciation, in a broad range of capital assets (see table below). This was a decrease of \$10.6 million from the prior fiscal year.

	Governmental Activities		Business-type Activities		Total Primary Government	
	2012	2011	2012	2011	2012	2011
Land and Land Rights	\$ 412,818	\$ 413,828	\$ 48,449	\$ 47,837	\$ 461,267	\$ 461,665
Land Improvements	-	-	140,089	135,259	140,089	135,259
Building, Improvements, and Structures	642,540	645,877	2,071,498	2,336,572	2,714,038	2,982,449
Sewer and Water Lines	-	-	904,598	925,805	904,598	925,805
Machinery, Equipment, Fixtures, and Vehicles	102,609	113,346	1,667,023	1,323,601	1,769,632	1,436,947
Works of Art	29,805	29,805	-	-	29,805	29,805
Infrastructure	270,731	240,831	-	-	270,731	240,831
Construction in Progress	21,498	20,879	530,251	618,879	551,749	639,758
Total	<u>\$ 1,480,001</u>	<u>\$ 1,464,566</u>	<u>\$ 5,361,908</u>	<u>\$ 5,387,953</u>	<u>\$ 6,841,909</u>	<u>\$ 6,852,519</u>

Governmental Activities

Governmental Activities capital assets at June 30, 2012 were \$15.4 million more than the \$1.5 billion at June 30, 2011. The City acquired \$97.7 million in new assets, including \$18.7 million of construction in progress (CIP), which was completed during the year ended June 30, 2012. Depreciation expenses totaled \$81.0 million for the year ended June 30, 2012, about the same as the prior year.

At June 30, 2012, the City governmental activities had commitments for future capital asset construction contracts of \$61.1 million.

Major capital assets acquired and projects completed or in progress during the year ended June 30, 2012 included the following:

- The Street Fund expended \$48.1 million on traffic light modernization and replacement as well as road construction and resurfacing.
- The City expended \$10.2 million for construction of the new public safety headquarters, which is still included in construction in progress.
- The City expended \$2.3 million for the Police Forensic Center.
- The City expended \$7.8 million for energy efficiency projects.
- The City completed Police Facility improvements totaling \$7.0 million.

Business-type Activities

Business-type activities capital assets at June 30, 2012 were \$5.4 billion, a decrease of \$26.0 million from the balance at June 30, 2011.

Construction work in progress, major capital assets acquired, and projects completed during the year ended June 30, 2012 included the following:

- The Transportation Fund expended \$20.0 million on improvements of the Shoemaker maintenance facility, which was completed in 2012. The Fund also purchased 46 new buses totaling \$18.7 million.

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- 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 \$529.0 million through fiscal year 2017. 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, 2012 was approximately \$20.8 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 City received loans from the State of Michigan Drinking Water Revolving Loan Fund totaling \$1.0 million during the year ended June 30, 2012. The proceeds of the loan were used to pay costs of acquiring and constructing certain repairs, extensions, and improvements to the water supply system.
- 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 \$829.0 million through fiscal year 2017. 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, 2012 was approximately \$95.8 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. The City received loans from the State of Michigan Revolving Loan Fund totaling \$28.5 million during the year ended June 30, 2012. The proceeds of the loans were used to pay costs of acquiring and constructing certain repairs, extensions, and improvements to the sewerage disposal system.

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, 2012 and 2011
(In Thousands)

	Governmental Activities		Business-type Activities		Total Primary Government	
	2012	2011	2012	2011	2012	2011
General obligation bonds	\$ 957,128	\$ 1,033,233	\$ 6,272	\$ 6,272	\$ 963,400	\$ 1,039,505
Revenue bonds	-	-	5,451,330	4,603,229	5,451,330	4,603,229
Total	<u>\$ 957,128</u>	<u>\$ 1,033,233</u>	<u>\$ 5,457,602</u>	<u>\$ 4,609,501</u>	<u>\$ 6,414,730</u>	<u>\$ 5,642,734</u>

At the end of the current fiscal year, 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 decreased by \$76.1 million during fiscal year 2012 because no new debt was issued during the year. The governmental activities retired \$76.1 million of general obligation bonds. Business-type activities' debt increased by \$848.1 million due to issuance of \$1.2 billion in debt to liquidate the non-POC derivatives and provide funds for infrastructure improvements. The Sewage Disposal, Water, and Parking Funds retired \$192.3 million, \$139.8 million, and \$1.1 million, respectively, of revenue bonds in 2012.

In addition to the bonded debt, the City's governmental activities had a total debt of \$2.2 billion at June 30, 2012 for pension obligation certificates (\$1.2 billion), notes payable (\$89.4 million), loans payable (\$34.2 million), other postemployment benefits (\$620.3 million), and other debt (\$238.4 million) such as accrued compensated absences, workers' compensation, and claims and judgments. The pension obligation certificates decreased \$13.8 million due to scheduled debt retirement for the year ended June 30, 2012.

In the year ended June 30, 2012, the Sewage Disposal and Water Funds issued \$659.8 million and \$500.7 million of revenue bonds, respectively. A portion of the proceeds were used to refund several outstanding revenue bonds as well as terminate all the Water Fund's non-POC interest rate swaps. The amount paid to terminate the non-POC swaps was \$321.6 million and \$225.6 million for the Sewage Disposal and Water Funds, respectively.

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 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. Not all the general bonded debt is subject to the general debt limitation. The City's legal debt limitation at June 30, 2012 was \$1.0 billion, of which \$75.9 million is available for use.

The City's ratings on uninsured general obligation bonds as of June 30, 2012 were:

Moody's Investors Service, Inc.	B3
Standard and Poor's Corporation	B
Fitch IBCA, Inc.	CCC

On March 27, 2012, Standard and Poor's downgraded the City's Unlimited General Tax Obligation (UGTO) Bonds rating from "BB" to "B". On March 20, 2012, Moody's downgraded the ratings of the City's UGTO debt from "Ba3" to "B2". On June 14, 2012, Moody's downgraded the ratings of the City's UGTO bonds from "B2" to "B3" and downgraded the ratings of the Detroit Water and Sewage Revenue Senior and Second Lien Bonds from "Baa1/Baa2" to "Baa2/Baa3". On March 22, 2012, Fitch downgraded the City's UGTO ratings to "B" from "BB-". On June 12, 2012, Fitch downgraded the City's UGTO ratings from "B" to "CCC". On November 29, 2012, Moody's further downgraded the City's UGTO ratings to "Caa1". 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.

The City uses Interest Rate Swap agreements to hedge its cash flows related to interest on its Pension Obligation Certificate (POC) debt obligations. The City had eight interest rate exchange agreements (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.

On January 8, 2009, due to POC debt rating and Swap Insurer's rating declines, the City received formal notice from the Swap Counterparty to four of the eight Swap agreements stating that an event had occurred, which if not cured by the City, would constitute an Additional Termination Event. On January 14, 2009, the City also received formal notice from the Swap Counterparty to the four remaining Swap Agreements. In June 2009, the City and the Counterparties agreed to an amendment to the Swap Agreements, thereby eliminating the Additional Termination Event and the potential for an immediate demand for payment to the Swap Counterparties. As part of the amended Swap Agreements, the Counterparties waived their right to termination payments. Additionally, the City was required to direct its Wagering Tax Revenues to a Trust as collateral for the quarterly payment to the Counterparties and agreed to other new termination events. The termination events under the amended Swap Agreement include a provision for the Counterparties to terminate the amended Swap Agreement and demand a termination payment if POCs ratings are downgraded below "Ba3" or equivalent.

In March 2012, the risk of the amended Swap Agreement termination arose with the credit rating downgrade below "Ba3". The amount of swap termination payments would be based upon a variety of factors such as the various Swap Counterparties' financial pricing models, underlying variable debt, index or reference rates, and the point of pricing. Any termination payments would be allocated based on the notional allocation percentage of the affected POCs, between the governmental and business-type activities as of the point of liability accrual. If the termination events are not cured, there presently exists significant risk in connection with the City's ability to meet the cash demands under the terms of the amended Swap Agreements. As of this report date, the City is negotiating with the counterparties to come up with an acceptable course of action due to the credit rating downgrade. At June 30, 2012, the negative fair value of the POC swap liabilities was \$354.7 million for the governmental activities and totaled \$439.3 million for the primary government (see Note VIII (f) for more details). 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 (18.9% in October 2012), which hinders personal income tax collections. Resident home foreclosures and delinquent property tax levels are another financial concern. The weak economy has had an adverse impact on the State's budget resulting in cuts of revenue sharing to local governments. The City's revenue sharing for the year ended June 30, 2012 was \$173.3 million, or \$66.0 million less than the year ended June 30, 2011.

Although the City's current economic condition is poor, 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 area.

The City is partnering with the State and Federal Government to work toward 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, as currently proposed, would contribute to the improvement of the City's economy. Construction would provide jobs for residents and improve commerce.

Next Year's Budget

The 2012-2013 budget includes:

- Appropriations totaling \$211.0 million to reduce the accumulated deficit
- Reduction of \$90.1 million in salaries and wages and a net decrease of 2,227 positions from the 2011-2012 budget. A 10% wage reduction for all employees
- Net reduction of \$79.1 million for employee benefits. Increased premium cost sharing by employees for all medical plans. Increases in co-pays and deductibles. Changes to the prescription plan
- Airport subsidy reduced to \$275,000 and transition to independent authority January 1, 2013
- Reductions totaling \$11.2 million in the Solid Waste Fund
- Fire SAFER grant from the federal government to retain 108 firefighters

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- Net decrease of \$62.8 million in federal grant appropriations for the Human Services Department. Funding for Head Start and Weatherization programs are not included in the Budget. The Community Services Block Grant (CSBG) will transition to an independent community agency.
- Net decrease \$4.0 million for the Community Development Block Grants (CDBG)
- DDOT subsidy reduced \$9.4 million to \$43.0 million. Route rationalization for efficient and cost effective service delivery. Improved management of overtime. Improved risk management
- Department of Health and Wellness Promotion \$2.0 million net cost to the City. The department will be transferred to the Institute for Population Health.
- Detroit Workforce Development has been transferred to an independent agency effective July 1, 2012.
- Office of the Inspector General created with \$0.6 million budget
- The Public Lighting Department is transitioning street lights to an independent authority, transitioning the City's electricity customers to a third party, and beginning the replacement of the electricity grid.
- Increase in property tax rate for debt service due to decline in property valuation and increase in delinquency rate
- \$1.0 million subsidy for the Charles H. Wright Museum of African American History, \$0.6 million subsidy for the Detroit Zoo, and \$0.3 million subsidy to the Historical Museum. The Detroit Institute of Arts will no longer receive a subsidy.

The 2012-2013 budget has 2,227 less positions than the budget for the fiscal year ended June 30, 2012 as follows:

<u>Description</u>	<u>Positions FY 2012-13</u>	<u>Positions FY 2011-12</u>	<u>Variance</u>
General City	6,575	7,859	(1,284)
Enterprise Agencies	3,862	4,805	(943)
Total Budgeted	<u>10,437</u>	<u>12,664</u>	<u>(2,227)</u>

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 Financial Stability Agreement with the State of Michigan effective April 4, 2012 serves as its deficit elimination plan. See above and Note XIII - Subsequent Events for details of the Financial Stability Agreement.

New City Charter

In November 2011, City residents approved a new City Charter. The new Charter includes three major groups of revisions. The first group involves ethics and corruption. The Charter adopts an aggressive Ethical Standards of Conduct that includes 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 and report any illegal activity to the prosecutor. A second group of major revisions focus on economic and community growth. The Charter takes 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 proposed Charter focuses on quality of life issues. The Charter requires that city officials systematically explore supporting or sponsoring an automobile and property insurance program for residents. Other proposed revisions seek to improve government operations, achieve fiscal efficiency, and provide greater and meaningful citizen influence and participation in city government policy-making. The new Charter became effective on January 1, 2012.

CONTACTING THE CITY'S FINANCE DEPARTMENT

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 Finance Department's website at www.ci.detroit.mi.us. You can also contact the office by phone at (313) 224-2937.

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 page 69 of this report.

BASIC
FINANCIAL
STATEMENTS

City of Detroit, Michigan
STATEMENT OF NET ASSETS
June 30, 2012

	Primary Government			Component Units
	Governmental Activities	Business-type Activities	Totals	
ASSETS				
Cash and Cash Equivalents	\$ 82,058,496	\$ 308,175,693	\$ 390,234,189	\$ 41,310,157
Investments	185,850,260	626,922,591	812,772,851	166,509,694
Accounts and Contracts Receivable - Net	66,401,331	245,574,947	311,976,278	13,882,139
Internal Balances	(2,016,881)	2,016,881	—	—
Due from Primary Government	—	—	—	7,374,710
Due from Component Units	4,293,489	—	4,293,489	—
Due from Other Governmental Agencies	106,582,918	8,767,963	115,350,881	11,981,409
Inventory	12,322,738	18,948,547	31,271,285	4,230,743
Prepaid Expenses	—	6,498,585	6,498,585	1,123,082
Long-Term Receivable	—	650,000	650,000	—
Loans and Notes Receivable	—	—	—	40,486,720
Advance to Component Unit/Library	24,016,604	—	24,016,604	—
Other Assets	82,042	—	82,042	32,904,923
Net Pension Asset	1,085,737,991	283,996,073	1,369,734,064	24,241,487
Deferred Charges	62,129,967	88,303,568	150,433,535	3,372,843
Capital Assets:				
Non-Depreciable	464,121,055	578,700,395	1,042,821,450	27,208,082
Depreciable, Net	1,015,880,217	4,783,208,079	5,799,088,296	135,554,716
Total Capital Assets - Net	<u>1,480,001,272</u>	<u>5,361,908,474</u>	<u>6,841,909,746</u>	<u>162,762,798</u>
Deferred Outflows of Resources	<u>203,118,353</u>	<u>48,855,608</u>	<u>251,973,961</u>	<u>—</u>
Total Assets and Deferred Outflows	<u>3,310,578,580</u>	<u>7,000,618,930</u>	<u>10,311,197,510</u>	<u>510,180,705</u>
LIABILITIES				
Accounts and Contracts Payable	133,388,275	129,987,384	263,375,659	9,991,319
Accrued Liabilities	75,098,677	—	75,098,677	—
Accrued Salaries and Wages	21,874,540	2,993,482	24,868,022	810,072
Accrued Interest Payable	17,656,826	122,624,921	140,281,747	4,740,457
Due to Other Governmental Agencies	119,272,437	2,233	119,274,670	27,660,531
Due to Primary Government	—	—	—	4,293,489
Due to Fiduciary Funds	—	—	—	2,556,119
Due to Component Units	7,374,710	—	7,374,710	—
Deposits and Refunds	25,300,111	—	25,300,111	—
Deferred Revenue	16,574,457	19,188,714	35,763,171	927,220
Revenue and Tax Anticipation Notes Payable	80,000,000	—	80,000,000	—
Derivative Instruments - Swap Liability	354,662,873	84,639,796	439,302,669	—
Other Liabilities	20,107,052	33,434,564	53,541,616	41,368,205
Long-Term Obligations:				
Advance Payable to Primary Government	—	—	—	24,016,604
Due Within One Year	167,042,718	138,987,778	306,030,496	12,957,659
Due in More Than One Year	2,952,626,466	6,160,333,401	9,112,959,867	166,728,140
Total Liabilities	<u>3,990,979,142</u>	<u>6,692,192,273</u>	<u>10,683,171,415</u>	<u>296,049,815</u>
NET ASSETS (DEFICIT)				
Invested in Capital Assets, Net of Related Debt	803,653,672	1,047,594,007	1,851,247,679	162,762,799
Restricted for:				
Highway and Street Improvement	36,368,964	—	36,368,964	—
Endowments and Trust (Expendable)	778,733	—	778,733	10,415,889
Endowments and Trust (Non-Expendable)	937,861	—	937,861	2,569,030
Capital Projects and Acquisitions	5,369,617	505,829	5,875,446	43,717,887
Debt Service	30,331,291	461,466,903	491,798,194	31,062,447
Unrestricted (Deficit)	<u>(1,557,840,700)</u>	<u>(1,201,140,082)</u>	<u>(2,758,980,782)</u>	<u>(36,397,162)</u>
Total Net Assets (Deficit)	<u>\$ (680,400,562)</u>	<u>\$ 308,426,657</u>	<u>\$ (371,973,905)</u>	<u>\$ 214,130,890</u>

City of Detroit, Michigan
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2012

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government:				
Governmental Activities:				
Public Protection	\$ 800,229,437	\$ 75,900,731	\$ 25,935,861	\$ —
Health	142,584,167	9,652,314	123,813,173	—
Recreation and Culture	30,113,031	18,170,830	3,159,410	—
Economic Development	73,599,973	850,741	62,447,414	—
Educational Development	51,974,801	—	52,426,614	—
Housing Supply and Conditions	4,431,697	2,734,182	2,777,102	—
Physical Environment	130,991,572	97,094,653	(635,888)	—
Transportation Facilitation	33,697,252	1,647,825	53,142,793	24,516,521
Development and Management	195,167,837	103,694,387	3,503,901	—
Interest on Long-Term Debt	129,097,503	—	—	—
Total Governmental Activities	<u>1,591,887,270</u>	<u>309,745,663</u>	<u>326,570,380</u>	<u>24,516,521</u>
Business-type Activities:				
Sewage Disposal	456,113,053	437,654,891	—	—
Transportation	212,856,759	22,558,000	77,296,998	30,324,107
Water	370,558,112	336,129,945	—	20,500
Automobile Parking	11,643,400	10,617,480	—	—
Airport	2,119,837	993,050	—	—
Total Business-type Activities	<u>1,053,291,161</u>	<u>807,953,366</u>	<u>77,296,998</u>	<u>30,344,607</u>
Total Primary Government	<u>\$ 2,645,178,431</u>	<u>\$ 1,117,699,029</u>	<u>\$ 403,867,378</u>	<u>\$ 54,861,128</u>
Component Units:				
Detroit Brownfield Redevelopment Authority	\$ 2,194,205	\$ 150,000	\$ 145,576	\$ —
Detroit Public Library	42,404,479	696,906	833,310	—
Detroit Transportation Corporation	17,599,915	1,160,574	6,627,244	—
Downtown Development Authority	27,460,629	5,239,891	—	—
Eastern Market Corporation	3,275,786	1,013,212	623,537	—
Economic Development Corporation	9,127,048	5,552,551	—	—
Greater Detroit Resource Recovery Authority	10,901,881	127,357	—	—
Local Development Finance Authority	3,779,669	—	—	—
Museum of African American History	5,532,451	1,894,305	2,549,997	—
Detroit Land Bank Authority	2,791,175	—	6,668,917	—
Total Component Units	<u>\$ 125,067,238</u>	<u>\$ 15,834,796</u>	<u>\$ 17,448,581</u>	<u>\$ —</u>
General Revenues:				
Taxes:				
Property Taxes				
Municipal Income Tax				
Utility Users' Tax				
Wagering Tax				
Other Taxes and Assessments				
State Shared Taxes				
Interest and Penalties on Taxes				
Tipping Fees				
Contributions				
Investment Earnings (Losses)				
Miscellaneous Revenues				
Transfers				
Total General Revenues and Transfers				
Change in Net Assets				
Net Assets (Deficit) - Beginning of Year, as Restated (Note I(t))				
Net Assets (Deficit) - End of Year				

**Net (Expense) Revenue and
Changes in Net Assets**

Primary Government			
Governmental Activities	Business-type Activities	Totals	Component Units
\$ (698,392,845)	\$ —	\$ (698,392,845)	\$ —
(9,118,680)	—	(9,118,680)	—
(8,782,791)	—	(8,782,791)	—
(10,301,818)	—	(10,301,818)	—
451,813	—	451,813	—
1,079,587	—	1,079,587	—
(34,532,807)	—	(34,532,807)	—
45,609,887	—	45,609,887	—
(87,969,549)	—	(87,969,549)	—
(129,097,503)	—	(129,097,503)	—
<u>(931,054,706)</u>	<u>—</u>	<u>(931,054,706)</u>	<u>—</u>
—	(18,458,162)	(18,458,162)	—
—	(82,677,654)	(82,677,654)	—
—	(34,407,667)	(34,407,667)	—
—	(1,025,920)	(1,025,920)	—
—	(1,126,787)	(1,126,787)	—
<u>—</u>	<u>(137,696,190)</u>	<u>(137,696,190)</u>	<u>—</u>
<u>(931,054,706)</u>	<u>(137,696,190)</u>	<u>(1,068,750,896)</u>	<u>—</u>
—	—	—	(1,898,629)
—	—	—	(40,874,263)
—	—	—	(9,812,097)
—	—	—	(22,220,738)
—	—	—	(1,639,037)
—	—	—	(3,574,497)
—	—	—	(10,774,524)
—	—	—	(3,779,669)
—	—	—	(1,088,149)
—	—	—	3,877,742
<u>—</u>	<u>—</u>	<u>—</u>	<u>(91,783,861)</u>
216,931,618	—	216,931,618	54,086,728
233,035,540	—	233,035,540	—
39,828,340	—	39,828,340	—
181,574,627	—	181,574,627	—
16,528,509	—	16,528,509	—
173,292,222	—	173,292,222	443,628
4,264,747	—	4,264,747	—
—	—	—	9,675,223
—	—	—	5,964,566
8,366,960	(152,915,970)	(144,549,010)	2,647,210
2,578,822	2,299,933	4,878,755	1,548,416
<u>(87,675,853)</u>	<u>87,675,853</u>	<u>—</u>	<u>—</u>
<u>788,725,532</u>	<u>(62,940,184)</u>	<u>725,785,348</u>	<u>74,365,771</u>
<u>(142,329,174)</u>	<u>(200,636,374)</u>	<u>(342,965,548)</u>	<u>(17,418,090)</u>
<u>(538,071,388)</u>	<u>509,063,031</u>	<u>(29,008,357)</u>	<u>231,548,980</u>
\$ <u>(680,400,562)</u>	\$ <u>308,426,657</u>	\$ <u>(371,973,905)</u>	\$ <u>214,130,890</u>

City of Detroit, Michigan
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2012

	General	General Retirement System Service	Police and Fire Retirement System Service	Other Governmental	Totals
	Fund	Corporation	Corporation	Funds	
ASSETS					
Cash and Cash Equivalents	\$ 16,087,694	\$ —	\$ —	\$ 65,970,802	\$ 82,058,496
Investments	43,741,325	580,698	495,166	141,033,071	185,850,260
Accounts and Contracts Receivable:					
Estimated Withheld Income Taxes Receivable	25,665,595	—	—	—	25,665,595
Utility Users' Taxes Receivable	2,756,577	—	—	—	2,756,577
Property Taxes Receivable	194,736,052	—	—	72,215,255	266,951,307
Income Tax Assessments	43,249,723	—	—	—	43,249,723
Special Assessments	28,136,178	—	—	541,890	28,678,068
Loans Receivable	—	—	—	18,000,000	18,000,000
Trade Receivables	173,848,219	—	—	25,229,906	199,078,125
Total Accounts and Contracts Receivable	468,392,344	—	—	115,987,051	584,379,395
Allowance for Uncollectible Accounts	(425,901,295)	—	—	(94,933,573)	(520,834,868)
Total Accounts and Contracts Receivable - Net	42,491,049	—	—	21,053,478	63,544,527
Due from Other Funds	31,050,189	—	—	83,551,837	114,602,026
Due from Fiduciary Funds	2,834,084	—	—	22,720	2,856,804
Due from Component Units	4,198,431	—	—	95,058	4,293,489
Due from Other Governmental Agencies	85,519,899	—	—	21,063,019	106,582,918
Inventory	10,865,723	—	—	1,457,015	12,322,738
Working Capital Advances to Other Funds	10,075,006	—	—	—	10,075,006
Advances to Component Units	—	24,016,604	—	—	24,016,604
Other Assets	82,042	—	—	—	82,042
Total Assets	\$ 246,945,442	\$ 24,597,302	\$ 495,166	\$ 334,247,000	\$ 606,284,910
LIABILITIES					
Accounts and Contracts Payable	\$ 18,892,700	\$ —	\$ —	\$ 16,321,258	\$ 35,213,958
Accrued Liabilities	31,889,541	—	—	43,209,136	75,098,677
Accrued Salaries and Wages	20,896,171	—	—	978,369	21,874,540
Due to Other Funds	97,826,356	571,105	495,166	26,951,287	125,843,914
Due to Fiduciary Funds	98,174,316	—	—	—	98,174,316
Loans and Other Advances from Other Funds	—	—	—	850,000	850,000
Due to Other Governmental Agencies	74,310,232	—	—	29,846,205	104,156,437
Due to Component Units	5,958,120	9,593	—	1,406,997	7,374,710
Income Tax Refunds Payable	9,664,938	—	—	—	9,664,938
Deposits from Vendors and Customers	14,833,812	—	—	801,361	15,635,173
Deferred Revenue - Unavailable	43,840,653	—	—	3,513,678	47,354,331
Revenue and Tax Anticipation Notes Payable	80,000,000	—	—	—	80,000,000
Other Liabilities	14,997,358	—	—	5,109,694	20,107,052
Accrued Interest Payable	721,096	—	—	—	721,096
Accrued Compensated Absences	—	—	—	37,065	37,065
Claims and Judgments	4,426,806	—	—	—	4,426,806
Total Liabilities	\$ 516,432,099	\$ 580,698	\$ 495,166	\$ 129,025,050	\$ 646,533,013

City of Detroit, Michigan
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2012

	<u>General</u>	<u>General</u>	<u>Police and Fire</u>	<u>Other</u>	<u>Totals</u>
	<u>Fund</u>	<u>Retirement</u>	<u>Retirement</u>	<u>Governmental</u>	<u>Totals</u>
	<u>Fund</u>	<u>System Service</u>	<u>System Service</u>	<u>Funds</u>	<u>Totals</u>
	<u>Corporation</u>	<u>Corporation</u>	<u>Corporation</u>	<u>Funds</u>	<u>Totals</u>
FUND BALANCES (DEFICIT)					
Nonspendable:					
Inventory	\$ 10,865,723	\$ —	\$ —	\$ 1,457,015	\$ 12,322,738
Long-Term Receivables	10,075,006	24,016,604	—	—	34,091,610
Permanent Fund Principal	—	—	—	937,861	937,861
Restricted for:					
Highway and Street Improvements	—	—	—	34,911,949	34,911,949
Police	—	—	—	10,906,625	10,906,625
Endowments and Trusts	—	—	—	778,733	778,733
Capital Acquisitions	979,826	—	—	129,888,278	130,868,104
Local Business Growth	—	—	—	478,084	478,084
Rubbish Collection and Disposal	—	—	—	7,539,419	7,539,419
Grants	—	—	—	12,009,299	12,009,299
Committed for:					
Risk Management Operations	35,234,345	—	—	—	35,234,345
Assigned for:					
Debt Service	—	—	—	6,314,687	6,314,687
Unassigned:					
General Fund (Deficit)	(326,641,557)	—	—	—	(326,641,557)
Total Fund Balances (Deficit)	<u>(269,486,657)</u>	<u>24,016,604</u>	<u>—</u>	<u>205,221,950</u>	<u>(40,248,103)</u>
Total Liabilities and Fund Balances (Deficit)	<u>\$ 246,945,442</u>	<u>\$ 24,597,302</u>	<u>\$ 495,166</u>	<u>\$ 334,247,000</u>	<u>\$ 606,284,910</u>

City of Detroit, Michigan
RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET ASSETS
June 30, 2012

Fund Balances (Deficit) - Total Governmental Funds \$ (40,248,103)

Amounts reported for governmental activities in the statement of net assets 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	\$ 3,234,247,450	
Less accumulated depreciation	<u>(1,754,246,178)</u>	1,480,001,272

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		30,779,875
--	--	------------

Net pension asset		1,085,737,991
-------------------	--	---------------

Bond and pension obligation certificate issuance costs	108,472,555	
Less accumulated amortization	<u>(46,342,588)</u>	62,129,967

Deferred outflows of resources	203,118,353	
Derivative instruments - swap liability	<u>(354,662,873)</u>	(151,544,520)

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 assets:

Accrued interest payable on bonds and other long-term obligations	(16,935,730)	
Accrued interest and penalties on escheatment payable	(15,116,000)	
General obligation bonds	(957,128,278)	
Notes payable	(89,391,000)	
Loans payable	(34,207,217)	
Unamortized premiums	(14,084,592)	
Swap termination fees	(30,907,085)	
Accrued compensated absences	(82,062,648)	
Accrued workers' compensation	(66,231,000)	
Accrued other postemployment benefits	(620,254,492)	
Claims and judgments	(57,576,451)	
Pension obligation certificates payable	(1,180,285,236)	
Deferred amounts on refunding	<u>16,922,685</u>	<u>(3,147,257,044)</u>

Net Assets (Deficit) of Governmental Activities \$ (680,400,562)

City of Detroit, Michigan
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
For the Year Ended June 30, 2012

	<u>General Fund</u>	<u>General Retirement System Service Corporation</u>	<u>Police and Fire Retirement System Service Corporation</u>	<u>Other Governmental Funds</u>	<u>Totals</u>
REVENUES:					
Taxes:					
Property Taxes	\$ 147,789,938	\$ —	\$ —	\$ 69,141,680	\$ 216,931,618
Municipal Income Tax	233,035,540	—	—	—	233,035,540
Utility Users' Tax	39,828,340	—	—	—	39,828,340
Wagering Tax	181,443,475	—	—	—	181,443,475
Gas and Weight Tax	—	—	—	53,142,793	53,142,793
Other Taxes and Assessments	13,052,673	—	—	3,475,836	16,528,509
State Shared Taxes	172,704,390	—	—	—	172,704,390
Shared Taxes - Liquor and Beer Licenses	587,832	—	—	—	587,832
Interest and Penalties on Taxes	4,264,747	—	—	—	4,264,747
Licenses, Permits, and Inspection Charges	7,406,093	—	—	19,106,279	26,512,372
Intergovernmental:					
Federal	61,644,180	—	—	192,289,059	253,933,239
State	14,939,729	—	—	22,329,514	37,269,243
Other	4,397,406	—	—	2,266,076	6,663,482
Sales and Charges for Services	149,233,014	—	—	47,833,054	197,066,068
Ordinance Fines and Forfeitures	14,466,579	—	—	2,505,477	16,972,056
Revenue from Use of Assets	2,069,012	—	—	—	2,069,012
Investment Earnings	1,295	—	—	443,956	445,251
Other Revenue	55,386,328	1,399,378	—	7,455,409	64,241,115
Total Revenues	1,102,250,571	1,399,378	—	419,989,133	1,523,639,082
EXPENDITURES:					
Current:					
Public Protection	629,944,388	—	—	45,414,703	675,359,091
Health	73,724,566	—	—	68,640,459	142,365,025
Recreation and Culture	16,973,912	—	—	3,000	16,976,912
Economic Development	—	—	—	67,115,000	67,115,000
Educational Development	—	—	—	52,430,587	52,430,587
Housing Supply and Conditions	4,215,134	—	—	—	4,215,134
Physical Environment	71,131,633	—	—	42,471,918	113,603,551
Transportation Facilitation	—	—	—	14,990,983	14,990,983
Development and Management	176,507,779	—	—	—	176,507,779
Debt Service:					
Principal	—	5,951,306	7,766,719	83,780,404	97,498,429
Interest	873,708	29,874,007	38,986,904	56,993,390	126,728,009
Bond Issuance Costs	485,529	—	—	70	485,599
Capital Outlay	22,551,153	—	—	75,099,687	97,650,840
Total Expenditures	996,407,802	35,825,313	46,753,623	506,940,201	1,585,926,939
Excess (Deficiency) of Revenues Over (Under) Expenditures	105,842,769	(34,425,935)	(46,753,623)	(86,951,068)	(62,287,857)
OTHER FINANCING SOURCES (USES):					
Sources:					
Transfers In	9,036,861	34,147,160	46,753,623	89,984,201	179,921,845
Bonds and Notes Issued	—	—	—	5,753,000	5,753,000
Uses:					
Transfers Out	(236,542,790)	—	—	(31,054,908)	(267,597,698)
Total Other Financing Sources (Uses)	(227,505,929)	34,147,160	46,753,623	64,682,293	(81,922,853)
Net Change in Fund Balances	(121,663,160)	(278,775)	—	(22,268,775)	(144,210,710)
Fund Balances (Deficit) at Beginning of Year	(148,071,674)	24,295,379	—	227,631,579	103,855,284
Increase (Decrease) in Inventory	248,177	—	—	(140,854)	107,323
Fund Balances (Deficit) at End of Year	\$ (269,486,657)	\$ 24,016,604	\$ —	\$ 205,221,950	\$ (40,248,103)

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, 2012

Change in Fund Balances - Total Governmental Funds	\$	(144,210,710)
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		5,673,162
Change in inventory		107,323
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	\$ 97,650,840	
Less current year depreciation	<u>(81,046,259)</u>	16,604,581
The net effect of miscellaneous transactions involving capital assets (i.e., sales, trade-ins, and disposals) is to decrease net assets		(1,169,123)
Payments to the pension systems decreased the net pension asset		(823,294)
Bond and note proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net assets		(5,753,000)
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 assets		97,498,429
Amortization of deferred outflows of resources related to derivatives is not reported in the governmental funds		7,921,709
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 issuance costs, net of new issuance amounts	(4,296,352)	
Change in accrued interest payable	600,659	
Interest and penalties on escheatment	(15,116,000)	
Amortization of bond premiums	1,769,753	
Amortization of swap termination fees	1,343,787	
Amortization of deferred amounts on refunding	(1,301,745)	
Change in accrued compensated absences	24,760,069	
Change in accrued workers' compensation claims	(474,000)	
Change in accrued claims and judgments	12,580,687	
Change in accrued pollution remediation	725,571	
Change in accrued other postemployment benefits	<u>(138,770,680)</u>	<u>(118,178,251)</u>
Change in Net Assets of Governmental Activities	\$	<u><u>(142,329,174)</u></u>

City of Detroit, Michigan
STATEMENT OF NET ASSETS
ENTERPRISE FUNDS
June 30, 2012

	Sewage Disposal Fund	Transportation Fund
ASSETS		
Current Assets:		
Cash and Cash Equivalents	\$ 25,643,695	\$ 4,605,001
Investments	—	14,320
Accounts and Contracts Receivable:		
Other Receivables - Trade	213,462,148	83,812
Allowance for Uncollectible Accounts	(70,130,129)	(33,423)
Total Accounts and Contracts Receivable - Net	143,332,019	50,389
Due from Other Funds	14,898,805	112,818
Due from Other Governmental Agencies	—	8,767,963
Inventory	8,884,679	4,403,542
Prepaid Expenses	1,819,151	119,512
Restricted:		
Cash and Cash Equivalents	215,249,247	—
Investments	146,371,609	—
Due from Other Funds	10,640,798	—
Total Current Assets	566,840,003	18,073,545
Noncurrent Assets:		
Restricted:		
Cash and Cash Equivalents	—	—
Investments	129,227,781	—
Other Receivables	—	650,000
Net Pension Asset	86,245,896	107,073,081
Deferred Charges	45,428,167	4,553,597
Capital Assets:		
Land and Land Rights	12,110,899	7,578,462
Land Improvements	75,477,901	—
Buildings and Structures	1,979,578,185	143,754,020
Interceptors and Regulators	207,238,472	—
Mains	—	—
Services and Meters	—	—
Vehicles and Buses	—	149,677,822
Machinery, Equipment, and Fixtures	1,684,500,977	48,686,061
Construction in Progress	291,377,657	3,093,659
Total Capital Assets	4,250,284,091	352,790,024
Less: Accumulated Depreciation	(1,327,270,455)	(174,100,491)
Capital Assets - Net	2,923,013,636	178,689,533
Deferred Outflows of Resources	15,979,577	18,696,989
Total Noncurrent Assets and Deferred Outflows	3,199,895,057	309,663,200
Total Assets and Deferred Outflows	\$ 3,766,735,060	\$ 327,736,745

<u>Water Fund</u>	<u>Automobile Parking Fund</u>	<u>Other Enterprise Fund</u>	<u>Totals</u>
\$ 17,969,040	\$ 979,014	\$ 957,861	\$ 50,154,611
—	609	—	14,929
<u>127,204,133</u>	<u>5,760,012</u>	<u>1,127,850</u>	<u>347,637,955</u>
<u>(28,259,741)</u>	<u>(2,652,018)</u>	<u>(987,697)</u>	<u>(102,063,008)</u>
<u>98,944,392</u>	<u>3,107,994</u>	<u>140,153</u>	<u>245,574,947</u>
41,459,509	118,183	2,520	56,591,835
—	—	—	8,767,963
5,660,326	—	—	18,948,547
4,497,545	27,809	34,568	6,498,585
40,565,853	—	26,222	255,841,322
139,056,728	5,858,426	—	291,286,763
—	—	—	10,640,798
<u>348,153,393</u>	<u>10,092,035</u>	<u>1,161,324</u>	<u>944,320,300</u>
2,179,760	—	—	2,179,760
195,711,983	10,681,135	—	335,620,899
—	—	—	650,000
90,677,096	—	—	283,996,073
38,321,804	—	—	88,303,568
6,466,486	4,967,313	17,325,793	48,448,953
101,297,526	214,908	8,020,718	185,011,053
781,238,195	200,066,403	5,853,773	3,110,490,576
—	—	—	207,238,472
997,757,837	—	—	997,757,837
175,025,539	—	—	175,025,539
—	1,254,151	1,326,693	152,258,666
1,011,433,159	3,370,921	1,825,327	2,749,816,445
<u>235,667,626</u>	<u>—</u>	<u>112,500</u>	<u>530,251,442</u>
3,308,886,368	209,873,696	34,464,804	8,156,298,983
<u>(1,151,082,168)</u>	<u>(126,231,033)</u>	<u>(15,706,362)</u>	<u>(2,794,390,509)</u>
<u>2,157,804,200</u>	<u>83,642,663</u>	<u>18,758,442</u>	<u>5,361,908,474</u>
<u>14,179,042</u>	<u>—</u>	<u>—</u>	<u>48,855,608</u>
<u>2,498,873,885</u>	<u>94,323,798</u>	<u>18,758,442</u>	<u>6,121,514,382</u>
\$ <u>2,847,027,278</u>	\$ <u>104,415,833</u>	\$ <u>19,919,766</u>	\$ <u>7,065,834,682</u>

(Continued)

City of Detroit, Michigan
STATEMENT OF NET ASSETS
ENTERPRISE FUNDS
June 30, 2012

	<u>Sewage Disposal Fund</u>	<u>Transportation Fund</u>
LIABILITIES AND NET ASSETS (DEFICIT)		
Current Liabilities:		
Accounts and Contracts Payable	\$ 51,306,158	\$ 13,147,585
Accrued Salaries and Wages	705,067	1,049,251
Due to Other Funds	39,846,908	780,306
Due to Fiduciary Funds	6,989,284	8,061,039
Due to Other Governmental Agencies	—	—
Accrued Interest	—	505,628
Other Liabilities	17,811,488	—
Deferred Revenue	—	296,293
Bonds, Notes, and Capital Leases	16,927,910	4,889,059
Accrued Compensated Absences	3,830,144	3,893,863
Accrued Workers' Compensation and Claims and Judgments	584,500	1,206,328
Accrued Pollution Remediation	340,613	173,888
Pension Obligation Certificates - Net	1,417,492	1,654,087
Payable from Restricted Assets:		
Bonds, Notes, and Leases	59,647,090	—
Accrued Interest	54,945,024	—
Accounts and Contracts Payable	1,834,875	—
Due to Other Funds	237,006	—
	<u>256,423,559</u>	<u>35,657,327</u>
Noncurrent Liabilities:		
Advances From Other Funds	—	—
Bonds and Notes Payable - Net	3,173,429,787	5,458,032
Derivative Instruments - Swap Liability	27,683,735	32,389,156
Capital Leases Payable	—	8,602,989
Pension Obligation Certificates Payable (POCs) - Net	88,736,610	103,534,756
Accrued Compensated Absences	1,672,337	1,553
Accrued Workers' Compensation and Claims and Judgments	4,489,000	4,363,484
Accrued Other Postemployment Benefits	56,836,081	72,407,192
	<u>3,352,847,550</u>	<u>226,757,162</u>
Total Noncurrent Liabilities	<u>3,352,847,550</u>	<u>226,757,162</u>
Total Liabilities	<u>3,609,271,109</u>	<u>262,414,489</u>
Net Assets:		
Invested in Capital Assets, Net of Related Debt	553,873,948	159,739,452
Restricted for Capital Acquisitions	—	—
Restricted for Debt Service	255,972,332	—
Unrestricted (Deficit)	(652,382,329)	(94,417,196)
	<u>(652,382,329)</u>	<u>(94,417,196)</u>
Total Net Assets	<u>\$ 157,463,951</u>	<u>\$ 65,322,256</u>

<u>Water Fund</u>	<u>Automobile Parking Fund</u>	<u>Other Enterprise Fund</u>	<u>Totals</u>
\$ 28,339,950	\$ 197,475	\$ 166,172	\$ 93,157,340
1,096,137	120,677	22,350	2,993,482
4,331,522	104,329	49,877	45,112,942
10,952,567	245,232	350,968	26,599,090
—	—	2,233	2,233
—	266,675	—	772,303
10,092,925	3,934,367	1,595,784	33,434,564
—	18,892,421	—	19,188,714
393,750	1,165,000	—	23,375,719
6,806,399	196,712	33,291	14,760,409
1,557,000	205,497	13,000	3,566,325
—	—	—	514,501
1,250,905	—	—	4,322,484
32,801,250	—	—	92,448,340
66,907,594	—	—	121,852,618
8,396,079	—	—	10,230,954
10,640,798	—	—	10,877,804
<u>183,566,876</u>	<u>25,328,385</u>	<u>2,233,675</u>	<u>503,209,822</u>
—	9,225,006	—	9,225,006
2,485,717,942	9,095,578	—	5,673,701,339
24,566,905	—	—	84,639,796
—	—	—	8,602,989
78,306,872	—	—	270,578,238
2,614,912	80,102	20,151	4,389,055
9,068,500	572,000	81,000	18,573,984
53,303,165	1,804,427	136,931	184,487,796
<u>2,653,578,296</u>	<u>20,777,113</u>	<u>238,082</u>	<u>6,254,198,203</u>
<u>2,837,145,172</u>	<u>46,105,498</u>	<u>2,471,757</u>	<u>6,757,408,025</u>
235,302,277	79,919,888	18,758,442	1,047,594,007
—	505,829	—	505,829
203,831,414	1,663,157	—	461,466,903
(429,251,585)	(23,778,539)	(1,310,433)	(1,201,140,082)
<u>\$ 9,882,106</u>	<u>\$ 58,310,335</u>	<u>\$ 17,448,009</u>	<u>\$ 308,426,657</u>

City of Detroit, Michigan
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
ENTERPRISE FUNDS
For the Year Ended June 30, 2012

	<u>Sewage Disposal Fund</u>	<u>Transportation Fund</u>
Operating Revenues:		
Sales and Charges for Services	\$ 429,928,980	\$ 21,702,645
Rentals, Fees, and Surcharges	2,601,809	580,389
Miscellaneous	5,124,102	274,966
Total Operating Revenues	<u>437,654,891</u>	<u>22,558,000</u>
Operating Expenses:		
Salaries, Wages, and Benefits	109,281,908	113,293,553
Contractual Services	60,559,765	18,621,597
Operating	40,011,526	20,594,286
Maintenance	8,306,555	—
Materials, Supplies, and Other Expenses	14,196,074	24,980,572
Impairment Loss	—	10,626,646
Depreciation	115,604,049	18,147,287
Total Operating Expenses	<u>347,959,877</u>	<u>206,263,941</u>
Operating Income (Loss)	<u>89,695,014</u>	<u>(183,705,941)</u>
Non-Operating Revenues (Expenses):		
Investment Earnings	1,504,628	81
Investment Earnings - Changes in Fair Value of Derivatives	(65,954,994)	—
Federal and State Grants	—	77,296,998
Interest on Bonds, Notes Payable, and Loans	(108,153,176)	(6,592,818)
Amortization of Bond Issuance Costs	(8,796,332)	—
Other Revenues	1,846,318	—
Total Non-Operating Revenues (Expenses), Net	<u>(179,553,556)</u>	<u>70,704,261</u>
Net Loss Before Contributions and Transfers	(89,858,542)	(113,001,680)
Capital Contributions	—	30,324,107
Transfers In	—	87,159,982
Increase (Decrease) in Net Assets	(89,858,542)	4,482,409
Net Assets - Beginning of Year	<u>247,322,493</u>	<u>60,839,847</u>
Net Assets - End of Year	<u>\$ 157,463,951</u>	<u>\$ 65,322,256</u>

<u>Water Fund</u>	<u>Automobile Parking Fund</u>	<u>Other Enterprise Fund</u>	<u>Totals</u>
\$ 330,127,499	\$ —	\$ 87,730	\$ 781,846,854
—	10,475,327	881,330	14,538,855
<u>6,002,446</u>	<u>142,153</u>	<u>23,990</u>	<u>11,567,657</u>
<u>336,129,945</u>	<u>10,617,480</u>	<u>993,050</u>	<u>807,953,366</u>
77,671,270	2,726,168	768,493	303,741,392
44,678,441	3,133,958	—	126,993,761
44,713,887	1,711,955	1,095,910	108,127,564
5,729,148	246,023	49,750	14,331,476
7,411,942	92,767	45,617	46,726,972
—	—	—	10,626,646
<u>81,602,960</u>	<u>3,199,370</u>	<u>160,067</u>	<u>218,713,733</u>
<u>261,807,648</u>	<u>11,110,241</u>	<u>2,119,837</u>	<u>829,261,544</u>
<u>74,322,297</u>	<u>(492,761)</u>	<u>(1,126,787)</u>	<u>(21,308,178)</u>
1,706,596	1,614	135	3,213,054
(74,288,862)	—	—	(140,243,856)
—	—	—	77,296,998
(108,750,464)	(533,159)	—	(224,029,617)
(7,059,640)	(29,196)	—	(15,885,168)
<u>453,615</u>	<u>—</u>	<u>—</u>	<u>2,299,933</u>
<u>(187,938,755)</u>	<u>(560,741)</u>	<u>135</u>	<u>(297,348,656)</u>
(113,616,458)	(1,053,502)	(1,126,652)	(318,656,834)
20,500	—	—	30,344,607
<u>—</u>	<u>—</u>	<u>515,871</u>	<u>87,675,853</u>
(113,595,958)	(1,053,502)	(610,781)	(200,636,374)
<u>123,478,064</u>	<u>59,363,837</u>	<u>18,058,790</u>	<u>509,063,031</u>
<u>\$ 9,882,106</u>	<u>\$ 58,310,335</u>	<u>\$ 17,448,009</u>	<u>\$ 308,426,657</u>

City of Detroit, Michigan
STATEMENT OF CASH FLOWS
ENTERPRISE FUNDS
For the Year Ended June 30, 2012

	Sewage Disposal Fund	Transportation Fund
Cash Flows from Operating Activities:		
Receipts from Customers	\$ 449,769,591	\$ 23,374,703
Receipts from (to) Other Funds	3,096,277	—
Loans from (to) Other Funds	—	—
Payments to Suppliers	(107,202,665)	(95,207,196)
Payments to Employees	(83,577,852)	(90,304,125)
	262,085,351	(162,136,618)
Net Cash Provided by (Used in) Operating Activities		
Cash Flows from Non-Capital Financing Activities:		
Interest Paid - Pension Obligation Certificates	(4,464,428)	(6,067,367)
Principal Paid - Pension Obligation Certificates	(1,035,281)	(1,211,683)
Grants and Contributions from Other Governments	—	88,867,997
Due from Other Governmental Agencies	—	(33,302)
Transfers from Other Funds	—	87,159,982
Proceeds from Issuance of Revenue Bonds	463,577,131	—
Derivative Termination Payments	(321,598,001)	—
Miscellaneous Non-Capital Financing	1,846,318	—
	138,325,739	168,715,627
Net Cash Provided by Non-Capital Financing Activities		
Cash Flows from Capital and Related Financing Activities:		
Capital Contributions	—	28,823,274
Proceeds from Sales of Capital Assets	—	—
Acquisition and Construction of Capital Assets	(133,972,001)	(26,491,194)
Proceeds from Bond and Note Issuances	224,686,255	—
Principal Paid on Bonds, Notes, and Capital Leases	(231,014,534)	(4,023,513)
Interest Paid on Bonds, Notes, and Leases - Net	(109,115,507)	(970,819)
	(249,415,787)	(2,662,252)
Net Cash Provided by (Used in) Capital and Related Financing Activities		
Cash Flows from Investing Activities:		
Proceeds from Sales and Maturities of Investments	726,294,537	4,000,053
Purchases of Investments	(663,657,236)	(4,000,134)
Derivative Settlement Receipts	1,504,628	—
Earnings from Investment Securities	14,890,909	81
	79,032,838	—
Net Cash Provided by (Used in) Investing Activities		
Net Increase (Decrease) in Cash and Cash Equivalents		
	230,028,141	3,916,757
Cash and Cash Equivalents at Beginning of Year	10,864,801	688,244
Cash and Cash Equivalents at End of Year	\$ 240,892,942	\$ 4,605,001

<u>Water Fund</u>	<u>Automobile Parking Fund</u>	<u>Other Enterprise Fund</u>	<u>Totals</u>
\$ 318,819,510	\$ 8,815,065	\$ 649,919	\$ 801,428,788
—	664,333	(3,672)	3,756,938
6,769,415	(420,235)	—	6,349,180
(100,852,848)	(3,840,100)	(691,878)	(307,794,687)
<u>(64,263,520)</u>	<u>(2,086,445)</u>	<u>(820,245)</u>	<u>(241,052,187)</u>
<u>160,472,557</u>	<u>3,132,618</u>	<u>(865,876)</u>	<u>262,688,032</u>
(5,318,510)	—	—	(15,850,305)
(913,613)	—	—	(3,160,577)
—	—	—	88,867,997
—	—	—	(33,302)
—	—	515,871	87,675,853
337,586,759	—	—	801,163,890
(225,620,525)	—	—	(547,218,526)
<u>453,615</u>	<u>—</u>	<u>—</u>	<u>2,299,933</u>
<u>106,187,726</u>	<u>—</u>	<u>515,871</u>	<u>413,744,963</u>
—	—	—	28,823,274
113,436	—	—	113,436
(68,823,034)	(85,157)	(208,124)	(229,579,510)
164,097,757	—	—	388,784,012
(141,440,534)	(1,110,000)	—	(377,588,581)
<u>(110,635,586)</u>	<u>(560,354)</u>	<u>—</u>	<u>(221,282,266)</u>
<u>(156,687,961)</u>	<u>(1,755,511)</u>	<u>(208,124)</u>	<u>(410,729,635)</u>
706,793,214	13,589,305	—	1,450,677,109
(815,611,808)	(14,165,635)	—	(1,497,434,813)
1,706,596	—	—	3,211,224
<u>37,816,078</u>	<u>1,614</u>	<u>135</u>	<u>52,708,817</u>
<u>(69,295,920)</u>	<u>(574,716)</u>	<u>135</u>	<u>9,162,337</u>
40,676,402	802,391	(557,994)	274,865,697
<u>20,038,251</u>	<u>176,623</u>	<u>1,542,077</u>	<u>33,309,996</u>
<u>\$ 60,714,653</u>	<u>\$ 979,014</u>	<u>\$ 984,083</u>	<u>\$ 308,175,693</u>

(Continued)

City of Detroit, Michigan
STATEMENT OF CASH FLOWS
ENTERPRISE FUNDS
For the Year Ended June 30, 2012

	<u>Sewage Disposal Fund</u>	<u>Transportation Fund</u>
Reconciliation of Operating Income (Loss) to Net Cash Provided by		
(Used in) Operating Activities:		
Operating Income (Loss)	\$ 89,695,014	\$ (183,705,941)
Adjustments to Reconcile Operating Income (Loss) to Net Cash		
Provided by (Used in) Operating Activities:		
Depreciation and Amortization	115,604,049	18,147,287
Bad Debt Expense	35,547,392	—
Write-off of Capital Assets, including Construction in Progress	7,109,446	9,233,228
Loss on Disposal of Capital Assets	4,268,714	1,393,418
Changes in Assets and Liabilities:		
Accounts and Contracts Receivable	(23,432,692)	777,580
Inventory	(1,907,533)	1,009,622
Net Pension Asset	628,936	2,865,204
Prepaid Expenses	1,622,553	1,390
Due from Other Funds	15,352,201	1,267,905
Deferred Revenue	—	38,946
Accounts and Contracts Payable	19,527,691	(7,688,878)
Due to Other Funds	(12,255,924)	(18,936,006)
Due to Fiduciary Funds	(1,614,010)	1,803,936
Other Liabilities	(1,265,149)	(847,626)
Accrued Compensated Absences	—	—
Accrued Workers' Compensation and Claims and Judgments	19,500	169,829
Accrued Other Postemployment Benefits	13,632,242	12,655,825
Accrued Salaries and Wages	185,421	(322,337)
Pollution Remediation Obligations	(632,500)	—
Net Cash Provided by (Used in) Operating Activities	<u>\$ 262,085,351</u>	<u>\$ (162,136,618)</u>
Noncash activities:		
Fair value of derivatives	\$ 152,039,329	\$ 15,212,580
Deferred outflows of resources - hedging derivatives	(47,568,940)	(15,928,313)

<u>Water Fund</u>	<u>Automobile Parking Fund</u>	<u>Other Enterprise Fund</u>	<u>Totals</u>
\$ 74,322,297	\$ (492,761)	\$ (1,126,787)	\$ (21,308,178)
81,602,960	3,199,370	160,067	218,713,733
12,764,490	—	—	48,311,882
9,847,529	—	—	26,190,203
381,963	—	—	6,044,095
(30,074,924)	(1,094,379)	(118,131)	(53,942,546)
279,659	—	58,886	(559,366)
(2,202,543)	—	—	1,291,597
(2,987,544)	(8,380)	155	(1,371,826)
25,230,589	664,333	—	42,515,028
—	(708,036)	(225,000)	(894,090)
7,615,994	132,690	94,530	19,682,027
(18,461,174)	(420,235)	(62,558)	(50,135,897)
2,403,512	—	—	2,593,438
(9,660,603)	1,220,293	404,714	(10,148,371)
—	44,488	(9,745)	34,743
(3,487,500)	92,497	(5,000)	(3,210,674)
12,724,239	436,256	(35,241)	39,413,321
173,613	66,482	(1,766)	101,413
—	—	—	(632,500)
<u>\$ 160,472,557</u>	<u>\$ 3,132,618</u>	<u>\$ (865,876)</u>	<u>\$ 262,688,032</u>
\$ 85,997,879	\$ —	\$ —	\$ 253,249,788
(12,252,023)	—	—	(75,749,276)

City of Detroit, Michigan
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
June 30, 2012

	Pension and Other Employee Benefit Trust Funds	Agency Funds
ASSETS		
Cash and Cash Equivalents	\$ 16,931,132	\$ 1,213,755
Investments at Fair Value:		
Short-Term Investments	147,458,981	—
Money Market Funds	—	20,590,845
Bonds and Stocks	3,395,942,028	—
Mortgage-Backed Securities	104,322,254	—
Mortgage and Construction Loans	230,139,968	—
Equity Interest in Real Estate	518,347,791	—
Real Estate Investment Trusts Held by Custodian	41,072,094	—
Pooled Investments	244,897,224	—
Private Placements	436,443,532	—
Total Investments	5,118,623,872	20,590,845
Accrued Interest Receivable	21,030,644	—
Accounts Receivable:		
Due from Primary Government	124,773,406	—
Due from Component Units	2,573,970	—
From Investment Sales	7,885,685	—
Other Receivables	14,344,590	—
Total Accounts Receivable	149,577,651	—
Cash and Investments Held as Collateral for Securities Lending	423,349,835	—
Capital Assets	2,593,217	—
Total Assets	5,732,106,351	\$ 21,804,600
LIABILITIES		
Accounts and Contracts Payable	262,618	376,839
Payables for Investment Purchases	19,299,403	—
Benefits and Claims Payable	11,177,377	—
Due to Primary Government	2,802,916	53,887
Due to Component Units	80,928	—
Amount Due to Broker for Securities Lending	474,421,748	—
Other Liabilities	53,779,236	21,373,874
Total Liabilities	561,824,226	\$ 21,804,600
Net Assets Held in Trust for Pension and Other Employee Benefits	\$ 5,170,282,125	

City of Detroit, Michigan
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
For the Year Ended June 30, 2012

	Pension and Other Employee Benefit Trust Funds
ADDITIONS:	
Employer Contributions	\$ 378,356,067
Plan Member Contributions	64,545,425
Other Income	10,927,680
Total Contributions	453,829,172
Investment Earnings:	
Interest and Dividend Income	141,845,640
Net Depreciation in Fair Value	(203,443,515)
Investment Expense	(31,461,864)
Securities Lending Income	2,252,259
Net Gain on Collateralized Securities	1,313,074
Other Income	3,713,270
Total Investment Earnings	(85,781,136)
Total Additions	368,048,036
DEDUCTIONS:	
Pension and Annuity Benefits	509,020,330
Premiums to Insurers and Damage Claims	317,388,978
Member Refunds and Withdrawals	200,048,571
General and Administrative Expenses	11,725,495
Total Deductions	1,038,183,374
Net Decrease	(670,135,338)
Net Assets Held in Trust for Pension and Other Employee Benefits, Beginning of Year	5,840,417,463
Net Assets Held in Trust for Pension and Other Employee Benefits, End of Year	\$ 5,170,282,125

City of Detroit, Michigan
COMBINING STATEMENT OF NET ASSETS
DISCRETELY PRESENTED COMPONENT UNITS
June 30, 2012

	<u>Detroit Brownfield Redevelopment Authority</u>	<u>Detroit Public Library</u>	<u>Detroit Transportation Corporation</u>	<u>Downtown Development Authority</u>
ASSETS:				
Cash and Cash Equivalents	\$ 5,000	\$ 23,623,393	\$ 257,450	\$ 1,292,119
Investments	3,468,945	11,744,898	10,475,808	74,256,489
Accounts and Contracts Receivable, Taxes, Interest, and Penalties Receivable - Net	1,439,627	12,600	133,650	7,260,541
Due from Primary Government	1,587,666	2,906,976	—	736,591
Due from Other Governmental Agencies	—	9,647,856	939,563	—
Inventory	—	—	4,110,449	—
Prepaid Expenses	8,132	110,042	220,900	254,819
Loans and Notes Receivable	—	—	—	37,013,522
Other Assets	—	12,840	—	27,561,268
Net Pension Asset	—	24,241,487	—	—
Bond and Note Issue Costs	—	1,036,734	—	2,336,109
Capital Assets:				
Non-Depreciable	—	1,603,632	7,108,237	7,544,670
Depreciable, Net	—	24,718,487	49,903,899	39,630,074
Capital Assets, Net	<u>—</u>	<u>26,322,119</u>	<u>57,012,136</u>	<u>47,174,744</u>
Total Assets	<u>6,509,370</u>	<u>99,658,945</u>	<u>73,149,956</u>	<u>197,886,202</u>
LIABILITIES:				
Accounts and Contracts Payable	7,051	386,929	3,257,329	1,112,230
Accrued Salaries and Wages	—	549,104	83,295	—
Accrued Interest Payable	—	—	—	4,117,129
Due to Primary Government	4,000	416,186	1,736,460	501,802
Due to Fiduciary Funds	—	2,556,119	—	—
Due to Other Governmental Agencies	—	9,671,503	—	17,854,748
Deferred Revenue	—	—	95,179	—
Other Liabilities	4,895,258	336,003	1,071,454	28,751,827
Long-term Obligations:				
Advance Payable to Primary Government for POCs	—	24,016,604	—	—
Due Within One Year	—	1,861,567	—	4,722,404
Due in More Than One Year	—	19,434,978	651,247	93,561,915
Total Liabilities	<u>4,906,309</u>	<u>59,228,993</u>	<u>6,894,964</u>	<u>150,622,055</u>
NET ASSETS (DEFICIT):				
Invested in Capital Assets, Net of Related Debt	—	26,322,119	57,012,137	47,174,744
Restricted for:				
Endowments and Trusts (Expendable)	—	10,415,889	—	—
Endowments and Trusts (Non-Expendable)	—	675,622	—	—
Capital Projects	470,583	—	2,973,336	—
Debt Service	—	—	—	—
Unrestricted (Deficit)	<u>1,132,478</u>	<u>3,016,322</u>	<u>6,269,519</u>	<u>89,403</u>
Total Net Assets (Deficit)	<u>\$ 1,603,061</u>	<u>\$ 40,429,952</u>	<u>\$ 66,254,992</u>	<u>\$ 47,264,147</u>

Eastern Market Corporation	Economic Development Corporation	Greater Detroit Resource Recovery Authority	Local Development Finance Authority	Museum of African American History	Detroit Land Bank Authority	Totals
\$ 591,081	\$ 13,325,988	\$ 34,148	\$ 1,119,179	\$ 781,214	\$ 280,585	\$ 41,310,157
—	22,088,487	8,527,556	34,758,322	1,189,189	—	166,509,694
19,564	221,143	46,743	2,823,670	56,738	1,867,863	13,882,139
—	736,480	1,406,997	—	—	—	7,374,710
1,124,911	269,079	—	—	—	—	11,981,409
15,722	—	—	—	104,572	—	4,230,743
30,447	—	—	8,512	481,947	8,283	1,123,082
—	3,473,198	—	—	—	—	40,486,720
370,175	—	—	—	—	4,960,640	32,904,923
—	—	—	—	—	—	24,241,487
—	—	—	—	—	—	3,372,843
1,859,680	—	8,873,234	—	218,629	—	27,208,082
2,797,203	—	17,357,491	—	1,112,461	35,101	135,554,716
<u>4,656,883</u>	<u>—</u>	<u>26,230,725</u>	<u>—</u>	<u>1,331,090</u>	<u>35,101</u>	<u>162,762,798</u>
<u>6,808,783</u>	<u>40,114,375</u>	<u>36,246,169</u>	<u>38,709,683</u>	<u>3,944,750</u>	<u>7,152,472</u>	<u>510,180,705</u>
723,623	1,061,812	1,737,738	12,650	455,657	1,236,300	9,991,319
39,041	—	—	—	115,990	22,642	810,072
—	74,183	—	549,145	—	—	4,740,457
—	—	1,536,624	77,737	20,680	—	4,293,489
—	—	—	—	—	—	2,556,119
—	134,280	—	—	—	—	27,660,531
254,729	234,667	—	—	—	342,645	927,220
—	—	—	6,291,813	—	21,850	41,368,205
—	—	—	—	—	—	24,016,604
4,342	262,796	—	5,560,000	—	546,550	12,957,659
—	—	—	53,080,000	—	—	166,728,140
<u>1,021,735</u>	<u>1,767,738</u>	<u>3,274,362</u>	<u>65,571,345</u>	<u>592,327</u>	<u>2,169,987</u>	<u>296,049,815</u>
4,656,883	—	26,230,725	—	1,331,090	35,101	162,762,799
—	—	—	—	—	—	10,415,889
—	—	—	1,003,511	889,897	—	2,569,030
1,253,374	38,190,522	—	—	830,072	—	43,717,887
—	—	—	31,062,447	—	—	31,062,447
(123,209)	156,115	6,741,082	(58,927,620)	301,364	4,947,384	(36,397,162)
<u>\$ 5,787,048</u>	<u>\$ 38,346,637</u>	<u>\$ 32,971,807</u>	<u>\$ (26,861,662)</u>	<u>\$ 3,352,423</u>	<u>\$ 4,982,485</u>	<u>\$ 214,130,890</u>

City of Detroit, Michigan
COMBINING STATEMENT OF ACTIVITIES
DISCRETELY PRESENTED COMPONENT UNITS
For the Year Ended June 30, 2012

	<u>Detroit Brownfield Redevelopment Authority</u>	<u>Detroit Public Library</u>	<u>Detroit Transportation Corporation</u>	<u>Downtown Development Authority</u>
Expenses	\$ (2,194,205)	\$ (42,404,479)	\$ (17,599,915)	\$ (27,460,629)
Program Revenues:				
Charges for Services	150,000	696,906	1,160,574	5,239,891
Operating Grants and Contributions	<u>145,576</u>	<u>833,310</u>	<u>6,627,244</u>	<u>—</u>
Total Program Revenues	<u>295,576</u>	<u>1,530,216</u>	<u>7,787,818</u>	<u>5,239,891</u>
Net Program (Expenses) Revenues	<u>(1,898,629)</u>	<u>(40,874,263)</u>	<u>(9,812,097)</u>	<u>(22,220,738)</u>
General Revenues:				
Property Taxes	2,134,098	31,342,277	—	13,355,979
Other Taxes	—	—	—	—
Shared Taxes	—	443,628	—	—
Tipping Fees	—	—	—	—
Contributions	—	—	1,614,129	—
Investment Earnings	331	366,766	2,100,793	—
Miscellaneous Revenues	<u>—</u>	<u>151,558</u>	<u>291,005</u>	<u>1,001,843</u>
Total General Revenues	<u>2,134,429</u>	<u>32,304,229</u>	<u>4,005,927</u>	<u>14,357,822</u>
Change in Net Assets	235,800	(8,570,034)	(5,806,170)	(7,862,916)
Net Assets (Deficit) - Beginning of Year, as Restated *	<u>1,367,261</u>	<u>48,999,986</u>	<u>72,061,162</u>	<u>55,127,063</u>
Net Assets (Deficit) - End of Year	<u>\$ 1,603,061</u>	<u>\$ 40,429,952</u>	<u>\$ 66,254,992</u>	<u>\$ 47,264,147</u>

* The Detroit Public Library restated its beginning net assets at July 1, 2011. Prior to restatement, beginning net assets were \$47,453,088.

<u>Eastern Market Corporation</u>	<u>Economic Development Corporation</u>	<u>Greater Detroit Resource Recovery Authority</u>	<u>Local Development Finance Authority</u>	<u>Museum of African American History</u>	<u>Detroit Land Bank Authority</u>	<u>Totals</u>
\$ (3,275,786)	\$ (9,127,048)	\$ (10,901,881)	\$ (3,779,669)	\$ (5,532,451)	\$ (2,791,175)	\$ (125,067,238)
1,013,212	5,552,551	127,357	—	1,894,305	—	15,834,796
623,537	—	—	—	2,549,997	6,668,917	17,448,581
<u>1,636,749</u>	<u>5,552,551</u>	<u>127,357</u>	<u>—</u>	<u>4,444,302</u>	<u>6,668,917</u>	<u>33,283,377</u>
(1,639,037)	(3,574,497)	(10,774,524)	(3,779,669)	(1,088,149)	3,877,742	(91,783,861)
—	—	—	7,254,374	—	—	54,086,728
—	—	—	—	—	—	—
—	—	—	—	—	—	443,628
—	—	9,675,223	—	—	—	9,675,223
2,326,508	1,053,070	—	—	970,859	—	5,964,566
57,958	41,496	12,467	67,399	—	—	2,647,210
—	—	100,000	30,000	(25,990)	—	1,548,416
<u>2,384,466</u>	<u>1,094,566</u>	<u>9,787,690</u>	<u>7,351,773</u>	<u>944,869</u>	<u>—</u>	<u>74,365,771</u>
745,429	(2,479,931)	(986,834)	3,572,104	(143,280)	3,877,742	(17,418,090)
<u>5,041,619</u>	<u>40,826,568</u>	<u>33,958,641</u>	<u>(30,433,766)</u>	<u>3,495,703</u>	<u>1,104,743</u>	<u>231,548,980</u>
\$ <u>5,787,048</u>	\$ <u>38,346,637</u>	\$ <u>32,971,807</u>	\$ <u>(26,861,662)</u>	\$ <u>3,352,423</u>	\$ <u>4,982,485</u>	\$ <u>214,130,890</u>

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.

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 contractually obligated itself to make periodic payments to the corporations in return for their service of reducing the financial burden of the City's pension costs. 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.

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, Public Acts of MI 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.

* 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
2800 Cadillac Tower
65 Cadillac Square
Detroit, MI 48226
(313) 224-7238

Detroit Police and Fire Retirement System
Service Corporation
Coleman A. Young Municipal Center, Room 908
2 Woodward Avenue
Detroit, MI 48226
(313) 224-3380

Detroit General Retirement System
Service Corporation
Coleman A. Young Municipal Center, Room 908
2 Woodward Avenue
Detroit, MI 48226
(313) 224-3362

Discretely Presented Component Units:

Detroit Brownfield Redevelopment Authority
500 Griswold, Suite 2200
Detroit, MI 48226
(313) 963-2940

Economic Development Corporation
500 Griswold, Suite 2200
Detroit, MI 48226
(313) 237-4616

Detroit Public Library
5201 Woodward Avenue
Detroit, MI 48226
(313) 833-1000

Greater Detroit Resource Recovery Authority
5700 Russell Street
Detroit, MI 48211
(313) 876-0449

Detroit Transportation Corporation
1420 Washington Blvd., 3rd Floor
Detroit, MI 48226
(313) 224-2160

Local Development Finance Authority
500 Griswold, Suite 2200
Detroit, MI 48226
(313) 237-4616

Downtown Development Authority
500 Griswold, Suite 2200
Detroit, MI 48226
(313) 237-4616

Museum of African American History
315 East Warren Avenue
Detroit, MI 48201
(313) 494-5800

Eastern Market Corporation
2934 Russell Street
Detroit, MI 48226
(313) 833-9300

Detroit Land Bank Authority
65 Cadillac Square, Suite 3200
Detroit, MI 48226
(313) 974-6869

Related Organizations

The City has in place Memorandums of Understanding (i.e., Contracts) for the operations of certain City-owned assets with the following private nonprofit corporations:

Detroit Historical Society
Detroit Institute of Arts
Detroit Zoological Society

The City's accountability for these organizations does not extend beyond these Contracts.

The Mayor is responsible for appointing the members of the board of the Northwest Community Programs, Inc., a private nonprofit corporation, but the City's accountability for this organization 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, 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 assets 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, 20 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.

Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board (APB) Opinions, and Accounting Research Bulletins (ARB) of the Committee on Accounting Procedure issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board (GASB). The City also has the option of following subsequent FASB guidance for their business-type activities and enterprise funds, subject to this same limitation. The City has elected not to follow subsequent FASB guidance.

(d) Cash and Cash Equivalents

Cash and cash equivalents include amounts in demand deposits, as well as certificates of deposits with an original maturity date of three months or less.

(e) Investments

Investments of the City (see Note IX (b) for pension trust) 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 assets.

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, 2012 for the Sewage Disposal and Water Funds was \$18,991,646 and \$7,141,796, 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.

(j) Deferred Revenue

Deferred revenue represents revenues received, but for which the revenue recognition criteria have not been met. Accordingly, these revenues are deferred until such time as the revenue recognition criteria is met.

(k) Bond Premiums, Discounts, Issuance Costs, and Deferred Amounts on Refunding

In the government-wide and proprietary fund financial statements, bond premiums and discounts are deferred and amortized using the effective interest method. Issuance costs (deferred charges) and gains and losses (deferred amounts) on refunding are deferred and amortized over the life of the bonds using the straight-line method.

In the governmental fund financial statements, bond premiums and discounts and gains, as well as bond issuance costs 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. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

(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). 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 is 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 2011 taxable valuation of the City totaled approximately \$10.1 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 9.5558 mills for debt service. This resulted in approximately \$138.7 million for operations and approximately \$71.6 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, 2012, approximately \$167 million of delinquent property taxes receivable was transferred (sold) to the County, and \$105 million was charged back to the City from prior year sales. As of June 30, 2012, the City has recorded an approximate liability of \$84 million (\$31 million in the General Fund, \$29 million in the Non-Major Governmental Funds, and \$24 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 2011 consists of an annualized tax of 2.50 percent on the income of resident individuals, 1.25 percent on income earned in the City by non-residents, and 1.00 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 have been formally set aside by the City Council for use for specific purposes. Commitments are made and can be rescinded only via resolution of the City Council.
- **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 Assets

In the government-wide and proprietary fund financial statements, equity is displayed in three components as follows:

- **Invested in Capital Assets, Net of Related Debt** - 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 assets that are 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 assets that do not meet the definition of "Restricted" or "Invested in Capital Assets, Net of Related Debt."

(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 November 2010, the GASB issued GASB Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*. This statement addresses financial reporting related to service concession arrangements (SCA) which are a type of public-private or public-public partnership. A SCA is an arrangement between a transferor (a government) and an operator (whether a government or nongovernmental entity) in which the transferor conveys to an operator the right and related obligation to provide services through the use of infrastructure or another public asset in exchange for significant consideration and the operator collects and is compensated by fees from third parties. 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, 2013.

In November 2010, the GASB issued Statement No. 61, *The Financial Reporting Entity Omnibus - An Amendment of GASB Statements No. 14 and No. 34*. This pronouncement modifies certain requirements for inclusion of component units in the financial reporting entity. This statement also amends the criteria for reporting component units as if they were part of the primary government (that is, blending) in certain circumstances. Lastly, the statement also clarifies the reporting of equity interests in legally separate organizations. 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, 2013.

In December 2010, the GASB issued Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. This statement incorporates into GASB literature certain accounting and financial reporting guidance issued on or before November 30, 1989 that is included in FASB Statements and Interpretation, APB Opinions, and Accounting Research Bulletins of the AICPA Committee on Accounting Procedure. 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, 2013.

In June 2011, the GASB issued Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. The statement will be effective for the City's 2013 fiscal year. The statement incorporates deferred outflows of resources and deferred inflows of resources, as defined by GASB Concepts Statement No. 4, into the definitions of the required components of the residual measure of net position, formerly net assets. This statement also provides a new statement of net position format to report all assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position. Once implemented, this statement will impact the format and reporting of the balance sheet at the government-wide level and also at the fund level.

In March 2012, the GASB issued Statement No. 65, *Items Previously Reported as Assets and Liabilities - An Amendment of GASB Statement No. 25*, which is required to be implemented for financial statements for periods beginning after December 15, 2012. Statement No. 65 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. This 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. 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, 2014.

In March 2012, the GASB issued Statement No. 66, *Technical Corrections - An Amendment of GASB Statements No. 10 and No. 62*. This statement amends or removes certain provisions of GASB Statements No. 10 and No. 62 related to fund-based reporting of a state and local government's risk financing activities, accounting for operating lease payments, differences between the initial investment and the principal amount of a purchased loan or group of loans, and servicing fees related to mortgage loans that are sold when the stated service fee rate differs significantly from the current (normal) servicing fee rate. The City is currently evaluating the impact this standard will have on the financial statements when adopted during the City's 2014 fiscal year.

In June 2012, the GASB issued Statement No. 67, *Financial Reporting for Pension Plans*. This new standard, which replaces the requirements of GASB Statements No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, and No. 50, *Pension Disclosures*, establishes standards for financial reporting that outline the basic framework for separately issued pension plan financial reports and specifies the required approach to measuring the liability of employer and certain nonemployer contributing entities, about which information is required to be disclosed. GASB Statement No. 67 is required to be adopted for years beginning after June 15, 2013. 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, 2014.

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 supplemental information (RSI). 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.

(t) Prior Period Adjustment and Restatement of Beginning Net Assets

The Detroit Public Library restated its beginning net assets at July 1, 2011. Beginning net assets were increased \$1,546,898 to correct the amount due from other governmental units previously recorded. Prior to restatement, beginning net assets were \$47,453,088.

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. The City faces significant risks threatening its ability to generate cash from revenues sufficient to pay operating expenditures and debt service. 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. City of Detroit unemployment rate was 18.3% in June 2012 (compared to 9.2% state and 8.4% national rates). Also, the large number of residents leaving the City and home foreclosures has adversely impacted City property valuations and property and income tax collections. Although there are signs of the economy improving, regional economic distress will likely present continued revenue pressures for the City in the near-term. Further stressing the City's liquidity are legacy costs such as retiree health care and debt service. As the City's tax base and revenues decline, the legacy costs become an increasing percentage of the General Fund Budget reducing funding available for essential services such as police and fire.

As a result of ongoing operating deficits over the past several years, the City had an accumulated unassigned General Fund deficit of \$326.6 million at June 30, 2012.

On March 29, 2012, the City borrowed \$80.0 million of short-term bonds with assistance of the State of Michigan through the Michigan Finance Authority. The bond proceeds were used to pay \$36.9 million of debt service on the City's limited tax self-insurance bonds due in April and May 2012 with the remainder set-aside to pay for the City's reform actions and self-insurance claims such as litigation and workers' compensation costs.

In addition, the City's General Fund borrowed a total of \$92.2 million from other City funds such as the Risk Management, Solid Waste, and Street funds to provide additional liquidity during the year ended June 30, 2012. Also, due to lack of cash, the General Fund owed the General Retirement System \$8.5 million, Police and Fire Retirement System \$51.9 million, and Benefits Fund \$37.7 million at June 30, 2012. On August 23, 2012, at a premium of \$9.1 million, the City borrowed \$129.5 million of limited tax general obligation bonds with maturities extending to November 2032, again with the assistance of the State through the Michigan Finance Authority. These bond proceeds were used to defease the \$76.5 million remaining of the \$80.0 million of short-term debt issued in March 2012, pay \$1.6 million of issuance costs, and the remainder totaling \$60.5 million was set-aside with a trustee bank in an escrow account to pay for the City's reform actions and self-insurance claims in fiscal year 2012-13. The City needs to meet specific milestones agreed to with the State and obtain the State Treasurer's approval to draw on these funds.

In November 2012, Moody's Investors Services downgraded the City's General Obligation Unlimited Tax and Certificates of Participation ratings to Caa1 from B3, and downgraded the City's General Obligation Limited Tax rating to Caa2 from Caa1. A significant impact of the recent downgrades in the City's credit ratings comes in the form of greater limitations on the access to capital and higher borrowing costs. An additional impact of the downgrades comes in the form of potential termination payments in connection with certain contractual agreements involving the exchange of future net interest expense cash flows (i.e. swap agreement terminations). The risk of swap terminations arose as a result of recent credit downgrades. In accordance with the swap agreements, the credit downgrades provide certain rights to the counterparties and insurers to designate an early termination date. The amount of swap termination payments would approximate the fair value of the swap agreements and would be based upon a variety of factors such as the various swap counterparties' financial pricing models, underlying variable debt, index or reference rates, and the point of pricing. At June 30, 2012, the fair value of the effected swap liabilities was \$354.7 million for the governmental activities and totaled \$439.3 million for the primary government (see Note VIII (f) for more details). Any termination payments would be allocated based on the notional allocation percentage of the affected Certificates of Participation, between the governmental and business-type activities. The City is exploring various options that would avoid termination of the swap agreements. Ongoing discussions are taking place with the swap counterparties to negotiate an outcome that avoids termination payments. However, if negotiations are unsuccessful, the City would continue to face significant risks in connection with the City's ability to meet the potential cash demands of termination payments under the terms of the amended swap agreements. Management believes that negotiations will achieve an outcome that will avoid the termination payments because, under the current amended swap agreements, the City's wagering tax revenues are deposited to a trust as collateral for the quarterly payment to the counterparties.

On December 6, 2011, the State of Michigan's Treasurer commenced a preliminary review of the City's finances in accordance with Public Act 4 of 2011 (Local Government and School District Fiscal Accountability Act). Public Act 4 authorized the State Treasurer to intervene in municipalities or school districts that experience severe financial stress or financial emergencies. The State Treasurer cited the City's liquidity risks and large debt including unfunded retiree health care costs to justify a preliminary financial review. As a result, of the State review, on April 4, 2012, the City entered into a consent agreement (Financial Stability Agreement) with the State, under which a Financial Advisory Board was established to oversee City finances and administer the Financial Stability Agreement. Under the Financial Stability Agreement, the City and State, acting through the State Treasurer, agreed to jointly exercise powers relating to the financial affairs of the City, including but not limited to, public finance, budgeting and certain administrative matters. The Financial Stability Agreement includes reform actions required to be taken by the City to assure effective delivery of essential government services and efficient financial operations in order to improve its financial condition. Phase I reforms include 21 separate items including, public lighting, safety, and transportation reforms and efficiencies, system upgrades and process improvements, employee benefit rationalization and labor reform, improvements to permitting, planning, and development, and restructuring of bonded debt and other long-term liabilities. Phase II reforms include further consolidation and restructuring of City departments, grants management restructuring, property management review, and implementation of best practices with respect to the City's pension and other post-employment benefits. On July 18, 2012, the City's Chief Financial Officer issued a directive to reduce headcount by 18% or 2,227 positions during the 2013 fiscal year. The directive also restricted the hiring of new personnel and established accountability for departments to stay within their budgets.

On December 11, 2012, the City's Financial Advisory Board requested the State of Michigan to begin a review of the City's finances. If the State's review team determines a serious financial emergency exists, then the State Treasurer can recommend the appointment of an emergency financial manager. If, in the judgment of an emergency financial manager, no reasonable alternative to rectifying the financial emergency exists, then they may institute proceedings under Chapter 9 of the United States Bankruptcy Code. The effect of instituting bankruptcy proceedings would be to make the City a debtor under the United States Bankruptcy Code.

Liquidity improvement is dependent upon successful implementation of the Financial Stability Agreement, elimination of the City's accumulated deficit, reduction of operating and legacy costs, effectuating financial restructuring measures, improving revenues or enhancing collections, and improvement in the local economy and tax base. It is the City's intent to arrange its financial affairs in accordance with the Financial Stability Agreement, effectuate financial restructuring measures, and manage its budget to eliminate its current deficit and provide for future balanced financial operations. The City's current plans include implementing operational efficiencies as well as obtaining wage and healthcare and pension benefit concessions. If, however, the City is unable to carry through on its efforts, its financial status could deteriorate further and its options to improve its fiscal health may be limited.

(b) Compliance with Finance Related Legal and Contractual Provisions

The City has fully implemented the necessary procedures to ensure compliance with the arbitrage rebate rules of Section 148(f) of the Internal Revenue Code of 1986 applicable to the City's outstanding tax-exempt obligations. The City settled selected bond issues with the Internal Revenue Service in August 2010 and September 2011. The City paid \$16,045 in August 2012 to settle the arbitrage issues concerning Water Supply System Revenue Bonds Series 1997-A and 1997-B issued in August 1997.

The City is required by State of Michigan law to fund its minimally required pension contributions for the fiscal year ended June 30, 2012, prior to said date. Notwithstanding this requirement, the City failed to remit its complete contribution prior to June 30, 2012. Contributions to the General Retirement and Police and Fire Retirement Systems of \$30.6 million and \$49.8 million, respectively, were remitted in fiscal year 2012-13 in accordance with the payment schedule agreed to between the City and the pension board.

As of June 30, 2012, the City failed to remit approximately \$16.6 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, 2012 were remitted in fiscal year 2012-13.

The City is not in compliance with State of Michigan Public Act 51 of 1951. The General Fund borrowed \$38.4 million from the Major and Local Street Funds, and the Telecommunications Fund, which is a violation of Public Act 51, which restricts the use of the funds for major and local streets.

The City is 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.

Bond ordinances require amounts to be held on deposit in a Bond and Interest Redemption Fund such that the aggregate balance is sufficient to provide for payment, when due, of the current principal and interest. During the fiscal year ended June 30, 2012, the balance in the Sewage Disposal Fund's Bond and Interest Redemption Fund was not in compliance with these ordinances. However, the Fund transferred the required amounts on July 1, 2012 and made the principal and interest payments on a timely basis.

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(c) Deficit Fund Equity

The General Fund had a deficit fund balance of \$269,486,657 at June 30, 2012. Local Development Finance Authority (a Component Unit) (LDFA) had a fund deficit of \$26,861,662. Eastern Market Corporation had an unrestricted fund deficit of \$123,209. The City's Financial Stability Agreement serves as the General Fund's deficit elimination plan. See Note XIII – Subsequent Events for details of the Financial Stability Agreement. 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.

(d) Excess of Expenditures Over General Fund Appropriations

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 its corresponding appropriation for the year ended June 30, 2012:

Agency Description	Appropriation Description	YTD Budget Final	YTD Actual	Variance
Building and Safety	Business License Center	\$ 609,484	\$ 764,627	\$ (155,143)
Finance	Treasury Division	11,355,446	11,543,053	(187,607)
Fire	Fire Fighting Operations	134,081,250	144,819,435	(10,738,185)
Health and Wellness Promotions	Community Health Services	1,167,010	1,297,439	(130,429)
	Lead Abatement	315,814	382,431	(66,617)
Human Resources	Personnel Selection	581,825	596,054	(14,229)
Human Services	Senior Advocacy	9,025	117,649	(108,624)
Non-Departmental	Tax Support-DOT	52,445,928	90,565,317	(38,119,389)
	Parking Systems Operating Advance	6,307,770	6,854,492	(546,722)
	Claims Fund (Insurance Premium)	66,751,937	75,686,421	(8,934,484)
	Centralized Utility Payments	11,000	38,060	(27,060)
Planning and Development	Real Estate & GIS	1,058,826	1,169,752	(110,926)
Police	Eastern Operations Bureau	9,119	226,515	(217,396)
	Western Operations Bureau	4,424	3,415,969	(3,411,545)
	Management Services Bureau	16,312,654	21,904,107	(5,591,453)
	Rape Counseling Unit	405,743	778,547	(372,804)
	Police Athletic League	575,241	694,159	(118,918)
	Operations	217,200,829	224,675,163	(7,474,334)
General Services Department	Administration	1,483,170	1,628,186	(145,016)
	General Services - Street Fund	3,527,493	3,674,546	(147,053)
	36th District Madison Center	4,146,373	4,191,927	(45,554)
	Inventory Management	4,147,512	4,878,155	(730,643)
Auditor General	Audit - CAFR	1,439,118	1,843,136	(404,018)
36th District Court	State Transferred Functions	28,562,599	30,802,665	(2,240,066)
Total All Agencies		\$ 552,509,590	\$ 632,547,805	\$ (80,038,215)

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The City amended the budget in a legally permissible manner in compliance with State of Michigan Public Act 2 of 1968 with the exception of a budget amendment approved by the City Council subsequent to June 30, 2012. On November 20, 2012, the City Council adopted a budget amendment intended to remove negative balances in various General Fund appropriations by redirecting unused authority within the total budgets of affected departments. Although procedurally late, this amendment demonstrated a commitment by the Mayor and the City Council to make public those instances where inappropriate expenditures occurred during the past fiscal year and to prevent similar occurrences in subsequent fiscal years. The amendment adjusted the following appropriations:

<u>Agency Description</u>	<u>Appropriation Description</u>	<u>Increase / (Decrease)</u>
Public Works	Administration	\$ (17,000)
	City Engineer	17,000
Finance	Administration	(389,000)
	Treasury Division	366,000
	DRMS	23,000
Fire	Executive Management and Support	(234,000)
	Ordinance Enforcement	(417,000)
	Vehicle Management and Supply	(105,000)
	Communication and System Support	(645,000)
	Environmental Response	(31,000)
	Casino Municipal Services-Fire	(1,117,000)
	Fire Fighting Operations	2,549,000
Department of Health	Herman Kiefer Family Center	(391,500)
	Food Sanitation	(223,000)
	Administration	391,500
	Primary Family Care	13,000
	Community Health Services	105,000
	Plant Operations & Maintenance-Herman Kiefer	41,000
	Lead Abatement	64,000
Human Resources	Administration	(100,000)
	Personnel Selection	6,000
	Labor Relations	94,000
Mayor	Executive Office	(8,000)
	Neighborhood City Halls	8,000
Planning and Development	Economic Growth Corporation	(103,000)
	Business Outreach	3,000
	Real Estate & GIS	100,000
Police	Police Executive	(180,000)
	Human Resources Bureau	(268,000)
	Criminal Investigation Bureau	(7,700,000)
	Enhanced E-911	(3,600,000)
	Casino Municipal Services-Police	(1,795,000)
	Administration	(510,000)

(Continued)

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<u>Agency Description</u>	<u>Appropriation Description</u>	<u>Increase / (Decrease)</u>
Police (Continued)	Legal Affairs/Training	\$ (2,050,000)
	Eastern Operations Bureau	268,000
	Western Operations Bureau	3,600,000
	Management Services Bureau	7,700,000
	Police Athletic League	130,000
	Operations	1,795,000
	Domestic Violence Unit	510,000
	Technical Services Bureau	50,000
	Investigations Portfolio	2,050,000
Public Lighting	Administration	(13,000)
	Engineering	(308,000)
	Street Lighting	(648,000)
	Operating Division	(86,000)
	Heat and Power Production	1,039,000
	Traffic Signals	16,000
General Services Department	Facilities & Grounds Maintenance	(1,217,000)
	Ground Maintenance	(521,000)
	Administration	166,000
	Inventory Management	1,051,000
	General Services	82,000
	36th District Madison Center	439,000
Auditor General	Auditing Operations	(351,000)
	Risk Management	(55,000)
	Auditing-CAFR	406,000
36TH District Court	District Court	(805,000)
	36th D. Security Reimbursement	(1,205,000)
	Drug Court	(24,000)
	Project Fresh Start	(27,000)
	State Transferred Functions	2,061,000
Total All Agencies		\$ <u><u>—</u></u>

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, 2012 is as follows:

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
Demand Deposits	\$ 82,058,495	\$ 308,175,693	\$ 390,234,188
U.S. Treasury Notes	7,582,579	—	7,582,579
U.S. Government Agency Securities	119,267,863	343,184,102	462,451,965
Money Market Funds	11,171,571	16,539,562	27,711,133
Governmental Investment Pools	47,828,248	234,205,258	282,033,506
Commercial Paper	—	32,983,642	32,983,642
Certificates of Deposit	—	10,027	10,027
Total	<u>\$ 267,908,756</u>	<u>\$ 935,098,284</u>	<u>\$ 1,203,007,040</u>

Deposits and investments of the governmental and business-type activities at June 30, 2012 are reported in the financial statements as follows:

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
Cash and Cash Equivalents	\$ 82,058,496	\$ 308,175,693	\$ 390,234,189
Investments	185,850,260	626,922,591	812,772,851
Total	<u>\$ 267,908,756</u>	<u>\$ 935,098,284</u>	<u>\$ 1,203,007,040</u>

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 MI 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's 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. All deposits held in non-interest bearing accounts are fully insured by the Federal Depository Insurance Corporation (FDIC) by the Dodd-Frank Act, through December 31, 2012. As of June 30, 2012, governmental activities had deposits of approximately \$4.1 million held in interest bearing accounts and were therefore exposed to custodial credit risk as they were uninsured and uncollateralized. As of June 30, 2012, all business-type deposits were held in non-interest bearing accounts and were fully insured by the FDIC.

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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, 2012:

	Total Fair Value	Investment Maturities in Years		
		Less Than 1 Year	1 – 5 Years	6 – 10 Years
Governmental Activities				
U.S. Treasury Notes	\$ 7,582,579	\$ 7,582,579	\$ —	\$ —
U.S. Government Agency Securities	119,267,862	—	119,267,862	—
Governmental Investment Pools	47,828,248	47,828,248	—	—
Money Market Funds	11,171,571	11,171,571	—	—
Total Governmental Activities	<u>\$ 185,850,260</u>	<u>\$ 66,582,398</u>	<u>\$ 119,267,862</u>	<u>\$ —</u>
Business-type Activities				
U.S. Government Agency Securities	\$ 343,184,102	\$ —	\$ 260,062,201	\$ 83,121,901
Governmental Investment Pools	234,205,258	234,205,258	—	—
Money Market Funds	16,539,562	16,539,562	—	—
Certificates of Deposit	10,027	—	10,027	—
Commercial Paper	32,983,642	32,983,642	—	—
Total Business-type Activities	<u>\$ 626,922,591</u>	<u>\$ 283,728,462</u>	<u>\$ 260,072,228</u>	<u>\$ 83,121,901</u>

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, 2012 as rated by S&P or Moody's:

	AAA	AAAm	Not Rated	Total
Governmental Activities				
U.S. Treasury Notes	\$ —	\$ —	\$ 7,582,579	\$ 7,582,579
U.S. Government Agency Securities	99,261,662	—	20,006,200	119,267,862
Governmental Investment Pools	—	44,635,396	3,192,852	47,828,248
Money Market Funds	—	11,171,571	—	11,171,571
Total Governmental Activities	<u>\$ 99,261,662</u>	<u>\$ 55,806,967</u>	<u>\$ 30,781,631</u>	<u>\$ 185,850,260</u>
Business-type Activities				
U.S. Government Agency Securities	\$ 328,191,652	\$ —	\$ 14,992,450	\$ 343,184,102
Governmental Investment Pools	231,845,936	—	2,359,322	234,205,258
Money Market Funds	16,539,562	—	—	16,539,562
Certificates of Deposit	—	—	10,027	10,027
Commercial Paper	—	—	32,983,642	32,983,642
Total Business-type Activities	<u>\$ 576,577,150</u>	<u>\$ —</u>	<u>\$ 50,345,441</u>	<u>\$ 626,922,591</u>

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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 (7.8 percent), Federal Home Loan Mortgage Corporation (8.8 percent), and Federal National Mortgage Association (36.9 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, 2012 is as follows:

	Pension and Other Employee Benefit Trust Funds				Agency Funds
	General Retirement System	Police and Fire Retirement System	Other Employee Benefits	Total	
Demand Deposits	\$ 7,972,442	\$ 8,470,026	\$ 488,664	\$ 16,931,132	\$ 1,213,755
Money Market Funds	—	—	—	—	20,590,845
Short-Term Investments	41,982,320	71,665,384	33,811,277	147,458,981	—
Stocks	1,076,798,650	1,369,740,351	5,100,200	2,451,639,201	—
Commingled Equity Funds	139,342,728	—	—	139,342,728	—
Bonds	162,079,138	642,880,961	—	804,960,099	—
Mortgage-Backed Securities	25,281,170	79,033,706	7,378	104,322,254	—
Governmental Investment Pools	7,240,000	237,657,224	—	244,897,224	—
Equity Interest in Real Estate	224,725,424	293,622,367	—	518,347,791	—
Private Placements	350,692,637	84,185,928	1,564,967	436,443,532	—
Mortgage and Construction Loans	106,609,727	123,530,241	—	230,139,968	—
Real Estate Investment Trusts Held by Custodian	—	41,072,094	—	41,072,094	—
Total	\$ 2,142,724,236	\$ 2,951,858,282	\$ 40,972,486	\$ 5,135,555,004	\$ 21,804,600

Cash and investments for fiduciary activities at June 30, 2012 are reported in the financial statements as follows:

	Pension and Other Employee Benefit Trust Funds				Agency Funds
	General Retirement System	Police & Fire Retirement System	Other Employee Benefits	Total	
Cash and Cash Equivalents	\$ 7,972,442	\$ 8,470,026	\$ 488,664	\$ 16,931,132	\$ 1,213,755
Investments	<u>2,134,751,794</u>	<u>2,943,388,256</u>	<u>40,483,822</u>	<u>5,118,623,872</u>	<u>20,590,845</u>
Total	\$ 2,142,724,236	\$ 2,951,858,282	\$ 40,972,486	\$ 5,135,555,004	\$ 21,804,600

Pension Funds

The Pension Funds are authorized by MI Public Act 314 of 1965, as amended, 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 is in accordance with Public Act 196 of 1997 and has authorized the investments according to MI Public Act 314. The Pension Funds' deposits and investment policies are in accordance with this statutory authority other than the following exceptions: In the General Retirement System, real estate asset balances under Section 19 and investments in Michigan-based small businesses under Section 20(a) were in excess of statutory limits by approximately 1.0 percent and 2.8 percent, respectively. In the Police and Fire Retirement System, investments in REITs, real estate, and Michigan-based small businesses under Section 19(1), 19(2), and 20(a) were in excess of statutory limits by approximately, 0.03 percentage points, 0.09 percentage points, and 0.55 percentage points, respectively.

Custodial Credit Risk of Bank Deposits

At June 30, 2012, the General Retirement System had no bank deposits (certificates of deposit, checking, and savings accounts) that were uninsured and uncollateralized. At June 30, 2012, the Police and Fire Retirement System had no deposits 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 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.

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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, 2012 (in \$000):

	<u>Fair Value</u>	<u>Less Than 1 Year</u>	<u>1-5 Years</u>	<u>6-10 Years</u>	<u>Over 10 Years</u>
General Retirement System					
U.S. Government	\$ 28,571	\$ 3,633	\$ 6,709	\$ 6,291	\$ 11,938
Mortgage-Backed Securities	9,598	3,236	2,665	244	3,453
Treasuries **	19,274	1	12,153	929	6,191
Corporate	52,199	1,324	14,192	28,418	8,265
Other Fixed Income	(33)	—	(33)	—	—
Convertible Stocks	512	—	512	—	—
Convertible Bonds	43	—	—	—	43
Private Placement	50,274	3,276	13,581	21,608	11,809
Pooled and Mutual Funds **	—	—	—	—	—
State and Local Obligations	772	—	—	—	772
Commingled Bond Funds **	17,908	17,908	—	—	—
Commercial Mortgages	71,273	60,633	11	—	10,629
Mortgages	97,824	71,171	26,653	—	—
Construction Loans	8,786	8,184	602	—	—
Term Loans	7,640	—	5,341	2,299	—
Total	<u>\$ 364,641</u>	<u>\$ 169,366</u>	<u>\$ 82,386</u>	<u>\$ 59,789</u>	<u>\$ 53,100</u>
Police & Fire Retirement System					
U.S. Government	\$ 160,694	\$ 3,571	\$ 46,388	\$ 8,543	\$ 102,192
Government Assets and Mortgage-Backed Securities	45,552	983	1,070	1,275	42,223
Treasuries	5,673	5,700	(3)	(36)	12
Corporate **	377,974	12,688	121,889	203,888	39,509
Private Placement	127,175	5,325	46,021	66,449	9,380
Convertible Bonds	27,922	2,707	14,744	2,132	8,339
State and Local Obligations	5,249	440	—	4,527	282
Convertible Preferred Stock **	9,815	8,612	560	—	643
Construction Loans	7,994	7,994	—	—	—
Mortgages	115,536	8,888	106,648	—	—
Total	<u>\$ 883,584</u>	<u>\$ 56,908</u>	<u>\$ 337,317</u>	<u>\$ 286,778</u>	<u>\$ 202,580</u>

** - Not all pooled and mutual funds, and commingled bond funds are subject to interest rate risk.

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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 Pension Funds' debt investments have the following ratings at June 30, 2012 as rated by S&P (in \$000):

	<u>AAA</u>	<u>AA</u>	<u>A</u>	<u>BBB</u>	<u>BB</u>	<u>B</u>	<u>CCC & Below</u>	<u>Not Rated</u>
General Retirement System								
U.S. Government	\$ —	\$ 29,322	\$ 772	\$ —	\$ —	\$ —	\$ —	\$ —
Corporate	7,232	3,698	14,396	9,583	10,483	19,505	4,315	108,787
Other Fixed Income	2,069	1,937	4,418	4,408	6,447	16,207	6,871	7,273
Convertible Bonds	—	—	—	—	43	—	—	—
Convertible Stocks	—	—	—	—	—	—	—	512
Commingled Bond Funds	—	1,250	—	—	—	—	—	55,256
Preferred Securities	—	—	—	348	—	—	555	2,360
Mortgages	—	—	—	—	—	—	—	97,824
Construction Loans	—	—	—	—	—	—	—	8,786
Total	<u>\$ 9,301</u>	<u>\$ 36,207</u>	<u>\$ 19,586</u>	<u>\$ 14,339</u>	<u>\$ 16,973</u>	<u>\$ 35,712</u>	<u>\$ 11,741</u>	<u>\$ 280,798</u>
Police & Fire Retirement System								
Government Fixed Income	—	156,768	1,627	2,128	164	358	—	2,044
Corporate Fixed Income	31,343	21,105	99,595	103,900	36,783	73,249	12,588	45,021
Private Placements	2,839	4,323	7,392	18,254	22,904	42,538	11,695	6,448
Convertible Bonds	—	—	6,853	8,387	4,575	3,625	—	4,482
Convertible Preferred Stock	—	—	—	6,384	643	—	—	2,789
Preferred Stock	—	—	—	—	933	—	—	2,184
Convertible Private Placements	1,056	—	486	2,794	777	1,120	—	4,501
Mortgages	—	—	—	—	—	—	—	115,536
Construction Loans	—	—	—	—	—	—	—	7,994
Total	<u>\$ 35,238</u>	<u>\$ 182,196</u>	<u>\$ 115,953</u>	<u>\$ 141,847</u>	<u>\$ 66,779</u>	<u>\$ 120,890</u>	<u>\$ 24,283</u>	<u>\$ 190,999</u>

Foreign Currency Risk

Foreign currency risk is the risk that an investment denominated in the currency of a foreign country could reduce U.S. dollar value because 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.

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The foreign currency risk for cash and investments of the Pension Funds at June 30, 2012 is as follows (in \$000):

	General Retirement System					Police and Fire Retirement System				
	Fixed Income	Equity	Cash	Forward Contracts	Net Other Investment Receivable / (Payable)	Equity	Forward Contracts Unrealized Gain (Loss)	Cash	Net Other Investment Receivable / (Payable)	
Australian Dollar	\$ 2,567	\$ 3,428	\$ 236	\$ (1,453)	10	\$ 8,889	\$ 1,183	\$ 83	\$ 13	
Brazilian Real	1,502	517	13	(148)	—	1,132	—	15	—	
British Pound Sterling	3,659	23,860	431	743	249	76,732	(68)	80	380	
Bulgarian Lev	—	212	—	—	—	—	—	—	—	
Canadian Dollar	516	3,628	53	(4)	—	19,512	3,767	123	(32)	
Chilean Peso	—	—	—	781	—	—	—	—	—	
Czech Koruna	—	186	23	(23)	—	—	—	—	—	
Danish Krone	—	3,030	72	(1,139)	(112)	4,995	(1,282)	74	(140)	
Euro Currency	7,653	30,494	5,009	(17,630)	(219)	88,532	(7,819)	6,771	(283)	
Ghana Cedi	92	—	7	—	—	—	—	—	—	
Hong Kong Dollar	—	6,872	661	(647)	100	11,107	(225)	38	12	
Hungarian Forint	1,011	—	—	—	—	—	—	—	—	
Indian Rupee	—	—	—	—	—	190	—	—	—	
Indonesian Rupiah	504	—	3	—	—	565	—	—	—	
Israeli Shekel	—	—	14	365	—	833	415	58	—	
Japanese Yen	—	24,605	296	(4,347)	(253)	47,319	(6,166)	703	(661)	
Malaysian Ringgit	1,039	—	—	(3)	3	348	(4)	—	4	
Mexican Nuevo Peso	3,064	—	19	—	—	163	—	—	—	
New Taiwan Dollar	—	772	—	—	—	445	—	601	—	
New Zealand Dollar	768	—	1	(635)	—	23	—	6	—	
Norwegian Krone	—	266	9	12	—	4,213	633	69	—	
New Turkish Lira	—	—	—	1,039	—	—	—	2	—	
Philippines Peso	—	—	—	—	—	380	—	—	—	
Polish Zloty	1,477	—	13	—	—	—	—	—	—	
Russian New Ruble	—	803	—	—	—	546	—	—	—	
Singapore Dollar	—	401	22	1,168	—	2,717	1,321	48	—	
South African Rand	1,001	—	—	—	—	838	—	2	—	
South Korean Won	1,077	1,167	38	—	—	577	—	—	—	
Swedish Krona	—	710	57	1,905	—	6,205	2,201	36	—	
Swiss Franc	290	11,681	240	(958)	71	24,240	(897)	486	—	
Thai Baht	—	—	—	—	—	594	—	—	92	
Ukraine Hryvana	—	15	—	—	—	—	—	—	—	
Total	\$ 26,220	\$ 112,647	\$ 7,217	\$ (20,974)	\$ (151)	\$ 301,095	\$ (6,941)	\$ 9,195	\$ (615)	

Securities Lending

As permitted by State statutes 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 fair value of the loaned securities. At June 30, 2012, the collateral provided for the General Retirement System and the Police and Fire Retirement System was 101.00 percent and 100.01 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.

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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, 2012 was 32 and 15 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 value of the underlying securities on loan for the General Retirement System at June 30, 2012 was \$137,864,912 and \$136,803,241, respectively. The collateral held and the fair value of the underlying securities on loan for the Police and Fire Retirement System at June 30, 2012 was \$336,556,836 and \$336,533,472, respectively.

<u>Securities Lent</u>	<u>Underlying Securities</u>	
	<u>General Retirement System</u>	<u>Police and Fire Retirement System</u>
U.S. Government and Agencies	\$ 4,287,428	\$ 11,563,082
U.S. Corporates	4,615,879	40,892,376
U.S. Equities	124,411,582	266,012,477
Non-U.S. Equities	3,488,352	18,065,537
Total	\$ <u>136,803,241</u>	\$ <u>336,533,472</u>

At June 30, 2012, the fair value of the collateral pool related to securities lending for the General Retirement System and the Police and Fire Retirement System was \$113,580,706 and \$309,769,129, 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 90 percent of the General Retirement System securities had a duration of less than one year, 3 percent had a duration between 1-3 years, and 7 percent had a duration over 15 years. Approximately 93 percent of the Police and Fire Retirement System securities had a duration of less than one year, 3 percent had a duration between 1-5 years, and 4 percent had a duration over 15 years.

The credit ratings of the securities lending collateral pool held at June 30, 2012 as rated by S&P are as follows:

<u>Ratings</u>	<u>General Retirement System</u>	<u>Police and Fire Retirement System</u>
AAA	\$ 8,831,770	\$ 19,028,459
AA	21,825,026	53,660,608
A	13,506,460	31,826,999
B	—	1,455,869
BBB	1,297,163	2,993,454
CCC	3,467,205	8,501,712
D	1,043,087	—
Not Rated	63,609,995	192,302,028
Total	\$ <u>113,580,706</u>	\$ <u>309,769,129</u>

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, 2012, all deposits were in non-interest bearing accounts and therefore fully insured by FDIC by the Dodd-Frank Act through December 31, 2012.

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 and Agency Trust Funds had the following debt investments and maturities at June 30, 2012:

	Total Fair Value	Investment Maturities in Years			
		Less Than 1 Year	1 – 5 Years	6 – 10 Years	> 10 Years
U.S. Government Agency Securities	\$ 7,378	\$ —	\$ —	\$ —	\$ 7,378
Money Market Funds	2,638,777	2,638,777	—	—	—
Mutual Funds	11,500,988	11,500,988	—	—	—
Total	\$ 14,147,143	\$ 14,139,765	\$ —	\$ —	\$ 7,378

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, 2012 as rated by S&P or Moody's:

	AAA	AAAm	Not Rated	Total
Money Market Funds	\$ —	\$ 2,351,040	\$ 287,737	\$ 2,638,777
U.S. Government Agency Securities	7,378	—	—	7,378
Mutual Funds	—	—	11,500,988	11,500,988
Total	\$ 7,378	\$ 2,351,040	\$ 11,788,725	\$ 14,147,143

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.

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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 assets.

Interfund receivables and payables at June 30, 2012 are as follows:

Due To	Due From					
	General Fund	GRSSC Fund	PFRSSC Fund	Non-Major Governmental Funds	Sewage Disposal Fund	Transportation Fund
General Fund	\$ —	\$ 462,468	\$ 495,166	\$ 23,339,864	\$ 2,767,281	\$ 776,281
Other Governmental Funds	78,880,659	—	—	71,719	3,338,054	4,025
Sewage Disposal Fund	14,863,179	35,626	—	—	—	—
Transportation Fund	71,246	41,572	—	—	—	—
Water Fund	3,960,102	31,439	—	3,489,389	33,978,579	—
Automobile Parking Fund	48,650	—	—	50,315	—	—
Non-Major Proprietary Fund	2,520	—	—	—	—	—
Fiduciary Funds (1)	98,174,316	—	—	—	6,989,284	8,061,039
Liabilities Total	\$ 196,000,672	\$ 571,105	\$ 495,166	\$ 26,951,287	\$ 47,073,198	\$ 8,841,345

	Due From				
	Water Fund	Automobile Parking Fund	Non-Major Proprietary Fund	Fiduciary Funds	Assets Total
General Fund	\$ 3,062,431	\$ 97,138	\$ 49,561	\$ 2,834,083	\$ 33,884,273
Other Governmental Funds	1,249,903	7,191	286	22,720	83,574,557
Sewage Disposal Fund	10,640,798	—	—	—	25,539,603
Transportation Fund	—	—	—	—	112,818
Water Fund	—	—	—	—	41,459,509
Automobile Parking Fund	19,188	—	30	—	118,183
Non-Major Proprietary Fund	—	—	—	—	2,520
Fiduciary Funds (1)	10,952,567	245,232	350,968	—	124,773,406
Liabilities Total	\$ 25,924,887	\$ 349,561	\$ 400,845	\$ 2,856,803	\$ 309,464,869

(1) This interfund payable primarily represents employer contributions that are due to the retirement systems at year end.

Of the total \$31,050,190 due from other funds to the General Fund, approximately \$16.6 million has been deferred as this amount is not expected to be repaid within one year.

(b) Advances

Advances represent interfund receivables and payables that will not be paid within one year. Advances between funds at June 30, 2012 are as follows:

Receivable Fund	Payable Fund	Amount
General Fund	Other Governmental Funds -	
	Capital Projects Fund	\$ 850,000 (1)
General Fund	Automobile Parking Fund	9,225,006 (1)
	Total	\$ 10,075,006

(1) These advances primarily represent amounts used for operating expenditures.

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(c) 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 Assets. The transfers are routine and consistent with the activities of the fund. Transfers between funds during the year ended June 30, 2012 are as follows:

Transfers In	Transfers Out		
	General Fund	Non-Major Governmental Funds	Total
General Fund	\$ —	\$ 9,036,861	\$ 9,036,861
General Retirement System Service Corporation	34,147,160	—	34,147,160
Police and Fire System Service Corporation	46,753,623	—	46,753,623
Non-Major Governmental Funds	67,966,154	22,018,047	89,984,201
Transportation Fund	87,159,982	—	87,159,982
Non-Major Proprietary Fund	515,871	—	515,871
Total	<u>\$ 236,542,790</u>	<u>\$ 31,054,908</u>	<u>\$ 267,597,698</u>

The General Fund transferred \$236.5 million to other funds. The largest transfers from the General Fund were made to the Transportation Fund for \$87.2 million to maintain bus operations and \$61.2 million to the Debt Service Fund (Non-Major Governmental Fund) for principal and interest payments. The General Fund also transferred a combined \$80.9 million to the City's Retirement System Service Corporations for interest payments on the Pension Obligation Certificates.

The Non-Major Governmental Funds transferred \$31.1 million to other funds. Included in this amount is the CDBG Fund transfer of \$12.1 million for demolition costs. The Major Street Fund transferred \$9.9 million to the Local Street Fund.

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NOTE V - CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2012 was as follows:

	<u>Balance June 30, 2011</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance June 30, 2012</u>
Governmental Activities				
Non-Depreciable Capital Assets:				
Land	\$ 413,828,059	\$ —	\$ (1,010,022)	\$ 412,818,037
Works of Art	29,804,733	—	—	29,804,733
Construction in Progress	<u>20,878,802</u>	<u>19,288,971</u>	<u>(18,669,488)</u>	<u>21,498,285</u>
Total Non-Depreciable Capital Assets	<u>464,511,594</u>	<u>19,288,971</u>	<u>(19,679,510)</u>	<u>464,121,055</u>
Depreciable Capital Assets:				
Buildings and Improvements	1,101,571,687	24,025,176	(1,373,506)	1,124,223,357
Machinery, Equipment, and Fixtures	593,550,060	21,530,276	(7,607,070)	607,473,266
Infrastructure	<u>986,953,867</u>	<u>51,475,905</u>	<u>—</u>	<u>1,038,429,772</u>
Total Depreciable Capital Assets	<u>2,682,075,614</u>	<u>97,031,357</u>	<u>(8,980,576)</u>	<u>2,770,126,395</u>
Less Accumulated Depreciation for:				
Buildings and Improvements	455,694,733	27,361,508	(1,373,505)	481,682,736
Machinery, Equipment, and Fixtures	480,203,450	32,108,913	(7,447,970)	504,864,393
Infrastructure	<u>746,123,211</u>	<u>21,575,838</u>	<u>—</u>	<u>767,699,049</u>
Total Accumulated Depreciation	<u>1,682,021,394</u>	<u>81,046,259</u>	<u>(8,821,475)</u>	<u>1,754,246,178</u>
Total Governmental Activities Capital Assets, Net	<u>\$ 1,464,565,814</u>	<u>\$ 35,274,069</u>	<u>\$ (19,838,611)</u>	<u>\$ 1,480,001,272</u>

Depreciation expense for governmental activities for the year ended June 30, 2012 was charged to functions as follows:

Public Protection	\$ 11,811,044
Health	531,149
Recreation and Culture	13,293,088
Economic Development	6,896,759
Housing Supply and Conditions	380,977
Physical Environment	14,376,466
Transportation Facilitation	14,367,841
Development and Management	<u>19,388,935</u>
Total	<u>\$ 81,046,259</u>

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	<u>Balance June 30, 2011</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance June 30, 2012</u>
Business-type Activities				
<i>Sewage Disposal Fund:</i>				
Non-Depreciable Assets:				
Land and Land Rights	\$ 12,110,899	\$ —	\$ —	\$ 12,110,899
Construction in Progress	387,620,585	88,721,768	(184,964,696)	291,377,657
Total Non-Depreciable Capital Assets	<u>399,731,484</u>	<u>88,721,768</u>	<u>(184,964,696)</u>	<u>303,488,556</u>
Depreciable Assets:				
Land Improvements	75,931,501	47,291	(500,891)	75,477,901
Buildings and Structures	1,827,699,600	155,113,613	(3,235,028)	1,979,578,185
Interceptors and Regulators	207,238,472	—	—	207,238,472
Machinery, Equipment, and Fixtures	1,630,220,746	54,833,971	(553,740)	1,684,500,977
Total Depreciable Capital Assets	<u>3,741,090,319</u>	<u>209,994,875</u>	<u>(4,289,659)</u>	<u>3,946,795,535</u>
Total Capital Assets	<u>4,140,821,803</u>	<u>298,716,643</u>	<u>(189,254,355)</u>	<u>4,250,284,091</u>
Less Accumulated Depreciation:				
Land Improvements	19,407,501	1,009,141	—	20,416,642
Buildings and Structures	530,704,326	40,430,479	(20,946)	571,113,859
Interceptors and Regulators	62,014,041	4,332,335	—	66,346,376
Machinery, Equipment, and Fixtures	599,561,484	69,832,094	—	669,393,578
Total Accumulated Depreciation	<u>1,211,687,352</u>	<u>115,604,049</u>	<u>(20,946)</u>	<u>1,327,270,455</u>
Total Sewage Disposal Fund Capital Assets, Net	<u>\$ 2,929,134,451</u>	<u>\$ 183,112,594</u>	<u>\$ (189,233,409)</u>	<u>\$ 2,923,013,636</u>
<i>Transportation Fund:</i>				
Non-Depreciable Capital Assets:				
Land and Land Rights	\$ 7,578,462	\$ —	\$ —	\$ 7,578,462
Construction in Progress	33,799,761	6,464,399	(37,170,501)	3,093,659
Total Non-Depreciable Capital Assets	<u>41,378,223</u>	<u>6,464,399</u>	<u>(37,170,501)</u>	<u>10,672,121</u>
Depreciable Capital Assets:				
Buildings and Structures	117,929,265	26,208,371	(383,616)	143,754,020
Vehicle and Buses	153,124,970	18,992,537	(22,439,685)	149,677,822
Machinery, Equipment, and Fixtures	61,435,187	2,783,259	(15,532,385)	48,686,061
Total Depreciable Capital Assets	<u>332,489,422</u>	<u>47,984,167</u>	<u>(38,355,686)</u>	<u>342,117,903</u>
Total Capital Assets	<u>373,867,645</u>	<u>54,448,566</u>	<u>(75,526,187)</u>	<u>352,790,024</u>
Less Accumulated Depreciation:				
Buildings and Structures	53,869,783	2,392,684	(371,583)	55,890,884
Vehicle and Buses	98,306,768	11,250,947	(21,114,273)	88,443,442
Machinery, Equipment, and Fixtures	40,738,921	4,503,656	(15,476,412)	29,766,165
Total Accumulated Depreciation	<u>192,915,472</u>	<u>18,147,287</u>	<u>(36,962,268)</u>	<u>174,100,491</u>
Total Transportation Fund Capital Assets, Net	<u>\$ 180,952,173</u>	<u>\$ 36,301,279</u>	<u>\$ (38,563,919)</u>	<u>\$ 178,689,533</u>

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	<u>Balance</u> <u>June 30, 2011</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance</u> <u>June 30, 2012</u>
Business-type Activities				
<i>Water Fund:</i>				
Non-Depreciable Capital Assets:				
Land and Land Rights	\$ 6,062,803	\$ 403,683	\$ —	\$ 6,466,486
Construction in Progress	197,274,741	68,371,303	(29,978,418)	235,667,626
Total Non-Depreciable Capital Assets	<u>203,337,544</u>	<u>68,774,986</u>	<u>(29,978,418)</u>	<u>242,134,112</u>
Depreciable Capital Assets:				
Land Improvements	100,242,927	1,061,465	(6,866)	101,297,526
Buildings and Structures	779,439,395	2,409,604	(610,804)	781,238,195
Mains	984,494,019	13,420,579	(156,761)	997,757,837
Services	51,838,576	—	—	51,838,576
Meters	121,284,350	1,902,613	—	123,186,963
Machinery, Equipment, and Fixtures	1,002,447,145	10,005,891	(1,019,877)	1,011,433,159
Total Depreciable Capital Assets	<u>3,039,746,412</u>	<u>28,800,152</u>	<u>(1,794,308)</u>	<u>3,066,752,256</u>
Total Capital Assets	<u>3,243,083,956</u>	<u>97,575,138</u>	<u>(31,772,726)</u>	<u>3,308,886,368</u>
Less Accumulated Depreciation:				
Land Improvements	15,126,317	1,502,818	—	16,629,135
Buildings and Structures	268,289,301	17,430,291	(1,285,936)	284,433,656
Mains	323,485,646	14,027,618	—	337,513,264
Services	26,710,849	135,420	—	26,846,269
Meters	39,659,419	5,058,659	—	44,718,078
Machinery, Equipment, and Fixtures	397,490,879	43,451,428	(541)	440,941,766
Total Accumulated Depreciation	<u>1,070,762,411</u>	<u>81,606,234</u>	<u>(1,286,477)</u>	<u>1,151,082,168</u>
Total Water Fund Capital Assets, Net	<u>\$ 2,172,321,545</u>	<u>\$ 15,968,904</u>	<u>\$ (30,486,249)</u>	<u>\$ 2,157,804,200</u>

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	<u>Balance</u> <u>June 30, 2011</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance</u> <u>June 30, 2012</u>
Business-type Activities				
<i>Automobile Parking Fund:</i>				
Non-Depreciable Capital Assets:				
Land and Land Rights	\$ 4,967,313	\$ —	\$ —	\$ 4,967,313
Construction in Progress	71,155	41,640	(112,795)	—
Total Non-Depreciable Capital Assets	<u>5,038,468</u>	<u>41,640</u>	<u>(112,795)</u>	<u>4,967,313</u>
Depreciable Capital Assets:				
Land Improvements	214,908	—	—	214,908
Buildings and Structures	199,987,186	79,217	—	200,066,403
Vehicles and Buses	1,367,994	—	(113,843)	1,254,151
Machinery, Equipment, and Fixtures	3,370,921	—	—	3,370,921
Total Depreciable Capital Assets	<u>204,941,009</u>	<u>79,217</u>	<u>(113,843)</u>	<u>204,906,383</u>
Total Capital Assets	<u>209,979,477</u>	<u>120,857</u>	<u>(226,638)</u>	<u>209,873,696</u>
Less Accumulated Depreciation:				
Land Improvements	192,169	3,143	—	195,312
Buildings and Structures	119,440,363	2,944,192	—	122,384,555
Vehicles and Buses	1,165,082	65,427	(113,843)	1,116,666
Machinery, Equipment, and Fixtures	2,347,892	186,608	—	2,534,500
Total Accumulated Depreciation	<u>123,145,506</u>	<u>3,199,370</u>	<u>(113,843)</u>	<u>126,231,033</u>
Total Automobile Parking Fund Capital Assets, Net	<u>\$ 86,833,971</u>	<u>\$ (3,078,513)</u>	<u>\$ (112,795)</u>	<u>\$ 83,642,663</u>

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	<u>Balance</u> <u>June 30, 2011</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance</u> <u>June 30, 2012</u>
Business-type Activities				
<i>Other Proprietary Fund:</i>				
Non-Depreciable Capital Assets:				
Land and Land Rights	\$ 17,117,669	\$ 208,124	\$ —	\$ 17,325,793
Construction in Progress	112,500	—	—	112,500
Total Non-Depreciable Capital Assets	<u>17,230,169</u>	<u>208,124</u>	<u>—</u>	<u>17,438,293</u>
Depreciable Capital Assets:				
Land Improvements	8,020,718	—	—	8,020,718
Buildings and Structures	5,853,773	—	—	5,853,773
Vehicle and Buses	1,352,993	—	(26,300)	1,326,693
Machinery, Equipment, and Fixtures	1,825,327	—	—	1,825,327
Total Depreciable Capital Assets	<u>17,052,811</u>	<u>—</u>	<u>(26,300)</u>	<u>17,026,511</u>
Total Capital Assets	<u>34,282,980</u>	<u>208,124</u>	<u>(26,300)</u>	<u>34,464,804</u>
Less Accumulated Depreciation:				
Land Improvements	7,640,718	40,000	—	7,680,718
Buildings and Structures	5,116,675	52,647	—	5,169,322
Vehicle and Buses	1,354,899	20,097	(26,300)	1,348,696
Machinery, Equipment, and Fixtures	1,460,303	47,323	—	1,507,626
Total Accumulated Depreciation	<u>15,572,595</u>	<u>160,067</u>	<u>(26,300)</u>	<u>15,706,362</u>
Total Other Proprietary Fund Capital Assets, Net	<u>\$ 18,710,385</u>	<u>\$ 48,057</u>	<u>\$ —</u>	<u>\$ 18,758,442</u>

Certain beginning balances in the Water and Sewage Disposal Funds have been reclassified as a result of changes in capital asset classifications to reflect a more accurate presentation.

During the year, the Transportation Fund experienced an asset impairment loss related to the Woodward Light Rail System project of \$10,626,646. The loss has been recorded in operating expenses.

See Note XII (f) for discussion of commitments related to construction activities.

NOTE VI. SHORT-TERM OBLIGATIONS

As of June 30, 2012, short-term notes payable consisted of Limited Tax General Obligation Revenue Bonds, Series 2012A of \$80,000,000 with a stated interest rate of 2.97 percent. The bonds were used to refinance certain outstanding indebtedness, to fund the City's Risk Management Fund, and for other municipal purposes.

Changes in short-term debt for the year ended June 30, 2012 were as follows:

	<u>Balance</u> <u>June 30, 2011</u>	<u>Increase</u>	<u>Decrease</u>	<u>Balance</u> <u>June 30, 2012</u>
General Obligation Revenue Bonds	\$ —	\$ 80,000,000	\$ —	\$ 80,000,000

See Note XIII (c) for discussion of payoff of General Obligation Revenue Bonds.

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NOTE VII. LONG-TERM OBLIGATIONS

(a) Changes in Long-Term Obligations

Changes in long-term obligations for the year ended June 30, 2012 were as follows:

	<u>Balance</u> <u>June 30, 2011</u>	<u>Increase</u>	<u>Decrease</u>	<u>Balance</u> <u>June 30, 2012</u>	<u>Amount</u> <u>Due Within</u> <u>One Year</u>
Governmental Activities					
General Obligation Bonds	\$ 1,033,233,278	\$ —	\$ (76,105,000)	\$ 957,128,278	\$ 82,711,310
Notes Payable	88,926,000	5,753,000	(5,288,000)	89,391,000	1,081,000
Loans Payable	36,594,622	—	(2,387,405)	34,207,217	480,551
Total Bonds, Notes, and Loans Payable	1,158,753,900	5,753,000	(83,780,405)	1,080,726,495	84,272,861
Add: Unamortized Premiums	15,854,345	—	(1,769,753)	14,084,592	—
Total Bonds, Notes, and Loans Payable, Net	1,174,608,245	5,753,000	(85,550,158)	1,094,811,087	84,272,861
Pension Obligation					
Certificates Payable	1,194,003,260	—	(13,718,024)	1,180,285,236	18,782,517
Deferred Amounts on Refunding	14,026,441	—	(42,042)	13,984,399	—
Total Pension Obligation Certificates Payable, Net	1,208,029,701	—	(13,760,066)	1,194,269,635	18,782,517
Other Long-Term Liabilities:					
Accrued Compensated Absences	106,952,435	25,378,812	(50,231,534)	82,099,713	50,231,534
Accrued Workers' Compensation	65,757,000	10,902,083	(10,428,083)	66,231,000	9,329,000
Claims and Judgments	80,960,260	27,421,813	(46,378,816)	62,003,257	4,426,806
Accrued Pollution Remediation	725,571	—	(725,571)	—	—
Accrued Other Postemployment Benefits	481,483,812	284,043,614	(145,272,934)	620,254,492	—
Total Other Long-Term Liabilities	735,879,078	347,746,322	(253,036,938)	830,588,462	63,987,340
Total Governmental Activities	\$ 3,118,517,024	353,499,322	\$ (352,347,162)	\$ 3,119,669,184	\$ 167,042,718

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	<u>Balance</u> <u>June 30, 2011</u>	<u>Increase</u>	<u>Decrease</u>	<u>Balance</u> <u>June 30, 2012</u>	<u>Amount</u> <u>Due Within</u> <u>One Year</u>
Business-type Activities					
<i>Sewage Disposal Fund:</i>					
Revenue Bonds Payable	\$ 2,330,450,000	\$ 659,780,000	\$ (196,305,000)	\$ 2,793,925,000	\$ 30,845,000
Capital Appreciation Bonds	90,545,000	—	—	90,545,000	10,295,000
Discount on Capital					
Appreciation Bonds	(24,602,424)	—	3,988,499	(20,613,925)	—
State Revolving Loans	514,431,879	28,483,386	(34,679,000)	508,236,265	35,435,000
Total Revenue Bonds Payable	2,910,824,455	688,263,386	(226,995,501)	3,372,092,340	76,575,000
Add: Unamortized Premiums	117,420,214	9,898,141	(11,827,650)	115,490,705	—
Less:					
Deferred Amounts on Refunding	(134,046,367)	(141,572,658)	38,040,767	(237,578,258)	—
Total Revenue Bonds Payable, Net	2,894,198,302	556,588,869	(200,782,384)	3,250,004,787	76,575,000
Pension Obligation					
Certificates Payable	90,114,924	—	(1,035,281)	89,079,643	1,417,492
Deferred Amounts on Refunding	1,077,689	—	(3,230)	1,074,459	—
Total Pension Obligation Certificates Payable, Net	91,192,613	—	(1,038,511)	90,154,102	1,417,492
Other Long-Term Liabilities:					
Capital Leases Payable	30,534	—	(30,534)	—	—
Accrued Compensated Absences	7,923,625	1,409,000	(3,830,144)	5,502,481	3,830,144
Accrued Workers' Compensation	3,542,000	1,118,518	(1,106,518)	3,554,000	565,000
Claims and Judgments	1,500,000	19,500	—	1,519,500	19,500
Accrued Pollution Remediation	973,113	—	(632,500)	340,613	340,613
Accrued Other Postemployment Benefits	43,203,839	23,758,065	(10,125,823)	56,836,081	—
Total Other Long-Term Liabilities	57,173,111	26,305,083	(15,725,519)	67,752,675	4,755,257
Total Sewage Disposal Fund	\$ 3,042,564,026	\$ 582,893,952	\$ (217,546,414)	\$ 3,407,911,564	\$ 82,747,749

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	<u>Balance June 30, 2011</u>	<u>Increase</u>	<u>Decrease</u>	<u>Balance June 30, 2012</u>	<u>Amount Due Within One Year</u>
Business-type Activities					
<i>Transportation Fund:</i>					
General Obligation Bonds	\$ 6,271,722	\$ —	\$ —	\$ 6,271,722	\$ 813,690
Pension Obligation					
Certificates Payable	105,143,913	—	(1,208,081)	103,935,832	1,654,087
Deferred Amounts on Refunding	<u>1,256,613</u>	<u>—</u>	<u>(3,602)</u>	<u>1,253,011</u>	<u>—</u>
Total Pension Obligation Certificates Payable, Net	<u>106,400,526</u>	<u>—</u>	<u>(1,211,683)</u>	<u>105,188,843</u>	<u>1,654,087</u>
Other Long-Term Liabilities:					
Capital Leases Payable	16,588,457	—	(3,910,099)	12,678,358	4,075,369
Accrued Compensated Absences	4,743,042	3,046,242	(3,893,868)	3,895,416	3,893,863
Accrued Workers' Compensation	5,399,983	433,088	(263,259)	5,569,812	1,206,328
Accrued Other Postemployment Benefits	<u>59,751,367</u>	<u>24,772,235</u>	<u>(12,116,410)</u>	<u>72,407,192</u>	<u>—</u>
Total Other Long-Term Liabilities	<u>86,482,849</u>	<u>28,251,565</u>	<u>(20,183,636)</u>	<u>94,550,778</u>	<u>9,175,560</u>
Total Transportation Fund	<u>\$ 199,155,097</u>	<u>\$ 28,251,565</u>	<u>\$ (21,395,319)</u>	<u>\$ 206,011,343</u>	<u>\$ 11,643,337</u>

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	<u>Balance</u> <u>June 30, 2011</u>	<u>Increase</u>	<u>Decrease</u>	<u>Balance</u> <u>June 30, 2012</u>	<u>Amount</u> <u>Due Within</u> <u>One Year</u>
Business-type Activities					
<i>Water Fund:</i>					
Revenue Bonds Payable	\$ 2,195,495,000	\$ 500,675,000	(139,775,000)	\$ 2,556,395,000	\$ 31,620,000
State Revolving Loans	<u>23,579,245</u>	<u>1,009,516</u>	<u>(1,635,000)</u>	<u>22,953,761</u>	<u>1,575,000</u>
Total Revenue Bonds Payable	2,219,074,245	501,684,516	(141,410,000)	2,579,348,761	33,195,000
Add: Unamortized Premiums	57,116,455	4,778,710	(3,351,357)	58,543,808	—
Less:					
Unamortized Discounts	(3,800,596)	(204,448)	160,820	(3,844,224)	—
Deferred Amounts on Refunding	<u>(112,558,442)</u>	<u>(79,599,228)</u>	<u>77,022,267</u>	<u>(115,135,403)</u>	<u>—</u>
Total Revenue Bonds Payable, Net	<u>2,159,831,662</u>	<u>426,659,550</u>	<u>(67,578,270)</u>	<u>2,518,912,942</u>	<u>33,195,000</u>
Pension Obligation Certificates Payable	79,517,902	—	(913,613)	78,604,289	1,250,905
Deferred Amounts on Refunding	<u>956,355</u>	<u>—</u>	<u>(2,867)</u>	<u>953,488</u>	<u>—</u>
Total Pension Obligation Certificates Payable, Net	<u>80,474,257</u>	<u>—</u>	<u>(916,480)</u>	<u>79,557,777</u>	<u>1,250,905</u>
Other Long-Term Liabilities:					
Capital Leases Payable	30,534	—	(30,534)	—	—
Accrued Compensated Absences	10,881,220	5,346,490	(6,806,399)	9,421,311	6,806,399
Accrued Workers' Compensation	10,337,000	3,332,605	(3,330,605)	10,339,000	1,489,000
Claims and Judgments	3,774,000	88,610	(3,576,110)	286,500	68,000
Accrued Other Postemployment Benefits	<u>40,578,926</u>	<u>22,451,623</u>	<u>(9,727,384)</u>	<u>53,303,165</u>	<u>—</u>
Total Other Long-Term Liabilities	<u>65,601,680</u>	<u>31,219,328</u>	<u>(23,471,032)</u>	<u>73,349,976</u>	<u>8,363,399</u>
Total Water Fund	<u>\$ 2,305,907,599</u>	<u>\$ 457,878,878</u>	<u>\$ (91,965,782)</u>	<u>\$ 2,671,820,695</u>	<u>\$ 42,809,304</u>

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	<u>Balance</u> <u>June 30, 2011</u>	<u>Increase</u>	<u>Decrease</u>	<u>Balance</u> <u>June 30, 2012</u>	<u>Amount</u> <u>Due Within</u> <u>One Year</u>
Business-type Activities					
<i>Automobile Parking Fund:</i>					
Revenue Bonds Payable	\$ 11,575,000	\$ —	\$ (1,110,000)	\$ 10,465,000	\$ 1,165,000
Less:					
Unamortized Discounts	(233,618)	—	29,196	(204,422)	—
Total Revenue Bonds Payable, Net	<u>11,341,382</u>	<u>—</u>	<u>(1,080,804)</u>	<u>10,260,578</u>	<u>1,165,000</u>
Other Long-Term Liabilities:					
Advances from other funds	9,225,006	—	—	9,225,006	—
Accrued Compensated Absences	232,326	241,200	(196,712)	276,814	196,712
Accrued Workers' Compensation	685,000	27,146	(45,146)	667,000	95,000
Claims and Judgments	83,497	42,000	(15,000)	110,497	110,497
Accrued Other Postemployment Benefits	1,368,171	675,601	(239,345)	1,804,427	—
Total Other Long-Term Liabilities	<u>11,594,000</u>	<u>985,947</u>	<u>(496,203)</u>	<u>12,083,744</u>	<u>402,209</u>
Total Automobile Parking Fund	<u>\$ 22,935,382</u>	<u>\$ 985,947</u>	<u>\$ (1,577,007)</u>	<u>\$ 22,344,322</u>	<u>\$ 1,567,209</u>
<i>Other Proprietary Fund:</i>					
Accrued Compensated Absences	\$ 63,187	\$ 23,546	\$ (33,291)	\$ 53,442	\$ 33,291
Accrued Workers' Compensation	97,000	—	(5,000)	92,000	13,000
Claims and Judgments	2,000	1,670	(1,670)	2,000	—
Accrued Other Postemployment Benefits	172,172	144,036	(179,277)	136,931	—
Total Other Proprietary Fund	<u>\$ 334,359</u>	<u>\$ 169,252</u>	<u>\$ (219,238)</u>	<u>\$ 284,373</u>	<u>\$ 46,291</u>

(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 secured 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. 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.

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Schedule of General Obligation Bonds

The following is a schedule of general obligation bonds outstanding at June 30, 2012:

	<u>Bond Date</u>	<u>Amount Issued</u>	<u>Range of Interest Rates</u>	<u>Maturity Date</u>	<u>Balance June 30, 2012</u>	
Governmental Activities						
General Obligation Bonds -						
Unlimited Tax:						
Series 1999-A	4-1-99	\$ 28,020,000	5.00 to 5.25%	4/1/13-19	\$ 21,040,000	b
Series 2001-A(1)	7-15-01	83,200,000	5.0 to 5.375	4/1/13-21	80,400,000	b
Series 2001-B	7-15-01	23,235,000	5.375	4/1/13-14	13,680,000	b
Series 2002	8-2-02	29,205,000	4.00 to 5.13	4/1/13-22	6,645,000	b
Series 2003-A	10-21-03	9,640,000	3.70 to 5.00	4/1/2013	2,575,000	
Series 2003-A	10-21-03	34,380,000	4.00 to 5.25	4/1/14-23	34,380,000	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	23,720,000	3.75 to 5.00	4/1/13-14	16,175,000	
Series 2004-B(1)	9-9-04	29,365,000	4.0 to 5.25	4/1/15-18	29,365,000	b
Series 2004-B(2)	9-9-04	17,270,000	4.16 to 5.24	4/1/13-18	865,000	
Series 2005-B	12-1-05	13,840,000	4.00 to 5.00	4/1/13-16	8,955,000	
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	4.00 to 5.00	4/1/13-16	12,230,000	a
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	5.00	4/1/14-18	15,120,000	
Series 2008-A	6-9-08	43,510,000	4.00 to 5.00	4/1/19-28	43,510,000	b
Series 2008-B(1)	6-9-08	66,475,000	5.00	4/1/13-18	37,905,000	
Series 2010-E	12-16-10	100,000,000	5.129 to 8.369	11/1/14-35	<u>100,000,000</u>	
Total General Obligation Bonds - Unlimited Tax					<u>\$ 510,830,000</u>	

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	<u>Bond Date</u>	<u>Amount Issued</u>	<u>Range of Interest Rates</u>	<u>Maturity Date</u>	<u>Balance June 30, 2012</u>
Governmental Activities (continued)					
General Obligation Bonds - Limited Tax:					
Self-Insurance Bonds:					
Series 2003	10-2-03	\$ 98,895,000	4.32 to 4.97%	5/1/2013	\$ 17,770,000
Series 2004	9-9-04	62,285,000	4.16 to 4.85	4/1/13-14	25,405,000
General Obligation:					
Series 2005-A(1)	6-24-05	21,325,000	4.27 to 4.53	4/1/13-15	11,320,000
Series 2005-A(1)	6-24-05	52,175,000	4.61 to 5.15	4/1/16-25	52,175,000 b
Series 2005-A(2)	6-24-05	4,055,000	3.50 to 4.50	4/1/12-15	2,145,000
Series 2005-A(2)	6-24-05	9,475,000	4.00 to 5.00	4/1/16-25	9,475,000 b
Series 2005-B	6-24-05	4,845,000	3.50 to 5.00	4/1/13-15	2,835,000
Series 2005-B	6-24-05	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	4/1/13-16	43,443,278
Series 2008-A(2)	6-9-08	25,000,000	8.00	4/1/2014	25,000,000
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					<u>446,298,278</u>
Total General Obligation Bonds					<u>\$ 957,128,278</u>
Business-type Activities					
<i>Transportation Fund:</i>					
General Obligation Bonds - Limited Tax:					
Series 2008-A(1)	6-9-08	6,271,722	5.00%	4/1/13-16	<u>\$ 6,271,722</u>

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

In June 2012, the Fund issued \$659,780,000 in Senior Lien Refunding Revenue Bonds with an average interest rate of 5.05 percent. The proceeds of these bonds were used to advance refund \$158,040,000 of bonds with an average interest rate of 5.00 percent. A portion of the net proceeds in the amount of \$138,098,986 (after payment of \$7,799,243 in underwriting fees, insurance, and other issuance costs, and \$321,598,001 in swap termination fees, which includes \$7,264,901 of accrued interest) were used to purchase U.S. government securities and were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the original bonds. As a result, the bonds are considered to be defeased and the liability for the bonds has been removed from the Fund's long-term obligations. The advance refunding reduced total debt service payments over the next 21 years by \$18,429,487, which represents an economic gain of \$10,197,148.

The Fund has pledged substantially all revenues of the Sewage Disposal Fund, net of operating expenses, to repay the above sewer revenue bonds and state revolving loans. Proceeds from the bonds provided financing for the construction and maintenance of the sewage disposal system. The bonds are payable solely from the net revenues of the sewer system. The remaining principal and interest at June 30, 2012 to be paid on the bonds is \$5,845,675,079. During the current year, net revenues of the system were \$227,447,337 compared to the amount pledged for annual debt requirements of \$199,990,125. In addition, the Fund has approximately \$119 million in bond and interest reserves on hand at June 30, 2012.

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The City received loans from the State of Michigan Revolving Fund Loan Program totaling \$28,483,386 during the year ended June 30, 2012. The proceeds of the loans were used to pay costs of acquiring, constructing extensions, and making certain repairs and improvements to the sewage disposal system. At June 30, 2012, \$17,539,035 in loans was authorized and unissued.

Water Fund

In December 2011, the Fund issued \$396,785,000 in Senior Lien Revenue Bonds. The proceeds of the bonds were used to finance capital improvements and pay swap terminations fees.

The Fund also issued \$103,890,000 in Senior Lien Refunding Revenue Bonds with an average interest rate of 5.11 percent. The proceeds of these bonds were used to advance refund \$96,360,000 of bonds with an average interest rate of 5.07 percent. A portion of the net proceeds in the amount of \$103,059,121 (after payment of \$876,625 in underwriting fees, insurance, and other issuance costs, and \$225,620,525 in swap termination fees, which includes \$3,699,096 of accrued interest) were used to purchase U.S. government securities and were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the original bonds. As a result, the bonds are considered to be defeased and the liability for the bonds has been removed from the Fund's long-term obligations. The advance refunding reduced total debt service payments over the next 16 years by \$2,602,978, which represents an economic gain of \$1,223,122.

The Fund has pledged substantially all revenues of the water fund, net of operating expenses, to repay the water revenue bonds and state revolving loans. Proceeds from the bonds provided financing for the construction and maintenance of the water supply system. The bonds are payable solely from the net revenues of the water system. The remaining principal and interest at June 30, 2012 to be paid on the bonds is \$4,836,365,430. During the current year, net revenues of the system were \$178,842,057 compared to the amount pledged for annual debt requirements of \$153,441,666. In addition, the Fund has approximately \$100 million in bond and interest reserves on hand at June 30, 2012.

The City received loans from the State of Michigan Revolving Fund Loan Program totaling \$1,009,516 during the year ended June 30, 2012. The proceeds of the loans were used to pay costs of acquiring, contracting extensions, and making certain repairs and improvements to the water supply system. At June 30, 2012, \$5,368,895 in loans was authorized and unissued.

Automobile Parking Fund

The Fund has pledged substantially all revenues of the parking fund from its System of Parking Facilities (the System), net of operating expenses, to repay the fund's revenue bonds. Proceeds from the bonds provided financing for the construction and maintenance of the various facilities operated by the Fund. The sole source for repayment of the bonds is the net revenues of the System. The remaining principal and interest at June 30, 2012 to be paid on the bonds is \$12,655,869. During the current year, net revenues of the system were \$2,708,223 compared to the amount pledged for annual debt requirements of \$2,923,454. In addition, the Fund has approximately \$1.7 million in bond and interest reserves on hand at June 30, 2012.

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Schedule of Revenue Bonds

The following is a schedule of revenue bonds (including capital appreciation bonds and state revolving loans) outstanding at June 30, 2012:

	<u>Bond Date</u>	<u>Amount Issued</u>	<u>Range of Interest Rates</u>	<u>Maturity Date</u>	<u>Balance June 30, 2012</u>	
Business-type Activities						
<i>Sewage Disposal Fund:</i>						
Sewage Disposal System Revenue Bonds:						
Series 1998-A	12-14-06	\$ 18,540,000	5.50 %	7/1/12-17	\$ 16,440,000	
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	7/1/12-17	16,510,000	
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	7/1/12-21	69,931,075	
Series 2001-B	9-15-01	110,550,000	5.50	7/1/23-29	110,550,000	
Series 2001-C (1)	6-5-09	6,360,000	5.25	7/1/12-19	4,930,000	
Series 2001-C (1)	6-5-09	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	3.50 to 4.00	7/1/12-18	2,305,000	
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	9-23-01	92,450,000	Variable (a)	7/1/32	21,315,000	b
Series 2001-E	5-8-08	136,150,000	5.75	7/1/24-31	136,150,000	b
Series 2003-A	5-22-03	158,000,000	3.30 to 5.00	7/1/12-13	84,125,000	
Series 2003-A	5-22-03	441,380,000	3.50 to 5.50	7/1/14-32	128,940,000	b
Series 2003-B	6-5-09	150,000,000	7.50	7/1/32-33	150,000,000	b
Series 2004-A	1-09-04	101,435,000	5.00 to 5.25	7/1/12-24	74,380,000	
Series 2005-A	3-17-05	3,765,000	3.40 to 3.70	7/1/12-15	2,495,000	
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	3.40 to 5.50	7/1/12-22	40,215,000	
Series 2005-C	3-17-05	22,065,000	5.00	7/1/12-15	16,185,000	
Series 2005-C	3-17-05	41,095,000	5.00	7/1/16-25	41,095,000	b
Series 2006-A	5-8-08	123,655,000	5.50	7/1/34-36	123,655,000	b
Series 2006-B	8-10-06	11,850,000	4.00 to 5.00	7/1/12-16	7,960,000	
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)	7/1/12-32	289,430,000	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					<u>\$ 2,863,856,075</u>	

* * - 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.

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	<u>Bond Date</u>	<u>Amount Issued</u>	<u>Range of Interest Rates</u>	<u>Maturity Date</u>	<u>Balance June 30, 2012</u>
Business-type Activities (continued)					
<i>Sewage Disposal Fund (continued):</i>					
State Revolving Loans:					
Series 1992-A-SRF	6-25-92	\$ 4,360,000	2.00%	4/1/13	\$ 260,000
Series 1992-B-SRF	9-10-92	1,915,000	2.00	10/1/12-13	230,000
Series 1993-B-SRF	9-30-93	6,603,996	2.00	10/1/12-14	1,150,000
Series 1997-B-SRF	9-30-97	5,430,174	2.25	10/1/12-18	2,160,000
Series 1999-SRF-1	6-24-99	21,475,000	2.50	4/1/13-20	9,880,000
Series 1999-SRF-2	9-30-99	46,000,000	2.50	10/1/12-22	28,110,000
Series 1999-SRF-3	9-30-99	31,030,000	2.50	10/1/12-20	15,890,000
Series 1999-SRF-4	9-30-99	40,655,000	2.50	10/1/12-20	20,815,000
Series 2000-SRF-1	3-30-00	44,197,995	2.50	10/1/12-22	23,947,995
Series 2000-SRF-2	9-28-00	64,401,066	2.50	10/1/12-22	39,191,066
Series 2001-SRF-1	6-28-01	82,200,000	2.50	10/1/12-24	57,965,000
Series 2001-SRF-2	12-20-01	59,850,000	2.50	10/1/12-24	42,210,000
Series 2002-SRF-1	6-27-02	18,985,000	2.50	4/1/13-23	11,590,000
Series 2002-SRF-2	6-27-02	1,545,369	2.50	4/1/13-23	935,369
Series 2002-SRF-3	12-19-02	31,549,466	2.50	10/1/12-24	20,554,466
Series 2003-SRF-1	6-28-03	48,520,000	2.50	10/1/12-25	36,415,000
Series 2003-SRF-2	9-25-03	25,055,370	2.50	4/1/13-25	17,550,370
Series 2004-SRF-1	6-24-04	2,910,000	2.125	10/1/12-24	2,025,000
Series 2004-SRF-2	6-24-04	18,353,459	2.125	4/1/13-25	12,748,459
Series 2004-SRF-3	6-24-04	12,722,575	2.125	4/1/13-25	8,832,575
Series 2007-SRF-1	9-20-07	156,687,777	1.625	10/1/12-29	142,272,777
Series 2009-SRF-1	4-17-09	22,684,557	2.50	4/1/13-30	10,164,557
Series 2010-SRF-1	1-22-10	6,793,631	2.50	4/1/13-31	3,338,631
Total State Revolving Loans Payable					<u>\$ 508,236,265</u>

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	<u>Bond Date</u>	<u>Amount Issued</u>	<u>Range of Interest Rates</u>	<u>Maturity Date</u>	<u>Balance June 30, 2012</u>
Business-type Activities (continued)					
<i>Water Fund:</i>					
Water Supply System Revenue Bonds:					
Series 1993	10-15-93	\$ 38,225,000	6.50%	7/1/14-15	\$ 24,725,000
Series 1995-B	10-15-95	60,485,000	5.55	7/1/12	8,480,000
Series 1997-A	8-01-97	186,220,000	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	5-08-08	4,055,000	3.50 to 4.25	7/1/12-18	2,565,000
Series 2001-C	5-08-08	186,350,000	4.50 to 5.75	7/1/19-29	186,350,000 b
Series 2003-A	1-28-03	234,805,000	4.50 to 5.00	7/1/19-34	178,785,000 b
Series 2003-B	1-28-03	41,770,000	5.00	7/1/34	41,770,000 b
Series 2003-C	1-28-03	4,335,000	Variable (a)	7/1/13-14	4,335,000
Series 2003-C	1-28-03	25,325,000	4.25 to 5.25	7/1/15-22	25,325,000 b
Series 2003-D	8-14-06	3,180,000	4.00 to 4.20	7/1/12-16	1,625,000
Series 2003-D	8-14-06	139,575,000	4.25 to 5.00	7/1/17-33	139,575,000 b
Series 2004-A	8-14-06	17,600,000	3.75 to 5.25	7/1/12-16	17,580,000
Series 2004-A	8-14-06	55,165,000	4.50 to 5.25	7/1/17-25	55,165,000 b
Series 2004-B	8-14-06	52,840,000	4.00 to 5.00	7/1/12-16	35,740,000
Series 2004-B	8-14-06	100,990,000	4.25 to 5.00	7/1/17-23	100,990,000 b
Series 2005-A	3-11-05	20,965,000	3.40 to 5.00	7/1/12-15	8,445,000
Series 2005-A	3-11-05	84,035,000	3.90 to 5.00	7/1/16-35	84,035,000 b
Series 2005-B	5-08-08	19,070,000	4.00 to 5.50	7/1/12-18	15,465,000
Series 2005-B	5-08-08	175,830,000	4.75 to 5.50	7/1/19-35	175,830,000 b
Series 2005-C	3-11-05	36,405,000	5.00	7/1/12-15	23,175,000
Series 2005-C	3-11-05	90,200,000	5.00	7/1/16-22	90,200,000 b
Series 2006-A	8-14-06	42,795,000	5.00	7/1/13-16	26,900,000
Series 2006-A	8-14-06	237,205,000	5.00	7/1/17-34	237,205,000 b
Series 2006-B	4-1-09	900,000	3.00 to 5.00	7/1/12-19	800,000
Series 2006-B	4-1-09	119,100,000	5.50 to 7.00	7/1/20-36	119,100,000 b
Series 2006-C	8-14-06	12,585,000	4.00 to 5.00	7/1/12-16	10,650,000
Series 2006-C	8-14-06	208,060,000	5.00	7/1/17-33	208,060,000 b
Series 2006-D	8-14-06	4,430,000	4.00 to 5.00	7/1/12-16	3,465,000
Series 2006-D	8-14-06	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	3.00 to 5.00	7/1/12-21	37,880,000
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	7/1/12-21	7,455,000
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	3.00 to 5.00	7/1/12-21	3,925,000
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					<u>\$ 2,556,395,000</u>
State Revolving Loans:					
Series 2005 SRF-1	9-22-05	\$ 13,805,164	2.125%	10/1/12-26	\$ 10,575,164
Series 2005 SRF-2	9-22-05	8,891,730	2.125	10/1/12-26	6,621,730
Series 2006 SRF-1	9-21-06	5,180,926	2.125	10/1/12-26	3,945,926
Series 2008 SRF-1	9-29-08	2,590,941	2.500	10/1/12-26	1,810,941
Total State Revolving Loans Payable					<u>\$ 22,953,761</u>

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.

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	<u>Bond Date</u>	<u>Amount Issued</u>	<u>Range of Interest Rates</u>	<u>Maturity Date</u>	<u>Balance June 30, 2012</u>
Business-type Activities (continued)					
Automobile Parking Fund:					
Detroit Building Authority Bonds - Revenue Refunding Bonds:					
Parking System-Series 1998A	7-1-98	\$ 17,445,000	4.70 to 5.125%	7/1/10-19	\$ 10,465,000 b
Total Automobile Parking Fund Revenue Bonds					<u>\$ 10,465,000</u>

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, 2012:

	<u>Bond Date</u>	<u>Amount Issued</u>	<u>Range of Interest Rates</u>	<u>Maturity Date</u>	<u>Balance June 30, 2012</u>
Pension Obligation Certificates					
Series 2005 - A	6-2-05	\$ 640,000,000	4.00 to 4.95%	6/15/13-25	\$ 503,365,000
Series 2006 - A, B	6-12-06	948,540,000	Variable (a)	6/15/19-35	948,540,000
Total Pension Obligation Certificates					<u>\$ 1,451,905,000</u>

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. Since 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, 2012.

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(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, 2012:

	<u>Issue Date</u>	<u>Range of Interest Rates</u>	<u>Maturity Date</u>	<u>Balance June 30, 2012</u>
Governmental Activities				
<i>Non-Major Funds:</i>				
(All notes are secured by future Block Grant revenues)				
Ferry Street Project	06/12/08	2.62 to 4.62 %	08/01/12-18	\$ 2,041,000
Garfield Project	06/12/08	2.62 to 4.62	08/01/13-15	750,000
Stuberstone Project	06/12/08	2.62 to 4.62	08/01/13-16	120,000
Vernor Lawndale Project	09/14/06	5.05 to 5.74	08/01/13-25	1,800,000
New Amsterdam Project	08/01/02	4.67 to 6.12	08/01/12-22	8,480,000
Mexicantown Welcome Center Project	09/14/06	5.03 to 5.70	08/01/13-24	3,600,000
Book Cadillac Project	09/14/06	5.07 to 5.77	08/01/14-26	7,300,000
Book Cadillac Project Note 1	06/12/08	4.00 to 5.38	08/01/13-29	10,700,000
Garfield II Note 1	09/14/06	3.44 to 5.30	08/01/13-25	6,422,000
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	08/01/12-29	1,723,000
Garfield II Note 4	09/16/09	LIBOR + 0.2	08/01/17-29	6,697,000
Fort Shelby Project	06/12/08	3.82 to 5.34	08/01/12-26	18,700,000
Woodward Garden Project 1	06/12/08	4.48 to 5.05	08/01/16-21	7,050,000
Woodward Garden Project 2	12/09/08	LIBOR + 0.2	08/01/16-28	6,197,000
Woodward Garden Project 2	04/20/12	LIBOR + 0.2	08/01/16-31	5,753,000
				<u>\$ 89,391,000</u>
				<u>\$ 89,391,000</u>

The following is a schedule of loans payable at June 30, 2012:

	<u>Issue Date</u>	<u>Range of Interest Rates</u>	<u>Maturity Date</u>	<u>Balance June 30, 2012</u>
Governmental Activities				
Downtown Development Authority	1991 - 1997	—	—	\$ 33,600,000
Loan Payable GE Capital Schedule - 013	4/9/04	4.07%	7/1/12 - 6/1/14	248,289
Loan Payable GE Capital Schedule - 030	4/30/08	4.57	8/1/12	358,928
				<u>\$ 34,207,217</u>
				<u>\$ 34,207,217</u>

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 will be repaid by the City as general operating funds become available.

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(f) Capital Leases

Transportation Fund

During the year ended June 30, 2005, the Transportation Fund entered into a capital lease agreement with GE Capital Public Finance, Inc. to lease 121 buses. The cost of the 121 buses under the capital lease was \$37,294,362. The annual interest rate of the lease is 4.12 percent for 38 buses and 4.22 percent for 83 buses. The capital lease was recorded at the present value of the future minimum lease payments as of the date of its inception. Amortization expense recorded during fiscal year 2012 was \$3,910,099. Net book value of the buses leased was approximately \$12.7 million as of June 30, 2012.

The present value of future minimum capital lease payments, interest, and the minimum annual lease payments at June 30, 2012 is as follows:

	Present Value of Minimum Lease Payments		
	Principal	Interest	Total
Year ending June 30:			
2013	\$ 4,075,369	\$ 488,209	\$ 4,563,578
2014	4,247,626	315,953	4,563,579
2015	4,355,363	137,146	4,492,509
Total	\$ 12,678,358	\$ 941,308	\$ 13,619,666

(g) Debt Service Requirements

As of June 30, 2012, 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:				
2013	\$ 82,711,310	\$ 51,814,897	\$ 1,561,551	\$ 3,854,670
2014	81,625,000	47,726,064	3,252,666	3,763,797
2015	68,364,422	42,715,564	3,384,000	3,619,546
2016	66,867,546	39,273,987	3,653,000	3,462,221
2017	49,885,000	35,873,022	6,094,000	3,243,495
2018-2022	254,115,000	139,729,774	31,333,000	12,033,425
2023-2027	150,590,000	81,989,787	30,456,000	4,609,490
2028-2032	101,540,000	47,455,111	10,264,000	240,855
2033-2037	101,430,000	13,260,883	33,600,000	—
Total	\$ 957,128,278	\$ 499,839,089	\$ 123,598,217	\$ 34,827,499
Business-type Activities:				
<i>Sewage Disposal Fund</i>				
2013	\$ —	\$ —	\$ 76,575,000	\$ 123,415,125
2014	—	—	78,385,000	143,450,343
2015	—	—	86,655,000	140,424,882
2016	—	—	89,275,000	137,532,598
2017	—	—	91,580,000	134,413,084
2018-2022	—	—	503,050,000	621,318,134
2023-2027	—	—	584,933,488	515,601,985
2028-2032	—	—	733,637,777	380,435,322
2033-2037	—	—	810,060,000	220,481,640
2038-2042	—	—	338,555,000	35,895,701
Total	\$ —	\$ —	\$ 3,392,706,265	\$ 2,452,968,814

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	General Obligation Debt		Revenue Bonds and Other Indebtedness	
	Principal	Interest	Principal	Interest
Business-type Activities (Continued)				
<i>Transportation Fund</i>				
2013	\$ 813,690	\$ 313,586	\$ —	\$ —
2014	—	272,902	—	—
2015	2,660,578	272,962	—	—
2016	2,797,454	139,873	—	—
Total	\$ 6,271,722	\$ 999,323	\$ —	\$ —
<i>Water Fund</i>				
2013	\$ —	\$ —	\$ 33,195,000	\$ 120,246,666
2014	—	—	41,460,000	131,244,183
2015	—	—	53,425,000	129,311,454
2016	—	—	58,745,000	126,487,636
2017	—	—	61,810,000	123,379,022
2018-2022	—	—	353,345,941	568,225,969
2023-2027	—	—	447,027,820	468,716,504
2028-2032	—	—	555,235,000	344,225,567
2033-2037	—	—	656,860,000	193,562,279
2038-2042	—	—	318,245,000	51,617,389
Total	\$ —	\$ —	\$ 2,579,348,761	\$ 2,257,016,669
<i>Automobile Parking Fund</i>				
2013	\$ —	\$ —	\$ 1,165,000	\$ 504,225
2014	—	—	1,220,000	444,600
2015	—	—	1,285,000	381,172
2016	—	—	1,350,000	313,650
2017	—	—	1,415,000	242,797
2018-2020	—	—	4,030,000	304,425
Total	\$ —	\$ —	\$ 10,465,000	\$ 2,190,869

The future principal payments for Sewage Disposal Fund revenue bonds exceed the bonds payable balance by \$20,613,925 at June 30, 2012 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, 2012 are as follows. Refer to Note VIII for information on derivative instruments.

Pension Obligation Certificates			
	Principal	Interest	Hedging Derivatives, Net
Governmental Activities:			
2013	\$ 18,782,517	\$ 32,174,634	\$ 36,075,413
2014	24,099,013	31,328,857	36,075,413
2015	27,049,913	30,229,219	36,075,413
2016	30,037,394	28,981,407	36,075,413
2017	33,301,268	27,535,707	36,075,413
2018-2022	197,395,673	114,210,213	176,569,543
2023-2027	253,018,099	71,805,913	161,635,278
2028-2032	338,430,790	50,248,767	96,651,880
2033-2035	258,170,569	21,501,029	10,749,902
Total	\$ 1,180,285,236	\$ 408,015,746	\$ 625,983,668
Business-type Activities:			
<i>Sewage Disposal Fund</i>			
2013	\$ 1,417,492	\$ 2,428,177	\$ 2,722,564
2014	1,818,721	2,364,348	2,722,564
2015	2,041,421	2,281,359	2,722,564
2016	2,266,883	2,187,189	2,722,564
2017	2,513,203	2,078,083	2,722,564
2018-2022	14,897,191	8,619,294	13,325,471
2023-2027	19,094,942	5,419,098	12,198,402
2028-2032	25,540,925	3,792,208	7,294,191
2033-2035	19,488,865	1,622,654	811,278
Total	\$ 89,079,643	\$ 30,792,410	\$ 47,242,162
<i>Transportation Fund</i>			
2013	\$ 1,654,087	\$ 2,833,467	\$ 3,176,990
2014	2,122,286	2,758,984	3,176,990
2015	2,382,157	2,662,144	3,176,990
2016	2,645,251	2,552,255	3,176,990
2017	2,932,684	2,424,939	3,176,990
2018-2022	17,383,698	10,057,950	15,549,640
2023-2027	22,282,102	6,323,606	14,234,451
2028-2032	29,803,992	4,425,170	8,511,671
2033-2035	22,729,575	1,893,492	946,694
Total	\$ 103,935,832	\$ 35,932,007	\$ 55,127,406

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Business-type Activities (Continued)	Pension Obligation Certificates		
	Principal	Interest	Hedging Derivatives, Net
<i>Water Fund</i>			
2013	\$ 1,250,905	\$ 2,142,812	\$ 2,402,602
2014	1,604,980	2,086,484	2,402,602
2015	1,801,509	2,013,248	2,402,602
2016	2,000,473	1,930,145	2,402,602
2017	2,217,845	1,833,862	2,402,602
2018-2022	13,146,438	7,606,335	11,759,430
2023-2027	16,850,858	4,782,232	10,764,816
2028-2032	22,539,294	3,346,538	6,436,960
2033-2035	17,191,987	1,431,956	715,933
Total	\$ 78,604,289	\$ 27,173,612	\$ 41,690,149

(h) Debt Limit

The MI 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.

(i) 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, 2012 was as follows:

	Revenue Bonds
Sewage Disposal Fund	\$ 262,995,000
Water Fund	199,830,000
Total	\$ 462,825,000

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(j) Bonds Authorized and Unissued

The following is the schedule of bonds authorized and unissued at June 30, 2012:

	<u>Authority</u>	<u>Date</u>	<u>Authorized Amount</u>	<u>Unissued Amount</u>
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
Museum of African American History	Electorate	11/2/2004	22,000,000	570,000
Historical Museum of African American History	Electorate	11/6/2001	20,000,000	17,200,000
Transportation	Electorate	4/29/2003	6,000,000	500,000
Public Lighting	Electorate	11/2/2004	32,000,000	17,310,000
Neighborhood/Economic	Electorate	2/24/2009	22,000,000	22,000,000
Museums, Libraries, Recreation, and Other	Electorate	2/24/2009	25,000,000	25,000,000
Transportation	Electorate	2/24/2009	97,000,000	89,770,000
Public Safety	Electorate	2/24/2009	12,000,000	12,000,000
			72,000,000	<u>59,379,000</u>
Total Bonds				
Authorized -				
Unissued				<u>\$ 316,900,000</u>

The electorate approved an amendment to the State Constitution (the Headlee Amendment) 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 and Water Funds which have been authorized but not issued. These amounted to \$17,539,035 and \$5,368,895 for the Sewage Disposal Fund and Water Fund, respectively, at June 30, 2012.

(k) Debt Ratings

On March 27, 2012, Standard and Poor's downgraded the City's Unlimited General Tax Obligation (UGTO) Bonds rating from "BB" to "B". On March 20, 2012, Moody's downgraded the ratings of the City's UGTO debt from "Ba3" to "B2". On June 14, 2012, Moody's downgraded the ratings of the City's UGTO bonds from "B2" to "B3" and downgraded the ratings of the Detroit Water and Sewage Revenue Senior and Second Lien Bonds from "Baa1/Baa2" to "Baa2/Baa3". On March 22, 2012, Fitch downgraded the City's UGTO ratings to "B" from "BB-". On June 12, 2012, Fitch downgraded the City's UGTO ratings from "B" to "CCC". On November 29, 2012, Moody's further downgraded the City's UGTO ratings to "Caal". 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.

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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, 2012		Notional Amount
	Classification	Amount	Classification	Amount	
Governmental Activities					
Cash flow hedges:					
Pay-fixed interest rate swaps	Deferred outflows	\$ (163,306,445)	Long-term liabilities	\$ (354,662,873)	\$ 650,336,000
Business-type Activities					
Cash flow hedges:					
Pay-fixed interest rate swaps					
Negative fair values	Deferred outflows	21,429,559	Long-term liabilities	(84,639,796)	149,664,000
Positive fair values	Deferred outflows	(170,402)			
Investment derivatives:					
Pay-fixed interest rate swaps					
Negative fair values	Interest and investment earnings	(257,927,116)			
Investment derivatives:					
Pay-floating interest rate swaps					
Negative fair values	Interest and investment earnings	20,633,861			
Positive fair values	Interest and investment earnings	97,049,399			

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 hedging 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
Hedging Derivatives							
Cash Flow Hedges, 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%	\$ (57,173,124)	6/15/2034	6/15/2034
Taxable Certification of Participation SBSFPC-0012	45,252,000	6/12/2006	6.32	3 MONTH LIBOR + .30%	(23,055,836)	6/15/2029	6/15/2029
Taxable Certification of Participation 37380341	96,621,000	6/12/2006	6.36	3 MONTH LIBOR + .34%	(57,181,711)	6/15/2034	6/15/2034
Taxable Certification of Participation 37380291	45,252,000	6/12/2006	6.32	3 MONTH LIBOR + .30%	(23,056,802)	6/15/2029	6/15/2029
Taxable Certification of Participation SBSFPC-0010	153,801,500	6/12/2006	6.35	3 MONTH LIBOR + .34%	(91,309,463)	6/15/2034	6/15/2034
Taxable Certification of Participation SBSFPC-0011	104,325,500	6/12/2006	6.32	3 MONTH LIBOR + .30%	(48,098,696)	6/15/2029	6/15/2029
Taxable Certification of Participation 37380313	153,801,500	6/12/2006	6.35	3 MONTH LIBOR + .34%	(91,322,376)	6/15/2034	6/15/2034
Taxable Certification of Participation 37380351	104,325,500	6/12/2006	6.32	3 MONTH LIBOR + .30%	(48,104,661)	6/15/2029	6/15/2029
Total	\$ 800,000,000				\$ (439,302,669)		

(1) Notional amount balance as of June 30, 2012.

(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, 2012, the City had no net exposure to actual credit risk on its hedging 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 is 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.	BBB	Baa2
UBS, AG	AA	A2

(d) Interest Rate Risk

All hedging derivatives are pay-fixed, receive-variable cash flow hedges, hedging a portion of the City's variable rate debt. The City believes it has significantly reduced interest rate risk attributable to the principal amount being hedged by entering into the interest rate swaps.

(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, 2012, the associated POCs used the same index (based on LIBOR) in the table above. As a result, there is no significant exposure to basis risk as of June 30, 2012.

(f) Termination Risk

The City or counterparty may terminate any of the swaps if the other party fails to perform under the terms of the contract. In such cases, the City may owe or be due a termination payment depending on the fair value of the swap at that time. The termination payment due to a counterparty may not be equal to the fair value. If any of the swaps were terminated, the associated variable-rate financings would no longer carry synthetic interest rates.

In light of recent debt rating declines of the City in concert with falling ratings of the City's Swap Agreement Insurers, a risk of a Swap Agreement Termination exists related to the Swap Agreements issued in conjunction with the issuance of the General and Police and Fire Retirement Systems Trusts' Pension Obligation Certificates (POCs). As of June 30, 2012, the City had eight such interest rate exchange agreements (the Swap Agreements) in effect. With the Swap Agreements, the City maintains a potential payable to the Swap Agreement's Counterparty should certain termination events occur. Potential termination events in the original Swap Agreements included cases where the POCs ratings were withdrawn, suspended, or downgraded below "Baa3" (or equivalent) or if the Swap Insurers' ratings fell below an "A3" (or equivalent) rating.

On January 8, 2009, the City received formal notice from the Swap Counterparty to four of the eight Swap Agreements stating that an event had occurred, which, if not cured by the City, would constitute an Additional Termination Event. On January 14, 2009, the City also received formal notice from the Swap Counterparty to the four remaining Swap Agreements, stating that the applicable Swap Insurers had been downgraded below the thresholds set forth in the Swap Agreements. Under the Swap Agreements, such Swap Insurer downgrades, coupled with the downgrades of the POCs, if not cured by the City, constitute an Additional Termination Event. In June 2009, the City and the Counterparties agreed to an amendment to the Swap Agreements, thereby eliminating the Additional Termination Event and the potential for an immediate demand for payment to the Swap Counterparties. As part of the amended Swap Agreements, the Counterparties waived their right to termination payments. Additionally, the City now directs its Wagering Tax revenues to a Trust as collateral for the quarterly payment to the Counterparties, increased the Swap rate by 10 basis points effective July 1, 2010, and agreed to other new termination events. The termination events under the amended Swap Agreement include a provision for the Counterparties to terminate the amended Swap Agreement if certain coverage levels of the Wagering Taxes over the required quarterly payment are not met or if POCs ratings are withdrawn, suspended, or downgraded below "Ba3" (or equivalent). In March 2012, the risk of the amended Swap Agreement Termination arose with a credit rating downgrade below "Ba3". Should such Termination Events occur in connection with these Swap Agreements, and not be cured, the City's obligations to the Counterparties could increase significantly and there is some risk that the City may not be able to meet the cash demands under the terms of the amended Swap Agreements. The City is currently in negotiations with the Counterparties regarding this event. See Note II (a) for further discussion regarding this event.

In connection with the issuance of the Water Supply System Revenue Senior Lien Bonds, Series 2011A and the Water Supply System Revenue Senior Lien Bonds, Series 2011B (Federally Taxable), the City also terminated all the outstanding Water swaps (with the exception of their portion of the POC swaps) for a payment of \$225,620,525 on December 22, 2011.

In connection with the issuance of the Sewage Disposal System Revenue Senior Lien Bonds, Series 2012A, the City also terminated all the outstanding Sewer swaps (with the exception of their portion of the POC swaps) for a payment of \$321,598,001 on June 26, 2012.

(g) 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).

(h) Foreign Currency Risk

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

(i) 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 Description

The City of Detroit Retirement System consists of the General Retirement System (GRS) and the Police and Fire Retirement System (PFRS) (collectively Systems). For financial statement purposes, the GRS and the PFRS are included as fiduciary trust funds of the City of Detroit. 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 death benefits to plan members and beneficiaries. The Systems issued publicly available financial reports that include financial statements and the required supplementary information. The reports can be obtained from City of Detroit Retirement Systems, 2 Woodward Avenue, Coleman A. Young Municipal Center, Room 908, Detroit, MI 48226.

Membership of the plans at June 30, 2012 consisted of the following:

	Defined Benefit		Defined Annuity Contribution	
	GRS	PFRS	GRS	PFRS
Retirees and beneficiaries receiving benefits	11,790	9,323	1,507	749
Terminated plan members entitled to, but not yet receiving, benefits	2,233	195	405	27
Active plan members	6,519	3,181	6,109	3,412

These plans are administered in accordance with the City Charter and union contracts, which assign the authority to establish and amend contributions and benefit provisions to each plan's Board of Trustees. The Systems' investment policies are governed in accordance with the State Public Act 314 of 1965, as amended.

Members may retire with full benefits after attaining 30 years of service, age 55 with 30 years of service if hired after January 1, 1996, age 60 with 10 years of service, or age 65 with 8 years of service. Employees may retire after 25 years of service and collect an actuarially reduced retirement benefit. Monthly pension benefits, which are subject to certain minimum and maximum amounts, are determined according to fixed rates per year of credited service.

Members of the General Retirement System who separated prior to July 1, 1981, met the age and service requirements, and who did not withdraw their accumulated annuity contributions are generally eligible for a pension at the time they would have been eligible had they continued in City employment. Members who separate after July 1, 1981 are not required to leave their accumulated annuity contributions in the System. Pension benefits for all members of the General Retirement System are increased annually by 2.25 percent of the original pension.

Police officers and firefighters hired prior to January 1, 1969 may retire after 25 years of service with full benefits and an escalator clause for future increases. Police officers and firefighters hired after January 1, 1969 may retire after 25 years of service with full benefits and a yearly cost-of-living adjustment of 2.25 percent. For those members of the Police and Fire Retirement System who were hired after January 1, 1969, pension benefits are increased annually by 2.25 percent of the original pension. Police officers and firefighters hired before January 1, 1969 may elect at retirement increases based upon pay increases of active members or annual increases of 2.25 percent of the original pension.

Members of the Police and Fire Retirement System who separated prior to July 1, 1982, met the age and service requirements, and who did not withdraw their accumulated annuity contributions are generally eligible for a pension at the time they would have been eligible had they continued in City employment. Members who separate after July 1, 1982 and meet the age and service requirements are able to withdraw their accumulated contributions and remain eligible for a benefit.

Employee contributions to both systems for annuity savings may be withdrawn upon separation from the City. At retirement, members have the option to withdraw all or part of their accumulated annuity contributions plus interest in either a lump sum or to receive monthly annuity payments. Employees in both systems may withdraw their annuity balance if they have accumulated 25 years of service.

(b) Summary of Significant Accounting Policies

The plan's financial statements are prepared using the accrual basis of accounting. Plan member contributions are recognized in the period in which the contributions are due. Employer contributions are recognized when due and the City has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable, in accordance with the terms of each plan.

Plan investments are reported at fair value. Short-term investments are reported at cost, which approximates fair value. Securities traded on a national or international exchange are valued at last reported sales price at current exchange rates. Mortgages are valued on the basis of future principal and interest payments and are discounted at prevailing interest rates for similar investments. Investments that do not have an established market are reported at estimated fair value. Approximately 32 percent of the General Retirement System's assets and 25 percent of the Police and Fire Retirement System's assets are not publicly traded and therefore do not always have a readily determined fair value.

(c) Funding Policy

The City's policy is to fund normal costs and amortization of prior service costs, based on an actuarially determined rate. The contribution rates for the fiscal year ended June 30, 2012 were 21.86 percent of active annual payroll for the General Retirement System and 23.02 percent of active annual payroll for the Police and Fire Retirement System. Contributions from City funds and the Detroit Public Library component unit, including accounts receivable for the year ended June 30, 2012, amounted to \$64,065,215 and \$49,760,229 for the General Retirement System and the Police and Fire Retirement System, respectively.

Employee contributions elections for annuity savings are as follows:

- **General Retirement System** - Employees may 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. Contributions are voluntary for all union and non-union employees. Contributions received from General Retirement System employees during the year ended June 30, 2012 amounted to \$16,585,232.
- **Police and Fire Retirement System** - Mandatory contributions are 5 percent of base compensation until eligibility for retirement is reached. Contributions received from Police and Fire Retirement System employees during the year ended June 30, 2012 amounted to \$9,538,384.

The contribution requirements of plan members and the City are established and may be amended by the Board of Trustees in accordance with the City Charter, union contracts, and plan provisions.

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(d) Annual Pension Cost and Net Pension Obligation

The annual pension costs and net pension assets for the City (primary government) as of June 30, 2012 are as follows:

	GRS					Total Primary Government
	PFRS Governmental Activities	Governmental Activities	Business-type Activities			
			Sewage Disposal Fund	Transportation Fund	Water Fund	
Annual required contributions (ARC)	\$ 48,283,232	\$ 25,174,139	\$ 6,752,191	\$ 10,494,942	\$ 6,274,397	\$ 96,978,901
Interest on net pension asset	(49,414,343)	(37,041,678)	(6,863,112)	(8,685,125)	(6,989,490)	(108,993,748)
Adjustment to ARC	54,853,141	27,043,604	5,010,661	6,340,886	5,102,927	98,351,219
Annual pension cost	53,722,030	15,176,065	4,899,740	8,150,703	4,387,834	86,336,372
Contributions made (employer)	49,760,229	18,314,572	4,270,804	5,285,499	6,590,377	84,221,481
Changes in net pension asset	(3,961,801)	3,138,507	(628,936)	(2,865,204)	2,202,543	(2,114,891)
Net pension asset, beginning of year	617,679,284	468,882,001	86,874,832	109,938,285	88,474,553	1,371,848,955
Net pension asset, end of year	\$ 613,717,483	\$ 472,020,508	\$ 86,245,896	\$ 107,073,081	\$ 90,677,096	\$ 1,369,734,064

Significant actuarial assumptions used to determine the annual required contribution for the year ended June 30, 2012 are as follows:

	GRS	PFRS
Valuation Date	June 30, 2010	June 30, 2010
Actuarial Cost Method	Entry Age	Entry Age
Amortization Method	Level Percent	Level Dollar
Remaining Amortization Period	30 years, Open	30 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	4.0%	0% for four years; 4% thereafter
Cost-of-Living Adjustments	2.25%	2.25%

Factors that significantly affect the identification of trends in the amounts reported include, for example, changes in benefit provisions, the size or composition of the population covered by the plans, or the actuarial methods and assumptions used.

(e) Three-Year Trend Information

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, 2012	\$ 32,614,342	\$ 34,461,252	105.7%	\$ 756,016,581
	June 30, 2011	41,238,478	52,426,089	127.1	754,169,671
	June 30, 2010	20,535,629	35,849,970	174.6	742,982,060
PFRS	June 30, 2012	53,722,030	49,760,229	92.6	613,717,483
	June 30, 2011	68,748,114	81,642,112	118.8	617,679,284
	June 30, 2010	49,374,175	32,808,484	66.4	604,785,286

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(f) Funded Status and Funding Progress

The funded status of each plan as of June 30, 2011, the most recent actuarial valuation date, is as follows:

	GRS	PFRS
Actuarial value of assets	\$ 3,080,295,734	\$ 3,804,759,868
Actuarial accrued liability (AAL)	\$ 3,720,167,178	\$ 3,808,642,553
Unfunded AAL (UAAL)	\$ 639,871,444	\$ 3,882,665
Funded ratio	82.8%	99.9%
Covered payroll	\$ 303,379,482	220,461,691
Ratio of UAAL/covered payroll	210.9%	1.8%

The schedules of funding progress, presented as required supplemental information following the notes to the financial statements, presents 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.

NOTE X. OTHER POSTEMPLOYMENT BENEFITS

(a) Plan Description

The Employee Health and Life Insurance Benefit Plan (Benefit Plan) is a single-employer defined benefit plan administered by the City and Retirement Systems and is accounted for in the Other PostEmployment Benefits Fund. The plan does not issue separate stand-alone financial statements. The Benefit Plan provides hospitalization, dental care, vision care, and life insurance to all officers and employees of the City who were employed on the day preceding the effective date of the Benefit Plan and who continue in the employ of the City on and after the effective date of the Benefit Plan. Retirees are allowed to enroll in any of the group plans offered by the City to active employees. The City provides health care 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.

The health care 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 health care benefit eligibility conditions for General City employees hired on or after 1995 are age 55 and 30 years of creditable service, or age 60 and 10 years of creditable service, or age 65 and 8 years of creditable service. The City provides full health care 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 pays up to 90 percent of health care 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 pays health coverage for the spouse, under the same formulas noted above, as long as the spouse continues to receive a pension. The City does not pay health coverage for a new non-City retiree spouse. Dental and vision coverage is provided for the retiree and the spouse.

The health care benefit eligibility conditions for Police and Fire is 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. The City pays up to 90 percent of health care coverage for the retiree and the spouse. The City pays up to 90 percent of health care coverage for the spouse as long as the spouse continues to receive a pension. The City does not pay for health care coverage for a new non-City retiree spouse. Spouses (widows or widowers) of Straight Life Option retirees who retired prior to July 1, 1987 continue to receive hospitalization coverage. Dental and vision coverage is provided for the retiree and the spouse.

The City does provide health care coverage to General City and Police and Fire employees that opt for early retirement. For General City employees hired before 1995, the health care 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. The City pays up to 90 percent of health care coverage for the retiree and the spouse. The City pays up to 90 percent of health care coverage for the spouse as long as the spouse continues to receive a pension. The City does not pay for health care coverage for a new non-City retiree spouse. For Police and Fire employees, the health care 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. The City pays up to 90 percent of health care coverage for the retiree and the spouse. The City pays up to 90 percent of health care coverage for the spouse as long as the spouse continues to receive a pension. The City does not pay for health care coverage for a new non-City retiree spouse. Spouses (widows or widowers) of Straight Life Option retirees who retired prior to July 1, 1987 continue to receive hospitalization coverage. Dental and vision coverage is provided for the retiree and the spouse.

The City also provides health care coverage to General City and Police and Fire employees who meet certain health care 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. Complimentary health care coverage is provided by the City for those retirees that are Medicare-Eligible. Retirees who opt out of the retiree health care coverage may obtain coverage at a later date.

In addition to health care coverage, the City allows 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 Employee 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 separate stand-alone financial statements. 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.

There were 19,389 retirees eligible for benefits, as of June 30, 2011, the date of the most recent actuarial valuation. These plans do not issue separate financial statements.

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(b) Funding Policy

Employee Health and Life Insurance Benefit Plan - The cost of benefits for the Benefit Plan, which is financed on a pay-as-you-go basis for the year ended June 30, 2012, is as follows:

<u>Benefit</u>	<u>City Cost</u>	<u>Retiree Cost</u>	<u>Total Cost</u>
Hospitalization	\$ 167,746,746	\$ 22,086,403	\$ 189,833,149
Dental	8,185,888	1,382,905	9,568,793
Vision	1,337,812	11,878	1,349,690
Life Insurance	190,181	35,693	225,874
Total	<u>\$ 177,460,627</u>	<u>\$ 23,516,879</u>	<u>\$ 200,977,506</u>

Supplemental Death Benefit Plan - The cost of benefits for the Supplemental Plan, which is a pre-funded plan, and the funds are held in the City of Detroit Employee Benefit Trust, for the year ended June 30, 2012 is as follows:

<u>Benefit</u>	<u>City Cost</u>	<u>Retiree Cost</u>	<u>Total Cost</u>
Supplemental Death Benefit	\$ 131,116	\$ 15,944	\$ 147,060

The City of Detroit Employee Benefit Trust paid death benefits in the amount of \$1,106,295 for General City retirees and \$612,918 for Police and Fire retirees for the year ended June 30, 2012.

(c) Annual OPEB Costs and Net OPEB Obligation

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 Pensions*. 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, 2012, the amount actually contributed to the Benefit Plan, and changes in the City's net OPEB obligation for the Employee Health and Life Insurance Benefit Plan:

	<u>Total Governmental Activities</u>	<u>Business-type Activities</u>				<u>Non-Major Proprietary Fund</u>	<u>Total Primary Government</u>
		<u>Sewage Disposal Fund</u>	<u>Transportation Fund</u>	<u>Water Fund</u>	<u>Automobile Parking Fund</u>		
Employee Health and Life Insurance Benefit Plan							
Annual required contributions (ARC)	\$ 280,471,788	\$ 23,390,056	\$ 24,290,575	\$ 22,105,491	\$ 664,205	\$ 142,397	\$ 351,064,512
Interest on Net OPEB Obligation	19,241,932	1,723,570	2,384,275	1,618,759	54,587	6,840	25,029,963
Adjustment to ARC	(16,034,943)	(1,436,308)	(1,986,896)	(1,348,966)	(45,489)	(5,700)	(20,858,302)
Annual OPEB Cost (Expense)	283,678,777	23,677,318	24,687,954	22,375,284	673,303	143,537	355,236,173
Contributions Made	(145,143,600)	(10,102,647)	(12,091,541)	(9,705,471)	(237,969)	(179,195)	(177,460,423)
Changes in Net OPEB Obligation	138,535,177	13,574,671	12,596,413	12,669,813	435,334	(35,658)	177,775,750
Net OPEB Obligation, beginning of year	481,048,299	43,089,247	59,606,872	40,468,986	1,364,677	171,008	625,749,089
Net OPEB Obligation, end of year	<u>\$ 619,583,476</u>	<u>\$ 56,663,918</u>	<u>\$ 72,203,285</u>	<u>\$ 53,138,799</u>	<u>\$ 1,800,011</u>	<u>\$ 135,350</u>	<u>\$ 803,524,839</u>

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The following table shows the components of the City's annual OPEB cost for the year ended June 30, 2012, the amount actually contributed to the Employee Supplemental Death Benefit Plan, and changes in the City's net OPEB obligation for the Benefit Plan:

	Total Governmental Activities	Business-type Activities					Total Primary Government
		Sewage Disposal Fund	Transportation Fund	Water Fund	Automobile Parking Fund	Non-Major Proprietary Fund	
Supplemental Death Benefit Plan							
Annual required contributions (ARC)	\$ 357,579	\$ 78,837	\$ 81,873	\$ 74,507	\$ 2,239	\$ 480	\$ 595,515
Interest on Net OPEB Obligation	21,776	5,730	7,225	5,497	175	58	40,461
Adjustment to ARC	(14,518)	(3,820)	(4,817)	(3,665)	(116)	(39)	(26,975)
Annual OPEB Cost (Expense)	364,837	80,747	84,281	76,339	2,298	499	609,001
Contributions Made	(129,334)	(23,176)	(24,869)	(21,913)	(1,376)	(82)	(200,750)
Changes in Net OPEB Obligation	235,503	57,571	59,412	54,426	922	417	408,251
Net OPEB Obligation, beginning of year	435,513	114,592	144,495	109,940	3,494	1,164	809,198
Net OPEB Obligation, end of year	\$ 671,016	\$ 172,163	\$ 203,907	\$ 164,366	\$ 4,416	\$ 1,581	\$ 1,217,449

The City annual OPEB cost, the percentage of annual OPEB cost contributed to the plans, and the net OPEB obligation (asset) 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)
Employee Health and Life Insurance Benefit Plan	June 30, 2012	\$ 355,236,173	\$ 177,460,423	50.0%	\$ 803,524,839
	June 30, 2011	327,459,412	166,181,745	50.7	625,749,089
	June 30, 2010	313,889,307	149,698,090	47.7	464,471,422
Supplemental Death Benefit Plan	June 30, 2012	609,001	200,751	33.0	1,217,448
	June 30, 2011	737,837	152,306	20.6	809,198
	June 30, 2010	398,117	142,542	35.8	223,667

(d) Funded Status and Funding Progress

Employee Health and Life Insurance Benefit Plan - As of June 30, 2011, the most recent actuarial valuation date for the Benefit Plan, the actuarial accrued liability for benefits related to all City employees was \$5,718,286,228, and the actuarial value of assets was zero, resulting in an unfunded actuarial accrued liability (UAAL) of \$5,718,286,228. The covered payroll (annual payroll of all active City employees covered by the plan) was \$523,536,180 and the ratio of the UAAL to the covered payroll was 1092 percent.

Supplemental Death Benefit Plan - As of June 30, 2011, the most recent actuarial valuation date for the Supplemental Plan, the actuarial accrued liability for benefits related to all City employees was \$34,564,960 and the actuarial value of assets was \$25,681,765, resulting in an unfunded actuarial accrued liability (UAAL) of \$8,883,195. The covered payroll (annual payroll of all active City employees covered by the plan) was \$523,536,180 and the ratio of the UAAL to the covered payroll was 1.7 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 health care 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.

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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, 2012 were as follows:

	Health and Life Insurance Benefit Plan	Supplemental Death Benefit Plan
Valuation date	June 30, 2011	June 30, 2011
Actuarial cost method	Individual entry-age	Individual entry-age
Amortization method	Level percent	Level dollar
Amortization period for unfunded actuarial accrued liabilities	30 years, open	30 years, open
Asset valuation method	N/A	3 year smoothed market
 Actuarial assumptions:		
Investment rate of return	4.0%	5.0%
Projected salary increases*	4.0%	N/A
Healthcare cost trend rate	9.0% for 2012, grading down to 4.5% in 2021 and 4.0% in 2022 and beyond	N/A

* Includes inflation rate of 4%

In the June 30, 2011 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% for Fire for all ages.

In the June 30, 2011 actuarial valuation for the Health and Life Insurance Benefit Plan, the mortality tables used by the City's plan to evaluate death benefits to be paid for retirees was 110 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.

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 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.

Changes in the reported liabilities for workers' compensation, legal, disability benefits, and vehicular liabilities for the years ended June 30, 2012 and 2011, respectively, are as follows:

	<u>Governmental Activities</u>		<u>Business-type Activities</u>	
	<u>June 30, 2012</u>	<u>June 30, 2011</u>	<u>June 30, 2012</u>	<u>June 30, 2011</u>
Balance at beginning of year	\$ 146,717,260	\$ 159,118,546	\$ 25,420,480	\$ 28,398,087
Current year claims and changes in estimates	38,323,896	43,822,957	5,063,137	13,174,854
Claims payments	<u>(56,806,899)</u>	<u>(56,224,243)</u>	<u>(8,343,308)</u>	<u>(16,152,461)</u>
Balance at end of year	<u>\$ 128,234,257</u>	<u>\$ 146,717,260</u>	<u>\$ 22,140,309</u>	<u>\$ 25,420,480</u>

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Changes in the accrued liabilities for health and dental claims for the years ended June 30, 2012 and 2011, respectively, are as follows:

	<u>Governmental Activities</u>		<u>Business-type Activities</u>	
	<u>June 30, 2012</u>	<u>June 30, 2011</u>	<u>June 30, 2012</u>	<u>June 30, 2011</u>
Balance at beginning of year	\$ 13,793,438	\$ (2,017,511)	\$ 9,403,773	\$ 8,251,512
Current year claims and changes in estimates	161,802,115	141,560,058	22,552,979	36,725,759
Claims payments	<u>(148,653,528)</u>	<u>(125,749,109)</u>	<u>(30,822,992)</u>	<u>(35,573,498)</u>
Balance at end of year	<u>\$ 26,942,025</u>	<u>\$ 13,793,438</u>	<u>\$ 1,133,760</u>	<u>\$ 9,403,773</u>

The General Fund reported committed fund balance of \$35.2 million 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. It has been the City's experience that lawsuits and claims are often settled for amounts less than the stated demand. While it is not possible to determine the final outcome of these lawsuits and claims exactly, the City and its legal department have estimated that the liability for all such litigation and claims approximates \$150.4 million for the Primary Government.

(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, 2012 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, 2012. 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, 2012, future Block Grant Funds of \$89,391,000 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.

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(f) Construction Commitments

The City has commitments for future construction contracts. Construction to date and remaining commitments at June 30, 2012 are as follows:

	Spent as of June 30, 2012	Remaining
Public Protection	\$ 12,310,012	\$ 53,339,988
Municipal Facilities	1,646,651	215,659
Recreation and Culture	25,284	1,753,620
Human Services	1,460,132	922,685
Municipal Services	814,310	2,726,535
Development and Management	392,433	107,567
Transportation Facilitation	—	2,000,000
Total	\$ 16,648,822	\$ 61,066,054

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 \$829 million through fiscal year 2017. 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, 2012 was approximately \$95.8 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 \$529 million through fiscal year 2017. 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, 2012 was approximately \$20.8 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:		
2013	\$	13,693,744
2014		12,819,091
2015		12,769,383
2016		11,076,537
2017		9,098,473
2018-2022		35,770,589
2023-2027		27,380,380
2028		5,476,076
Total Minimum Payments	\$	128,084,273

Rental expense for all operating leases approximated \$15.7 million for the year ended June 30, 2012.

(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.

(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, 2012, the City has recorded an estimated pollution remediation obligation of \$514,501 as follows:

	Business-type Activities		
	Sewage Disposal Fund	Transportation Fund	Total Primary Government
Accrued Pollution Remediation	\$ 340,613	\$ 173,888	\$ 514,501

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).

NOTE XIII. SUBSEQUENT EVENTS

(a) Subsequent Economic Events

On July 18, 2012 the City's Chief Financial Officer issued a directive titled "Reduction in Force Activities" to achieve the fiscal year 2011-12 budget of 10,437 employees. The fiscal year 2011-12 fiscal year budget had 12,664 positions or 2,227 more than the fiscal year 2012-13 budget. Most of the 2,227 positions had been vacated in fiscal year 2011-12 through layoffs, retirement, and other attrition such as personnel obtaining work elsewhere. The City will use the same strategy to achieve the budget number for fiscal year 2012-13. Also, the directive restricted the hiring of new personnel and established accountability for Departments to stay within their budgets.

In August 2012, 10 percent wage reductions were imposed on Police and Fire uniform personnel and other union employees with expired contracts. City non-union personnel had their wages reduced 10 percent in fiscal year 2011-12.

As discussed in the Financial Stability Agreement, the City, on August 23, 2012, issued \$129.5 million of limited tax general obligation bonds, at a premium of \$9.1 million, with maturities extending to November 2032, with the assistance of the State through the Michigan Finance Authority. The bond proceeds were used to defease the \$76.5 million remaining of the \$80.0 million of short-term debt issued in March 2012, pay \$1.6 million of issuance costs, and the remainder totaling \$60.5 million was set aside with a trustee bank in an escrow account to pay City self-insurance claims and provide liquidity in fiscal year 2012-13. The City needs to meet specific requirements agreed to with the State and the State Treasurer's approval to draw on these funds set aside in the escrow account. Furthermore, on November 13, 2012, the City and State of Michigan entered into a Memorandum of Understanding, which established conditions and due dates the City has to meet before it can draw funds from the escrow account. The first \$30.0 million drawn on the escrow account by the City is conditioned upon the following:

- Hiring a restructuring firm to advise the City's Program Management Office and to implement the City's reform programs to include: (1) The City's five-year outlook, given the constraints and opportunities the likely circumstances will present; and (2) The means by which sustainability might be achieved, including considerations regarding long-term liabilities.
- Hiring an operational assistance firm to review the management and operations of the Property Tax and Assessors Office, Law Department, Police and Fire Departments, Lighting and Transportation Departments, as well as Income Tax function, Real Estate and lease function, and Purchasing function. The firm will advise and recommend to the City a comprehensive operational improvement plan for each reviewed department including the estimated cost of the firm's efforts and the actions needed by the City to remove operating constraints.
- Selecting and retaining a Workers Compensation firm to advise the City on savings, efficiencies, and workplace safety improvements which may be achieved with the City's risk management system.
- Embarking on process improvements in the Purchasing function to reduce the time required to complete contracts. The Administration and City Council are required to cooperatively develop and City Council vote on a revised Purchasing Ordinance, Privatization Ordinance and any related regulations.
- City Council vote on pending contracts for outside legal counsel and financial consultants to support the reform programs.
- Completing a review of the City's cashiering operations.
- Issuing and executing a contract for the City's medical benefit dependent audit.
- Issuing and executing a contract for payroll outsourcing.
- Completing of a plan regarding the City's Planning & Development Department that satisfies all necessary requirements for approval by the U.S. Department of Housing and Urban Development.

The Memorandum of Understanding further requires that the City maintain a minimum balance of \$50.0 million at all times in the escrow account set aside with the Trustee Bank. Any additional future draws will be contingent upon the following accomplished by the City:

- Streamline the abandoned structure demolition process;
- Meet timelines and metrics on its cashiering, property tax and assessing, payroll, and with the Planning and Redevelopment initiatives providing for the reorganized delivery of services more efficiently and effectively with approval for continued funding by the U.S. Department of Housing and Urban Development;
- Meet timelines and metrics on the Income Tax, Police, Fire, DDOT, and Public Lighting Department initiatives;
- Implement restructuring of the Departments of Health and Wellness Promotion, Workforce Development, and Human Services;
- Make satisfactory progress to the State Treasury Department on the restructuring of DDOT;
- Complete medical benefit dependent audit; and
- Obtain approval of revisions to the Purchasing function as detailed previously.

The City of Detroit, the Detroit Workforce Development Board (DWDD), and the Detroit Employment Solutions Corporation (DESC) became partners to a governance agreement dated June 28, 2012; wherein, DESC (a Michigan non-profit corporation) became the depository, primary administrative and fiscal agent effective July 1, 2012 for DWDD funds available to the Board and the City of Detroit. The City's administration determined that moving the City's workforce development operations and oversight to an external corporation would best serve the citizens of Detroit by improving service delivery and reducing costs. In addition, the non-profit entity has the ability to leverage corporate and philanthropic resources to sustain programs and supplement public funding. DWDD was accounted for in a Special Revenue Fund and primarily supported by federal and state grants. DWDD expenditures for the year ended June 30, 2012 were \$52.4 million. DWDD owed the City's General Fund \$1.9 million on June 30, 2012 for interagency billings such as central staff services and fringe benefits.

As of July 1, 2012, the Department of Human Services (DHS) Headstart programs have been transitioned to independent agencies. The remaining DHS operations are planned to be transitioned to independent agencies in January 2013. The City's administration determined that moving the Department of Human Services operations and oversight to external agencies would best serve the citizens of Detroit by improving service delivery and reducing costs. DHS programs included Head Start, Community Services Block Grant (CSBG) and Weatherization. DHS was accounted for in a Special Revenue Fund and primarily supported by federal and state grants. DHS expenditures for the year ended June 30, 2012 were \$68.6 million. DHS owed the City's General Fund \$6.1 million on June 30, 2012 for loans from the General Fund, interagency billings, and fringe benefits.

On October 1, 2012, the state grant funded programs of the Department of Health and Wellness Promotion (DHWP) were transitioned to the Institute for Population Health an independent agency. The City's administration determined that moving the DHWP operations and oversight to the Institute for Population Health would best serve the citizens of Detroit by improving service delivery and reducing costs. DHWP is accounted for as a General Fund Department. It is primarily supported by Federal and State Grants. It also, received significant General Fund support. DHWP expenditures for the year ended June 30, 2012 were \$73.0 million of which \$13.1 million were incurred by the General Fund.

In November 2012, the City contracted to transition most of its human resources, payroll, and benefit operations to a private contractor. The transition is expected to be completed in March 2014. The City currently has two payroll systems: Payroll Personnel System (PPS) and Oracle Human Resources Management System (HRMS). These systems were not fully integrated and required intensive manual efforts to produce payrolls and benefit payments. The new system is expected to reduce technology, payroll and personnel costs, and improve accounting and reporting for payroll and benefits. In addition, approximately 50 police officers currently performing payroll timekeeping functions will be redeployed to perform police duties.

On December 13, 2012, the State of Michigan Legislature approved and presented to the Governor the following legislation: (1) "Local Government and School District Fiscal Responsibility Act"; (2) "Municipal Lighting Authority Act"; (3) "Regional Transit Authority Act"; and (4) "Phase Out of Personal Property Tax Act". On December 19, 2012, the Governor signed into law the Regional Authority Transit Act and Municipal Lighting Authority Act. The Governor also signed the "Local Government and School District Fiscal Responsibility Act" on December 27 and "Phase Out of Personal Property Tax Act" on December 20 into law. These new laws will become effective in March 2013.

Under the "Municipal Lighting Authority Act", the City plans to transition its Public Lighting Department to a new "Detroit Public Lighting Authority". Under the new law Municipal Lighting Authorities can issue revenue bonds to provide funding for lighting infrastructure improvements and other public lighting needs. The revenue bonds can be repaid with proceeds from utility user taxes assessed on citizens receiving the lighting services. The creation of a "Public Lighting Authority" in the City of Detroit is expected to improve the City's public lighting and provide better safety for its citizens.

The "Regional Transit Authority Act" will provide for a Regional Transit Authority (RTA) for Southeast Michigan to coordinate public transit within the region consisting of Macomb, Oakland, Wayne and Washtenaw counties. The new law creates the opportunity for more reliable, convenient and affordable public

transportation in southeastern Michigan. The law will give the RTA the ability to seek millages to fund public transportation and issue bonds to finance transportation projects. In addition, the RTA will be able to obtain Federal transit funding to coordinate the development of a rapid bus transit system in the Metro Detroit area. The benefits expected for the City of Detroit include better coordination of transit between the Detroit Department of Transportation and the suburban system SMART (Suburban Mobility Authority for Regional Transit), improved service and lower costs.

The "Local Government and School District Fiscal Responsibility Act" will replace Public Act 72 of 1990. Until the new law becomes effective, Public Act 72 will be the law followed for local governments with financial emergencies. The new law gives financially distressed cities four options once a financial emergency is determined: (1) consent agreement; (2) mediation; (3) emergency manager; and (4) Chapter 9 Bankruptcy. As discussed previously, as of this report date, the State is conducting a financial review of the City that could lead to an appointment of an emergency financial manager under Public Act 72 of 1990. If the State does determine a financial emergency exists and appoints an emergency financial manager then the new law specifies that an emergency financial manager appointed under Public Act 72 of 1990 and serving on the effective date of this legislation would continue to serve under the new act. The State, based on its findings, could also allow the City to continue to perform under the current Financial Stability Agreement or a new modified one.

The "Phase Out of Personal Property Tax Act" will phase out personal property tax on industrial and commercial equipment and furniture. It would begin to be phased out over 10 years beginning in 2013. The intent of the laws is to reduce taxes on businesses to encourage creation and growth of business and employment in the State. The laws will adversely impact the City of Detroit's property tax revenue in the near term. The law provides for replacement revenue from existing use taxes, which is primarily a business tax paid on out-of-state purchases and hotel and motel rooms, cars and telecommunication services.

(b) Debt Ratings

On November 28, 2012, Moody's Investors Service downgraded the City's General Obligation Unlimited Tax and Certificates of Participation ratings to Caa1, and has downgraded the City's General Obligation Limited Tax rating to Caa1. Concurrently, Moody's downgraded the ratings for the Detroit Water and Sewage Enterprise Revenue debt to Baa3 (Senior Lien) and Ba1 (Second Lien). The downgrades in the City's credit ratings to a level below investment grade status limits the City's access to capital, including borrowing for cash flow purposes.

(c) New Debt Issues

On August 23, 2012, the General Fund issued \$129.5 million of limited tax general obligation bonds at a premium of \$9.1 million with maturities extending to November 2032, with the assistance of the State through the Michigan Finance Authority. The \$138.6 million of bond proceeds were used to defease the \$76.5 million remaining of the \$80.0 million of short-term debt issued in March 2012, pay \$1.6 million of issuance costs, and the remainder totaling \$60.5 million was set-aside with a trustee bank in an escrow account to provide funds for the City reforms and provide liquidity in fiscal year 2012-13. The bonds begin to mature November 1, 2012.

On November 20, 2012, the City entered into a lease purchase agreement of \$4.9 million for computer system improvements. This lease purchase agreement matures through December 1, 2016.

(d) Legal Matters

On November 4, 2011, the U.S. District Court issued an order that will modify several aspects of the Water and Sewage Disposal Funds' management processes. The order incorporated recommendations of a committee established by the Court to identify and implement strategies to ensure sustainable environmental compliance of the Fund. The principal recommendations of the Root Cause Committee report, and the provisions of the November 4, 2011 order are designed to produce more autonomous Fund operations and include:

- The Funds will continue to remain an enterprise Fund of the City, and all assets of the water and wastewater systems will remain property of the City;
- The Funds' labor relations will no longer be governed by the Collective Bargaining Agreements (CBA) that are applicable to all other City Funds. It is envisioned that separate agreements and provisions will be established that are specific to the Funds' needs. The order strikes and enjoins all other provisions that are deemed to threaten compliance;
- The Funds will be exempted from the City's procurement ordinance and will establish procurement policies that will facilitate efficiency and long-term compliance;
- The Funds will establish and distinguish resources separately from the City; for provision of the finance, procurement, law, human resource, and information technology services that are currently being provided by the City;
- Rates for suburban customers will no longer be subject to approval by the Detroit City Council;
- Future Directors will continue to be appointed by the Mayor, but will be engaged with advice from a search committee that includes representation from a suburban Board member and the Detroit City Council. Removal of future Directors will require a super majority of either the Board or the City Council.

On October 5, 2012, the Court issued further clarification of its November 4, 2011 Order. Significant amongst the relief granted in the October 5, 2012 Order was an injunction against the City from "applying existing or future Charter provisions, ordinances, resolutions, executive orders, City policies, regulations, procedures or similar rules or practices that are inconsistent" with the Court's order. The Court also ordered that the City and its employees work cooperatively with the Detroit Water and Sewerage Department to implement the Court's Orders. The Court took certain other matters under advisement. A ruling on those matters is anticipated in December 2012 or January 2013.

(e) Other Matters

On November 14, 2012, the Detroit Water and Sewerage Department's Board of Water Commissioners approved a \$2 million contract with a consultant, EMA, for job re-design and organizational optimization services with a term ending June 30, 2013. Work on this contract has begun and job re-design teams have been formed from Detroit Water and Sewerage Department volunteers.

REQUIRED SUPPLEMENTARY INFORMATION

COMPARISON - GENERAL FUND BUDGET TO ACTUAL

(UNAUDITED)

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.

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, 2012

	Budgeted Amounts		Actual Amounts	Variance With Final Budget- Positive (Negative)
	Original	Final		
REVENUES:				
Taxes, Assessments, Interest, and Penalties:				
Property Taxes	\$ 137,819,373	\$ 137,819,373	\$ 147,789,938	\$ 9,970,565
Municipal Income Tax	250,000,000	270,000,000	233,035,540	(36,964,460)
Utility Users' Tax	42,000,000	42,000,000	39,828,340	(2,171,660)
Wagering Taxes	197,769,266	177,167,143	181,443,475	4,276,332
Other Taxes and Assessments	10,836,616	10,836,616	13,052,673	2,216,057
Interest and Penalties on Taxes	10,273,000	10,273,000	4,264,747	(6,008,253)
Total Taxes, Assessments, Interest, and Penalties	<u>648,698,255</u>	<u>648,096,132</u>	<u>619,414,713</u>	<u>(28,681,419)</u>
Licenses, Permits, and Inspection Charges:				
Business Licenses	3,621,000	3,621,000	2,540,100	(1,080,900)
Permits	504,000	504,000	579,823	75,823
Inspection Charges	6,869,814	6,869,814	4,188,687	(2,681,127)
Other Licenses	100,000	99,950	97,483	(2,467)
Total Licenses, Permits, and Inspection Charges	<u>11,094,814</u>	<u>11,094,764</u>	<u>7,406,093</u>	<u>(3,688,671)</u>
Shared Taxes:				
Liquor and Beer Licenses	581,000	581,000	587,832	6,832
State Shared Tax	165,632,900	167,285,023	172,340,098	5,055,075
Other Shared Tax	—	—	364,292	364,292
Total Shared Taxes	<u>166,213,900</u>	<u>167,866,023</u>	<u>173,292,222</u>	<u>5,426,199</u>
Intergovernmental:				
Federal	15,037,291	96,016,327	61,644,180	(34,372,147)
State	47,692,869	117,048,094	14,939,729	(102,108,365)
Other Grants	4,102,400	58,151,285	4,397,406	(53,753,879)
Total Grants	<u>66,832,560</u>	<u>271,215,706</u>	<u>80,981,315</u>	<u>(190,234,391)</u>
Sales and Charges for Services:				
Maintenance and Construction	68,882	68,882	—	(68,882)
Other Labor and Materials	211,899	211,899	—	(211,899)
Electrical	59,991,099	59,991,099	44,183,336	(15,807,763)
Steam	708,658	708,658	586,120	(122,538)
Recreation Fees	23,000	23,000	34,831	11,831
Collection Fees	7,943,540	7,973,540	5,629,734	(2,343,806)
Other Fees	51,880,996	52,816,787	45,495,718	(7,321,069)
Personal Services	51,576,180	51,759,491	36,391,380	(15,368,111)
Other Departmental Sales	33,373,722	39,159,423	16,911,895	(22,247,528)
Total Sales and Charges for Services	<u>205,777,976</u>	<u>212,712,779</u>	<u>149,233,014</u>	<u>(63,479,765)</u>
Ordinance Fines and Forfeitures	<u>26,431,000</u>	<u>26,431,000</u>	<u>14,466,579</u>	<u>(11,964,421)</u>
Revenue from Use of Assets:				
Investment Earnings	2,500,000	2,299,322	1,295	(2,298,027)
Real Estate Rentals	3,361,254	3,361,254	3,042,768	(318,486)
Concessions	276,046	276,046	211,341	(64,705)
Sale of Real Property	1,700,000	2,809,374	(1,185,097)	(3,994,471)
Total Revenue from Use of Assets	<u>7,837,300</u>	<u>8,745,996</u>	<u>2,070,307</u>	<u>(6,675,689)</u>
Other Revenue	<u>142,586,959</u>	<u>217,884,061</u>	<u>55,386,328</u>	<u>(162,497,733)</u>
Total Revenues	<u>1,275,472,764</u>	<u>1,564,046,461</u>	<u>1,102,250,571</u>	<u>(461,795,890)</u>

(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, 2012

	<u>Budgeted Amounts</u>		<u>Actual</u> <u>Amounts</u>	<u>Variance With</u> <u>Final Budget-</u> <u>Positive</u> <u>(Negative)</u>
	<u>Original</u>	<u>Final</u>		
EXPENDITURES:				
Public Protection:				
Consumer Affairs	\$ —	\$ 2,947	\$ 675	\$ 2,272
Construction Code	—	—	1,567,290	(1,567,290)
Fire	183,423,392	190,998,610	184,969,473	6,029,137
Human Rights	936,207	956,651	746,720	209,931
Ombudsperson	895,002	1,109,481	1,089,926	19,555
Parking Enforcement	6,678,940	7,013,315	5,703,518	1,309,797
Police	403,762,455	456,817,548	397,034,407	59,783,141
Detroit Office of Homeland Security	2,355,418	13,450,475	1,159,367	12,291,108
36th District Court	37,464,544	37,738,655	37,673,012	65,643
Total Public Protection	<u>635,515,958</u>	<u>708,087,682</u>	<u>629,944,388</u>	<u>78,143,294</u>
Department of Health	<u>77,443,865</u>	<u>176,881,339</u>	<u>73,724,566</u>	<u>103,156,773</u>
Recreation and Culture:				
Culture, Arts, and Tourism	—	979,326	(403)	979,729
Historical	—	31,193	—	31,193
Recreation	19,216,055	31,558,783	16,967,327	14,591,456
Senior Citizens	—	790,486	6,989	783,497
Zoological Institute	—	38,156	—	38,156
Total Recreation and Culture	<u>19,216,055</u>	<u>33,397,944</u>	<u>16,973,913</u>	<u>16,424,031</u>
Economic Development — Civic Center	<u>—</u>	<u>2,786,629</u>	<u>—</u>	<u>2,786,629</u>
Housing Supply and Conditions - Planning and Development	<u>2,518,262</u>	<u>13,168,208</u>	<u>4,215,134</u>	<u>8,953,074</u>
Physical Environment:				
Environmental Affairs	—	1,075,912	(6,520)	1,082,432
Public Lighting	53,230,316	61,358,888	60,593,608	765,280
Public Works	4,440,115	7,286,434	10,544,545	(3,258,111)
Total Physical Environment	<u>57,670,431</u>	<u>69,721,234</u>	<u>71,131,633</u>	<u>(1,410,399)</u>
Development and Management:				
Auditor General	3,553,766	3,634,132	3,647,329	(13,197)
Budget	2,424,842	2,598,099	2,352,690	245,409
City Clerk	3,118,475	3,302,308	2,695,901	606,407
City Council	13,389,244	13,482,195	11,692,975	1,789,220
Communications and Creative Services	—	838	—	838
Elections	7,389,139	9,156,035	7,959,213	1,196,822
Finance	38,970,757	41,768,900	32,774,251	8,994,649
General Services	47,682,428	54,671,052	52,118,963	2,552,089
Law	19,266,301	19,721,999	17,276,568	2,445,431
Mayor's Office	6,977,825	8,772,363	6,607,472	2,164,891
Human Resources	13,479,212	15,566,567	13,921,125	1,645,442
Information Technology Services	20,008,949	25,209,933	17,032,995	8,176,938
Board of Zoning Appeals	709,723	820,622	736,566	84,056
Detroit Workforce Development Department	1,700	642,620	(576)	643,196
Administrative Hearings	1,354,379	1,659,583	1,090,909	568,674
Non Departmental	319,156,858	109,974,410	6,601,397	103,373,013
Total Development and Management	<u>497,483,598</u>	<u>310,981,656</u>	<u>176,507,778</u>	<u>134,473,878</u>
Capital Outlay	<u>—</u>	<u>49,404,357</u>	<u>22,551,153</u>	<u>26,853,204</u>

(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, 2012

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance With Final Budget- Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Debt Service:				
Principal	\$ —	\$ 30,283,616	\$ —	\$ 30,283,616
Interest on Bonded Debt	—	78,308,775	873,708	77,435,067
Bond Issuance Costs	—	—	485,529	(485,529)
Total Debt Service	—	108,592,391	1,359,237	107,233,154
Total Expenditures	1,289,848,169	1,473,021,440	996,407,802	476,613,638
Excess (Deficiency) of Revenues Over (Under)				
Expenditures	(14,375,405)	91,025,021	105,842,769	14,817,748
OTHER FINANCING SOURCES (USES):				
Sources:				
Transfers In	23,856,900	25,095,228	9,036,861	(16,058,367)
Total Other Financing Sources	23,856,900	25,095,228	9,036,861	(16,058,367)
Uses - Transfers Out				
	(9,481,495)	(116,120,249)	(236,542,790)	(120,422,541)
Total Other Financing Sources (Uses)	14,375,405	(91,025,021)	(227,505,929)	(136,480,908)
Net Change in Fund Balance	—	—	(121,663,160)	(121,663,160)
Fund Deficit at Beginning of Year	(148,071,674)	(148,071,674)	(148,071,674)	—
Decrease in Inventory	—	—	248,177	248,177
Fund Deficit at End of Year	\$ (148,071,674)	\$ (148,071,674)	\$ (269,486,657)	\$ (121,414,983)

REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULES OF EMPLOYER CONTRIBUTIONS AND FUNDING PROGRESS

(UNAUDITED)

REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULES OF FUNDING PROGRESS (IN MILLIONS)

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
2006	\$ 3,373.7	\$ 3,434.3	98.2 %	\$ 60.6	\$ 361.1	16.8 %
2007	3,586.6	3,629.2	98.8	42.7	361.7	11.8
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

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
2006	\$ 3,980.3	\$ 3,809.0	104.5 %	\$ (171.3)	\$ 228.1	- %
2007	4,307.2	3,896.8	110.5	(410.4)	230.2	-
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

Employee Health and Life Insurance 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
2007	\$ -	\$ 4,823.6	- %	\$ 4,823.6	\$ 622.6	774.8 %
2009	-	4,971.2	-	4,971.2	591.2	840.9
2011	-	5,718.3	-	5,718.3	523.5	1,092.3

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
2009	\$ 24.2	\$ 29.7	81.4 %	\$ 5.5	\$ 591.2	0.9 %
2010	24.1	35.2	68.5	11.1	567.3	2.0
2011	25.7	34.6	74.3	8.9	523.5	1.7

REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULES 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
2007	\$ 41.4	100 %	691.3	2007	\$ 57.4	100 %	\$ 618.8
2008	43.2	100	708.3	2008	58.9	70	636.2
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

Employee Health and Life Insurance Benefit Plan

Year Ended June 30	Annual Required Contribution	Percentage Contributed
2010	\$ 311.9	48 %
2011	324.4	51
2012	351.1	47

Supplemental Death Benefit Plan

Year Ended June 30	Annual Required Contribution	Percentage Contributed
2010	\$ 0.399	36 %
2011	0.734	21
2012	0.596	33

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

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, 2012

	Special Revenue Funds	Debt Service Fund	Capital Projects Fund	Permanent Funds and Bequest Funds	Total
ASSETS					
Cash and Cash Equivalents	\$ 46,644,826	\$ 2,670,108	\$ 16,189,114	\$ 466,754	\$ 65,970,802
Investments	15,377,564	2,907,180	121,498,487	1,249,840	141,033,071
Accounts and Contracts Receivable:					
Property Taxes Receivable	—	72,215,255	—	—	72,215,255
Special Assessments	—	—	541,890	—	541,890
Loans Receivable	18,000,000	—	—	—	18,000,000
Trade Receivables	17,555,998	—	7,673,908	—	25,229,906
Total Accounts and Contracts Receivable	35,555,998	72,215,255	8,215,798	—	115,987,051
Allowance for Uncollectible Accounts	(21,655,917)	(72,215,255)	(1,062,401)	—	(94,933,573)
Total Accounts and Contracts Receivable - Net	13,900,081	—	7,153,397	—	21,053,478
Due from Other Funds	71,577,806	11,973,708	323	—	83,551,837
Due from Fiduciary Funds	22,720	—	—	—	22,720
Due from Component Units	95,058	—	—	—	95,058
Due from Other Governmental Agencies	21,063,019	—	—	—	21,063,019
Inventory	1,457,015	—	—	—	1,457,015
Total Assets	\$ 170,138,089	\$ 17,550,996	\$ 144,841,321	\$ 1,716,594	\$ 334,247,000
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts and Contracts Payable	\$ 9,358,154	\$ —	\$ 6,963,104	\$ —	\$ 16,321,258
Accrued Liabilities	37,686,810	—	5,522,326	—	43,209,136
Accrued Salaries and Wages	978,369	—	—	—	978,369
Due to Other Funds	25,785,557	—	1,165,730	—	26,951,287
Due to Component Units	1,406,997	—	—	—	1,406,997
Loans and Other Advances from Other Funds	—	—	850,000	—	850,000
Due to Other Governmental Agencies	18,609,796	11,236,309	100	—	29,846,205
Deposits from Vendors and Customers	801,361	—	—	—	801,361
Deferred Revenue - Unavailable	3,098,960	—	414,718	—	3,513,678
Other Liabilities	5,109,694	—	—	—	5,109,694
Accrued Compensated Absences	—	—	37,065	—	37,065
Total Liabilities	102,835,698	11,236,309	14,953,043	—	129,025,050
Fund Balances:					
Nonspendable:					
Inventory	1,457,015	—	—	—	1,457,015
Permanent Fund Principal	—	—	—	937,861	937,861
Restricted for:					
Highway and Street Improvements	34,911,949	—	—	—	34,911,949
Police	10,906,625	—	—	—	10,906,625
Endowments and Trusts	—	—	—	778,733	778,733
Capital Acquisitions	—	—	129,888,278	—	129,888,278
Local Business Growth	478,084	—	—	—	478,084
Rubbish Collection and Disposal	7,539,419	—	—	—	7,539,419
Grants	12,009,299	—	—	—	12,009,299
Assigned for:					
Debt Service	—	6,314,687	—	—	6,314,687
Total Fund Balances	67,302,391	6,314,687	129,888,278	1,716,594	205,221,950
Total Liabilities and Fund Balances	\$ 170,138,089	\$ 17,550,996	\$ 144,841,321	\$ 1,716,594	\$ 334,247,000

City of Detroit, Michigan
COMBINING STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES
OTHER GOVERNMENTAL FUNDS
For the Year Ended June 30, 2012

	Special Revenue Funds	Debt Service Fund	Capital Projects Fund	Permanent Funds and Bequest Funds	Totals
REVENUES:					
Taxes:					
Property Taxes	\$ —	\$ 69,141,680	\$ —	\$ —	\$ 69,141,680
Gas and Weight Tax	53,142,793	—	—	—	53,142,793
Other Taxes and Assessments	—	3,475,836	—	—	3,475,836
Licenses, Permits, and Inspection Charges	19,106,279	—	—	—	19,106,279
Intergovernmental:					
Federal	192,289,059	—	—	—	192,289,059
State	22,329,514	—	—	—	22,329,514
Other	2,266,076	—	—	—	2,266,076
Sales and Charges for Services	47,833,054	—	—	—	47,833,054
Ordinance Fines and Forfeitures	2,505,477	—	—	—	2,505,477
Investment Earnings	406,411	3,971	—	33,574	443,956
Other Revenue	4,069,323	850,781	2,535,305	—	7,455,409
Total Revenues	<u>343,947,986</u>	<u>73,472,268</u>	<u>2,535,305</u>	<u>33,574</u>	<u>419,989,133</u>
EXPENDITURES:					
Current:					
Public Protection	45,414,703	—	—	—	45,414,703
Health	68,640,459	—	—	—	68,640,459
Recreation and Culture	—	—	—	3,000	3,000
Economic Development	61,882,930	1,651,085	3,580,985	—	67,115,000
Educational Development	52,430,587	—	—	—	52,430,587
Physical Environment	42,471,918	—	—	—	42,471,918
Transportation Facilitation	14,990,983	—	—	—	14,990,983
Debt Service:					
Principal	5,288,000	78,492,404	—	—	83,780,404
Interest	4,170,706	52,822,684	—	—	56,993,390
Bond Issuance Costs	70	—	—	—	70
Capital Outlay	56,195,902	—	18,903,785	—	75,099,687
Total Expenditures	<u>351,486,258</u>	<u>132,966,173</u>	<u>22,484,770</u>	<u>3,000</u>	<u>506,940,201</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(7,538,272)</u>	<u>(59,493,905)</u>	<u>(19,949,465)</u>	<u>30,574</u>	<u>(86,951,068)</u>
OTHER FINANCING SOURCES (USES):					
Sources:					
Transfers In	27,777,737	61,246,842	959,622	—	89,984,201
Proceeds from Bonds and Notes Issued	5,753,000	—	—	—	5,753,000
Uses:					
Transfers Out	(31,054,908)	—	—	—	(31,054,908)
Total Other Financing Sources (Uses)	<u>2,475,829</u>	<u>61,246,842</u>	<u>959,622</u>	<u>—</u>	<u>64,682,293</u>
Net Change in Fund Balances	(5,062,443)	1,752,937	(18,989,843)	30,574	(22,268,775)
Fund Balances at Beginning of Year	72,505,688	4,561,750	148,878,121	1,686,020	227,631,579
Decrease in Inventory	(140,854)	—	—	—	(140,854)
Fund Balances at End of Year	<u>\$ 67,302,391</u>	<u>\$ 6,314,687</u>	<u>\$ 129,888,278</u>	<u>\$ 1,716,594</u>	<u>\$ 205,221,950</u>

City of Detroit, Michigan
COMBINING BALANCE SHEET
OTHER GOVERNMENTAL FUNDS
SPECIAL REVENUE FUNDS
For the Year Ended June 30, 2012

	Community Development Block Grant Fund	Construction Code Fund	Urban Development Fund	Detroit Workforce Development Fund
ASSETS				
Cash and Cash Equivalents	\$ 12,535,736	\$ 520,733	\$ 2,022,126	\$ 8,627,913
Investments	7,582,579	—	889,309	—
Accounts and Contracts Receivable:				
Loans Receivable	18,000,000	—	—	—
Trade Receivables	10,693	688,971	—	14,095,137
Total Accounts and Contracts Receivable	18,010,693	688,971	—	14,095,137
Less: Allowance for Uncollectible Accounts	(18,010,693)	(688,971)	—	(195,056)
Total Accounts and Contracts Receivable - Net	—	—	—	13,900,081
Due from Other Funds	250,049	6,184,229	—	31,702
Due from Fiduciary Funds	22,720	—	—	—
Due from Component Units	—	7,552	—	—
Due from Other Governmental Agencies	—	—	—	—
Inventory	—	—	—	—
Total Assets	\$ 20,391,084	\$ 6,712,514	\$ 2,911,435	\$ 22,559,696
LIABILITIES AND FUND BALANCES (DEFICITS)				
Liabilities:				
Accounts and Contracts Payable	\$ 1,576,850	\$ 864,483	\$ 1,000	\$ 869,713
Accrued Liabilities	4,509,474	1,386,956	422	15,898,684
Accrued Salaries and Wages	143,156	323,936	4,945	42,363
Due to Other Funds	5,968,445	3,354,717	124,140	1,899,760
Due to Component Units	—	—	—	—
Due to Other Governmental Agencies	—	—	—	77,195
Deposits from Vendors and Customers	743,856	—	56,555	950
Deferred Revenue - Unavailable	569,441	456,825	—	—
Other Liabilities	20,331	325,597	53,294	3,684,440
Total Liabilities	13,531,553	6,712,514	240,356	22,473,105
Fund Balances:				
Nonspendable - Inventory	—	—	—	—
Restricted for:				
Highway and Street Improvements	—	—	—	—
Police	—	—	—	—
Local Business Growth	—	—	—	—
Rubbish Collection and Disposal	—	—	—	—
Grants	6,859,531	—	2,671,079	86,591
Total Fund Balances	6,859,531	—	2,671,079	86,591
Total Liabilities and Fund Balances	\$ 20,391,084	\$ 6,712,514	\$ 2,911,435	\$ 22,559,696

Drug Law Enforcement Fund	Human Services Fund	Solid Waste Management Fund	Street Fund	Targeted Business Development Fund	Telecommunications Fund	Renewable Energy Fund	Totals
\$ 11,712,935	\$ 1,596,612	\$ 3,084,873	\$ 547,951	\$ 5,681,085	\$ 300,000	\$ 14,862	\$ 46,644,826
240	—	6,905,436	—	—	—	—	15,377,564
—	—	—	—	—	—	—	18,000,000
—	—	199,985	2,114,654	—	—	446,558	17,555,998
—	—	199,985	2,114,654	—	—	446,558	35,555,998
—	—	(199,985)	(2,114,654)	—	—	(446,558)	(21,655,917)
—	—	—	—	—	—	—	13,900,081
76	211,040	22,507,454	38,858,171	—	3,423,802	111,283	71,577,806
—	—	—	—	—	—	—	22,720
—	—	—	77,737	—	—	9,769	95,058
—	11,415,862	—	9,647,157	—	—	—	21,063,019
—	—	—	1,457,015	—	—	—	1,457,015
<u>\$ 11,713,251</u>	<u>\$ 13,223,514</u>	<u>\$ 32,497,763</u>	<u>\$ 50,588,031</u>	<u>\$ 5,681,085</u>	<u>\$ 3,723,802</u>	<u>\$ 135,914</u>	<u>\$ 170,138,089</u>
\$ 115,129	\$ 744,448	\$ 644,810	3,220,970	\$ —	\$ 1,311,116	\$ 9,635	\$ 9,358,154
314,877	5,263,751	242,315	4,867,330	5,203,001	—	—	37,686,810
15,094	82,491	211,475	154,909	—	—	—	978,369
361,526	6,106,728	4,196,154	3,647,809	—	—	126,278	25,785,557
—	—	1,406,997	—	—	—	—	1,406,997
—	—	18,256,593	276,008	—	—	—	18,609,796
—	—	—	—	—	—	—	801,361
—	—	—	2,052,041	—	20,653	—	3,098,960
—	1,026,032	—	—	—	—	—	5,109,694
<u>806,626</u>	<u>13,223,450</u>	<u>24,958,344</u>	<u>14,219,067</u>	<u>5,203,001</u>	<u>1,331,769</u>	<u>135,913</u>	<u>102,835,698</u>
—	—	—	1,457,015	—	—	—	1,457,015
—	—	—	34,911,949	—	—	—	34,911,949
10,906,625	—	—	—	—	—	—	10,906,625
—	—	—	—	478,084	—	—	478,084
—	—	7,539,419	—	—	—	—	7,539,419
—	64	—	—	—	2,392,033	1	12,009,299
<u>10,906,625</u>	<u>64</u>	<u>7,539,419</u>	<u>36,368,964</u>	<u>478,084</u>	<u>2,392,033</u>	<u>1</u>	<u>67,302,391</u>
<u>\$ 11,713,251</u>	<u>\$ 13,223,514</u>	<u>\$ 32,497,763</u>	<u>\$ 50,588,031</u>	<u>\$ 5,681,085</u>	<u>\$ 3,723,802</u>	<u>\$ 135,914</u>	<u>\$ 170,138,089</u>

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, 2012

	<u>Community Development Block Grant Fund</u>	<u>Construction Code Fund</u>	<u>Urban Development Fund</u>	<u>Detroit Workforce Development Fund</u>
REVENUES:				
Taxes:				
Gas and Weight Tax	\$ —	\$ —	\$ —	\$ —
Licenses, Permits, and Inspection Charges	—	19,106,279	—	—
Intergovernmental:				
Federal	62,447,414	3,426,599	5,543,761	52,426,614
State	—	—	—	—
Other	—	—	—	—
Sales and Charges for Services	—	—	—	—
Ordinance Fines and Forfeitures	—	29,489	—	—
Investment Earnings	203,123	—	2,991	—
Other Revenue	1,852,865	—	44,295	—
	<u>64,503,402</u>	<u>22,562,367</u>	<u>5,591,047</u>	<u>52,426,614</u>
Total Revenues				
EXPENDITURES:				
Current:				
Public Protection	—	40,108,987	—	—
Health	—	—	—	—
Economic Development	51,197,581	—	5,482,348	—
Educational Development	—	—	—	52,430,587
Physical Environment	—	—	—	—
Transportation Facilitation	—	—	—	—
Debt Service:				
Principal	5,288,000	—	—	—
Interest	4,170,706	—	—	—
Bond Issuance Costs	70	—	—	—
Capital Outlay	158,460	—	—	—
	<u>60,814,817</u>	<u>40,108,987</u>	<u>5,482,348</u>	<u>52,430,587</u>
Total Expenditures				
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>3,688,585</u>	<u>(17,546,620)</u>	<u>108,699</u>	<u>(3,973)</u>
Other Financing Sources (Uses):				
Transfers In	—	17,546,620	—	—
Transfers Out	(12,076,651)	—	—	—
Section 108 Federal Note Issued	5,753,000	—	—	—
	<u>(6,323,651)</u>	<u>17,546,620</u>	<u>—</u>	<u>—</u>
Total Other Financing Sources (Uses)				
Net Change in Fund Balances	(2,635,066)	—	108,699	(3,973)
Fund Balances at Beginning of Year	9,494,597	—	2,562,380	90,564
Decrease in Inventory	—	—	—	—
Fund Balances at End of Year	<u>\$ 6,859,531</u>	<u>\$ —</u>	<u>\$ 2,671,079</u>	<u>\$ 86,591</u>

<u>Drug Law Enforcement Fund</u>	<u>Human Services Fund</u>	<u>Solid Waste Management Fund</u>	<u>Street Fund</u>	<u>Targeted Business Development Fund</u>	<u>Telecommunications Fund</u>	<u>Renewable Energy Fund</u>	<u>Totals</u>
\$ —	\$ —	\$ —	\$ 53,142,793	\$ —	\$ —	\$ —	\$ 53,142,793
—	—	—	—	—	—	—	19,106,279
—	68,444,671	—	—	—	—	—	192,289,059
—	—	—	19,849,177	—	2,480,337	—	22,329,514
—	—	—	2,187,007	—	—	79,069	2,266,076
—	—	47,833,054	—	—	—	—	47,833,054
2,380,878	—	95,110	—	—	—	—	2,505,477
3,395	235	—	173,812	—	22,855	—	406,411
—	—	524,339	1,647,824	—	—	—	4,069,323
<u>2,384,273</u>	<u>68,444,906</u>	<u>48,452,503</u>	<u>77,000,613</u>	<u>—</u>	<u>2,503,192</u>	<u>79,069</u>	<u>343,947,986</u>
5,305,716	—	—	—	—	—	—	45,414,703
—	68,640,459	—	—	—	—	—	68,640,459
—	—	—	—	5,203,001	—	—	61,882,930
—	—	—	—	—	—	—	52,430,587
—	—	41,806,280	—	—	—	665,638	42,471,918
—	—	—	13,404,054	—	1,586,929	—	14,990,983
—	—	—	—	—	—	—	5,288,000
—	—	—	—	—	—	—	4,170,706
—	—	—	—	—	—	—	70
137,700	—	5,333,574	48,121,919	—	2,444,249	—	56,195,902
<u>5,443,416</u>	<u>68,640,459</u>	<u>47,139,854</u>	<u>61,525,973</u>	<u>5,203,001</u>	<u>4,031,178</u>	<u>665,638</u>	<u>351,486,258</u>
<u>(3,059,143)</u>	<u>(195,553)</u>	<u>1,312,649</u>	<u>15,474,640</u>	<u>(5,203,001)</u>	<u>(1,527,986)</u>	<u>(586,569)</u>	<u>(7,538,272)</u>
—	195,617	—	9,941,398	—	—	94,102	27,777,737
—	—	—	(18,978,257)	—	—	—	(31,054,908)
—	—	—	—	—	—	—	5,753,000
—	195,617	—	(9,036,859)	—	—	94,102	2,475,829
(3,059,143)	64	1,312,649	6,437,781	(5,203,001)	(1,527,986)	(492,467)	(5,062,443)
13,965,768	—	6,226,770	30,072,037	5,681,085	3,920,019	492,468	72,505,688
—	—	—	(140,854)	—	—	—	(140,854)
<u>\$ 10,906,625</u>	<u>\$ 64</u>	<u>\$ 7,539,419</u>	<u>\$ 36,368,964</u>	<u>\$ 478,084</u>	<u>\$ 2,392,033</u>	<u>\$ 1</u>	<u>\$ 67,302,391</u>

City of Detroit, Michigan
COMBINING BALANCE SHEET ACCOUNTS
OTHER GOVERNMENTAL FUNDS - STREET FUNDS
June 30, 2012

	Major Account	Local Account	Totals
ASSETS			
Cash and Cash Equivalents	\$ 449,175	\$ 98,776	\$ 547,951
Accounts and Contracts Receivable - Trade	2,114,654	—	2,114,654
Less: Allowance for Uncollectible Accounts	(2,114,654)	—	(2,114,654)
Total Accounts and Contracts Receivable - Net	—	—	—
Due from Other Funds	28,566,908	10,291,263	38,858,171
Due from Component Units	77,737	—	77,737
Due from Other Governmental Agencies	7,767,142	1,880,015	9,647,157
Inventory	1,457,015	—	1,457,015
Total Assets	\$ 38,317,977	\$ 12,270,054	\$ 50,588,031
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts and Contracts Payable	\$ 3,111,423	\$ 109,547	\$ 3,220,970
Due to Other Funds	3,458,960	188,849	3,647,809
Due to Other Governmental Agencies	276,008	—	276,008
Accrued Salaries and Wages	154,909	—	154,909
Accrued Liabilities	4,841,605	25,725	4,867,330
Deferred Revenue - Unavailable	1,917,883	134,158	2,052,041
Total Liabilities	13,760,788	458,279	14,219,067
Fund Balances:			
Nonspendable - Inventory	1,457,015	—	1,457,015
Restricted for Highway and Street Improvements	23,100,174	11,811,775	34,911,949
Total Fund Balances	24,557,189	11,811,775	36,368,964
Total Liabilities and Fund Balances	\$ 38,317,977	\$ 12,270,054	\$ 50,588,031

City of Detroit, Michigan
COMBINING STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCE ACCOUNTS
OTHER GOVERNMENTAL FUNDS - STREET FUNDS
For the Year Ended June 30, 2012

	<u>Major Account</u>	<u>Local Account</u>	<u>Totals</u>
Revenues:			
Gas and Weight Tax	\$ 41,406,708	\$ 11,736,085	\$ 53,142,793
Intergovernmental:			
State	19,000,068	849,109	19,849,177
Other	2,187,007	—	2,187,007
Investment Earnings	127,494	46,318	173,812
Other Revenue	1,410,241	237,583	1,647,824
Total Revenues	<u>64,131,518</u>	<u>12,869,095</u>	<u>77,000,613</u>
Expenditures:			
Transportation Facilitation	4,013,908	9,390,146	13,404,054
Capital Outlay	48,064,173	57,746	48,121,919
Total Expenditures	<u>52,078,081</u>	<u>9,447,892</u>	<u>61,525,973</u>
Excess of Revenues Over Expenditures	<u>12,053,437</u>	<u>3,421,203</u>	<u>15,474,640</u>
Other Financing Sources (Uses):			
Transfers In	—	9,941,398	9,941,398
Transfers Out	<u>(12,353,481)</u>	<u>(6,624,776)</u>	<u>(18,978,257)</u>
Total Other Financing Sources (Uses)	<u>(12,353,481)</u>	<u>3,316,622</u>	<u>(9,036,859)</u>
Net Change in Fund Balances	(300,044)	6,737,825	6,437,781
Fund Balances at Beginning of Year	24,998,087	5,073,950	30,072,037
Increase in Inventory	<u>(140,854)</u>	<u>—</u>	<u>(140,854)</u>
Fund Balances at End of Year	<u>\$ 24,557,189</u>	<u>\$ 11,811,775</u>	<u>\$ 36,368,964</u>

City of Detroit, Michigan
COMBINING BALANCE SHEET
OTHER GOVERNMENTAL PERMANENT FUNDS
June 30, 2012

	Permanent Funds		
	Bequest Funds		
	Other Trust	Cemetery Trust	Totals
ASSETS			
Cash and Cash Equivalents	\$ —	\$ 466,754	\$ 466,754
Investments	49,298	1,200,542	1,249,840
Total Assets	\$ 49,298	\$ 1,667,296	\$ 1,716,594
LIABILITIES AND FUND BALANCES			
Fund Balance			
Nonspendable - Permanent Fund Principal	\$ 40,349	\$ 897,512	\$ 937,861
Restricted for Endowments and Trusts	8,949	769,784	778,733
Total Liabilities and Fund Balances	\$ 49,298	\$ 1,667,296	\$ 1,716,594

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, 2012

	<u>Permanent Funds</u>		<u>Totals</u>
	<u>Bequest Funds</u>		
	<u>Other Trust</u>	<u>Cemetery Trust</u>	
Revenues - Investment Earnings	\$ 39	\$ 33,535	\$ 33,574
Expenditures - Recreation and Culture	—	3,000	3,000
Excess of Revenues Over Excess of Revenues Over Expenditures	39	30,535	30,574
Fund Balances at Beginning of Year	49,259	1,636,761	1,686,020
Fund Balances at End of Year	\$ 49,298	\$ 1,667,296	\$ 1,716,594

City of Detroit, Michigan
BUDGETARY COMPARISON SCHEDULES
OTHER GOVERNMENTAL FUNDS
COMMUNITY DEVELOPMENT BLOCK GRANT FUND
For the Year Ended June 30, 2012

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance With Final Budget- Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
Intergovernmental - Federal	\$ 35,155,433	\$ 146,735,654	\$ 62,447,414	\$ (84,288,240)
Investment Earnings	—	(669,547)	203,123	872,670
Other Revenue	815,739	27,622,331	1,852,865	(25,769,466)
Total Revenues	35,971,172	173,688,438	64,503,402	(109,185,036)
Expenditures:				
Current:				
Economic Development	35,961,672	191,582,266	51,197,581	140,384,685
Debt Service	—	—	9,458,776	(9,458,776)
Capital Outlay	9,500	3,701,644	158,460	3,543,184
Total Expenditures	35,971,172	195,283,910	60,814,817	134,469,093
Excess (Deficiency) of Revenues Over (Under) Expenditures	—	(21,595,472)	3,688,585	25,284,057
Other Financing Sources (Uses):				
Transfers In	—	898,579	—	(898,579)
Transfers Out	—	141,576	(12,076,651)	(12,218,227)
Section 108 Federal Note Issued	—	—	5,753,000	5,753,000
Total Other Financing Sources (Uses)	—	1,040,155	(6,323,651)	(7,363,806)
Net Change in Fund Balance	—	(20,555,317)	(2,635,066)	17,920,251
Fund Balance at Beginning of Year	9,494,597	9,494,597	9,494,597	—
Fund Balance (Deficit) at End of Year	\$ 9,494,597	\$ (11,060,720)	\$ 6,859,531	\$ 17,920,251

City of Detroit, Michigan
BUDGETARY COMPARISON SCHEDULES
OTHER GOVERNMENTAL FUNDS
CONSTRUCTION CODE FUND
For the Year Ended June 30, 2012

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance With Final Budget- Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
Licenses, Permits, and Inspection Charges	\$ 20,993,672	\$ 20,993,672	\$ 19,106,279	\$ (1,887,393)
Intergovernmental:				
Federal	—	—	3,426,599	3,426,599
Sales and Charges for Services	145,000	145,000	—	(145,000)
Ordinance Fines and Forfeitures	1,297,500	1,297,500	29,489	(1,268,011)
Total Revenues	<u>22,436,172</u>	<u>22,436,172</u>	<u>22,562,367</u>	<u>126,195</u>
Expenditures:				
Public Protection	22,371,172	22,623,482	40,108,987	(17,485,505)
Capital Outlay	65,000	66,830	—	66,830
Total Expenditures	<u>22,436,172</u>	<u>22,690,312</u>	<u>40,108,987</u>	<u>17,418,675</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	—	(254,140)	(17,546,620)	(17,292,480)
Other Financing Sources:				
Transfers In	—	—	17,546,620	17,546,620
Total Other Financing Sources	<u>—</u>	<u>—</u>	<u>17,546,620</u>	<u>17,546,620</u>
Net Change in Fund Balance	—	(254,140)	—	254,140
Fund Balance at Beginning of Year	—	—	—	—
Fund Balance (Deficit) at End of Year	<u>\$ —</u>	<u>\$ (254,140)</u>	<u>\$ —</u>	<u>\$ 254,140</u>

City of Detroit, Michigan
BUDGETARY COMPARISON SCHEDULES
OTHER GOVERNMENTAL FUNDS
URBAN DEVELOPMENT FUND
For the Year Ended June 30, 2012

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance With Final Budget- Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
Intergovernmental - Federal	\$ 10,852,638	\$ 34,818,818	\$ 5,543,761	\$ (29,275,057)
Investment Earnings	—	(288,221)	2,991	291,212
Other Revenue	950,000	675,801	44,295	(631,506)
Total Revenues	11,802,638	35,206,398	5,591,047	(29,615,351)
Expenditures:				
Economic Development	11,802,638	28,376,175	5,482,348	22,893,827
Capital Outlay	—	300,320	—	300,320
Total Expenditures	11,802,638	28,676,495	5,482,348	23,194,147
Excess of Revenues Over Expenditures	—	6,529,903	108,699	(6,421,204)
Other Financing Uses - Transfers Out	—	(6,189,563)	—	6,189,563
Net Change in Fund Balance	—	340,340	108,699	(231,641)
Fund Balance at Beginning of Year	2,562,380	2,562,380	2,562,380	—
Fund Balance at End of Year	\$ 2,562,380	\$ 2,902,720	\$ 2,671,079	\$ (231,641)

City of Detroit, Michigan
BUDGETARY COMPARISON SCHEDULES
OTHER GOVERNMENTAL FUNDS
DETROIT WORKFORCE DEVELOPMENT FUND
For the Year Ended June 30, 2012

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance With Final Budget- Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
Licenses, Permits, and Inspection Charges	\$ —	\$ 3,020,623	\$ —	\$ (3,020,623)
Intergovernmental:				—
Federal	52,892,432	216,958,318	52,426,614	(164,531,704)
State	—	4,596,895	—	(4,596,895)
Other Revenue	<u>1,000,000</u>	<u>17,799,662</u>	<u>—</u>	<u>(17,799,662)</u>
Total Revenues	<u>53,892,432</u>	<u>242,375,498</u>	<u>52,426,614</u>	<u>(189,948,884)</u>
Expenditures:				
Educational Development	53,862,432	237,846,860	52,430,587	185,416,273
Debt Service	—	240,346	—	240,346
Capital Outlay	<u>30,000</u>	<u>(379,634)</u>	<u>—</u>	<u>(379,634)</u>
Total Expenditures	<u>53,892,432</u>	<u>237,707,572</u>	<u>52,430,587</u>	<u>185,276,985</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	—	4,667,926	(3,973)	(4,671,899)
Other Financing Sources - Transfers In	<u>—</u>	<u>179,000</u>	<u>—</u>	<u>(179,000)</u>
Net Change in Fund Balance	—	4,846,926	(3,973)	(4,850,899)
Fund Balance at Beginning of Year	<u>90,564</u>	<u>90,564</u>	<u>90,564</u>	<u>—</u>
Fund Balance at End of Year	<u>\$ 90,564</u>	<u>\$ 4,937,490</u>	<u>\$ 86,591</u>	<u>\$ (4,850,899)</u>

City of Detroit, Michigan
BUDGETARY COMPARISON SCHEDULES
OTHER GOVERNMENTAL FUNDS
DRUG LAW ENFORCEMENT FUND
For the Year Ended June 30, 2012

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance With Final Budget- Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
Ordinance Fines and Forfeitures	\$ —	\$ (5,101,873)	\$ 2,380,878	\$ 7,482,751
Investment Earnings	—	(39,082)	3,395	42,477
Other Revenue	<u>6,963,174</u>	<u>22,755,951</u>	<u>—</u>	<u>(22,755,951)</u>
Total Revenues	<u>6,963,174</u>	<u>17,614,996</u>	<u>2,384,273</u>	<u>(15,230,723)</u>
Expenditures:				
Public Protection	6,963,174	22,753,981	5,305,716	17,448,265
Capital Outlay	<u>—</u>	<u>873,979</u>	<u>137,700</u>	<u>736,279</u>
Total Expenditures	<u>6,963,174</u>	<u>23,627,960</u>	<u>5,443,416</u>	<u>18,184,544</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	—	(6,012,964)	(3,059,143)	2,953,821
Fund Balance at Beginning of Year	<u>13,965,768</u>	<u>13,965,768</u>	<u>13,965,768</u>	<u>—</u>
Fund Balance at End of Year	<u><u>\$ 13,965,768</u></u>	<u><u>\$ 7,952,804</u></u>	<u><u>\$ 10,906,625</u></u>	<u><u>\$ 2,953,821</u></u>

City of Detroit, Michigan
BUDGETARY COMPARISON SCHEDULES
OTHER GOVERNMENTAL FUNDS
HUMAN SERVICES FUND
For the Year Ended June 30, 2012

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance With Final Budget- Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
Intergovernmental - Federal	\$ 70,327,838	\$ 281,761,388	\$ 68,444,671	\$ (213,316,717)
Investment Earnings	—	(224,665)	235	224,900
Total Revenues	<u>70,327,838</u>	<u>281,536,723</u>	<u>68,444,906</u>	<u>(213,091,817)</u>
Expenditures:				
Health	70,327,838	264,624,876	68,640,459	195,984,417
Capital Outlay	—	404,670	—	404,670
Total Expenditures	<u>70,327,838</u>	<u>265,029,546</u>	<u>68,640,459</u>	<u>196,389,087</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	—	16,507,177	(195,553)	(16,702,730)
Other Financing Sources - Transfers In	—	270	195,617	195,347
Net Change in Fund Balance	—	16,507,447	64	(16,507,383)
Fund Balance at Beginning of Year	—	—	—	—
Fund Balance at End of Year	<u>\$ —</u>	<u>\$ 16,507,447</u>	<u>\$ 64</u>	<u>\$ (16,507,383)</u>

City of Detroit, Michigan
BUDGETARY COMPARISON SCHEDULES
OTHER GOVERNMENTAL FUNDS
SOLID WASTE MANAGEMENT FUND
For the Year Ended June 30, 2012

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance With Final Budget- Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
Sales and Charges for Services	\$ 49,711,800	\$ 49,711,800	\$ 47,833,054	\$ (1,878,746)
Ordinance Fines and Forfeitures	136,000	136,000	95,110	(40,890)
Investment Earnings (Losses)	—	—	—	—
Other Revenue	<u>98,000</u>	<u>98,000</u>	<u>524,339</u>	<u>426,339</u>
Total Revenues	<u>49,945,800</u>	<u>49,945,800</u>	<u>48,452,503</u>	<u>(1,493,297)</u>
Expenditures:				
Physical Environment	47,266,695	54,151,173	41,806,280	12,344,893
Capital Outlay	<u>3,025,914</u>	<u>6,778,033</u>	<u>5,333,574</u>	<u>1,444,459</u>
Total Expenditures	50,292,609	60,929,206	47,139,854	13,789,352
Excess (Deficiency) of Revenues Over				
(Under) Expenditures	(346,809)	(10,983,406)	1,312,649	12,296,055
Other Financing Sources - Transfers In	<u>346,809</u>	<u>346,809</u>	<u>—</u>	<u>(346,809)</u>
Net Change in Fund Balance	—	(10,636,597)	1,312,649	11,949,246
Fund Balance at Beginning of Year	<u>6,226,770</u>	<u>6,226,770</u>	<u>6,226,770</u>	<u>—</u>
Fund Balance (Deficit) at End of Year	<u>\$ 6,226,770</u>	<u>\$ (4,409,827)</u>	<u>\$ 7,539,419</u>	<u>\$ 11,949,246</u>

City of Detroit, Michigan
BUDGETARY COMPARISON SCHEDULES
OTHER GOVERNMENTAL FUNDS
MAJOR STREET FUND
For the Year Ended June 30, 2012

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance With Final Budget- Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
Gas and Weight Tax	\$ 51,234,000	\$ 75,457,564	\$ 41,406,708	\$ (34,050,856)
Intergovernmental:				
State	—	19,040,288	19,000,068	(40,220)
Other	—	(2,187,180)	2,187,007	4,374,187
Investment Earnings	274,000	246,600	127,494	(119,106)
Other Revenue	<u>5,269,500</u>	<u>133,795,942</u>	<u>1,410,241</u>	<u>(132,385,701)</u>
Total Revenues	<u>56,777,500</u>	<u>226,353,214</u>	<u>64,131,518</u>	<u>(162,221,696)</u>
Expenditures:				
Transportation Facilitation	49,354,548	147,175,417	4,013,908	143,161,509
Capital Outlay	<u>7,422,952</u>	<u>92,937,205</u>	<u>48,064,173</u>	<u>44,873,032</u>
Total Expenditures	<u>56,777,500</u>	<u>240,112,622</u>	<u>52,078,081</u>	<u>(188,034,541)</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>—</u>	<u>(13,759,408)</u>	<u>12,053,437</u>	<u>25,812,845</u>
Other Financing Sources (Uses):				
Transfers In	—	61,858,453	—	(61,858,453)
Transfers Out	<u>—</u>	<u>(72,022,930)</u>	<u>(12,353,481)</u>	<u>59,669,449</u>
Total Other Financing Sources (Uses)	<u>—</u>	<u>(10,164,477)</u>	<u>(12,353,481)</u>	<u>(2,189,004)</u>
Net Change in Fund Balance	—	(23,923,885)	(300,044)	23,623,841
Fund Balance at Beginning of Year	24,998,087	24,998,087	24,998,087	—
Increase in Inventory	<u>—</u>	<u>—</u>	<u>(140,854)</u>	<u>(140,854)</u>
Fund Balance at End of Year	<u>\$ 24,998,087</u>	<u>\$ 1,074,202</u>	<u>\$ 24,557,189</u>	<u>\$ 23,482,987</u>

City of Detroit, Michigan
BUDGETARY COMPARISON SCHEDULES
OTHER GOVERNMENTAL FUNDS
LOCAL STREET FUND
For the Year Ended June 30, 2012

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance With Final Budget- Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
Gas and Weight Tax	\$ —	\$ 11,271,480	\$ 11,736,085	\$ 464,605
Intergovernmental:				
State	—	—	849,109	849,109
Investment Earnings	—	27,400	46,318	18,918
Other Revenues	—	—	237,583	237,583
Total Revenues	<u>—</u>	<u>11,298,880</u>	<u>12,869,095</u>	<u>1,570,215</u>
Expenditures:				
Transportation Facilitation	—	11,476,047	9,390,146	2,085,901
Capital Outlay	—	35,087,973	57,746	35,030,227
Total Expenditures	<u>—</u>	<u>46,564,020</u>	<u>9,447,892</u>	<u>37,116,128</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>—</u>	<u>(35,265,140)</u>	<u>3,421,203</u>	<u>38,686,343</u>
Other Financing Sources (Uses):				
Transfers In	—	9,941,398	9,941,398	—
Transfers Out	—	—	(6,624,776)	(6,624,776)
Total Other Financing Sources (Uses)	<u>—</u>	<u>9,941,398</u>	<u>3,316,622</u>	<u>(6,624,776)</u>
Net Change in Fund Balance	—	(25,323,742)	6,737,825	32,061,567
Fund Balance at Beginning of Year	5,073,950	5,073,950	5,073,950	—
Fund Balance (Deficit) at End of Year	<u>\$ 5,073,950</u>	<u>\$ (20,249,792)</u>	<u>\$ 11,811,775</u>	<u>\$ 32,061,567</u>

City of Detroit, Michigan
BUDGETARY COMPARISON SCHEDULES
OTHER GOVERNMENTAL FUNDS
TARGETED BUSINESS DEVELOPMENT FUND
For the Year Ended June 30, 2012

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance With Final Budget- Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues	\$ —	\$ —	\$ —	\$ —
Expenditures - Economic Development	<u>—</u>	<u>—</u>	<u>5,203,001</u>	<u>(5,203,001)</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	—	—	(5,203,001)	(5,203,001)
Fund Balance at Beginning of Year	<u>5,681,085</u>	<u>5,681,085</u>	<u>5,681,085</u>	<u>—</u>
Fund Balance at End of Year	<u><u>\$ 5,681,085</u></u>	<u><u>\$ 5,681,085</u></u>	<u><u>\$ 478,084</u></u>	<u><u>\$ (5,203,001)</u></u>

City of Detroit, Michigan
BUDGETARY COMPARISON SCHEDULES
OTHER GOVERNMENTAL FUNDS
TELECOMMUNICATIONS FUND
For the Year Ended June 30, 2012

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance With Final Budget- Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
Intergovernmental - State	\$ 2,900,000	\$ (1,424,261)	\$ 2,480,337	\$ 3,904,598
Investment Earnings	—	(21,856)	22,855	44,711
Other Revenue	—	(20,653)	—	20,653
Total Revenues	<u>2,900,000</u>	<u>(1,466,770)</u>	<u>2,503,192</u>	<u>3,969,962</u>
Expenditures:				
Transportation Facilitation	—	(4,012,647)	1,586,929	(5,599,576)
Capital Outlay	2,900,000	8,091,974	2,444,249	5,647,725
Total Expenditures	<u>2,900,000</u>	<u>4,079,327</u>	<u>4,031,178</u>	<u>48,149</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>—</u>	<u>(5,546,097)</u>	<u>(1,527,986)</u>	<u>4,018,111</u>
Net Change in Fund Balance	—	(5,546,097)	(1,527,986)	4,018,111
Fund Balance at Beginning of Year	3,920,019	3,920,019	3,920,019	—
Fund Balance (Deficit) at End of Year	<u>\$ 3,920,019</u>	<u>\$ (1,626,078)</u>	<u>\$ 2,392,033</u>	<u>\$ 4,018,111</u>

City of Detroit, Michigan
BUDGETARY COMPARISON SCHEDULES
OTHER GOVERNMENTAL FUNDS
RENEWABLE ENERGY FUND
For the Year Ended June 30, 2012

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance With Final Budget- Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues - Other	\$ 628,000	\$ 642,587	\$ 79,069	\$ (563,518)
Expenditures	<u>628,000</u>	<u>1,126,825</u>	<u>665,638</u>	<u>461,187</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	—	(484,238)	(586,569)	(102,331)
Other Financing Sources - Transfers In	<u>—</u>	<u>—</u>	<u>94,102</u>	<u>94,102</u>
Net Changes in Fund Balances	—	(484,238)	(492,467)	8,229
Fund Balance at Beginning of Year	<u>492,468</u>	<u>492,468</u>	<u>492,468</u>	<u>—</u>
Fund Balance at End of Year	<u><u>\$ 492,468</u></u>	<u><u>\$ 8,230</u></u>	<u><u>\$ 1</u></u>	<u><u>\$ (8,229)</u></u>

City of Detroit, Michigan
BUDGETARY COMPARISON SCHEDULES
OTHER GOVERNMENTAL FUNDS
DEBT SERVICE FUND
For the Year Ended June 30, 2012

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance With Final Budget- Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
Property Taxes	\$ 68,364,504	\$ 68,364,504	\$ 69,141,680	\$ 777,176
Other Taxes and Assessments	8,876,250	8,876,250	3,475,836	(5,400,414)
Investment Earnings	—	—	3,971	3,971
Other Revenue	<u>451,272</u>	<u>451,272</u>	<u>850,781</u>	<u>399,509</u>
Total Revenues	<u>77,692,026</u>	<u>77,692,026</u>	<u>73,472,268</u>	<u>(4,219,758)</u>
Expenditures:				
Economic Development	4,473,762	4,473,762	1,651,085	2,822,677
Debt Service:				
Principal	42,255,000	42,255,000	78,492,404	(36,237,404)
Interest	<u>30,963,264</u>	<u>30,963,264</u>	<u>52,822,684</u>	<u>(21,859,420)</u>
Total Expenditures	<u>77,692,026</u>	<u>77,692,026</u>	<u>132,966,173</u>	<u>(55,274,147)</u>
Deficiency of Revenues Under Expenditures	—	—	(59,493,905)	(59,493,905)
Other Financing Sources:				
Transfers In	<u>—</u>	<u>—</u>	<u>61,246,842</u>	<u>61,246,842</u>
Total Other Financing Sources	<u>—</u>	<u>—</u>	<u>61,246,842</u>	<u>61,246,842</u>
Net Change in Fund Balance	<u>—</u>	<u>—</u>	<u>1,752,937</u>	<u>1,752,937</u>
Fund Balance at Beginning of Year	<u>4,561,750</u>	<u>4,561,750</u>	<u>4,561,750</u>	<u>—</u>
Fund Balance at End of Year	<u><u>\$ 4,561,750</u></u>	<u><u>\$ 4,561,750</u></u>	<u><u>\$ 6,314,687</u></u>	<u><u>\$ 1,752,937</u></u>

City of Detroit, Michigan
BUDGETARY COMPARISON SCHEDULES
OTHER GOVERNMENTAL FUNDS
CAPITAL PROJECTS FUND
For the Year Ended June 30, 2012

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance With Final Budget- Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
Intergovernmental - Federal	\$ —	\$ 1,087,580	\$ —	\$ (1,087,580)
Investment Earnings	—	476,663	—	(476,663)
Other Revenue	—	6,109,256	2,535,305	(3,573,951)
Total Revenues	<u>—</u>	<u>7,673,499</u>	<u>2,535,305</u>	<u>(5,138,194)</u>
Expenditures:				
Economic Development	—	—	3,580,985	(3,580,985)
Capital Outlay	—	161,847,384	18,903,785	142,943,599
Bond Issuance Costs	—	(15,284)	—	(15,284)
Total Expenditures	<u>—</u>	<u>161,832,100</u>	<u>22,484,770</u>	<u>139,347,330</u>
Deficiency of Revenues				
Under Expenditures	<u>—</u>	<u>(154,158,601)</u>	<u>(19,949,465)</u>	<u>(144,485,524)</u>
Other Financing Sources (Uses):				
Sources:				
Transfers In	—	(16,377,212)	959,622	17,336,834
Bond and Notes Issued	—	29,497,571	—	(29,497,571)
Uses:				
Transfers Out	—	26,570,616	—	(26,570,616)
Interest Paid to Bond Agent for Refunded Bonds	—	(4,331,334)	—	4,331,334
Total Other Financing Sources (Uses)	<u>—</u>	<u>35,359,641</u>	<u>959,622</u>	<u>(34,400,019)</u>
Net Change in Fund Balance	—	(118,798,960)	(18,989,843)	99,809,117
Fund Balance at Beginning of Year	<u>148,878,121</u>	<u>148,878,121</u>	<u>148,878,121</u>	<u>—</u>
Fund Balance at End of Year	<u>\$ 148,878,121</u>	<u>\$ 30,079,161</u>	<u>\$ 129,888,278</u>	<u>\$ 99,809,117</u>

COMBINING STATEMENT OF FIDUCIARY FUNDS

City of Detroit, Michigan
COMBINING STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS - PENSION AND OTHER EMPLOYMENT BENEFITS TRUSTS
June 30, 2012

	<u>Pension</u>	
	<u>General Retirement System</u>	<u>Policemen & Firemen Retirement System</u>
ASSETS		
Cash and Cash Equivalents	\$ 7,972,442	\$ 8,470,026
Investments at Fair Value:		
Short-Term Investments	41,982,320	71,665,384
Bonds and Stocks	1,378,220,516	2,012,621,312
Mortgage-Backed Securities	25,281,170	79,033,706
Mortgage and Construction Loans	106,609,727	123,530,241
Equity Interest in Real Estate	224,725,424	293,622,367
Real Estate Investment Trusts Held by Custodian	—	41,072,094
Government Investment Pools	7,240,000	237,657,224
Private Placements	350,692,637	84,185,928
Total Investments	<u>2,134,751,794</u>	<u>2,943,388,256</u>
Accrued Interest Receivable	5,911,129	15,119,515
Due from Primary Government	32,020,824	51,916,505
Due from Component Units	2,556,119	—
Receivables from Investment Sales	7,885,685	—
Other Receivables	13,278,484	1,065,750
Cash and Investments Held as Collateral for Securities Lending	113,580,706	309,769,129
Capital Assets	1,318,720	1,274,497
Total Assets	<u>2,319,275,903</u>	<u>3,331,003,678</u>
LIABILITIES		
Accounts and Contracts Payable	—	—
Payables for Investment Purchases	12,309,374	6,990,029
Benefits and Claims Payable	6,295,496	4,881,881
Due to Primary Government	1,401,458	1,401,458
Due to Component Units	—	—
Amount Due to Broker for Securities Lending	137,864,912	336,556,836
Other Liabilities	2,566,815	6,711,841
Total Liabilities	<u>160,438,055</u>	<u>356,542,045</u>
NET ASSETS		
Net Assets Held in Trust for Pension and Other Employee Benefits	2,158,837,848	2,974,461,633
Death Benefit and Disability Income Protection	—	—
Total Net Assets	<u>\$ 2,158,837,848</u>	<u>\$ 2,974,461,633</u>

Other Employee Benefits

Other Post Employment Benefits Fund	Employee Death Benefits Fund	Employee Disability Income Protection Fund	Total Pension and Other Employee Benefit Trusts
\$ 42,080	\$ 446,584	\$ —	\$ 16,931,132
10,299,930	23,511,347	—	147,458,981
—	5,100,200	—	3,395,942,028
—	7,378	—	104,322,254
—	—	—	230,139,968
—	—	—	518,347,791
—	—	—	41,072,094
—	—	—	244,897,224
—	1,564,967	—	436,443,532
<u>10,299,930</u>	<u>30,183,892</u>	<u>—</u>	<u>5,118,623,872</u>
—	—	—	21,030,644
39,583,359	80	1,252,638	124,773,406
—	7,871	9,980	2,573,970
—	—	—	7,885,685
—	356	—	14,344,590
—	—	—	423,349,835
—	—	—	2,593,217
<u>49,925,369</u>	<u>30,638,783</u>	<u>1,262,618</u>	<u>5,732,106,351</u>
—	—	262,618	262,618
—	—	—	19,299,403
—	—	—	11,177,377
—	—	—	2,802,916
80,928	—	—	80,928
—	—	—	474,421,748
<u>44,500,580</u>	<u>—</u>	<u>—</u>	<u>53,779,236</u>
<u>44,581,508</u>	<u>—</u>	<u>262,618</u>	<u>561,824,226</u>
5,343,861	—	—	5,138,643,342
—	30,638,783	1,000,000	31,638,783
<u>\$ 5,343,861</u>	<u>\$ 30,638,783</u>	<u>\$ 1,000,000</u>	<u>\$ 5,170,282,125</u>

City of Detroit, Michigan
COMBINING STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUNDS - PENSION AND OTHER EMPLOYMENT BENEFITS TRUSTS
For the Year Ended June 30, 2012

	Pension		Other Employee Benefits			Total Pension and Other Employee Benefit Trusts
	General Retirement System	Policemen & Firemen Retirement System	Other Post Employment Benefits Fund	Employee Death Benefits Fund	Employee Disability Income Protection Plan	
ADDITIONS:						
Employer Contributions	\$ 64,218,880	\$ 49,760,229	\$ 262,744,815	174,446	\$ 1,457,697	\$ 378,356,067
Plan Member Contributions	16,585,232	9,538,384	38,259,327	162,482	—	64,545,425
Other Income	—	—	10,927,680	—	—	10,927,680
Total Contributions	80,804,112	59,298,613	311,931,822	336,928	1,457,697	453,829,172
Investment Earnings:						
Interest and Dividend Income	34,715,799	105,065,300	—	2,064,541	—	141,845,640
Net Depreciation in Fair Value	25,262,264	(228,705,779)	—	—	—	(203,443,515)
Investment Expense	(12,516,749)	(18,812,380)	(132,735)	—	—	(31,461,864)
Securities Lending Income	463,624	1,788,635	—	—	—	2,252,259
Net Gain on Collateralized Securities	1,098,532	214,542	—	—	—	1,313,074
Other Income	1,604,294	2,108,976	—	—	—	3,713,270
Total Investment Earnings	50,627,764	(138,340,706)	(132,735)	2,064,541	—	(85,781,136)
Total Additions	131,431,876	(79,042,093)	311,799,087	2,401,469	1,457,697	368,048,036
DEDUCTIONS:						
Pension and Annuity Benefits	230,915,545	278,104,785	—	—	—	509,020,330
Premiums to Insurers and Damage Claims	—	—	313,931,828	1,999,453	1,457,697	317,388,978
Member Refunds and Withdrawals	156,865,860	43,182,711	—	—	—	200,048,571
General and Administrative Expenses	6,379,579	5,300,379	—	45,537	—	11,725,495
Total Deductions	394,160,984	326,587,875	313,931,828	2,044,990	1,457,697	1,038,183,374
Net Increase (Decrease)	(262,729,108)	(405,629,968)	(2,132,741)	356,479	—	(670,135,338)
Net Assets, Beginning of Year	2,421,566,956	3,380,091,601	7,476,602	30,282,304	1,000,000	5,840,417,463
Net Assets, End of Year	\$ 2,158,837,848	\$ 2,974,461,633	\$ 5,343,861	\$ 30,638,783	\$ 1,000,000	\$ 5,170,282,125

City of Detroit, Michigan
COMBINING STATEMENT OF ASSETS AND LIABILITIES
AGENCY FUNDS
For the Year Ended June 30, 2012

	Fire Insurance Escrow Fund	Other Agency Funds	Total
	<u> </u>	<u> </u>	<u> </u>
ASSETS			
Cash and Cash Equivalents	\$ 995,812	\$ 217,943	\$ 1,213,755
Investments at Fair Value	<u>20,590,845</u>	<u>—</u>	<u>20,590,845</u>
Total Assets	<u><u>\$ 21,586,657</u></u>	<u><u>\$ 217,943</u></u>	<u><u>\$ 21,804,600</u></u>
LIABILITIES			
Accounts and Contracts Payable	\$ 158,896	\$ 217,943	\$ 376,839
Other Liabilities	21,373,874	—	21,373,874
Due to Primary Government	<u>53,887</u>	<u>—</u>	<u>53,887</u>
Total Liabilities	<u><u>\$ 21,586,657</u></u>	<u><u>\$ 217,943</u></u>	<u><u>\$ 21,804,600</u></u>

City of Detroit, Michigan
COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
AGENCY FUNDS
For the Year Ended June 30, 2012

	Balance June 30, 2011	Additions	Deductions	Balance June 30, 2012
Fire Insurance Escrow Fund				
ASSETS				
Cash and Cash Equivalents	\$ 1,428,953	\$ —	\$ 433,141	\$ 995,812
Investments at Fair Value	22,248,511	—	1,657,666	20,590,845
Total Assets	\$ 23,677,464	\$ —	\$ 2,090,807	\$ 21,586,657
LIABILITIES				
Accounts and Contracts Payable	\$ 119,115	\$ 39,781	\$ —	\$ 158,896
Due to Primary Government	17,905	35,982	—	53,887
Other Liabilities	23,540,444	—	2,166,570	21,373,874
Total Liabilities	\$ 23,677,464	\$ 75,763	\$ 2,166,570	\$ 21,586,657
Other Agency Funds				
ASSETS				
Cash and Cash Equivalents	\$ 321,697	\$ —	\$ 103,754	\$ 217,943
Total Assets	\$ 321,697	\$ —	\$ 103,754	\$ 217,943
LIABILITIES				
Accounts and Contracts Payable	\$ 321,697	\$ —	\$ 103,754	\$ 217,943
Total Liabilities	\$ 321,697	\$ —	\$ 103,754	\$ 217,943
Total Agency Funds				
ASSETS				
Cash and Cash Equivalents	\$ 1,750,650	\$ —	\$ 536,895	\$ 1,213,755
Investments at Fair Value	22,248,511	—	1,657,666	20,590,845
Total Assets	\$ 23,999,161	\$ —	\$ 2,194,561	\$ 21,804,600
LIABILITIES				
Accounts and Contracts Payable	\$ 440,812	\$ 39,781	\$ 103,754	\$ 376,839
Due to Other Funds	17,905	35,982	—	53,887
Other Liabilities	23,540,444	—	2,166,570	21,373,874
Total Liabilities	\$ 23,999,161	\$ 75,763	\$ 2,270,324	\$ 21,804,600

STATISTICAL SECTION

(UNAUDITED)

The Statistical Section Contains:

**Financial Trends Information
Revenue Capacity Information
Debt Capacity Information
Demographic and Employment Information
Operating Information**

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 Assets by Component, Last Ten Fiscal Years
(Accrual Basis of Accounting)
(Unaudited)

	Fiscal Year		
	2012	2011	2010
Governmental Activities			
Invested in capital assets, net of related debt	\$ 803,653,672	\$ 711,987,330	\$ 717,589,037
Restricted	73,786,466	110,223,372	93,496,558
Unrestricted (deficit)	<u>(1,557,840,700)</u>	<u>(1,360,282,090)</u>	<u>(1,278,954,788)</u>
Total governmental activities net assets	<u>(680,400,562)</u>	<u>(538,071,388)</u>	<u>(467,869,193)</u>
Business-type Activities			
Invested in capital assets, net of related debt	1,047,594,007	435,962,058	781,976,263
Restricted	461,972,732	303,235,683	284,696,404
Unrestricted (deficit)	<u>(1,201,140,082)</u>	<u>(230,134,710)</u>	<u>(333,688,853)</u>
Total business-type activities net assets	<u>308,426,657</u>	<u>509,063,031</u>	<u>732,983,814</u>
Primary Government			
Invested in capital assets, net of related debt	1,851,247,679	1,147,949,388	1,499,565,300
Restricted	535,759,198	413,459,055	378,192,962
Unrestricted (deficit)	<u>(2,758,980,782)</u>	<u>(1,590,416,800)</u>	<u>(1,612,643,641)</u>
Total primary government net assets	<u>\$ (371,973,905)</u>	<u>\$ (29,008,357)</u>	<u>\$ 265,114,621</u>

Source: City of Detroit, Comprehensive Annual Financial Reports for Fiscal Years
 Ended June 30, 2003 through 2012

Fiscal Year						
2009	2008	2007	2006	2005	2004	2003
\$ 631,821,536	\$ 558,340,662	\$ 592,161,746	\$ 603,086,043	\$ 562,311,648	\$ 423,118,665	\$ 419,593,713
142,704,927	158,523,041	157,360,360	29,492,455	30,488,595	85,249,948	113,243,428
(956,905,000)	(687,464,129)	(602,506,410)	(608,735,544)	(586,294,194)	(315,218,872)	(102,285,491)
(182,378,537)	29,399,574	147,015,696	23,842,954	6,506,049	193,149,741	430,551,650
698,477,050	743,865,611	1,150,524,897	914,032,397	1,050,443,297	1,063,418,365	1,152,383,916
347,303,231	304,273,113	266,995,240	385,379,957	287,778,927	199,037,340	120,671,314
36,681,530	185,998,204	175,648,800	377,799,324	280,769,875	283,585,593	317,705,644
1,082,461,811	1,234,136,928	1,593,168,937	1,677,211,678	1,618,992,099	1,546,041,298	1,590,760,874
1,330,298,586	1,302,206,273	1,742,686,643	1,517,118,440	1,612,754,945	1,486,537,030	1,571,977,629
490,008,158	462,796,154	424,355,600	414,872,412	318,267,522	284,287,288	233,914,742
(920,223,470)	(501,465,925)	(426,857,610)	(230,936,220)	(305,524,319)	(31,633,279)	215,420,153
<u>\$ 900,083,274</u>	<u>\$ 1,263,536,502</u>	<u>\$ 1,740,184,633</u>	<u>\$ 1,701,054,632</u>	<u>\$ 1,625,498,148</u>	<u>\$ 1,739,191,039</u>	<u>\$ 2,021,312,524</u>

Schedule 2
City of Detroit, Michigan
Financial Trends - Changes in Net Assets, Last Ten Fiscal Years
(Accrual Basis of Accounting)
(Unaudited)

	Fiscal Year			
	2012	2011	2010	2009
Expenses				
Governmental Activities:				
Public Protection	\$ 800,229,437	\$ 816,928,579	\$ 779,613,390	\$ 789,055,092
Public Works	-	-	-	-
Health	142,584,167	170,235,039	170,843,954	158,906,848
Recreation and Culture	30,113,031	31,397,867	17,963,496	37,180,607
Economic Development	73,599,973	87,938,305	61,906,827	73,307,206
Educational Development	51,974,801	58,840,456	90,450,821	76,728,812
Housing Supply and Conditions	4,431,697	6,328,619	8,381,813	10,592,858
Physical Environment	130,991,572	125,325,346	119,713,562	185,864,791
Transportation Facilitation	33,697,252	33,720,569	84,039,822	73,805,481
Development and Management	195,167,837	201,031,612	268,716,249	350,974,262
Interest on Long-Term Debt	129,097,503	132,827,437	129,458,620	126,344,699
Total Government Activities Expenses	<u>1,591,887,270</u>	<u>1,664,573,829</u>	<u>1,731,088,554</u>	<u>1,882,760,656</u>
Business-type Activities:				
Sewage Disposal	456,113,053	517,645,238	431,575,246	450,278,148
Transportation	212,856,759	215,880,853	207,620,142	206,705,724
Water	370,558,112	345,180,580	346,637,749	349,734,605
Automobile Parking	11,643,400	11,305,474	18,190,081	16,511,077
Airport	2,119,837	2,392,911	2,437,571	2,685,756
Housing	-	-	-	-
Total Business-type Activities Expenses	<u>1,053,291,161</u>	<u>1,092,405,056</u>	<u>1,006,460,789</u>	<u>1,025,915,310</u>
Total Primary Government Expenses	<u>2,645,178,431</u>	<u>2,756,978,885</u>	<u>2,737,549,343</u>	<u>2,908,675,966</u>
Program Revenues				
Governmental Activities:				
Charges for Services:				
Public Protection	75,900,731	89,521,773	78,076,978	92,986,299
Health	9,652,314	5,090,487	12,495,600	14,752,057
Recreation and Culture	18,170,830	17,796,165	17,510,499	17,736,396
Economic Development	850,741	1,358,479	121,725	72,714
Educational Development	-	499,058	1,528,487	760,494
Housing Supply and Conditions	2,734,182	3,566,331	3,780,682	3,572,588
Physical Environment	97,094,653	80,905,220	92,793,872	111,380,814
Transportation Facilitation	1,647,825	46,986	927,229	516,728
Development and Management	103,694,387	101,982,537	109,253,875	142,032,307
Operating Grants and Contributions	326,570,380	370,730,317	356,347,310	310,525,464
Capital Grants and Contributions	24,516,521	44,338,905	28,304,777	35,257,895
Total Governmental Activities Program Revenues	<u>660,832,564</u>	<u>715,836,258</u>	<u>701,141,034</u>	<u>729,593,756</u>
Business-type Activities:				
Charges for Services:				
Sewage Disposal	437,654,891	410,719,075	365,537,390	390,126,398
Transportation	22,558,000	27,418,297	26,565,119	28,191,056
Water	336,129,945	316,002,201	285,470,426	274,095,463
Automobile Parking	10,617,480	8,136,744	15,037,679	17,667,031
Airport	993,050	799,122	967,234	1,125,015
Housing	-	-	-	-
Operating Grants and Contributions	77,296,998	77,553,273	75,343,618	74,811,471
Capital Grants and Contributions	30,344,607	29,793,987	47,947,235	33,897,154
Total Business-type Activities Program Revenues	<u>915,594,971</u>	<u>870,422,699</u>	<u>816,868,701</u>	<u>819,913,588</u>
Total Primary Government Program Revenues	<u>1,576,427,535</u>	<u>1,586,258,957</u>	<u>1,518,009,735</u>	<u>1,549,507,344</u>

Fiscal Year						
2008	2007	2006	2005	2004	2003	
\$ 761,894,177	\$ 633,174,260	\$ 681,052,276	\$ 876,156,606	\$ 755,816,119	\$ 593,346,429	
-	-	-	-	-	-	
158,826,732	153,368,566	177,363,962	170,039,930	172,601,779	194,876,044	
36,295,041	36,050,284	69,192,054	75,145,276	82,148,669	81,400,879	
87,717,239	93,705,705	95,641,855	114,865,586	102,680,484	102,939,042	
57,474,770	57,658,134	64,670,870	73,770,757	95,655,097	85,957,839	
10,591,479	7,904,903	14,737,981	17,980,767	21,190,178	18,566,688	
226,460,478	213,287,711	243,949,975	277,305,834	267,232,775	273,247,867	
70,563,909	71,947,094	79,343,398	46,272,594	49,857,971	44,217,658	
304,815,026	297,443,586	240,246,357	214,746,647	350,969,773	371,360,739	
107,754,007	140,861,674	126,659,186	65,252,896	58,080,402	44,661,255	
<u>1,822,392,858</u>	<u>1,705,401,917</u>	<u>1,792,857,914</u>	<u>1,931,536,893</u>	<u>1,956,233,247</u>	<u>1,810,574,440</u>	
429,112,536	427,788,717	311,303,765	192,421,480	186,979,859	261,671,404	
212,652,767	200,555,312	190,358,944	204,913,780	206,319,905	196,162,781	
360,778,077	335,000,188	282,149,274	195,085,657	198,120,130	249,329,295	
14,361,352	16,306,759	19,474,446	26,295,677	21,990,714	21,534,236	
3,502,904	2,960,042	3,044,030	3,140,746	4,030,607	3,845,438	
-	-	-	-	-	75,784,985	
<u>1,020,407,636</u>	<u>982,611,018</u>	<u>806,330,459</u>	<u>621,857,340</u>	<u>617,441,215</u>	<u>808,328,139</u>	
<u>2,842,800,494</u>	<u>2,688,012,935</u>	<u>2,599,188,373</u>	<u>2,553,394,233</u>	<u>2,573,674,462</u>	<u>2,618,902,579</u>	
90,415,439	99,021,130	51,757,423	90,825,019	88,817,490	68,146,542	
15,108,413	14,987,496	14,224,550	13,026,677	11,875,150	17,535,790	
24,489,607	17,233,370	27,367,110	11,474,294	10,363,646	8,859,373	
694,676	9,010,210	13,946,969	5,427,118	20,512,694	20,089,274	
-	2,781,677	-	-	-	-	
5,989,939	127,757	1,636,711	6,700,117	16,617,400	33,624,540	
127,140,951	133,048,222	74,915,029	81,944,899	85,667,448	102,937,079	
902,039	79,156	1,355	-	-	-	
123,151,397	154,386,499	156,799,556	198,570,684	84,682,688	19,590,685	
306,575,011	271,970,335	245,061,788	246,248,865	315,321,964	365,857,900	
26,365,200	65,941,108	91,806,940	135,504,749	115,528,611	35,557,492	
<u>720,832,672</u>	<u>768,586,960</u>	<u>677,517,431</u>	<u>789,722,422</u>	<u>749,387,091</u>	<u>672,198,675</u>	
346,908,831	346,906,614	354,455,204	254,350,136	195,947,900	288,111,143	
28,918,328	26,047,091	25,173,805	22,959,490	24,712,839	25,182,188	
292,983,220	268,286,093	276,230,766	193,954,987	223,092,260	244,781,888	
18,556,018	18,114,461	21,125,510	13,627,650	19,618,019	19,253,924	
1,123,934	1,087,844	989,722	1,180,584	972,659	1,193,786	
-	-	-	-	-	12,490,749	
79,008,781	81,959,301	73,801,668	88,110,603	89,345,418	115,981,521	
39,540,356	14,097,605	9,502,218	15,080,720	33,758,751	41,632,443	
<u>807,039,468</u>	<u>756,499,009</u>	<u>761,278,893</u>	<u>589,264,170</u>	<u>587,447,846</u>	<u>748,627,642</u>	
<u>1,527,872,140</u>	<u>1,525,085,969</u>	<u>1,438,796,324</u>	<u>1,378,986,592</u>	<u>1,336,834,937</u>	<u>1,420,826,317</u>	

Schedule 2 (Continued)
City of Detroit, Michigan
Financial Trends - Changes in Net Assets, Last Ten Fiscal Years
(Accrual Basis of Accounting)
(Unaudited)

	Fiscal Year			
	2012	2011	2010	2009
Net (Expense) Revenue				
Governmental Activities	\$ (931,054,706)	\$ (948,737,571)	\$ (1,029,947,520)	\$ (1,153,166,900)
Business-type Activities	(137,696,190)	(221,982,357)	(189,592,088)	(206,001,722)
Total Primary Government Net Expense	(1,068,750,896)	(1,170,719,928)	(1,219,539,608)	(1,359,168,622)
General Revenues and Other Changes in Net Assets				
Governmental Activities:				
Taxes:				
Property Taxes	216,931,618	235,857,331	218,008,102	231,428,726
Municipal Income Tax	233,035,540	228,303,884	216,522,405	240,824,363
Utility Users' Tax	39,828,340	44,640,365	44,190,132	49,900,471
Wagering Tax	181,574,627	177,046,311	183,466,226	172,912,862
State Hotel and Liquor Tax	-	-	2,969,380	17,367,715
Other Taxes and Assessments	16,528,509	17,373,679	15,404,967	12,878,272
State Shared Taxes	173,292,222	239,342,109	239,047,211	268,246,565
Interest and Penalties on Taxes	4,264,747	7,554,054	9,332,781	10,696,529
Investment Earnings	8,366,960	8,606,985	8,832,971	7,056,295
Miscellaneous Revenue	2,578,822	3,595,798	6,618,964	9,273,309
Gain (Loss) on Disposal of Capital Assets	-	(528,568)	(27,775)	(5,204,095)
Special Item	-	(9,865,937)	49,980,314	-
Transfers	(87,675,853)	(73,390,635)	(74,579,168)	(73,992,223)
Total Governmental Activities	788,725,532	878,535,376	919,766,510	941,388,789
Business-type Activities:				
Investment Earnings (Loss)	(152,915,970)	9,837,046	(42,428,588)	25,458,070
Miscellaneous Revenues (Expenses)	2,299,933	6,310,694	788,385	(8,435,836)
Gain (Loss) on Disposal of Capital Assets	-	(91,476,801)	-	-
Special Item	-	-	-	(36,900,173)
Transfers	87,675,853	73,390,635	74,579,168	73,992,223
Total Business-type Activities	(62,940,184)	(1,938,426)	32,938,965	54,114,284
Total Primary Government	725,785,348	876,593,950	952,705,475	995,503,073
Change in Net Assets				
Governmental Activities	(142,329,174)	(70,202,195)	(110,181,010)	(211,778,111)
Business-type Activities	(200,636,374)	(223,920,783)	(156,653,123)	(151,887,438)
Total Primary Government	\$ (342,965,548)	\$ (294,122,978)	\$ (266,834,133)	\$ (363,665,549)

Source: City of Detroit, Comprehensive Annual Financial Reports for Fiscal Years Ended June 30, 2003 through 2012

Fiscal Year					
2008	2007	2006	2005	2004	2003
\$ (1,101,560,186)	\$ (936,814,957)	\$ (1,115,340,483)	\$ (1,141,814,471)	\$ (1,206,846,156)	\$ (1,138,375,765)
(213,368,168)	(226,112,009)	(45,051,566)	(32,593,170)	(29,993,369)	(59,700,497)
(1,314,928,354)	(1,162,926,966)	(1,160,392,049)	(1,174,407,641)	(1,236,839,525)	(1,198,076,262)
225,602,203	241,428,477	243,621,932	239,507,939	253,880,972	221,338,662
276,485,035	278,309,191	284,111,220	282,501,875	290,614,837	310,935,044
51,590,794	53,768,977	122,824,621	52,939,839	47,422,918	55,526,093
186,277,275	179,763,570	156,588,917	137,970,347	116,145,598	111,341,292
16,220,140	17,579,292	16,287,676	16,310,767	16,217,263	16,217,213
13,283,748	16,201,899	13,602,597	-	4,337,425	17,553,911
272,569,363	272,635,060	280,818,221	282,914,217	286,479,535	319,055,457
10,857,112	10,342,478	9,181,155	11,712,960	13,780,520	9,311,836
19,189,619	24,075,811	18,396,691	14,464,802	4,500,270	5,690,589
13,586,014	37,634,868	22,780,845	9,984,374	13,624,695	7,758,701
(278,706)	(31,728)	(308,855)	(3,551,036)	(451,750)	6,753,937
-	-	-	-	-	132,000,000
(101,438,533)	(71,720,196)	(35,227,632)	(89,585,306)	(77,108,036)	(79,275,808)
983,944,064	1,059,987,699	1,132,677,388	955,170,778	969,444,247	1,134,206,927
58,176,113	-	39,193,811	22,808,775	12,516,207	18,645,400
(3,990,512)	69,331,846	2,879,273	(6,850,110)	3,812,743	4,488,833
-	1,017,226	25,970,429	-	-	(682,409)
(141,962,894)	-	-	-	-	-
101,438,533	71,720,196	35,227,632	89,585,306	77,108,036	79,275,808
13,661,240	142,069,268	103,271,145	105,543,971	93,436,986	101,727,632
997,605,304	1,202,056,967	1,235,948,533	1,060,714,749	1,062,881,233	1,235,934,559
(117,616,122)	123,172,742	17,336,905	(186,643,693)	(237,401,909)	(4,168,838)
(199,706,928)	(84,042,741)	58,219,579	72,950,801	63,443,617	42,027,135
\$ (317,323,050)	\$ 39,130,001	\$ 75,556,484	\$ (113,692,892)	\$ (173,958,292)	\$ 37,858,297

Schedule 3
City of Detroit, Michigan
Financial Trends - Fund Balances, Governmental Funds
Last Ten Fiscal Years
(Modified Accrual Basis of Accounting)
(Unaudited)

	Fiscal Year				
	2012	2011	2010	2009	2008
General Fund:					
Reserved	\$ -	\$ -	\$ 64,597,471	\$ 65,191,371	\$ 77,472,983
Unreserved (Deficit)	-	-	(155,692,159)	(331,925,012)	(219,158,137)
Nonspendable	20,940,729	20,692,552	-	-	-
Restricted	979,826	979,826	-	-	-
Committed	35,234,345	26,833,858	-	-	-
Unassigned (Deficit)	(326,641,557)	(196,577,910)	-	-	-
Total General Fund	<u>\$ (269,486,657)</u>	<u>\$ (91,094,688)</u>	<u>\$ (91,094,688)</u>	<u>\$ (266,733,641)</u>	<u>\$ (141,685,154)</u>
Retirement Service Funds:					
Reserved	\$ -	\$ -	\$ 24,496,356	\$ 24,574,826	\$ 24,851,160
Unreserved (Deficit)	-	-	-	-	(276,334)
Nonspendable	24,016,604	24,295,379	-	-	-
Total Retirement System Service Funds	<u>\$ 24,016,604</u>	<u>\$ 24,295,379</u>	<u>\$ 24,496,356</u>	<u>\$ 24,574,826</u>	<u>\$ 24,574,826</u>
All Other Governmental Funds:					
Special Revenue Funds					
Reserved	\$ -	\$ -	\$ 41,022,881	\$ 43,974,045	\$ 66,158,392
Unreserved (Deficit)	-	-	12,313,800	17,785,520	16,865,024
Nonspendable	1,457,015	1,597,869	-	-	-
Restricted	65,845,376	70,907,819	-	-	-
Capital Projects Funds					
Reserved	-	-	90,526,155	99,750,093	126,274,973
Restricted	129,888,278	148,878,121	-	-	-
Debt Service Fund					
Reserved	-	-	6,135,145	52,194,439	42,825,432
Assigned	6,314,687	4,561,750	-	-	-
Permanent Funds					
Reserved	-	-	1,588,224	1,574,670	1,494,202
Nonspendable	937,861	937,861	-	-	-
Restricted	778,733	748,159	-	-	-
Total All Other Governmental Funds	<u>\$ 205,221,950</u>	<u>\$ 227,631,579</u>	<u>\$ 151,586,205</u>	<u>\$ 215,278,767</u>	<u>\$ 253,618,023</u>

Source: City of Detroit, Comprehensive Annual Financial Reports for Fiscal Years Ended June 30, 2003 through 2012

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.

Fiscal Year				
2007	2006	2005	2004	2003
\$ 64,169,704 (155,575,800)	\$ 66,502,619 (173,678,707)	\$ 121,809,601 (155,404,035)	\$ 164,248,792 (95,032,523)	\$ 209,367,618 (69,063,211)
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
<u>\$ (91,406,096)</u>	<u>\$ (107,176,088)</u>	<u>\$ (33,594,434)</u>	<u>\$ 69,216,269</u>	<u>\$ 140,304,407</u>
\$ 24,927,727	\$ 24,955,781	\$ 46,884,125	\$ -	\$ -
-	-	-	-	-
-	-	-	-	-
<u>\$ 24,927,727</u>	<u>\$ 24,955,781</u>	<u>\$ 46,884,125</u>	<u>\$ -</u>	<u>\$ -</u>
\$ 72,014,875 22,230,294	\$ 14,657,665 77,241,086	\$ 14,946,632 76,896,645	\$ 13,418,399 74,394,377	\$ 11,409,788 78,730,702
-	-	-	-	-
-	-	-	-	-
88,507,405	134,433,861	139,812,882	159,136,549	181,966,978
-	-	-	-	-
39,781,836	27,799,931	29,061,404	70,466,781	42,773,395
-	-	-	-	-
1,445,462	1,291,569	1,253,623	1,232,820	1,210,005
-	-	-	-	-
-	-	-	-	-
<u>\$ 223,979,872</u>	<u>\$ 255,424,112</u>	<u>\$ 261,971,186</u>	<u>\$ 318,648,926</u>	<u>\$ 316,090,868</u>

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				
	2012	2011	2010	2009	2008
Revenues					
Taxes:					
Property Taxes	\$ 216,931,618	\$ 252,020,089	\$ 201,845,344	\$ 230,833,394	\$ 225,890,313
Municipal Income Tax	233,035,540	228,303,884	216,522,405	240,824,363	276,485,035
Utility Users' Tax	39,828,340	44,640,365	44,190,132	49,900,667	51,590,599
Wagering Taxes	181,443,475	176,899,280	183,338,299	173,026,122	180,365,237
Gas and Weight Tax	53,142,793	58,623,860	57,775,086	58,813,648	61,070,748
Other Taxes and Assessments	16,528,509	17,373,670	15,404,967	12,878,272	13,283,748
State Hotel and Liquor Tax	-	-	2,969,380	17,367,715	16,220,140
State Shared Taxes	172,704,390	239,320,847	263,060,088	266,032,168	249,027,299
Shared Taxes-Liquor and Beer Licenses	587,832	21,262	578,629	591,342	573,613
Interest and Penalties on Taxes	4,264,747	7,554,054	9,332,781	10,696,529	10,857,112
Licenses, Permits, and Inspection Charges	26,512,372	27,074,337	27,090,825	31,880,591	34,565,327
Intergovernmental:					
Federal	253,933,239	301,484,858	265,421,498	233,526,888	222,675,031
State	37,269,243	46,887,654	47,852,739	40,049,141	41,062,686
State Equity Grant	-	-	-	-	-
Other	6,663,482	8,347,440	6,788,282	14,500,644	4,026,591
Sales and Charges for Services	197,066,068	201,253,031	196,333,386	237,044,188	258,599,558
Ordinance Fines and Forfeitures	16,972,056	21,152,772	18,872,226	23,747,573	20,850,629
Revenue from Use of Assets	2,069,012	3,595,798	6,618,964	27,013,424	13,560,617
Investment Earnings	445,251	685,276	911,263	7,056,295	19,189,619
Other Revenue	64,241,114	77,135,224	64,761,863	72,117,140	73,606,042
Total Revenues	1,523,639,081	1,712,373,701	1,629,668,157	1,747,900,104	1,773,499,944
Expenditures					
Current:					
Public Protection	675,359,091	735,650,626	641,884,276	654,450,029	660,230,564
Health	142,365,025	169,338,220	170,489,091	155,442,680	157,414,372
Recreation and Culture	16,976,912	18,210,536	18,155,021	21,041,925	21,265,879
Economic Development	67,115,000	79,792,267	57,522,689	65,217,992	99,342,897
Educational Development	52,430,587	58,526,359	90,527,365	75,409,235	57,388,638
Housing Supply and Conditions	4,215,134	5,871,310	8,240,422	9,022,633	9,607,906
Physical Environment	113,603,551	113,296,648	104,042,673	159,233,592	202,986,951
Transportation Facilitation	14,990,983	26,836,954	71,517,424	66,567,770	58,595,880
Development and Management	176,507,779	180,366,148	237,069,025	305,203,444	298,231,422
Debt Service:					
Principal	97,498,429	87,904,525	89,653,619	129,696,883	140,216,435
Interest	126,728,009	131,087,371	124,280,049	124,716,178	110,841,259
Bond Issuance Costs	485,599	1,416,768	2,487,193	-	3,182,053
Capital Outlay	97,650,840	102,395,459	49,231,014	77,094,313	88,458,549
Total Expenditures	1,585,926,939	1,710,693,191	1,665,099,861	1,843,096,674	1,907,762,805
Excess (Deficiency) of Revenues Over (Under) Expenditures	(62,287,858)	1,680,510	(35,431,704)	(95,196,570)	(134,262,861)
Other Financing Sources (Uses)					
Sources:					
Transfers In	179,921,845	173,340,882	171,409,769	210,043,052	208,766,473
Pension Obligation Certificates Issued	-	-	-	-	-
Swap Termination Fee	-	-	-	-	-
Proceeds of Section 108 Federal Note	-	-	-	-	-
Proceeds of Capital Leases	-	-	-	-	-
Proceeds from Debt Issuances	5,753,000	100,000,000	258,210,000	6,197,000	281,783,578
Premium from Debt Issuances	-	-	1,873,225	-	4,974,370
Total Other Financing Sources	185,674,845	273,340,882	431,492,994	216,240,052	495,524,421
Uses:					
Transfers Out	(267,597,697)	(246,731,517)	(245,988,937)	(284,035,275)	(310,205,006)
Principal Paid to Bond Agent for Refunded Bonds	-	-	(35,810,944)	-	(72,410,000)
Interest Paid to Bond Agent for Refunded Bonds	-	-	-	-	(1,314,181)
Total Other Financing Uses	(267,597,697)	(246,731,517)	(281,799,881)	(284,035,275)	(383,929,187)
Total Other Financing Sources (Uses)	(81,922,852)	26,609,365	149,693,113	(67,795,223)	111,595,234
Special Item	-	(9,865,937)	-	-	-
Net Change in Fund Balances	(144,210,710)	18,423,938	114,261,409	(162,991,793)	(22,667,627)
Fund Balance (Deficit) at Beginning of Year	103,855,284	84,987,873	(26,880,048)	136,507,695	157,501,503
Increase (Decrease) in Inventories	107,323	443,473	(2,393,488)	(395,950)	1,673,819
Fund Balance (Deficit) at End of Year	\$ (40,248,103)	\$ 103,855,284	\$ 84,987,873	\$ (26,880,048)	\$ 136,507,695
Debt service as a percentage of noncapital expenditures	15.10%	13.70%	13.39%	14.41%	13.97%

Source: City of Detroit, Comprehensive Annual Financial Reports for Fiscal Years Ended June 30, 2003 through 2012

Fiscal Year					
	2007	2006	2005	2004	2003
\$	257,003,325	\$ 243,621,932	\$ 238,771,142	\$ 249,372,955	\$ 224,290,723
	278,309,191	284,111,220	282,501,875	290,614,837	310,935,044
	53,768,977	60,019,626	52,939,839	50,473,815	55,329,177
	179,763,570	156,588,917	137,970,347	116,145,598	111,341,292
	62,080,522	62,804,995	63,476,425	65,806,351	61,048,895
	16,201,899	13,583,421	13,565,118	14,911,156	17,015,374
	17,579,292	16,287,676	16,310,767	16,217,263	16,217,213
	272,084,669	279,467,063	282,914,217	286,479,535	319,055,457
	550,391	1,351,158	602,582	528,355	538,537
	10,342,478	9,181,155	11,491,470	13,969,136	9,311,836
	31,986,424	34,233,992	35,006,518	29,463,914	24,881,416
	219,592,658	218,119,145	276,372,474	253,620,853	246,941,389
	41,878,552	75,774,530	36,867,375	64,707,175	59,912,152
	-	-	1,076,931	982,701	2,066,684
	14,359,711	25,192,384	16,346,773	36,215,990	31,345,358
	243,533,764	189,253,428	183,294,833	190,928,138	174,532,811
	25,680,231	21,525,257	27,481,642	28,237,898	24,146,924
	37,634,876	22,780,845	16,782,057	28,696,431	31,883,204
	24,075,811	18,396,691	14,464,802	4,500,270	5,690,589
	123,867,578	106,521,883	131,657,892	124,787,604	102,385,529
	<u>1,910,293,919</u>	<u>1,838,815,318</u>	<u>1,839,895,079</u>	<u>1,866,659,975</u>	<u>1,828,869,604</u>
	654,137,306	687,251,414	1,423,581,547	738,330,832	609,579,375
	154,283,807	177,723,221	197,473,468	172,301,527	194,570,040
	24,648,968	55,390,716	99,296,179	73,769,563	78,478,378
	86,454,732	88,424,272	99,655,593	96,272,459	96,998,290
	58,021,384	64,427,129	77,259,012	95,579,152	85,853,927
	8,412,644	14,786,461	27,863,296	21,150,047	18,534,603
	197,682,760	220,208,683	301,784,627	232,268,536	252,006,036
	72,482,752	79,343,398	46,272,594	49,857,971	44,217,657
	310,231,013	233,297,837	495,348,897	387,713,093	399,417,971
	95,599,337	88,150,364	73,544,336	81,450,470	86,770,163
	138,408,774	120,956,704	51,462,415	53,075,658	43,761,038
	-	56,147,009	44,262,505	5,591,428	1,652,845
	69,848,815	175,169,666	282,545,708	162,593,794	69,605,285
	<u>1,870,212,292</u>	<u>2,061,276,874</u>	<u>3,220,350,177</u>	<u>2,169,954,530</u>	<u>1,981,445,608</u>
	40,081,627	(222,461,556)	(1,380,455,098)	(303,294,555)	(152,576,004)
	176,069,587	129,799,480	141,075,789	162,683,542	126,941,018
	-	771,087,137	1,170,607,421	-	-
	-	38,969,807	-	-	-
	14,958,000	1,800,000	7,789,000	-	-
	-	34,892,659	315,351	24,541,150	113,530,000
	-	81,903,071	353,830,000	347,398,138	5,161,762
	-	3,778,114	13,014,675	18,570,675	-
	<u>191,027,587</u>	<u>1,062,230,268</u>	<u>1,686,632,236</u>	<u>553,193,505</u>	<u>245,632,780</u>
	(247,789,783)	(165,027,112)	(230,661,095)	(239,791,578)	(206,216,826)
	-	(764,864,391)	(161,800,000)	(120,725,000)	-
	-	(1,741,161)	(10,865,420)	(2,847,682)	-
	<u>(247,789,783)</u>	<u>931,632,664</u>	<u>403,326,515</u>	<u>363,364,260</u>	<u>206,216,826</u>
	<u>(56,762,196)</u>	<u>130,597,604</u>	<u>1,283,305,721</u>	<u>189,829,245</u>	<u>39,415,954</u>
	-	-	-	38,250,000	93,750,000
	(16,680,569)	(91,863,952)	(97,149,377)	(75,215,310)	(19,410,050)
	173,203,805	275,260,877	387,865,195	456,395,275	489,280,075
	978,267	(10,193,120)	(15,454,941)	6,685,230	(13,474,750)
\$	<u>157,501,503</u>	<u>\$ 173,203,805</u>	<u>\$ 275,260,877</u>	<u>\$ 387,865,195</u>	<u>\$ 456,395,275</u>
	13.00%	14.06%	5.76%	6.98%	6.91%

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	Commercial Property	Industrial Property
2012	\$ 4,850,303	\$ 2,417,371	\$ 576,900
2011	5,885,070	2,670,279	707,866
2010	6,331,071	2,561,853	711,088
2009	7,427,227	2,714,762	718,520
2008	8,815,609	2,766,213	750,693
2007	9,063,123	2,542,439	861,157
2006	8,622,589	2,299,266	877,750
2005	8,649,348	2,252,275	856,344
2004	8,429,749	2,063,118	774,256
2003	7,981,681	1,977,761	709,092

Fiscal Year Ended June 30	Taxable Value		
	Residential Property	Commercial Property	Industrial Property
2012	\$ 4,265,567	\$ 2,082,686	\$ 506,261
2011	4,955,961	2,232,730	659,172
2010	4,896,647	2,055,557	643,296
2009	5,291,055	2,145,967	651,786
2008	5,660,265	2,166,189	645,372
2007	5,615,395	1,899,540	737,484
2006	5,240,724	1,649,966	753,566
2005	4,943,144	1,574,914	730,307
2004	4,677,471	1,565,818	658,676
2003	4,329,989	1,546,470	594,529

Source: City of Detroit, Finance Department - Assessor's Office - Assessment and Tax
Roll Certificate and Warrant for the City of Detroit

Assessed Value

Personal Property	Total	Total Direct Tax Rate (Per Thousand of Taxable Value)
\$ 1,592,878	\$ 9,437,452	29.51 %
1,563,433	10,826,648	28.87
1,516,382	11,120,394	28.87
1,637,134	12,497,643	27.43
1,612,957	13,945,472	28.02
1,646,722	14,113,441	31.34
1,655,570	13,455,175	30.02
1,654,261	13,412,228	30.44
1,573,480	12,840,603	30.88
1,391,662	12,060,196	30.88

Taxable Value

Personal Property	Total	Taxable Assessed Value as a Percentage of Actual Taxable Value
\$ 1,592,856	\$ 8,447,370	89.51 %
1,563,439	9,411,302	86.93
1,516,382	9,111,882	81.94
1,637,112	9,725,920	77.82
1,609,442	10,081,268	72.29
1,646,722	9,899,141	70.14
1,654,018	9,298,274	69.11
1,623,886	8,872,251	66.15
1,544,257	8,446,222	65.78
1,373,222	7,844,210	65.04

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			
Fiscal Year	Basic General City Rate	Debt Service	Total Direct
2012	19.9520	9.5558	29.5078
2011	19.9520	8.9157	28.8677
2010	19.9520	8.9157	28.8677
2009	19.9520	7.4779	27.4299
2008	19.9520	8.0683	28.0203
2007	22.9448	8.3951	31.3399
2006	22.9448	7.0753	30.0201
2005	22.9563	7.4796	30.4359
2004	22.9563	7.9245	30.8808
2003	22.9563	7.9217	30.8780

Source: City of Detroit's Budget Department
 (Red Books for 2003 through 2012)

Overlapping Rates

Detroit Public Schools		Library	County	State Education Tax
Homestead	Non-Homestead			
13.2996	31.1304	4.6307	14.0778	6.0000
13.1015	30.9323	4.6307	14.0778	6.0000
13.0000	30.8308	4.6307	14.0778	6.0000
13.0000	30.8308	4.6307	14.0778	6.0000
13.0000	31.0000	4.6307	13.9778	6.0000
13.0000	31.0000	4.6307	13.9980	6.0000
13.0700	30.6236	4.6307	13.9778	6.0000
13.0000	31.0000	3.6331	13.9861	6.0000
13.8000	31.8000	3.6331	13.9886	5.0000
13.1900	31.1900	3.6331	13.9895	6.0000

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)

Taxpayer	2012		
	Taxable Assessed Value (Note 1)	Rank	Percentage of Total City Taxable Assessed Value (Note 2)
Marathon Oil Company	329,266,987	1	3.90 %
Detroit Edison Company	294,567,459	2	3.49
Vanguard Health Systems - Hospitals	252,620,138	3	2.99
Chrysler Group LLC	222,908,419	4	2.64
MGM Grand Detroit LLC	212,045,629	5	2.51
Riverfront Holdings Inc.	112,227,313	6	1.33
Michigan Consolidated Gas Co.	87,121,757	7	1.03
Greektown Casino LLC	74,777,226	8	0.89
Detroit Entertainment LLC	64,838,913	9	0.77
General Motors LLC	54,834,859	10	0.65

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, 2003 Comprehensive Annual Financial Report (Exhibit AA-14)

2003 (Note 3)

Taxable Assessed Value	Rank	Percentage of Total City Taxable Assessed Value
N/A	N/A	N/A
281,602,517	2	3.53 %
N/A	N/A	N/A
768,598,760	1	9.64
37,831,152	7	0.47
124,459,515	4	1.56
91,789,575	5	1.15
N/A	N/A	N/A
N/A	N/A	N/A
198,653,531	3	2.49

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	
		Amount	Percentage of Levy
2012	\$ 251,399	\$ 210,359	83.68 %
2011	257,448	205,741	79.92
2010	261,380	224,235	85.79
2009	269,556	234,049	86.83
2008	271,516	251,530	92.64
2007	268,630	255,353	95.06
2006	263,532	244,189	92.66
2005	254,533	238,059	93.53
2004	242,235	231,696	95.65
2003	246,284	207,628	84.30

Source: City of Detroit, Finance Department - Treasury Division

Total Collections to Date

Collections in Subsequent Years	Amount	Percentage of Levy
\$ -	\$ 210,359	83.68 %
-	205,741	79.92
-	224,235	85.79
-	234,049	86.83
1,349	252,879	93.14
-	255,353	95.06
2,493	246,682	93.61
8,942	247,001	97.04
8,677	240,373	99.23
16,663	224,291	91.07

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	Pension Obligation Certificates
2012	\$ 957,128	\$ -	\$ -	\$ 1,180,285
2011	1,033,233	-	-	1,194,003
2010	1,007,648	2,655	-	1,202,909
2009	832,463	4,230	82,707	1,206,770
2008	936,578	5,650	94,453	1,206,770
2007	883,510	6,955	105,600	1,206,770
2006	953,275	8,322	114,183	1,206,770
2005	967,895	9,922	125,013	1,170,607
2004	827,370	11,414	135,368	-
2003	654,625	12,780	123,000	-

Note 1 Source: City of Detroit - Comprehensive Annual
 Financial Report for Fiscal Years Ended June 30, 2003 through 2012

Note 2 Source: Per Capita Calculations Exclude Governmental
 and Business-type Activities Revenue Bonds

Business-type Activities (Note 1)

Sewage Disposal Revenue Bonds	Transportation General Obligation Bonds	Water Revenue Bonds	Automobile Parking Revenue Bonds	Pension Obligation Certificates	Total Primary Government	Per Capita (Note 2)
\$ 3,372,092	\$ 6,272	\$ 2,579,349	\$ 10,261	\$ 271,620	\$ 8,377,007	\$ 11,736
2,910,824	6,272	2,219,074	11,341	274,777	7,649,524	10,717
2,959,126	6,272	2,252,698	40,931	276,826	7,749,065	8,139
2,970,697	6,272	2,285,839	42,616	277,715	7,709,309	8,098
2,997,852	6,272	2,315,681	44,377	277,715	7,885,348	8,283
3,031,201	-	2,345,789	43,590	277,715	7,901,130	8,306
2,657,446	-	1,971,744	54,230	277,715	7,243,685	7,615
2,653,827	-	1,991,615	60,845	269,393	7,249,117	7,620
2,375,153	-	1,713,435	67,100	-	5,129,840	5,393
2,311,621	-	1,718,985	73,015	-	4,894,026	5,145

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)				
Fiscal Year	General Bonds	Detroit Building Authority Bonds	Total	
2012	\$ 963,400	\$ -	\$ 963,400	
2011	1,039,505	-	1,039,505	
2010	1,013,920	2,655	1,016,575	
2009	838,735	4,230	842,965	
2008	942,850	5,650	948,500	
2007	883,510	6,955	890,465	
2006	953,275	8,322	961,597	
2005	967,895	9,922	977,817	
2004	827,370	11,414	838,784	
2003	654,625	12,780	667,405	

Note 1 Source: City of Detroit - Comprehensive Annual Financial Report for Fiscal Years Ended June 30, 2003 through 2012

Note 2 Source: City of Detroit's Budget Department (Red Books for 2003 through 2012)

General Bonded Debt (Note 1)

	Taxable Value (Note 2)	Percentage of Actual Taxable Value of Property (Note 2)	Per Capita (Note 2)
\$	8,755,414	11.00 %	\$ 1,349.72
	9,111,881	11.41	1,456.34
	9,725,919	10.45	1,062.06
	10,031,268	8.40	879.55
	9,896,705	9.58	990.49
	8,996,155	9.90	936.08
	8,749,830	10.99	1,010.86
	8,335,790	11.73	1,027.91
	7,844,209	10.69	881.75
	7,976,048	8.37	701.59

Schedule 11
City of Detroit, Michigan
Debt Capacity - Direct and Overlapping Governmental Activities Debt
As of June 30, 2011
(Dollars in Thousands)
(Unaudited)

<u>Governmental Unit</u>	<u>Debt Outstanding</u>	<u>Estimated Percent Applicable to City of Detroit</u>	<u>Estimated Share of Overlapping Debt</u>
Debt repaid with property taxes:			
Detroit Public Schools	\$ 1,821,517,322	100.00 %	\$ 1,821,517,322
Wayne County	354,637,868	18.90	67,026,557
Wayne County Community College	7,470,000	29.84	2,229,048
Subtotal, overlapping debt			<u>1,890,772,927</u>
City of Detroit direct debt	957,128,278	100.00	957,128,278
Total Direct and Overlapping Debt			<u><u>\$ 2,847,901,205</u></u>

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				
	2012	2011	2010	2009	2008
Debt limit	\$ 1,033,010	\$ 1,218,147	\$ 1,218,793	\$ 1,388,266	\$ 1,505,243
Total net debt applicable to limit	<u>957,128</u>	<u>1,033,233</u>	<u>919,650</u>	<u>820,400</u>	<u>820,400</u>
Legal debt margin	<u>\$ 75,882</u>	<u>\$ 184,914</u>	<u>\$ 299,143</u>	<u>\$ 567,866</u>	<u>\$ 684,843</u>
Total net debt applicable to the limit as a percentage of debt limit	92.65%	84.82%	75.46%	59.10%	54.50%

Source: City of Detroit Finance Department, Debt Management Division

Fiscal Year

<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>
\$ 1,527,708	\$ 1,443,061	\$ 1,390,749	\$ 1,320,970	\$ 1,315,574
<u>758,805</u>	<u>815,002</u>	<u>728,229</u>	<u>738,889</u>	<u>579,119</u>
<u>\$ 768,903</u>	<u>\$ 628,059</u>	<u>\$ 662,520</u>	<u>\$ 582,081</u>	<u>\$ 736,455</u>
49.67%	56.48%	52.36%	55.94%	44.02%

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 Coverage		
2003	\$ 294,013	\$ 159,235	\$ 134,778	\$ 102,473	131.53%		
2004	320,515	177,747	142,768	115,970	1.23		
2005	297,214	163,400	133,814	136,635	0.98		
2006	352,074	197,604	154,470	151,246	1.02		
2007	403,542	199,955	203,587	156,616	1.30		
2008	373,953	212,885	161,068	175,249	0.92		
2009	413,282	220,740	192,542	192,610	1.00		
2010	365,537	194,716	170,821	207,170	0.82		
2011	410,719	230,811	179,908	210,851	0.85		
2012	444,471	217,024	227,447	199,990	1.14		

Water Revenue Bonds							
Fiscal Year	Total Available Revenues	Less: Operating Expenses	Net Available Revenue	Debt (b) Service	Debt Coverage		
2003	\$ 251,236	\$ 161,364	\$ 89,872	\$ 82,913	108.39%		
2004	259,641	152,562	107,079	95,331	1.12		
2005	267,789	156,954	110,835	105,575	1.05		
2006	295,075	146,215	148,860	107,305	1.39		
2007	302,351	146,327	156,024	115,450	1.35		
2008	322,296	143,517	178,779	135,157	1.32		
2009	288,185	165,744	122,441	155,960	0.79		
2010	285,470	138,458	147,012	153,458	0.96		
2011	316,002	146,880	169,122	157,702	1.07		
2012	343,923	165,081	178,842	153,442	1.17		

Automobile Parking Revenue Bonds							
Fiscal Year	Total (a) Available Revenues	Less: Operating Expenses	Net Available Revenue	Debt (b) Service	Debt Coverage		
2003	\$ 19,254	\$ 11,156	\$ 8,098	\$ 10,670	75.90%		
2004	19,478	12,295	7,183	10,510	0.68		
2005	13,628	16,006	(2,378)	8,622	(0.28)		
2006	21,126	10,315	10,811	10,604	1.02		
2007	18,114	9,470	8,644	10,605	0.82		
2008	18,556	7,998	10,558	6,374	1.66		
2009	17,835	10,180	7,655	4,448	1.72		
2010	15,038	12,804	2,234	4,594	0.49		
2011	8,137	6,938	1,199	1,671	0.72		
2012	10,617	8,106	2,511	1,665	1.51		

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.

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 Thousands)
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
2004	951,270	14.0	*	*
2003	951,270	13.9	*	*

* Information not available for years 2003-2004 and 2010-2012

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 5-year estimates

Schedule 15
City of Detroit, Michigan
Demographic and Economic Information - Principal Employers
Current Year and Nine Years Ago
(Unaudited)

Employer	2012 (Note 1)		
	Employees	Rank	Percentage of Total City Employment (Note 3)
City of Detroit	11,396	1	4.1 %
Detroit Public Schools	10,951	2	3.9
Detroit Medical Center	10,823	3	3.9
Henry Ford Health System	8,774	4	3.1
U.S. Government	6,665	5	2.4
Wayne State University	6,272	6	2.2
State of Michigan	4,212	7	1.5
Chrysler Group L.L.C.	4,150	8	1.5
St. John Providence Health System	4,006	9	1.4
DTE Energy Co.	3,640	10	1.3

Note 1 Source: Crain's Book of Lists, 2012 Edition (City of Detroit Based)

Note 2 Source: City of Detroit 2004-2005 Executive Budget Summary (Page D-4)

Note 3 Source (Total City employment): Bureau of Labor Statistics

2003 (Note 2)

Employees	Rank	Percentage of Total City Employment (Note 3)
20,799	2	6.3 %
26,000	1	7.9
11,836	3	3.6
7,337	6	2.2
11,363	4	3.5
5,154	11	1.6
5,637	10	1.7
9,707	5	3.0
5,767	9	1.8
4,045	14	1.2

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	2012	2011	2010	2009	2008	2007	2006	2005	2004	2003
General Governmental Agencies										
Executive Agencies										
Arts	-	-	-	-	-	-	1	1	1	1
Budget	15	16	20	23	22	23	23	28	28	31
Building and Safety	204	235	258	276	296	296	299	294	302	302
Civic Center	-	-	-	33	35	35	59	70	89	85
Consumer Affairs	-	-	-	-	-	-	14	13	17	18
Cultural Affairs	-	-	-	-	-	-	-	10	14	5
Public Works	542	639	649	737	750	748	873	1,226	1,314	1,420
Workforce Development	46	73	113	99	91	98	90	79	81	83
Environmental	-	3	10	51	53	51	21	23	29	27
Finance	235	266	285	310	327	310	298	402	506	525
Fire-Civilian	67	7	7	18	6	-	442	442	440	426
Fire-Uniform	1,190	1,323	1,348	1,388	1,438	1,479	1,069	1,281	1,286	1,368
General Services	343	447	481	528	676	670	-	-	-	-
Health & Wellness Promotion	185	243	262	317	348	335	434	505	568	579
Historical	-	-	-	-	-	-	6	24	39	41
Human Resources	107	176	171	168	175	179	174	232	266	285
Human Rights	6	8	-	12	13	7	7	19	25	21
Human Services	52	85	95	91	117	122	128	145	142	149
Information Technology Services	43	46	65	92	99	105	94	112	124	139
Law	94	105	113	122	127	134	140	180	195	191
Mayor's Office	39	52	63	74	108	107	59	97	100	96
Planning and Development	122	154	160	173	172	181	197	239	255	253
Police-Civilian	308	305	317	309	387	373	427	445	514	542
Police-Uniform	2,708	2,890	2,971	3,379	3,034	3,126	3,162	3,658	3,867	3,981
Communication and Creative Services	-	-	-	-	-	-	-	21	17	17
Public Lighting	103	123	160	206	225	217	228	254	281	299
Recreation	300	510	508	385	471	464	399	465	638	728
Senior Citizens	-	-	-	3	-	-	5	8	9	11
Youth	-	-	-	-	-	1	-	-	-	-
Zoological Institute	-	-	-	-	1	-	86	194	213	223
Administrative Hearings	4	6	9	6	6	5	5	4	-	-
Homeland Security	2	2	1	5	5	5	4	6	-	-
Housing	-	3	3	3	3	3	3	3	179	246
Legislative Agencies										
Auditor General	12	15	17	18	21	18	18	16	26	19
Board of Zoning Appeals	12	12	12	12	13	15	11	13	15	15
City Council	52	61	74	97	90	91	92	104	108	106
Ombudsman	7	7	11	11	10	7	6	9	11	13
City Clerk	18	20	22	23	25	25	27	30	31	27
Elections	83	51	55	102	68	60	65	74	75	83
Judiciary Agency										
36th District Court	31	35	33	33	32	31	31	31	31	31
Other Agencies										
Non-Departmental	14	20	21	33	44	37	41	44	29	26
Library	334	371	450	466	460	457	457	463	457	477
Total General Governmental Agencies	7,278	8,309	8,764	9,603	9,748	9,815	9,495	11,264	12,322	12,889
Enterprise Agencies										
Airport	7	8	9	10	11	11	13	22	26	39
Department of Transportation	1,131	1,292	1,351	1,514	1,512	1,562	1,530	1,588	1,748	1,779
Municipal Parking	97	92	97	104	109	114	108	108	118	123
Water and Sewage Disposal	2,012	2,123	2,081	2,189	2,260	2,224	2,311	2,592	2,735	2,942
Total Enterprise Agencies	3,247	3,515	3,538	3,817	3,892	3,911	3,962	4,310	4,627	4,883
Grand Total	10,525	11,824	12,302	13,420	13,640	13,726	13,457	15,574	16,949	17,772

Source: City of Detroit, Michigan, Human Resources Department

Schedule 17
City of Detroit, Michigan
Operating Information - Miscellaneous Operating Indicators by Function/Program
Last Ten Fiscal Years
(Unaudited)

	Fiscal Year		
	2012	2011	2010
Public Protection:			
Police			
Number of Stations (Including 19 Mini-Stations)	39	23	30
Number of Employees (Uniform)	2,637	2,771	2,928
911 Calls Received / Answered	1,384,274 / 1,323,069	1,503,255 / 1,367,627	1,590,368 / 1,465,475
Number of Narcotics Raids	3,462	3,147	N/A
Number of Community Policing Programs	375	350	300
Fire			
Number of Fire Stations	46	46	45
Number of Employees	1,455	1,455	1,535
Number of Fire Fighting Vehicles	78	76	93
Number of Fire Hydrants	28,000	28,000	28,000
Responses to Fire Alarms (Including False Alarms)	34,613	26,813	19,224
Responses to Special Calls and Emergency Medical Service Calls	126,099	136,705	144,101
Estimated Fire Loss of Property	\$ 149,261,205	\$ 285,142,382	\$ 467,135,907
Public Works			
Number of Employees	625	655	729
Miles of Streets (Paved + Unpaved)	2,571	2,572	2,571
Miles of Alleys (Paved + Unpaved)	1,264	1,264	1,264
Miles of Sidewalks	4,243	4,243	4,243
Public Lighting			
Number of Street Lights	88,000	88,000	88,000
Number of Revenue Customers	256	116	116
Size of Generating Station in Kilowatts	30,000	140,000	184,000
Kilowatt Hours Generated (Net)	191,320	29,352,500	121,769,000
Kilowatt Hours Delivered to System	604,471,560	549,972,720	576,292,000
Steam Heating Plants - Steam Produced in Pounds	87,505	57,840,415	54,729,562
Recreation and Culture			
Number of Parks, Ornamental Areas, Playfields, and Playgrounds Owned (5,108 Acres)	354	354	354
Number of Summer Camps (199 Acres)	-	-	-
Number of Recreation Centers, Playgrounds, and School Facilities Operated	17	17	13
Number of Skating Rinks	2	2	2
Number of Swimming Pools	10	10	10
Number of Municipal Beaches	1	1	1
Total Playing Permits Issued at Five Municipal Golf Courses	121,612	92,857	104,652
Library			
Number of Libraries (Including Two Bookmobiles)	24	27	27
Estimated Number of Books	7,113,304	7,030,335	8,304,694
Circulation	2,260,177	2,588,135	2,446,842

Fiscal Year							
2009	2008	2007	2006	2005	2004	2003	
19	8	12	24	28	30	35	
2,971	3,005	3,126	3,162	3,658	3,818	3,965	
N/A	N/A	N/A	N/A	N/A	N/A	N/A	
N/A	N/A	N/A	N/A	N/A	N/A	N/A	
N/A	N/A	N/A	N/A	N/A	N/A	N/A	
49	46	48	48	49	49	47	
1,480	1,535	1,479	1,511	1,723	1,726	1,798	
93	90	212	256	238	238	225	
28,000	28,000	38,000	38,000	38,000	38,000	33,000	
19,530	23,174	33,399	33,992	34,160	34,160	35,690	
143,694	142,573	142,370	132,432	151,285	151,285	124,122	
\$ 549,374,611	\$ 397,605,618	\$ 1,190,738,018	\$ 96,771,056	\$ 1,921,197,050	\$ 1,921,197,050	\$ 81,320,274	
730	753	748	873	1,124	1,189	1,203	
2,570	2,570	2,570	2,784	2,784	2,784	2,785	
1,264	1,264	1,264	1,284	1,284	1,264	1,268	
4,243	4,243	4,243	4,265	4,265	4,243	4,247	
88,000	87,500	87,500	88,000	87,500	87,000	87,000	
190	235	185	201	179	1,302	1,302	
184,000	177,000	177,000	184,000	184,000	184,000	185,000	
134,189,000	136,207,800	94,000,300	256,395,400	308,391,000	253,271,700	220,476,700	
449,929,000	608,442,800	631,299,700	634,026,280	567,529,080	541,722,900	542,839,900	
79,773,679	104,544,579	85,000,000	62,306,014	71,852,887	75,226,300	67,976,300	
354	354	387	391	391	391	391	
-	-	-	1	1	1	1	
13	13	14	30	30	30	110	
2	1	2	1	1	1	3	
2	2	8	17	17	18	18	
1	1	1	1	1	1	1	
127,915	132,405	202,403	269,870	269,870	269,870	269,870	
27	27	27	27	27	26	23	
8,314,427	7,903,837	7,903,837	3,497,342	3,497,342	3,343,509	3,262,776	
2,308,336	1,199,736	1,199,736	889,315	981,689	996,316	1,151,952	

(Continued)

Schedule 17 (Continued)
City of Detroit, Michigan
Miscellaneous Operating Indicators by Function/Program
Last Ten Fiscal Years
(Unaudited)

	Fiscal Year		
	2012	2011	2010
Water System			
Number of Customer Accounts	262,000	267,500	268,500
Average Pumpage - Millions of Gallons per Day	556.3	543.4	515.3
Greatest Pumpage for a Single Day During Fiscal Year - Gallons	983,100,000	968,000,000	793,800,000
Greatest Pumpage for a Single Hour During Fiscal Year - Gallons	44,833,000	43,625,000	37,750,000
Filtration Plant Rated Capacity - Millions of Gallons per Day	1,780	1,780	1,780
Number of Miles of Water Mains	3,840	3,840	3,840
Average Cost (Includes Domestic, Industrial, and Commercial) per 1,000 Cubic Feet	\$ 17.02	\$ 15.48	\$ 13.73
Sewage System			
Number of Sewage Disposal Plants	1	1	1
Number of Pumping Stations	11	11	12
Miles of (Trunk Line + Lateral) Sewers	2,913	2,913	2,913
Miles of Lateral Sewers	2,125	2,125	2,125
Transportation			
Number of Employees	1,139	1,341	1,524
Number of Revenue Vehicles	465	445	445
Seating Capacity	18,363	17,570	17,570
Number of Route Miles	1,056	1,091	933
Number of Passengers (Estimated)	32,750,907	35,615,420	36,555,845
Regular Fare	\$ 1.50	\$ 1.50	\$ 1.50
Tickets	N/A	N/A	N/A
Transfers	\$ 0.25	\$ 0.25	\$ 0.25
Weekly GO Pass	\$ 14.40	\$ 14.40	\$ 14.40
Health			
Number of Employees	*	271	308
Birth Rate per Thousand	*	21.6	15.1
Death Rate per Thousand	*	-	* 10.60
Infant Mortality Rate per Thousand Live Births	*	7.1	14.9
Educational Development			
School Enrollment	*	*	84,877
Operating Expenditures	*	*	1,169,738,265
Cost Per Pupil	*	*	13,782
Operating Revenues	*	*	1,210,725,507
Revenue Per Pupil	*	*	14,264
Total Teaching Staff	*	*	5,222

Source: City of Detroit, Michigan, Various Departments

* Information Not Available at Date of Publication of CAFR

Fiscal Year						
2009	2008	2007	2006	2005	2004	2003
268,500	275,900	264,173	264,259	281,104	262,415	260,639
557.1	601.7	575.2	599.6	640.0	606.0	654.0
963,500,000	1,097,900,000	1,031,300,000	1,049,800,000	1,060,500,000	1,082,200,000	1,194,500,000
42,583,000	51,992,000	49,125,000	50,333,000	52,208,000	48,667,000	53,750,000
1,780	1,780	1,780	1,780	1,670	1,680	1,700
3,840	3,840	3,840	3,840	3,840	3,846	13,251
\$ 13.06	\$ 12.92	\$ 12.02	\$ 11.87	\$ 11.49	\$ 11.00	\$ 10.00
1	1	1	1	1	1	1
12	12	12	12	12	12	14
2,913	2,913	2,913	2,913	3,383	2,913	2,899
2,125	2,125	-	-	-	-	-
1,524	1,562	1,562	1,530	1,605	1,757	1,803
445	541	541	550	561	572	540
17,355	21,916	21,916	22,278	22,065	23,887	23,452
1,291	1,291	1,291	1,291	1,198	1,324	1,309
38,612,890	35,204,863	35,204,863	37,083,344	36,000,000	38,000,000	39,756,458
\$ 1.50	\$ 1.50	\$ 1.50	\$ 1.50	\$ 1.50	\$ 2.00	\$ 2.00
N/A	N/A	5 for \$7.50	5 for \$7.50	5 for \$6.50	5 for \$6.50	5 for \$6.50
\$ 0.25	\$ 0.25	\$ 0.25	\$ 0.25	\$ 0.25	\$ -	\$ -
\$ 14.40	\$ 14.40	N/A	N/A	N/A	N/A	N/A
339	338	335	434	508	578	582
12.9	13.3	14.6	14.3	14.8	15.0	16.0
10.40	8.97	10.50	9.50	9.50	10.00	10.00
14.9	14.9	15.0	15.5	16.3	17.0	14.0
95,494	106,485	118,394	130,718	141,148	150,415	157,003
1,220,054,459	1,330,196,819	1,424,921,672	1,447,382,665	1,586,659,192	1,671,326,148	1,599,127,000
12,776	12,492	12,035	11,073	11,241	11,111	10,185
1,297,710,119	1,345,462,713	1,547,683,775	1,545,022,504	1,593,214,258	1,669,936,585	1,679,687,278
13,589	12,635	13,072	11,820	11,288	11,102	10,698
5,797	6,269	7,064	7,628	8,149	9,412	9,580

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

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**Independent Auditors' Report on Internal Control over
Financial Reporting and on Compliance and Other Matters
Based on an Audit of Financial Statements Performed in
Accordance with *Government Auditing Standards***

The Honorable Mayor Dave Bing
and
The Honorable Members of the City Council
City of Detroit, Michigan:

We have audited the 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, 2012, which collectively comprise the City's basic financial statements and have issued our report thereon dated December 28, 2012. Our report was modified to include a reference to other auditors and to emphasize the City has an accumulated unassigned deficit in the General Fund of \$326.6 million as of June 30, 2012, which has resulted from operating deficits over the past several years. 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. Other auditors audited the financial statements of the General Retirement System, the Policemen and Firemen Retirement System, and all of the discretely presented component units, as described in our report on the City's basic financial statements. The financial statements of the General Retirement System, Policemen and Firemen Retirement System, and certain discretely presented component units identified in footnote I(a) were not audited in accordance with *Government Auditing Standards*. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

Internal Control over Financial Reporting

Management of the City is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the City's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses, and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses.



A deficiency in internal control over financial reporting exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the City's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies in the City's internal control over financial reporting described in the accompanying schedule of findings and responses as findings 2012-01, 2012-02, and 2012-03 to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and responses as findings 2012-04, 2012-05, and 2012-06.

The City's responses to the findings identified in our audit are described in the accompanying schedule of findings and responses. We did not audit the City's responses, and accordingly, we express no opinion on them.

This report is intended solely for the information and use of the Mayor, City Council, City management, federal awarding and pass-through agencies, and the Treasurer of the State of Michigan, and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

Detroit, Michigan
December 28, 2012

CITY OF DETROIT, MICHIGAN

Schedule of Findings and Responses

Year ended June 30, 2012

Finding 2012-01 – Financial Closing and Reporting

Although the City of Detroit (City) has made incremental improvement in their financial closing and reporting processes, deficiencies still exist in the processes to evaluate accounts, and timely record entries into the general ledger in a complete and accurate manner. These deficiencies include the following:

- The process to prepare closing entries and financial statements relies partly upon decentralized accounting staff and software applications other than the City's DRMS general ledger. The process requires a significant amount of manual intervention in order to get information from these other systems in to DRMS.
- The process to identify significant transactions throughout the City's fiscal year to determine the appropriate accounting treatment does not result in timely consideration of how to record or report such transactions. These transactions often are not identified until the end of the fiscal year during the financial reporting process. There is inadequate communication between various City departments on transactions and on how they affect the individual stand-alone financial reports and the Comprehensive Annual Financial Report (CAFR). Information necessary to effectuate a timely and accurate closing of the books is sometimes not communicated between certain departments and agencies of the City.
- The process to close the books and prepare financial statements includes the recording of a significant number of manual post-closing entries. For the year ended June 30, 2012, there were approximately 350 manual journal entries that were made after the books were closed for the year (i.e., after frozen trial balance).
- The process to close the books and evaluate accounts occurs only on an annual basis instead of monthly or quarterly. As a result, certain key account reconciliations and account evaluations are not performed timely and require an extended amount of time to complete during the year-end closing process.
- The established internal control procedures for tracking and recording capital asset activities are not consistently followed. Physical inventories of capital assets are not being performed annually as required by City policy.

Recommendation

We recommend management continue to develop and refine its financial reporting systems and processes. Refinements should include assignment of accounts and reporting units to qualified personnel to conduct detailed analysis of accounts throughout the year on a monthly and quarterly basis. We further recommend management conduct a thorough assessment of the adequacy and completeness of the City's accounting and financial reporting policies and procedures. Based on the results of the assessment, determine the need to develop new policies and procedures and/or reinforce the existing policies and procedures to personnel. The process to close the books and prepare closing entries does not utilize enough adequately trained and appropriately experienced employees to adequately monitor reporting issues throughout the year. We recommend management evaluate the City's organizational structure and personnel composition to determine the adequacy of the accounting related skills and knowledge of assigned personnel in relation to their assigned duties.

CITY OF DETROIT, MICHIGAN

Schedule of Findings and Responses

Year ended June 30, 2012

Views of Responsible Officials

We have reviewed the finding and concur with the recommendation. The City continues to make improvements including adopting the recommendations herein. The Financial Stability Agreement requirements with the State include monthly Revenues and Expenditure reports which has caused the Finance Department to put more effort into Financial reporting. However, due to layoffs and attrition of accounting personnel and lack of financial resources for training and systems will create challenges for improving the City's financial reporting and accounting processes. We will continue to work on improving the monthly financial reports to enable City decision makers to evaluate the City's financial condition on an interim basis.

CITY OF DETROIT, MICHIGAN

Schedule of Findings and Responses

Year ended June 30, 2012

Finding 2012-02 – Reconciliations, Transaction Processing, Account Analysis, and Document Retention

Operations of the City are carried out by numerous City departments utilizing a variety of people, processes, and systems. This type of environment requires diligence in ensuring accurate information is processed and shared with others in the City. Performing reconciliations of data reported from different systems and sources and account analysis are an integral part of ensuring transactional data integrity and accurate financial reporting. During our audit, we noted deficiencies in the areas of transaction processing, account analysis, data integrity, reconciliation performance, and document retention. Those deficiencies include the following:

- The City's process to identify accrued expenses is not adequate. Our audit procedures identified expenditures related to fiscal year 2012 that were not appropriately recorded as expenditures in fiscal year 2012.
- Certain date related information regarding terminations and new hires in the human resources system did not match information in the personnel files.
- Reconciliations of subsidiary ledgers to general ledgers and other IT systems to DRMS are either not being completed, not completed timely, or contain unsupported or unreconciled items.
- A listing of internal controls employed by service organizations is not prepared and evaluated for adequacy by the City. The City uses various service organizations to process significant transactions such as health and dental claims and payroll. The City does not review the service organization auditor reports (SAS 70 Reports) to ensure that the service organization has effective internal controls. Further, the City does not evaluate the user controls outlined in the SAS 70 reports to ensure that the City has these controls in place to ensure complete and accurate processing of transactions between the City and the Service Organization.
- Bank, investment, and imprest cash reconciliations are not prepared timely and contain unreasonably aged reconciling items.
- The calculation of inventory reserves used data from the prior year that contained errors and is not reviewed by a member of management.
- Interfund and inter-departmental transactions are not reconciled throughout the year on a timely basis or reviewed for proper financial statement classification.
- A physical inventory count of fixed assets is not routinely completed by all agencies, as indicated in the City's asset management policies.
- The calculation of average weekly wage as a basis for weekly payment of workers compensation is a manual calculation that contained errors and was not reviewed or verified by a member of management.
- The City of Detroit does not maintain individual claim data typically maintained as insurance statistics for self-insurance programs for its workers compensation program. Therefore, only actual payment data is available for the actuary's analysis.
- Data provided to the actuaries that assist in estimating workers' compensation liabilities is not reviewed by the City for accuracy nor reconciled by the City to supporting data prior to submission.
- Certain invoices and receipts of goods and services were not matched against purchase orders in the correct period.

CITY OF DETROIT, MICHIGAN

Schedule of Findings and Responses

Year ended June 30, 2012

- The City's process to follow up with audit findings is not effectively designed.
- The calculation of grant accounts receivables is inappropriate as the beginning balances being carried forward were not originally performed on a grant by grant basis. The calculation contained errors and was not reviewed by management.
- Manual journal entries are not consistently and accurately reviewed and approved.
- The City of Detroit does not perform a sufficient review of open Accounts Receivable items and their related collectability.
- Certain money market fund investments were incorrectly classified as cash and management review process was not performed at a level to detect the misstatement.
- Certain cash accounts were inappropriately excluded from the trial balance.
- The City's Accounts Receivable write off policy is not specific enough to explain when and how amounts determined to be uncollectable should be written off. In addition, the City is not following their current policy to write off balances.
- Legal reserve documents are not updated in a timely manner when facts pertaining to the status of cases arise. As such, the City had over accrued claims and judgments.
- The City does not have a process for anonymous reporting of ethical or fraud violations to the City Board of Ethics.
- Supporting documentation is not consistently retained in accordance with the City's record retention policies.

Recommendation

We recommend management develop or improve existing policies and procedures related to reconciliations and account analysis such that transactions are recorded in the general ledger completely, accurately, and in a timely manner. We further recommend that the City review its document retention and filing policies and procedures and make necessary adjustments such that information is accessible and provides for an adequate audit trail.

We recommend the creation of a comprehensive listing of required reconciliations. Individuals and departments should be provided a subset of the listing (a checklist) to indicate which specific reconciliations they are responsible for, what frequency is required, who is responsible for monitoring to ensure timeliness, and who is responsible for reviewing to ensure accuracy.

Additionally, we recommend training staff how to prepare reconciliations that are thorough and well documented. Also, an electronic filing system should be created with file locations and file naming conventions specified so that all reconciliations are saved to well-organized file servers instead of just desktop computers.

Current City policies require that invoices be paid timely and that contracts and purchase orders are approved prior to goods or services being rendered. We recommend establishing a procedure to monitor payment dates against invoice dates to determine which departments are noncompliant with policies. Enforce the current policies by using personnel actions against noncompliant individuals. Also, consider charging service fees to the budgets of departments that violate the contract and prompt payment ordinances.

CITY OF DETROIT, MICHIGAN

Schedule of Findings and Responses

Year ended June 30, 2012

Additionally, we recommend performing monthly vendor level contract analysis for each major City vendor. If this is consistently performed, it will enable the analysts to know at any given time, the approximate amount of unbilled goods or services that have been rendered. This would enable the Accounting Department to estimate accruals for each major vendor at year-end within a shortened timeframe thereby facilitating a faster closing of the books.

Lastly, there are no receiving documents utilized to enforce a three-way match. We recommend that all invoices be sent directly to Accounts Payable and that the approvals are then routed to the departments electronically utilizing available features within DRMS. This would enable the Accounts Payable Department to determine the appropriate accounting period for each invoice upon entry into the system.

Views of Responsible Officials

We have reviewed the finding and concur with the recommendation. We have been evaluating the City's diverse accounting systems and operations to consolidate and improve the City's accounting. As noted previously due to the City's lack of resources and layoffs and attrition of accounting personnel, improving the City's accounting will be challenging. The Department has improved its financial analysis, which will enable accounting staff to focus on variances to identify errors and problems. Additionally, in concert with monthly financial reporting, the Department will develop account reconciliation policies and procedures to ensure reconciling differences are identified and researched in a timely manner. We will continue to improve the City's accounting including implementing the recommendations herein.

CITY OF DETROIT, MICHIGAN

Schedule of Findings and Responses

Year ended June 30, 2012

Finding 2012-03 – Information Technology

General controls and application controls work together to ensure the completeness, accuracy, and validity of financial and other information in the systems. Deficiencies exist in the areas of general and application controls. Those deficiencies include the following for some or all systems:

- Administrative access is granted to unauthorized accounts.
- Segregation of duties conflicts exist between the database administration function and the backend database administration function.
- Adequate procedures are not in place to remove and review segregation of duties conflicts.
- Automated methods are not in place for tracking of the changes and customizations made to certain applications.
- Program developers have access to move program changes into production for certain applications.

Recommendation

We recommend the following:

- Access to the backend database should be restricted to database administrators or compensating controls should be implemented to mitigate the risk associated with concurrent access at the front end and backend levels.
- Administrative access to the front-end application should be restricted to application administrators or compensating controls should be implemented to mitigate the risk associated with concurrent access at the front end and backend levels.
- Create a matrix to identify application functions that when granted together will give rise to segregation of duties conflict. Follow and enforce the segregation of duties matrix to ensure that segregation of duties conflicts do not exist at the time of role/profile creation.
- Create and enforce a policy to log all configuration changes, obtain approval from authorized individuals for all configuration changes, and perform appropriate testing on all configuration changes prior to promoting changes to production.
- Develop and enforce a policy that does not grant access to developers to promote changes into production and access to promote changes into production should be restricted to authorized individuals.

Views of Responsible Officials

We have reviewed the findings and concur with the recommendations.

- The Information Technology Services Department (ITSD) is implementing the recommendations for those systems supported by ITSD. Additionally, ITSD is also working with technology staff in other agencies to implement the recommendations for findings related to the systems supported directly by the agencies themselves.

CITY OF DETROIT, MICHIGAN

Schedule of Findings and Responses

Year ended June 30, 2012

Password

- The City identified legacy systems where technology does not support the kind of parameters recommended and/or the systems are scheduled for retirement. The City will also provide more centralization of IT functions to improve consistency in development and enforcement of password parameter policies.

Separation of duties

- Procedures used by the central IT staff (e.g., Change Management) have been shared with technology staff in other agencies to facilitate consistency in compliance. The lack of human resources will create challenges for improving separation of duties. However, the City will continue to work toward improving IT controls. Chief among these will be the implementation of a formal process for periodic review of user access, and development of a "Separation of Duties" matrix for each key financial system. To address the lack of a segregation of duties matrix, the City will explore the implementation of the Oracle GRC product, or some similar product to aid the system owners in development of a matrix and aid the ITSD in enforcement of the matrix.

System access

- Findings regarding approvals for granting access and authorizing configuration changes stem from failure to properly maintain the documentation supporting the approvals. Policies and procedures already exist that require such authorization prior to granting/changing access and implementing configuration changes. The City will provide more centralization of IT functions to improve consistency in development and enforcement of such policies. The ITSD will also develop a method for ensuring that documentation of authorizations is maintained and retrievable for audit reviews.
- The City will work with business units to implement a policy for reviewing user access for the systems that they "own." Consolidation of IT services will aid in the successful review and enforcement of user access on a semiannual schedule.
- To mitigate database admin and application admin access to the front end and back end of the database, and to address the issue of tracking changes and customizations, the City will explore implementation of the Oracle GRC (Governance, Risk and Compliance) product or something similar to control and track changes.
- The City has already limited the use of generic IDs and restricted default and administrative IDs for enterprise financial systems. The City will explore the resource issue that currently prohibits turning on system audit capabilities that log all activities. The City will also provide more centralization of IT functions to improve consistency in development and enforcement of policies, which will help with those systems currently outside of centralized IT control.
- Procedures will be implemented to retain backup job logs for at least one year. DRMS current retention is one year. ITS is investigating how to secure the proper resource to store all data and logs, new backup software is currently being investigate and funding has been requested in the 2012-13 Budget.
- For enterprise financial systems, configuration changes are tested and approved prior to production implementation. Procedures and policies exist to govern this. The City will improve maintenance of documentation demonstrating testing and authorization. The City also will provide more centralization of

CITY OF DETROIT, MICHIGAN

Schedule of Findings and Responses

Year ended June 30, 2012

IT functions to improve consistency in development and enforcement of policies for those systems currently outside of centralized IT control.

- Developers do not have access to promote changes to production for systems under centralized IT control. The City will provide more centralization of IT functions to improve consistency in development and enforcement of policies for systems currently outside of centralized IT control.

CITY OF DETROIT, MICHIGAN

Schedule of Findings and Responses

Year ended June 30, 2012

Finding 2012-04 – Escheatment Law

The City filed the required annual report of unclaimed property to the State of Michigan; however, it was inaccurate as it did not include property tax overpayments. Additionally, the City has not remitted escheatable property to the State. In discussing this with City officials, the stated changes in personnel combined with the lack of written City policies and procedures regarding the monitoring and calculating of escheatment rules caused the City to fail to comply with the rules.

The Uniform Unclaimed Property Act (Public Act 29 of 1995) requires the Michigan Holder Transmittal Annual Report of Unclaimed Property be submitted annually by July 1.

Any holder of unclaimed property who fails to file a report of unclaimed property is subject to fines and penalties as prescribed in Public Act 29 of 1995.

Recommendation

We recommend the City conduct an assessment and evaluation of unclaimed property held and file the required report within the annual required deadlines.

Views of Responsible Officials

The City has developed an escheatment process and is compliant with the law except for the escheatment of Property Tax overpayments. We will work to identify and remit property tax overpayments that need to be escheated to the State.

CITY OF DETROIT, MICHIGAN

Schedule of Findings and Responses

Year ended June 30, 2012

Finding 2012-05 – Act 51

The City of Detroit's Major and Local Street funds were not in compliance with the State of Michigan Public Act 51. The General Fund borrowed cash and investments from the Street funds, which are restricted for a specific purpose, as stated in Act 51. In discussing this with City officials, because multiple funds, including the General and Street funds, share the same bank account as well as the lack of general awareness of the Street funds' restricted use caused the City to be noncompliant with Act 51.

Public Act 51 Section 247.663 states what the Street funds can be used for. Failure to comply with the Act will result in forfeiture of funds to which it may have been entitled for a period of 1 year from and after the failure to apply the money appropriately as prescribed in Act 51 247.666.

Recommendation

We recommend the City assess which funding has restricted purposes and create individual bank accounts for those cash and investments.

Views of Responsible Officials

We have reviewed the finding and concur with the recommendation. We will create a separate bank account for the Street Funds.

CITY OF DETROIT, MICHIGAN

Schedule of Findings and Responses

Year ended June 30, 2012

Finding 2012-06 – Uniform Budgeting and Accounting Act

The City was not in compliance with Michigan Compiled Laws Act 2 of 1968, Uniform Budgeting and Accounting Act. For certain appropriations stated in footnote 2(d), the City's actual expenditures were more than budgeted expenditures. City Council passed an amendment on November 20, 2012 to remove negative balances in various General Fund appropriations by redirecting unused authority within the total budgets of affected departments. However, because the amendment was passed after the fiscal year end, the City was still considered noncompliant as of June 30, 2012.

Per Act 2 of 1968, Section 141.438 (3), "Except as otherwise provided in section 19, an administrative officer of the local unit shall not incur expenditures against an appropriation account in excess of the amount appropriated by the legislative body."

Recommendation

The Budget Act requires budget amendments before any expenditures exceed the budget. There is no authority to amend the budget after year end. We recommend budget projections to be prepared on a monthly basis and for amendments to be made as soon as a deviation becomes apparent.

Views of Responsible Officials

We concur with the finding and City management has taken steps to prevent recurring violations of the Uniform Budgeting and Accounting Act. The Chief Financial Officer issued a budget directive to all city departments in August 2012 that reminded employees of City Charter prohibitions on actions that would violate this act and the severe penalties to individuals who violate these Charter provisions. The directive also clarified and narrowed the types of transactions that the City would consider legal obligations going forward. The Budget Department has commenced monthly review meetings with City departments to monitor adherence to their FY 2012-13 budgets and ensure prescriptive actions in a timely manner such that the City will adhere completely to the act during the current fiscal year.



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**Independent Auditors' Report on Internal Control over
Financial Reporting and on Compliance and Other Matters
Based on an Audit of Financial Statements Performed in
Accordance with *Government Auditing Standards***

The Honorable Mayor Dave Bing
and
The Honorable Members of the City Council
City of Detroit, Michigan:

We have audited the 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, 2012, which collectively comprise the City's basic financial statements and have issued our report thereon dated December 28, 2012. Our report was modified to include a reference to other auditors and to emphasize the City has an accumulated unassigned deficit in the General Fund of \$326.6 million as of June 30, 2012, which has resulted from operating deficits over the past several years. 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. Other auditors audited the financial statements of the General Retirement System, the Policemen and Firemen Retirement System, and all of the discretely presented component units, as described in our report on the City's basic financial statements. The financial statements of the General Retirement System, Policemen and Firemen Retirement System, and certain discretely presented component units identified in footnote I(a) were not audited in accordance with *Government Auditing Standards*. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

Internal Control over Financial Reporting

Management of the City is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the City's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses, and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses.



A deficiency in internal control over financial reporting exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the City's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies in the City's internal control over financial reporting described in the accompanying schedule of findings and responses as findings 2012-01, 2012-02, and 2012-03 to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and responses as findings 2012-04, 2012-05, and 2012-06.

The City's responses to the findings identified in our audit are described in the accompanying schedule of findings and responses. We did not audit the City's responses, and accordingly, we express no opinion on them.

This report is intended solely for the information and use of the Mayor, City Council, City management, federal awarding and pass-through agencies, and the Treasurer of the State of Michigan, and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

Detroit, Michigan
December 28, 2012

CITY OF DETROIT, MICHIGAN

Schedule of Findings and Responses

Year ended June 30, 2012

Finding 2012-01 – Financial Closing and Reporting

Although the City of Detroit (City) has made incremental improvement in their financial closing and reporting processes, deficiencies still exist in the processes to evaluate accounts, and timely record entries into the general ledger in a complete and accurate manner. These deficiencies include the following:

- The process to prepare closing entries and financial statements relies partly upon decentralized accounting staff and software applications other than the City's DRMS general ledger. The process requires a significant amount of manual intervention in order to get information from these other systems in to DRMS.
- The process to identify significant transactions throughout the City's fiscal year to determine the appropriate accounting treatment does not result in timely consideration of how to record or report such transactions. These transactions often are not identified until the end of the fiscal year during the financial reporting process. There is inadequate communication between various City departments on transactions and on how they affect the individual stand-alone financial reports and the Comprehensive Annual Financial Report (CAFR). Information necessary to effectuate a timely and accurate closing of the books is sometimes not communicated between certain departments and agencies of the City.
- The process to close the books and prepare financial statements includes the recording of a significant number of manual post-closing entries. For the year ended June 30, 2012, there were approximately 350 manual journal entries that were made after the books were closed for the year (i.e., after frozen trial balance).
- The process to close the books and evaluate accounts occurs only on an annual basis instead of monthly or quarterly. As a result, certain key account reconciliations and account evaluations are not performed timely and require an extended amount of time to complete during the year-end closing process.
- The established internal control procedures for tracking and recording capital asset activities are not consistently followed. Physical inventories of capital assets are not being performed annually as required by City policy.

Recommendation

We recommend management continue to develop and refine its financial reporting systems and processes. Refinements should include assignment of accounts and reporting units to qualified personnel to conduct detailed analysis of accounts throughout the year on a monthly and quarterly basis. We further recommend management conduct a thorough assessment of the adequacy and completeness of the City's accounting and financial reporting policies and procedures. Based on the results of the assessment, determine the need to develop new policies and procedures and/or reinforce the existing policies and procedures to personnel. The process to close the books and prepare closing entries does not utilize enough adequately trained and appropriately experienced employees to adequately monitor reporting issues throughout the year. We recommend management evaluate the City's organizational structure and personnel composition to determine the adequacy of the accounting related skills and knowledge of assigned personnel in relation to their assigned duties.

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Year ended June 30, 2012

Views of Responsible Officials

We have reviewed the finding and concur with the recommendation. The City continues to make improvements including adopting the recommendations herein. The Financial Stability Agreement requirements with the State include monthly Revenues and Expenditure reports which has caused the Finance Department to put more effort into Financial reporting. However, due to layoffs and attrition of accounting personnel and lack of financial resources for training and systems will create challenges for improving the City's financial reporting and accounting processes. We will continue to work on improving the monthly financial reports to enable City decision makers to evaluate the City's financial condition on an interim basis.

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Year ended June 30, 2012

Finding 2012-02 – Reconciliations, Transaction Processing, Account Analysis, and Document Retention

Operations of the City are carried out by numerous City departments utilizing a variety of people, processes, and systems. This type of environment requires diligence in ensuring accurate information is processed and shared with others in the City. Performing reconciliations of data reported from different systems and sources and account analysis are an integral part of ensuring transactional data integrity and accurate financial reporting. During our audit, we noted deficiencies in the areas of transaction processing, account analysis, data integrity, reconciliation performance, and document retention. Those deficiencies include the following:

- The City's process to identify accrued expenses is not adequate. Our audit procedures identified expenditures related to fiscal year 2012 that were not appropriately recorded as expenditures in fiscal year 2012.
- Certain date related information regarding terminations and new hires in the human resources system did not match information in the personnel files.
- Reconciliations of subsidiary ledgers to general ledgers and other IT systems to DRMS are either not being completed, not completed timely, or contain unsupported or unreconciled items.
- A listing of internal controls employed by service organizations is not prepared and evaluated for adequacy by the City. The City uses various service organizations to process significant transactions such as health and dental claims and payroll. The City does not review the service organization auditor reports (SAS 70 Reports) to ensure that the service organization has effective internal controls. Further, the City does not evaluate the user controls outlined in the SAS 70 reports to ensure that the City has these controls in place to ensure complete and accurate processing of transactions between the City and the Service Organization.
- Bank, investment, and imprest cash reconciliations are not prepared timely and contain unreasonably aged reconciling items.
- The calculation of inventory reserves used data from the prior year that contained errors and is not reviewed by a member of management.
- Interfund and inter-departmental transactions are not reconciled throughout the year on a timely basis or reviewed for proper financial statement classification.
- A physical inventory count of fixed assets is not routinely completed by all agencies, as indicated in the City's asset management policies.
- The calculation of average weekly wage as a basis for weekly payment of workers compensation is a manual calculation that contained errors and was not reviewed or verified by a member of management.
- The City of Detroit does not maintain individual claim data typically maintained as insurance statistics for self-insurance programs for its workers compensation program. Therefore, only actual payment data is available for the actuary's analysis.
- Data provided to the actuaries that assist in estimating workers' compensation liabilities is not reviewed by the City for accuracy nor reconciled by the City to supporting data prior to submission.
- Certain invoices and receipts of goods and services were not matched against purchase orders in the correct period.

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Schedule of Findings and Responses

Year ended June 30, 2012

- The City's process to follow up with audit findings is not effectively designed.
- The calculation of grant accounts receivables is inappropriate as the beginning balances being carried forward were not originally performed on a grant by grant basis. The calculation contained errors and was not reviewed by management.
- Manual journal entries are not consistently and accurately reviewed and approved.
- The City of Detroit does not perform a sufficient review of open Accounts Receivable items and their related collectability.
- Certain money market fund investments were incorrectly classified as cash and management review process was not performed at a level to detect the misstatement.
- Certain cash accounts were inappropriately excluded from the trial balance.
- The City's Accounts Receivable write off policy is not specific enough to explain when and how amounts determined to be uncollectable should be written off. In addition, the City is not following their current policy to write off balances.
- Legal reserve documents are not updated in a timely manner when facts pertaining to the status of cases arise. As such, the City had over accrued claims and judgments.
- The City does not have a process for anonymous reporting of ethical or fraud violations to the City Board of Ethics.
- Supporting documentation is not consistently retained in accordance with the City's record retention policies.

Recommendation

We recommend management develop or improve existing policies and procedures related to reconciliations and account analysis such that transactions are recorded in the general ledger completely, accurately, and in a timely manner. We further recommend that the City review its document retention and filing policies and procedures and make necessary adjustments such that information is accessible and provides for an adequate audit trail.

We recommend the creation of a comprehensive listing of required reconciliations. Individuals and departments should be provided a subset of the listing (a checklist) to indicate which specific reconciliations they are responsible for, what frequency is required, who is responsible for monitoring to ensure timeliness, and who is responsible for reviewing to ensure accuracy.

Additionally, we recommend training staff how to prepare reconciliations that are thorough and well documented. Also, an electronic filing system should be created with file locations and file naming conventions specified so that all reconciliations are saved to well-organized file servers instead of just desktop computers.

Current City policies require that invoices be paid timely and that contracts and purchase orders are approved prior to goods or services being rendered. We recommend establishing a procedure to monitor payment dates against invoice dates to determine which departments are noncompliant with policies. Enforce the current policies by using personnel actions against noncompliant individuals. Also, consider charging service fees to the budgets of departments that violate the contract and prompt payment ordinances.

CITY OF DETROIT, MICHIGAN

Schedule of Findings and Responses

Year ended June 30, 2012

Additionally, we recommend performing monthly vendor level contract analysis for each major City vendor. If this is consistently performed, it will enable the analysts to know at any given time, the approximate amount of unbilled goods or services that have been rendered. This would enable the Accounting Department to estimate accruals for each major vendor at year-end within a shortened timeframe thereby facilitating a faster closing of the books.

Lastly, there are no receiving documents utilized to enforce a three-way match. We recommend that all invoices be sent directly to Accounts Payable and that the approvals are then routed to the departments electronically utilizing available features within DRMS. This would enable the Accounts Payable Department to determine the appropriate accounting period for each invoice upon entry into the system.

Views of Responsible Officials

We have reviewed the finding and concur with the recommendation. We have been evaluating the City's diverse accounting systems and operations to consolidate and improve the City's accounting. As noted previously due to the City's lack of resources and layoffs and attrition of accounting personnel, improving the City's accounting will be challenging. The Department has improved its financial analysis, which will enable accounting staff to focus on variances to identify errors and problems. Additionally, in concert with monthly financial reporting, the Department will develop account reconciliation policies and procedures to ensure reconciling differences are identified and researched in a timely manner. We will continue to improve the City's accounting including implementing the recommendations herein.

CITY OF DETROIT, MICHIGAN

Schedule of Findings and Responses

Year ended June 30, 2012

Finding 2012-03 – Information Technology

General controls and application controls work together to ensure the completeness, accuracy, and validity of financial and other information in the systems. Deficiencies exist in the areas of general and application controls. Those deficiencies include the following for some or all systems:

- Administrative access is granted to unauthorized accounts.
- Segregation of duties conflicts exist between the database administration function and the backend database administration function.
- Adequate procedures are not in place to remove and review segregation of duties conflicts.
- Automated methods are not in place for tracking of the changes and customizations made to certain applications.
- Program developers have access to move program changes into production for certain applications.

Recommendation

We recommend the following:

- Access to the backend database should be restricted to database administrators or compensating controls should be implemented to mitigate the risk associated with concurrent access at the front end and backend levels.
- Administrative access to the front-end application should be restricted to application administrators or compensating controls should be implemented to mitigate the risk associated with concurrent access at the front end and backend levels.
- Create a matrix to identify application functions that when granted together will give rise to segregation of duties conflict. Follow and enforce the segregation of duties matrix to ensure that segregation of duties conflicts do not exist at the time of role/profile creation.
- Create and enforce a policy to log all configuration changes, obtain approval from authorized individuals for all configuration changes, and perform appropriate testing on all configuration changes prior to promoting changes to production.
- Develop and enforce a policy that does not grant access to developers to promote changes into production and access to promote changes into production should be restricted to authorized individuals.

Views of Responsible Officials

We have reviewed the findings and concur with the recommendations.

- The Information Technology Services Department (ITSD) is implementing the recommendations for those systems supported by ITSD. Additionally, ITSD is also working with technology staff in other agencies to implement the recommendations for findings related to the systems supported directly by the agencies themselves.

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Password

- The City identified legacy systems where technology does not support the kind of parameters recommended and/or the systems are scheduled for retirement. The City will also provide more centralization of IT functions to improve consistency in development and enforcement of password parameter policies.

Separation of duties

- Procedures used by the central IT staff (e.g., Change Management) have been shared with technology staff in other agencies to facilitate consistency in compliance. The lack of human resources will create challenges for improving separation of duties. However, the City will continue to work toward improving IT controls. Chief among these will be the implementation of a formal process for periodic review of user access, and development of a "Separation of Duties" matrix for each key financial system. To address the lack of a segregation of duties matrix, the City will explore the implementation of the Oracle GRC product, or some similar product to aid the system owners in development of a matrix and aid the ITSD in enforcement of the matrix.

System access

- Findings regarding approvals for granting access and authorizing configuration changes stem from failure to properly maintain the documentation supporting the approvals. Policies and procedures already exist that require such authorization prior to granting/changing access and implementing configuration changes. The City will provide more centralization of IT functions to improve consistency in development and enforcement of such policies. The ITSD will also develop a method for ensuring that documentation of authorizations is maintained and retrievable for audit reviews.
- The City will work with business units to implement a policy for reviewing user access for the systems that they "own." Consolidation of IT services will aid in the successful review and enforcement of user access on a semiannual schedule.
- To mitigate database admin and application admin access to the front end and back end of the database, and to address the issue of tracking changes and customizations, the City will explore implementation of the Oracle GRC (Governance, Risk and Compliance) product or something similar to control and track changes.
- The City has already limited the use of generic IDs and restricted default and administrative IDs for enterprise financial systems. The City will explore the resource issue that currently prohibits turning on system audit capabilities that log all activities. The City will also provide more centralization of IT functions to improve consistency in development and enforcement of policies, which will help with those systems currently outside of centralized IT control.
- Procedures will be implemented to retain backup job logs for at least one year. DRMS current retention is one year. ITS is investigating how to secure the proper resource to store all data and logs, new backup software is currently being investigate and funding has been requested in the 2012-13 Budget.
- For enterprise financial systems, configuration changes are tested and approved prior to production implementation. Procedures and policies exist to govern this. The City will improve maintenance of documentation demonstrating testing and authorization. The City also will provide more centralization of

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IT functions to improve consistency in development and enforcement of policies for those systems currently outside of centralized IT control.

- Developers do not have access to promote changes to production for systems under centralized IT control. The City will provide more centralization of IT functions to improve consistency in development and enforcement of policies for systems currently outside of centralized IT control.

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Finding 2012-04 – Escheatment Law

The City filed the required annual report of unclaimed property to the State of Michigan; however, it was inaccurate as it did not include property tax overpayments. Additionally, the City has not remitted escheatable property to the State. In discussing this with City officials, the stated changes in personnel combined with the lack of written City policies and procedures regarding the monitoring and calculating of escheatment rules caused the City to fail to comply with the rules.

The Uniform Unclaimed Property Act (Public Act 29 of 1995) requires the Michigan Holder Transmittal Annual Report of Unclaimed Property be submitted annually by July 1.

Any holder of unclaimed property who fails to file a report of unclaimed property is subject to fines and penalties as prescribed in Public Act 29 of 1995.

Recommendation

We recommend the City conduct an assessment and evaluation of unclaimed property held and file the required report within the annual required deadlines.

Views of Responsible Officials

The City has developed an escheatment process and is compliant with the law except for the escheatment of Property Tax overpayments. We will work to identify and remit property tax overpayments that need to be escheated to the State.

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Finding 2012-05 – Act 51

The City of Detroit's Major and Local Street funds were not in compliance with the State of Michigan Public Act 51. The General Fund borrowed cash and investments from the Street funds, which are restricted for a specific purpose, as stated in Act 51. In discussing this with City officials, because multiple funds, including the General and Street funds, share the same bank account as well as the lack of general awareness of the Street funds' restricted use caused the City to be noncompliant with Act 51.

Public Act 51 Section 247.663 states what the Street funds can be used for. Failure to comply with the Act will result in forfeiture of funds to which it may have been entitled for a period of 1 year from and after the failure to apply the money appropriately as prescribed in Act 51 247.666.

Recommendation

We recommend the City assess which funding has restricted purposes and create individual bank accounts for those cash and investments.

Views of Responsible Officials

We have reviewed the finding and concur with the recommendation. We will create a separate bank account for the Street Funds.

CITY OF DETROIT, MICHIGAN

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Finding 2012-06 – Uniform Budgeting and Accounting Act

The City was not in compliance with Michigan Compiled Laws Act 2 of 1968, Uniform Budgeting and Accounting Act. For certain appropriations stated in footnote 2(d), the City's actual expenditures were more than budgeted expenditures. City Council passed an amendment on November 20, 2012 to remove negative balances in various General Fund appropriations by redirecting unused authority within the total budgets of affected departments. However, because the amendment was passed after the fiscal year end, the City was still considered noncompliant as of June 30, 2012.

Per Act 2 of 1968, Section 141.438 (3), "Except as otherwise provided in section 19, an administrative officer of the local unit shall not incur expenditures against an appropriation account in excess of the amount appropriated by the legislative body."

Recommendation

The Budget Act requires budget amendments before any expenditures exceed the budget. There is no authority to amend the budget after year end. We recommend budget projections to be prepared on a monthly basis and for amendments to be made as soon as a deviation becomes apparent.

Views of Responsible Officials

We concur with the finding and City management has taken steps to prevent recurring violations of the Uniform Budgeting and Accounting Act. The Chief Financial Officer issued a budget directive to all city departments in August 2012 that reminded employees of City Charter prohibitions on actions that would violate this act and the severe penalties to individuals who violate these Charter provisions. The directive also clarified and narrowed the types of transactions that the City would consider legal obligations going forward. The Budget Department has commenced monthly review meetings with City departments to monitor adherence to their FY 2012-13 budgets and ensure prescriptive actions in a timely manner such that the City will adhere completely to the act during the current fiscal year.