



July 15, 2014

Mr. R. Kevin Clinton
State Treasurer
Michigan Department of Treasury
Bureau of Local Government Services
4th Floor Treasury Building
430 West Allegan Street
Lansing, MI 48992

Dear Mr. Clinton:

I enclose the quarterly report of the Emergency Manager of the City of Detroit as required by Section 9(5) of the Local Financial Stability and Choice Act (Michigan Public Act 436 of 2012). The report details the financial condition of the City for the quarterly period of April 1, 2014 through June 30, 2014.

Respectfully submitted,

Kevyn D. Orr
Emergency Manager
City of Detroit

Enclosure

cc: Mr. Tom Saxton, Chief Deputy Treasurer
Mr. Edward B. Koryzno, Administrator, Office of Fiscal Responsibility

State Representatives

The Hon. Brian Banks
The Hon. Alberta Talabi
The Hon. John Olumba
The Hon. Rose Mary Robinson
The Hon. Fred Durhal
The Hon. Rashida Tlaib
The Hon. Thomas Stallworth
The Hon. David Nathan
The Hon. Harvey Santana
The Hon. Phil Cavanagh

State Senators

The Hon. Coleman Young, II
The Hon. Bert Johnson
The Hon. Morris W. Hood, III
The Hon. Virgil Smith
The Hon. Tupac A. Hunter

**QUARTERLY REPORT WITH RESPECT TO THE FINANCIAL CONDITION OF
THE CITY OF DETROIT**

July 15, 2014

This quarterly report covers the period from April 1, 2014 through June 30, 2014 (the “Reporting Period”) and addresses the financial condition of the City of Detroit.

Local Financial Stability and Choice Act (Michigan Public Act 436 of 2012) (“PA 436”)

Section 9(5) [MCL § 141.1549(5)]

The emergency manager shall submit quarterly reports to the state treasurer with respect to the financial condition of the local government in receivership, with a copy to the superintendent of public instruction if the local government is a school district and a copy to each state senator and state representative who represents that local government. In addition, each quarterly report shall be posted on the local government’s website within 7 days after the report is submitted to the state treasurer.

Status of the Financial Condition of Detroit
April 1, 2014 – June 30, 2014

Emergency Manager’s Comments on the Financial Condition of the City of Detroit

Despite progress in the City’s restructuring, the financial condition of the City of Detroit continues to be troubled. On July 18, 2013, the City filed for relief under chapter 9 of title 11 of the United States Code (the “Bankruptcy Code”) in the United States Bankruptcy Court for the Eastern District of Michigan (the “Bankruptcy Court”). The City’s bankruptcy case is captioned *In re the City of Detroit, Michigan*, Case No. 13-53846 (Bankr. E.D. Mich.) (the “Bankruptcy Case”). In December 2013, the Bankruptcy Court determined that the City is eligible to be a debtor in the Bankruptcy Case.

The City has stopped making payments related to unsecured funded debt and legacy liabilities, with the exception of certain retiree healthcare benefits, which the City continued to pay in the ordinary course during the Reporting Period (subject to certain modifications effective as of March 1, 2014), and certain critical vendors. During the Reporting Period, the City closed a Bankruptcy Court-approved \$120 million postpetition bankruptcy loan to assist in funding various restructuring and reinvestment initiatives (described below).

General Fund Cash Flows and Liquidity Results for the Second Quarter of Fiscal Year 2014

(See Appendix A)

The City’s 2014 fiscal year runs from July 1, 2013 through June 30, 2014. At the beginning of the fourth quarter of fiscal year 2014, the City’s General Fund had cash of \$267.0 million before accumulated property tax distributions in the amount of \$84.2 million, resulting in a net unrestricted cash balance of \$182.8 million. Based upon actual results for the fourth quarter of fiscal year 2014 (*i.e.*, the three months ended June 27, 2014), the City had negative net cash flow of \$50.2 million. This resulted in a cash balance of \$216.8 million, as of June 27, 2014, before deducting accumulated property tax distributions of \$60.0 million (preliminary estimate), leaving a net ending unrestricted cash balance of \$156.8 million.

During the fourth quarter, the City continued to make payments related to certain LTGO debt, UTGO debt and certificate of participation interest rate swaps that constitute secured debt. Amounts paid related to these obligations on a cash basis were \$4.9 million, \$3.3 million and \$14.7 million, respectively. While the City has continued to make payments related to health coverage for retirees during the Reporting Period (as modified effective March 1, 2014), the General Fund did not make pension contributions to either the General Retirement System (“GRS”) or the Police and Fire Retirement System (“PFRS” and, together with GRS, the “Retirement Systems”). Similarly, the City did not make any payments on unsecured LTGO and UTGO bond debt during the Reporting Period.

The unrestricted cash balance exceeded the fourth quarter forecasted balance by \$64.1 million. When comparing the forecasted and actual cash flows for the fourth quarter of fiscal year 2014, the major variances were as follows:

- \$48.3 million negative variance in gross property taxes (before actual or accrued distributions) due to timing of collections, which were not actually received until July 1, 2014.
- \$11.6 million positive variance in gross income and utility taxes due to timing of receipts, as well as favorable trends in both income and utility user's taxes.
- \$3.2 million positive variance in gaming taxes due to timing of receipts in connection with creditor negotiations.
- \$26.4 million positive variance in benefits due to retiree healthcare changes implemented.
- \$44.0 million positive variance in pension contributions due to suspended contributions.
- \$12.7 million positive variance in subsidy payments due to lower cash needs at the Detroit Department of Transportation during the fourth quarter.
- \$10.7 million negative variance in tax distributions due to timing of payments. However, related amounts owed are accrued in the accumulated property tax distributions reserve of \$60.0 million.
- \$28.2 million negative variance in accounts payable and other miscellaneous items primarily due to professional fees paid in connection with the City's bankruptcy.
- \$78.0 million positive variance in Pension Obligation Certificates (POC) and debt related payments due to suspended payments to unsecured creditors.

Preliminary Unaudited Revenues and Expenditures for the 12 Months Ended June 2014

As of the date of this report, there are entries, accruals, and other accounting closing procedures that have not been completed for fiscal year 2014. In addition, the City's fiscal year 2013 audit is not yet finalized. As a result, the preliminary figures are not reliable without a complete accounting of all activities, including normal accounting closing entries for the period, and are therefore not included in this report.

Emergency Manager Actions Regarding Restructuring Process

Background

The Emergency Manager previously submitted quarterly reports pursuant to Section 9(5) of PA 436 dated July 15, 2013, October 15, 2013, January 15, 2014 and April 15, 2014 (collectively, the "Prior Quarterly Reports" and each, a "Quarterly Report"). As described in the Prior Quarterly Reports, immediately upon his appointment, the Emergency Manager began the process of developing a comprehensive restructuring plan for the City and addressing the City's other urgent needs. The Emergency Manager has taken decisive action to improve public health and safety by taking steps to update outdated and poorly maintained emergency vehicles, information technology infrastructure and facilities and address other longstanding needs of the City. These activities are described in the Prior Quarterly Reports and include, among other things, opening the Detroit Public Safety Headquarters, hiring a new Chief of Police, developing and pursuing a plan to fix streetlights and address the City's outdated power grid and pursuing initiatives to clean up blighted properties and improve various government services.

To assist in this process, the Emergency Manager spent significant time from the outset of his appointment working with the City's financial and legal advisors to cast a critical eye on all of the City's financial obligations and operational issues to develop a realistic assessment of the City's problems, obstacles, needs and opportunities. As noted in the Prior Quarterly Reports, the goal of this process was to develop a comprehensive plan to: (a) ensure that the City is able to provide for or procure governmental services essential to the health, safety and welfare of its citizens; (b) assure the fiscal accountability and stability of the City; and (c) promote private investment in the City and the revitalization of the community in a sustainable fashion.

One of the first steps was the development of a financial and operating plan for the City (the "Financial and Operating Plan"), which placed the City's challenges in context and defined a series of goals and initiatives. The Financial and Operating Plan, dated May 12, 2013, was submitted to the State Treasurer as required by Section 11(2) of PA 436 on May 13, 2013 and is available on the City's website at <http://www.detroitmi.gov/EmergencyManager/Reports.aspx>.

Continuing to build on these actions, the Emergency Manager and his advisors developed and presented a detailed restructuring proposal to creditors on June 14, 2013 (the "Restructuring Proposal"). The 128-page Restructuring Proposal detailed a thorough overhaul and restructuring of the City's operations, finances and capital structure. The Restructuring Proposal also proposed recoveries for each creditor group. The proposal was based on ten-year projections that provided a realistic basis for evaluating the City's financial wherewithal to satisfy creditors' claims and achieve the City's restructuring goals. The Restructuring Proposal is described in the first Quarterly Report and is available on the City's website at <http://www.detroitmi.gov/EmergencyManager/Reports.aspx>.

As noted in the Prior Quarterly Reports, following the presentation of the Restructuring Proposal to approximately 150 creditor representatives on June 14, 2013, the City conducted a series of individualized meetings with its organized and represented creditor constituencies to: (a) provide them with additional details on the financial condition of the City; (b) describe key assumptions used to develop the ten-year projections underlying the Restructuring Proposal; (c) provide a forum to answer questions from creditors; (d) solicit responses and counter-proposals from the various constituencies; and (e) negotiate regarding the City's Restructuring Proposal. Despite these efforts, the negotiation of a comprehensive consensual restructuring proved to be impracticable.

On July 18, 2013 (the "Petition Date"), following approval by the Governor, the City filed a voluntary petition commencing the Bankruptcy Case. Along with its voluntary petition, the City filed various other papers, including the Declaration of Kevyn D. Orr in Support of City of Detroit, Michigan's Statement of Qualifications Pursuant to Section 109(c) of the Bankruptcy Code (the "Orr Declaration"). The Orr Declaration explains the history of the City's financial and operational problems, details the dire circumstances facing the City and provides support for the City's eligibility to be a chapter 9 debtor under the Bankruptcy Code.

On December 5, 2013, the Bankruptcy Court entered (a) its opinion holding that the City is eligible to be a debtor under chapter 9 of the Bankruptcy Code (the "Eligibility Opinion") and (b) an order for relief

entitling the City to proceed under chapter 9 (the “Order for Relief” and, together with the Eligibility Opinion, the “Eligibility Order”). A number of objectors filed notices of appeal of the Eligibility Order, and certain of them sought (a) certification of their appeals directly to the United States Court of Appeals for the Sixth Circuit (the “Circuit Court”) rather than to the United States District Court for the Eastern District of Michigan (the “District Court”) and (b) expedited consideration of their appeals by the Circuit Court. These appeals remain pending, as described further below.

A more detailed description of events before and after the commencement of the Bankruptcy Case is provided in the Prior Quarterly Reports. Additional information regarding these matters is contained in the Disclosure Statement (as defined below). The Orr Declaration, the Eligibility Opinion, the Order for Relief and the Disclosure Statement, along with other Bankruptcy Case filings and other information relevant to the Bankruptcy Case, can be found on the website of the City’s claims and noticing agent at www.kccllc.net/Detroit.

General Actions During the Reporting Period

During the Reporting Period, the Emergency Manager, his staff and outside advisors have continued to dedicate significant time and energy to addressing the City’s financial and operational emergency. Just as with respect to prior reporting periods, meetings with interested parties, state and federal government officials, professional advisors and creditors occur numerous times each week, if not daily.

In support of the City’s restructuring, the Emergency Manager issued several important orders that promote the health, safety and welfare of the City’s residents and visitors. These orders also were designed to assist the Emergency Manager in his efforts to analyze and address the factors and circumstances contributing to the City’s financial emergency. Since the submission of the fourth Quarterly Report, the Emergency Manager has entered orders consistent with PA 436, including orders (a) establishing a new Grants Management Department to enhance the City’s capacity to ensure proper management of the City’s grants funding and (b) establishing a 5% wage increase for certain non-union employees effective July 1, 2014. In addition, during the Reporting Period, the Emergency Manager issued orders to (a) modify the City’s ordinances relating to its pension funds for public safety workers (*i.e.*, the PFRS) and for non-public safety workers (*i.e.*, the GRS), including (among other things) by freezing these pension plans effective as of June 30, 2014, addressing certain plan governance and investment issues and providing for these pension plans to be documented in separate written documents; and (b) establish new PFRS and GRS pension plans effective July 1, 2014 consistent with the City’s overall restructuring and the City’s plan of adjustment. These orders, in addition to all prior and future orders, are available on the City’s website at <http://www.detroitmi.gov/EmergencyManager/Orders.aspx>.

During the Reporting Period and shortly thereafter, the City completed the steps necessary to transfer the control and operation of the City’s lighting grid to DTE Energy Co. (“DTE”), pursuant to the terms of an Energy Delivery Services Agreement originally approved by the State of Michigan (the “State”) in February 2014. This addresses one of the City’s restructuring/reinvestment initiatives and allows the

City to exit the electricity business by migrating customers to DTE, with DTE paying capital and transition costs.

Activities in the Bankruptcy Case

The Emergency Manager continues to move the Bankruptcy Case forward as expeditiously as possible to complete an adjustment of the City's debts under the Bankruptcy Code by no later than the fall of 2014. Concluding the Bankruptcy Case in a timely and efficient manner is important to the City's revitalization and reinvestment activities because it will free the City from burdensome and unsustainable debt obligations and allow the City to reinvest in operations and infrastructure, which in turn will attract new businesses and residents to the City and promote the health, safety and welfare of the public.

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

Plan of Adjustment and Disclosure Statement

The Bankruptcy Court set a deadline of March 1, 2014 for the City to file a plan of adjustment in the Bankruptcy Case. On February 21, 2014, the Emergency Manager filed the Plan for the Adjustment of Debts of the City of Detroit (Docket No. 2708) (as amended, modified or supplemented from time to time, the "Plan") and a related Disclosure Statement (Docket No. 2709) (as amended, modified, supplemented and approved by the Bankruptcy Court, the "Disclosure Statement"). Amended versions of the Plan and the Disclosure Statement were filed as follows: first amended versions on March 31, 2014 (Docket Nos. 3380 and 3382, respectively); second amended versions April 16, 2014 (Docket Nos. 4140 and 4141, respectively); third amended versions on April 25, 2014 (Docket Nos. 4271 and 4272, respectively); and fourth amended versions on May 5, 2014 (Docket Nos. 4391 and 4392, respectively). By an order entered on May 5, 2014 (Docket No. 4401), the Bankruptcy Court approved the Disclosure Statement in the form filed on May 5, 2014.

The Plan provides for the resolution of a variety of complex financial and operational issues faced by the City. The Emergency Manager believes that adjustment of the City's debts pursuant to the Plan will provide the best recovery for creditors of the City on a fair and equitable basis, while simultaneously allowing for meaningful and necessary investment in the City. The Plan contemplates the City's emergence from chapter 9 this year and represents a crucial step toward the City's rehabilitation and recovery from its decades-long downward spiral.

Except in the case of subordinated claims (which receive no recovery), the Plan provides a recovery to all classes of Claims consistent with the legal rights and priorities of each creditor group. The Plan also allows for investment in the City of approximately \$1.4 billion over ten years, which the Emergency Manager believes is critical and meaningful to, among other things: (a) provide basic, essential services to City residents; (b) attract new residents and businesses to foster growth and redevelopment; (c) reduce crime; (d) demolish blighted and dangerous properties; (e) provide functional streetlights that are aligned with the current population footprint; (f) improve information technology systems, thereby increasing efficiency and decreasing costs; and (g) otherwise set the City on a path toward a better

future. The Emergency Manager believes that the Plan gives the City the best chance of effectively adjusting its debts and reestablishing itself as a prosperous and productive American city.

The Disclosure Statement contains detailed information about the terms of the Plan, projected recoveries to creditors thereunder, the settlements incorporated into the Plan, the risk factors associated with the Plan, the tax consequences of the restructuring contemplated by the Plan and various other matters. The Disclosure Statement also provides detail about the events leading up to, and activities in, the Bankruptcy Case.

On March 11, 2014, the Bankruptcy Court entered an order (Docket No. 2984) establishing certain procedures for the solicitation and tabulation of votes with respect to the Plan. On May 5, 2014, the Bankruptcy Court entered an order (Docket No. 4400) establishing supplemental procedures for the solicitation and tabulation of votes with respect to pension and other post-employment benefit ("OPEB") claims. Consistent with these procedures and the Bankruptcy Court's order approving the form of the Disclosure Statement, the solicitation of votes on the Plan began on May 12, 2014. The deadline for voting on the Plan was July 11, 2014, and voting results will be certified and filed with the Bankruptcy Court by July 21, 2014.

By an order entered on June 5, 2014 (Docket No. 5235), the Bankruptcy Court identified certain legal issues for potential adjudication in advance of the evidentiary hearing on confirmation of the Plan. Briefing of these issues has been concluded, and the hearing on these legal issues is scheduled to occur on July 16, 2014 and July 17, 2014. In addition, the Bankruptcy Court conducted a hearing on July 15, 2014 on objections to the Plan filed by *pro se* parties (*i.e.*, individuals without an attorney). The evidentiary hearing on confirmation of the Plan currently is scheduled to commence on August 14, 2014.

Plan Settlements

The Plan includes settlements that the Emergency Manager believes will inure to the benefit of the City's creditors and its residents. For example, the Plan incorporates (a) a settlement of various issues relating to the Detroit Institute of Arts ("DIA") and (b) a settlement with the State (sometimes referred to with the DIA settlement as the "Grand Bargain"). In total, the Grand Bargain is expected to yield approximately \$816 million that will (a) provide a source of recovery for the approximately 33,000 individuals who participate in the City's Retirement Systems and (b) free up other funds for distribution to non-pension creditors. The Plan also incorporates, among others, the following settlements: (a) a settlement of swap claims (as described in the Prior Quarterly Reports); (b) a settlement with the Official Committee of Retirees appointed in the Bankruptcy Case (the "Retiree Committee") related to the treatment of pension and OPEB claims under the Plan; (c) a settlement with the Retirement Systems relating to the treatment of pension claims under the Plan; (d) a settlement of claims related to unlimited tax general obligation bonds; (e) a settlement with certain uniform and nonuniform retiree associations relating to the treatment of pension and OPEB claims under the Plan; and (f) a settlement with certain public safety unions relating to the terms that will govern pensions, wages and healthcare for such unions' members for the five-year period following the date that the Plan becomes effective.

Additional settlements were announced on June 13, 2014 and are expected to be incorporated into an amended version of the Plan, including settlements with: (a) the American Federation of State, County and Municipal Employees Council 25 ("AFSCME"); and (b) certain parties, including Blackrock Inc. ("Blackrock") and Ambac Assurance Corporation ("Ambac"). The City's settlement with AFSCME involves the entry into certain tentative agreements in contemplation of future collective bargaining with respect to almost all City employees that AFSCME represents. Pursuant to the City's settlement with Blackrock and Ambac, the parties agreed to certain treatment of the City's limited tax general obligation bonds (the "LTGO Bonds") under the terms of the Plan.

Postpetition Financing

As more fully described in the Prior Quarterly Reports, on April 2, 2014, the Bankruptcy Court entered an order (Docket No. 3607) authorizing the City to issue up to \$120 million in Quality of Life Bonds (the "Quality of Life Loan"). The Quality of Life Loan closed during the Reporting Period on April 8, 2014. The proceeds of the Quality of Life Loan have been and will be used to advance certain key investment initiatives of the City, including, but not limited to, essential investments in blight removal, public safety and technology infrastructure. The postpetition financing received under the Quality of Life Loan will empower the City to take critical steps in its effort to revitalize and improve public health, safety and welfare. Although the funds provided under the Quality of Life Loan will not address all of the City's reinvestment initiatives, the Quality of Life Loan will kick-start a long-term reinvestment process at the rate of approximately \$20 million per month of net reinvestment activity during the current fiscal year. Without these borrowed funds, there was a material risk that the City would have had to cut back substantially or eliminate its reinvestment efforts in the near-term, and the City's ability to invest in the future would continue to have been hamstrung and imperiled by the City's ongoing financial constraints.

Modifications to Pension Plans

Under the Plan, the GRS and PFRS pension plans will be closed to new participants, and vested active employees will not continue to accrue additional benefits under the terms of the current plans. Instead, active employees will accrue benefits under new pension plans, as described in the Plan and Disclosure Statement. As described above, during the Reporting Period, the Emergency Manager issued orders adopting the Plan's pension changes as of July 1, 2014. The new plan documents also are exhibits to the Plan and were filed with the Bankruptcy Court on July 3, 2014 as part of a supplement to the Plan [Docket No. 5755]. Additional details about these pension changes are set forth in the Plan and its exhibits, including the new pension plan documents.

Steps to Implement the Grand Bargain

On June 20, 2014, Governor Snyder signed into law a package of bills pursuant to which the State will provide \$194.8 million in funding as part of the Grand Bargain. Additional terms and conditions of the State's contribution are set forth in the State Contribution Agreement attached as Exhibit I.A.268 to the Plan.

In addition to the contribution of the State toward the Grand Bargain, certain foundations have committed to provide \$366 million, and the DIA Corp. has committed to raise an additional \$100 million. During the Reporting Period, several parties announced contributions toward the \$100 million to be contributed by the DIA Corp. These contributions included: (a) \$26 million in the aggregate from the Big Three automakers; and (b) \$15 million in the aggregate from certain foundations. Additional terms and conditions relating to the funding of the DIA settlement are set forth in the Plan and the Disclosure Statement, including Plan Exhibits I.A.91 and I.A.92.

Mediation

The Emergency Manager and his staff and advisors devoted substantial time and effort prior to and during the Reporting Period to negotiating various key restructuring issues through a mediation program established by the Bankruptcy Court to facilitate these efforts. In particular, Bankruptcy Judge Steven W. Rhodes appointed District Court Chief Judge Gerald E. Rosen as lead mediator for the Bankruptcy Case. In turn, Judge Rosen appointed a series of additional mediators, each focusing on different elements of the City's restructuring and reorganization activities. To date there have been multiple, regular mediation sessions and numerous written submissions related to, among other things, the City's core restructuring and reorganization initiatives outlined in the Restructuring Proposal, as well as labor and pension matters and issues relating to the Detroit Water and Sewerage Department. The Emergency Manager continues to embrace the mediation process, which is ongoing.

As part of the formal mediation process and in separate discussions, the City has continued to engage in ongoing dialogue with its unions, pension systems, debt holders (trustees, individual holders and ad hoc groups), bond insurers, the Retiree Committee, other retiree groups, the surrounding counties and other interested parties to advance key restructuring issues. The Emergency Manager and his staff and advisors will continue to meet with creditors and interested parties with the goal of reaching, to the fullest extent possible, consent on the terms of the Plan to address the City's operational and financial restructuring needs.

Claims Matters

On November 21, 2013, the Bankruptcy Court entered an order establishing February 21, 2014 at 4:00 p.m., Eastern Time, as the deadline for most of the City's creditors to file proofs of claim in the Bankruptcy Case (the "Claims Bar Date"). More than 3,600 claims were filed by the Claims Bar Date, and the City continues to review and reconcile the timely filed claims against its books and records.

During the Reporting Period, the Emergency Manager took other steps toward resolving and quantifying contingent, unliquidated and disputed claims against the City in the Bankruptcy Case. On December 24, 2013, the Bankruptcy Court entered an order establishing alternative dispute resolution procedures (collectively, the "ADR Procedures") to promote the efficient liquidation of tort claims and other claims designated by the City. During the Reporting Period, the City worked to implement the ADR Procedures in connection with its review of filed claims. The City also addressed issues relating to the Bankruptcy Court-ordered mediation of claims under 42 U.S.C. § 1983. In May 2014, the City filed an initial series of claims objections to some of the largest general unsecured claims filed in the Bankruptcy Case. Many of

these objections were granted by the Bankruptcy Court in June 2014. The next omnibus claims hearing is set for October 2014.

Certain Bankruptcy Court Litigation

During the Reporting Period, the Emergency Manager, through his staff and advisors, also has been required to respond to several lawsuits commenced or continued in the Bankruptcy Court by parties in interest in the Bankruptcy Case, many of whom also are involved in ongoing mediation proceedings and other restructuring negotiations with the City.

Eligibility Appeals. As described above, the Bankruptcy Court's Eligibility Order has been appealed by numerous parties, with certain appellants seeking a direct appeal to the Circuit Court on an expedited basis. On February 21, 2014, the Circuit Court entered orders granting the direct appeals of the Eligibility Order, but declining to expedite the appeals at that time. Certain appellants filed motions to expedite the briefing schedule and oral argument, which were denied, and the City has been authorized to file a consolidated appellate brief addressing issues raised in each of the seven related appeals. A briefing schedule was established, and all briefing was completed during the Reporting Period. Oral argument before the Circuit Court has been set for July 30, 2014. The City has requested an adjournment of oral argument if the Plan's two pension classes vote to accept the Plan. All appeals of the Eligibility Order pending in the District Court are indefinitely stayed in light of the pending proceedings before the Circuit Court.

The Casino Revenue Proceeding. On August 8, 2013, the District Court referred to the Bankruptcy Court a lawsuit originally commenced by the City in the Wayne County Circuit Court seeking a declaration that Syncora is prohibited from taking any action to block the City's access to certain casino revenues (the "Casino Revenues"). The lawsuit is captioned *City of Detroit, Michigan v. Syncora Guarantee Inc., et al.*, Adv. Proc. No. 13-04942 (the "Casino Revenue Proceeding"). On November 25, 2013, the Bankruptcy Court entered a stipulated order that, among other things, stayed the Casino Revenue Proceeding for a period of 60 days from the date of the Bankruptcy Court's order. The stipulated stay expired on January 24, 2014, and, on January 27, 2014, Syncora filed a motion to withdraw the reference of the Casino Revenue Proceeding to the Bankruptcy Court, which was fully briefed but never determined by the District Court. During the reporting period, on April 18, 2014, Syncora and the City stipulated to the dismissal without prejudice of the Casino Revenue Proceeding.

Syncora's Appeals. On August 28, 2013, the Bankruptcy Court entered an order (Docket No. 670) (the "Casino Revenue Stay Order") holding that the Casino Revenues are property of the City and subject to the automatic stay of sections 362 and 922 of the Bankruptcy Code, as extended and otherwise modified by orders of the Bankruptcy Court. Syncora appealed the Casino Revenue Stay Order. This appeal is captioned *Syncora Guarantee Inc., et al. v. City of Detroit, Michigan*, No. 13-cv-14305 (E.D. Mich.). On April 4, 2014, Senior United States District Judge Bernard A. Friedman entered an order staying Syncora's appeal pending the outcome of the eligibility appeals before the Circuit Court. During the Reporting Period, Syncora unsuccessfully sought an order from the District Court lifting the stay it had imposed and subsequently petitioned the Circuit Court for a writ of mandamus requiring the District

Court to determine the appeal of the Casino Revenue Stay Order. Shortly following the Reporting Period, on July 2, 2014, the Circuit Court granted Syncora's petition for mandamus relief. Thereafter, on July 11, 2014, the District Court entered an opinion and order lifting the stay and affirming the Casino Revenue Stay Order. Syncora has filed a notice of appeal of the District Court's opinion and order.

Syncora also has appealed the Bankruptcy Court's orders approving the swap settlement (Case No. 14-cv-12062), the Quality of Life Loan (Case No. 14-cv-1195) and the public lighting authority transaction (Case No. 14-cv-10501). Each of the foregoing appeals previously was stayed by order of the District Court pending the outcome of the eligibility appeals. By motions filed in each of the appeals following the Reporting Period on July 3, 2014, Syncora has sought orders lifting the stay imposed with respect to each appeal. Syncora's motions remain pending as of the date hereof.

The UTGO and LTGO Proceedings. On November 8, 2014, monoline insurers National Public Finance Guarantee Corporation and Assured Guaranty Municipal Corporation filed a complaint against the City, the Emergency Manager and the City Finance Director, Deputy Finance Director and Treasurer seeking a declaratory judgment that the City is required to segregate certain *ad valorem* tax revenues for the ultimate payment of amounts due under the City's unlimited tax general obligation bonds (the "UTGO Bonds"). The proceeding is captioned *National Public Finance Guarantee Corp., et al. v. City of Detroit, Michigan, et al.*, Adv. Proc. No. 13-05309 (the "UTGO Proceeding").

In papers filed with the Bankruptcy Court, the City disputed the plaintiffs' characterization of the City's obligations with respect to the UTGO Bonds. By order of the Bankruptcy Court, the parties engaged in mediation of the dispute, which resulted in the settlement that is described in the Prior Quarterly Reports and incorporated into the Plan.

Also on November 8, 2013, Ambac filed a complaint against the City, the Emergency Manager and the City Finance Director, Deputy Finance Director and Treasurer seeking substantially similar relief to that sought in the UTGO Proceeding, but with respect to four series of the City's LTGO Bonds in addition to certain series of the UTGO Bonds. The proceeding is captioned *Ambac Assurance Corp. v. City of Detroit, Michigan, et al.*, Adv. Proc. No. 13-05310 (the "UTGO/LTGO Proceeding"). With respect to the LTGO Bonds in particular, Ambac alleged that the Emergency Manager and the City are obligated to use general tax revenues collected within the City's charter, statutory or constitutional limitations to service the LTGO Bonds. The Emergency Manager disputed Ambac's characterization of the City's obligations with respect to both the UTGO and the LTGO Bonds. The City's settlement with Ambac regarding the UTGO Bonds is described in the Prior Quarterly Reports and incorporated into the Plan. On June 13, 2014, the City and Ambac announced that they also had achieved a settlement of the issues raised in the UTGO/LTGO Proceeding with respect to the LTGO Bonds, which will be incorporated into the Plan. Accordingly, although the UTGO Proceeding and the UTGO/LTGO Proceeding remain pending as a technical matter, they each have been fully resolved prior to the end of the Reporting Period.

Appendices

A. Cash Flow Actuals and variance to Forecast for the Period April-June 2014

<i>\$ in millions</i>	<i>FY 2014</i>		
	Forecast	Actual	Variance
	Q4	Q4 ¹	Q4
Operating Receipts			
Property taxes	\$ 55.0	\$ 6.7	\$ (48.3)
Income & utility taxes	73.3	84.8	11.6
Gaming taxes	42.4	45.5	3.2
Municipal service fee to casinos	-	-	-
State revenue sharing	30.7	30.4	(0.3)
Other receipts	85.2	86.3	1.1
Refinancing proceeds	-	-	-
Total operating receipts	<u>286.6</u>	<u>253.8</u>	<u>(32.8)</u>
Operating Disbursements			
Payroll, taxes, & deductions	(88.7)	(86.4)	2.3
Benefits	(42.1)	(15.7)	26.4
Pension contributions	(44.0)	-	44.0
Subsidy payments	(18.9)	(6.2)	12.7
Distributions - tax authorities	(25.7)	(36.3)	(10.7)
Distributions - UTGO	-	-	-
Distributions - TIF	(1.0)	(0.3)	0.7
Income tax refunds	(7.2)	(10.8)	(3.6)
A/P and other miscellaneous	(99.8)	(128.0)	(28.2)
Sub-total operating disbursements	<u>(327.3)</u>	<u>(283.7)</u>	<u>43.6</u>
POC and debt related payments	(98.3)	(20.3)	78.0
Total disbursements	<u>(425.6)</u>	<u>(304.0)</u>	<u>121.6</u>
Net cash flow	<u>(139.0)</u>	<u>(50.2)</u>	<u>88.9</u>
Beginning cash balance	\$ 267.0	\$ 267.0	-
Net cash flow	(139.0)	(50.2)	88.9
Cash before required distributions	<u>\$ 127.9</u>	<u>\$ 216.8</u>	<u>\$ 88.9</u>
Accumulated property tax distributions ²	(35.3)	(60.0)	(24.7)
Cash net of distributions	<u>\$ 92.6</u>	<u>\$ 156.8</u>	<u>\$ 64.1</u>
<i>Memo:</i>			
Refunding bond proceeds in escrow	59.5	86.9	27.4
Reimbursements owed to other funds	tbd	tbd	

Footnotes:¹ The final day of the month for cash reporting purposes was June 27, 2014² The accumulated property tax distributions are based on preliminary estimates and are subject to change.