

**City of Wyandotte, Michigan
Department of Municipal Service**

**Financial Report
September 30, 2011**

City of Wyandotte, Michigan

Department of Municipal Service

Contents

Report Letter	1-2
Management's Discussion and Analysis	3-6
Basic Financial Statements	
Statement of Net Assets	7
Statement of Revenue, Expenses, and Changes in Net Assets	8
Statement of Cash Flows	9-10
Notes to Financial Statements	11-37

Independent Auditor's Report

To the Members of the Municipal
Service Commission
City of Wyandotte, Michigan

We have audited the accompanying financial statements of each major fund of the City of Wyandotte, Michigan Department of Municipal Service (the "Department") as of and for the year ended September 30, 2011, which collectively comprise the Department's basic financial statements. These financial statements are the responsibility of the Department's management. Our responsibility is to express opinions on these financial statements based on our audit. The prior year partial comparative information has been derived from the Department's 2010 financial statements and in our report dated March 22, 2011, we expressed an unqualified opinion on the 2010 basic financial statements.

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. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes 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 provides a reasonable basis for our opinion.

As discussed in Note 1, the financial statements present only the Department and are not intended to present fairly the financial position of the City of Wyandotte, Michigan and the results of its operations and cash flows of its proprietary fund types, in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of each major fund of the City of Wyandotte, Michigan Department of Municipal Service at September 30, 2011 and the results of its operations and cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

To the Members of the Municipal
Service Commission
City of Wyandotte, Michigan

The management's discussion and analysis is presented for the purpose of additional analysis and is not a required part of the basic financial statements but is supplemental information required by the Governmental Accounting Standards Board, which considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the supplemental information. However, we did not audit the information and do not express an opinion on it.

The financial statements include partial prior year comparative information. Such information does not include all of the information required to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Department's financial statements for the year ended September 30, 2010, from which such partial information was derived.

Plante & Moran, PLLC

March 19, 2012

City of Wyandotte, Michigan

Department of Municipal Service

Management's Discussion and Analysis

Our discussion and analysis of the City of Wyandotte, Michigan Department of Municipal Service's performance provides an overview of the Department's financial activities for the fiscal year ended September 30, 2011. Please read it in conjunction with the Department's financial statements.

Using this Annual Report

The City of Wyandotte, Michigan Department of Municipal Service (the "Department") is a department created by the City of Wyandotte (the "City") that is governed and operated independently from the City by the Municipal Service Commission (the "Commission"). The Commission provides electric, water, cable television, and Internet services to users in the City and accounts for these activities in separate funds. This annual report consists of a series of financial statements. The statement of net assets and the statement of revenue, expenses, and changes in net assets provide information about the financial activities of the Department. This is followed by the statement of cash flows, which presents detailed information about the changes in the Department's cash position during the year.

Financial Highlights

Electric Fund

- The Electric Fund's operating revenue increased by approximately 16 percent from prior year, while operating expenses remained comparable. The increase in revenue was primarily due to the increase in electric rates which were effective January 1, 2011 in addition to increases in power sales for various customer classes.
- Accordingly, the Electric Fund's operating income was \$4,493,004 compared to an operating loss of (\$1,569,925) in the previous year.
- The Department's bond ordinance specifies that the Department's Electric Fund budget provide net revenue that equals or exceeds 110 percent of its annual debt service requirement. The ratio that measures the relationship between the Department's net revenue and its annual debt service requirement is known as the "debt service coverage ratio." While the 110 percent debt service coverage ratio test is prospective, it is important that the Department's actual results yield net revenue that equals or exceeds 110 percent of the annual debt service requirement. The actual debt service coverage ratio for the year exceeded 110 percent (approximately 185 percent for the year ended September 30, 2011). For the purpose of computing the above debt service coverage ratio, the Department's current year increase to the net other postemployment benefit (OPEB) obligation of \$689,243 for the year ended September 30, 2011 was added back to the computation of amounts available for debt. Refer to Note 14 for additional details regarding net OPEB obligation.

City of Wyandotte, Michigan

Department of Municipal Service

Management's Discussion and Analysis (Continued)

- Another financial covenant in the Department's bond ordinance requires that actual expenditures of the Department do not exceed budget. The Department's actual operating expenses exceeded the original budget by approximately \$3.3 million and the budget was amended to comply with this requirement.
- Although the Electric Fund had positive results in the current year, the accumulation of prior year operating losses in the Electric Fund has resulted in the Electric Fund reporting an interfund payable to the Water Fund, which remains outstanding as of the end of the year.

Water Fund

- The financial performance of the Water Fund remained relatively stable in the current year. Operating revenue decreased by approximately 1 percent while operating expenses decreased by approximately 4 percent. The decrease in expenses was due to small decreases in various operational expenses. Operating income in the current year increased by \$99,812 and was \$122,522 at year end.
- Through a planned series of water rate increases over the past several years, the Water Fund has been restoring its working capital position. Historically, the Water Fund has been assisted by annual contributions from the City's Tax Increment Financing Authority for water main construction; however, during the current year no contribution was made.
- This year's financial statement reports unrestricted net assets of \$2,861,625 (as compared to only \$2,045,105 in the prior year). The Department is continuing to review its rate structure of the water utility, along with other options, to continue to maintain the financial condition of the Water Fund.

Cable Television Fund

- The Cable Television Fund's operating revenue increased by approximately 7 percent compared to prior year. The increase was primarily due to rate increases in basic cable and internet charges that resulted in revenue increases of \$326,185 and \$184,055, respectively.
- The Cable Television Fund realized an operating net loss of (\$116,314) in the current year. The operating loss was decreased by \$488,604 in comparison to the operating net loss of (\$604,918) in the prior year. As noted above, these results are directly attributable to the increase in operating revenue as operating expenses remained stable compared to the prior year.
- As a result of current and prior year results, the Cable Television Fund also has a significant interfund payable to the Water Fund.

City of Wyandotte, Michigan

Department of Municipal Service

Management's Discussion and Analysis (Continued)

Condensed Financial Information

The following table presents condensed information about the Department's financial position compared to the prior year:

	September 30		Change	
	2011	2010	Amount	Percent
Assets				
Current assets	\$ 17,934,639	\$ 15,898,243	\$ 2,036,396	12.81
Restricted assets	8,980,490	9,202,285	(221,795)	(2.41)
Property, plant, and equipment	59,399,352	61,198,523	(1,799,171)	(2.94)
Other	1,400,855	1,550,867	(150,012)	(9.67)
Total assets	87,715,336	87,849,918	(134,582)	(0.15)
Liabilities				
Current liabilities	15,840,184	16,460,529	(620,345)	(3.77)
Liabilities payable from restricted assets	4,917,353	4,921,220	(3,867)	(0.08)
Long-term liabilities	36,666,652	40,024,455	(3,357,803)	(8.39)
Total liabilities	57,424,189	61,406,204	(3,982,015)	(6.48)
Net Assets				
Invested in capital assets - Net of debt	17,434,263	15,945,480	1,488,783	10.69
Restricted assets	8,113,137	7,576,509	536,628	7.08
Unrestricted	4,743,747	2,921,725	1,822,022	62.36
Total net assets	\$ 30,291,147	\$ 26,443,714	\$ 3,847,433	(11.66)

The following table presents condensed information about the Department's revenue and expenses compared to the prior year:

	Year Ended September 30		Change	
	2011	2010	Amount	Percent
Total operating revenue	\$ 53,881,241	\$ 47,434,000	\$ 6,447,241	13.59
Total operating expenses	49,382,029	49,586,133	(204,104)	(0.41)
Operating Income (Loss)	4,499,212	(2,152,133)	6,651,345	(309.06)
Contributions	-	166,661	(166,661)	-
Other nonoperating expense	(651,779)	(1,506,766)	854,987	(56.74)
Net Income (Loss)	\$ 3,847,433	\$ (3,492,238)	\$ 7,339,671	(210.17)

City of Wyandotte, Michigan

Department of Municipal Service

Management's Discussion and Analysis (Continued)

Capital Asset and Debt Administration

During the current year, the Department purchased various capital assets. The following is a summary of the activity by Fund.

The Electric Fund purchased capital equipment, transformers, geothermal infrastructure, and made improvements to Boiler 7. Included in capital equipment was the purchase of a bulldozer that was financed through a purchase financing agreement, requiring repayment through 2016. The remaining capital projects/purchases, including a compressed natural gas vehicle, were funded from reserves and operations.

The Water Fund purchased water meters and a GIS system. All asset purchases were paid from operations.

The Cable Television Fund invested in internet upgrade equipment, which was financed through a purchase financing agreement, requiring repayment through 2014. Other capital purchases within the cable department related to cable and internet modems and converters and were funded from operations.

Economic Factors and Next Year's Rates

The Electric Fund continues to be significantly impacted by fuel and power production costs. During the current year, the Department worked with a rate consultant to update its cost of service study and electric rate structure in light of the significant changes occurring to fuel costs. The Department has implemented several rate increases in the water and cable funds to improve its financial condition and additional rate increases will be necessary to restore its working capital, particularly in the Cable Television Fund.

Contacting the Department's Management

This financial report is intended to provide our consumers and investors with a general overview of the Department's finances. If you have questions about this report or need additional information, we welcome you to contact the Department's general manager.

City of Wyandotte, Michigan

Department of Municipal Service

Statement of Net Assets

	September 30				
	2011			2010	
	Electric Fund	Water Fund	Cable Television Fund	Total	Total
Assets					
Current Assets					
Cash and investments (Note 3)	\$ 610,637	\$ 573,362	\$ 958,479	\$ 2,142,478	\$ 3,322,366
Accounts receivable:					
Billed (Note 4)	3,758,382	251,734	793,337	4,803,453	3,891,941
Construction (Note 4)	-	-	-	-	138,000
Unbilled	3,211,330	236,083	-	3,447,413	2,141,581
Due from other funds (Note 6)	-	3,555,843	-	3,555,843	3,218,663
Fuel, materials, supplies, and other inventories	3,708,529	101,808	124,574	3,934,911	3,142,930
Prepaid insurance and other current assets	39,380	-	11,161	50,541	42,762
Total current assets	11,328,258	4,718,830	1,887,551	17,934,639	15,898,243
Noncurrent Assets					
Restricted assets (Note 8)	8,641,186	169,652	169,652	8,980,490	9,202,285
Bond issuance costs (Note 13)	1,400,855	-	-	1,400,855	1,550,867
Property, plant, and equipment - Net (Note 5)	47,630,617	8,126,541	3,642,194	59,399,352	61,198,523
Total noncurrent assets	57,672,658	8,296,193	3,811,846	69,780,697	71,951,675
Total assets	\$ 69,000,916	\$ 13,015,023	\$ 5,699,397	\$ 87,715,336	\$ 87,849,918
Liabilities and Net Assets					
Current Liabilities					
Current portion of long-term debt (Note 7)	\$ 4,924,701	\$ -	\$ 178,012	\$ 5,102,713	\$ 4,990,945
Accounts payable	2,774,167	78,477	461,812	3,314,456	4,269,649
Due to other funds (Note 6)	1,494,533	-	2,061,310	3,555,843	3,218,663
Due to City of Wyandotte (Note 10)	155,745	1,025,341	-	1,181,086	1,453,313
Other accrued liabilities	1,186,387	286,943	488,835	1,962,165	1,789,337
Deferred revenue	-	-	86,312	86,312	98,648
Customer deposits and other current liabilities	572,909	-	64,700	637,609	639,974
Total current liabilities	11,108,442	1,390,761	3,340,981	15,840,184	16,460,529
Liabilities to be Paid from Restricted Assets -					
Debt service payable	4,917,353	-	-	4,917,353	4,921,220
Noncurrent Liabilities					
Long-term debt - Net of current portion and amount payable from restricted assets (Note 7)	34,035,201	-	178,030	34,213,231	38,517,521
Net OPEB obligation (Note 14)	1,712,313	466,444	274,664	2,453,421	1,506,934
Total noncurrent liabilities	35,747,514	466,444	452,694	36,666,652	40,024,455
Total liabilities	51,773,309	1,857,205	3,793,675	57,424,189	61,406,204
Net Assets					
Invested in property, plant, and equipment - Net of related debt	6,021,570	8,126,541	3,286,152	17,434,263	15,945,480
Restricted (Note 8)	7,773,833	169,652	169,652	8,113,137	7,576,509
Unrestricted (deficit)	3,432,204	2,861,625	(1,550,082)	4,743,747	2,921,725
Total net assets	17,227,607	11,157,818	1,905,722	30,291,147	26,443,714
Total liabilities and net assets	\$ 69,000,916	\$ 13,015,023	\$ 5,699,397	\$ 87,715,336	\$ 87,849,918

City of Wyandotte, Michigan

Department of Municipal Service

Statement of Revenue, Expenses, and Changes in Net Assets

	Year Ended September 30				
	2011			2010	
	Electric Fund	Water Fund	Cable Television Fund	Total	Total
Operating Revenue	\$ 42,092,245	\$ 3,510,681	\$ 8,278,315	\$ 53,881,241	\$ 47,434,000
Operating Expenses					
Production, pumping, and purification	25,112,234	839,647	-	25,951,881	26,531,943
Distribution	1,397,118	513,301	1,026,228	2,936,647	3,288,725
Cable television royalties	-	-	4,351,869	4,351,869	4,079,321
Customer service	111,069	53,072	69,569	233,710	256,793
Office and administrative	1,072,863	370,479	492,182	1,935,524	1,889,793
General fringes and other	5,456,078	993,877	1,807,824	8,257,779	7,393,247
Transportation	81,199	27,571	29,339	138,109	124,412
Depreciation	4,368,680	590,212	617,618	5,576,510	6,021,899
Total operating expenses	37,599,241	3,388,159	8,394,629	49,382,029	49,586,133
Operating Income (Loss)	4,493,004	122,522	(116,314)	4,499,212	(2,152,133)
Nonoperating Income (Expenses)					
Grant revenue	2,454,511	-	-	2,454,511	184,782
Grant expenses	(1,501,237)	-	-	(1,501,237)	-
Interest and other income	268,547	171,562	98,887	538,996	474,216
Interest expense	(1,878,598)	-	(9,743)	(1,888,341)	(1,917,426)
Amortization of bond issuance costs	(255,708)	-	-	(255,708)	(248,338)
Total nonoperating (expenses) income	(912,485)	171,562	89,144	(651,779)	(1,506,766)
Income (Loss) - Before contribution of fixed assets	3,580,519	294,084	(27,170)	3,847,433	(3,658,899)
Contribution of Fixed Assets	-	-	-	-	166,661
Net Income (Loss)	3,580,519	294,084	(27,170)	3,847,433	(3,492,238)
Net Assets - Beginning of year	13,647,088	10,863,734	1,932,892	26,443,714	29,935,952
Net Assets - End of year	\$ 17,227,607	\$ 11,157,818	\$ 1,905,722	\$ 30,291,147	\$ 26,443,714

City of Wyandotte, Michigan

Department of Municipal Service

Statement of Cash Flows

	Year Ended September 30				
	2011				2010
	Electric Fund	Water Fund	Cable Television Fund	Total	Total
Cash Flows from Operating Activities					
Cash received from customers	\$ 40,105,457	\$ 3,553,736	\$ 8,209,112	\$ 51,868,305	\$ 47,108,934
Cash payments to suppliers for goods and services	(29,998,883)	(1,983,352)	(6,562,934)	(38,545,169)	(36,078,278)
Cash payments to employees for services	(4,269,392)	(875,775)	(1,037,744)	(6,182,911)	(6,457,630)
Net cash provided by operating activities	5,837,182	694,609	608,434	7,140,225	4,573,026
Cash Flows from Noncapital Financing Activities -					
Interfund borrowings and repayments - Net	324,201	(337,180)	12,979	-	-
Cash Flows from Capital and Related Financing Activities					
Proceeds from debt issuance	449,080	-	310,703	759,783	3,866,200
Grant revenue	2,250,102	-	-	2,250,102	184,782
Grant expenses	(1,501,237)	-	-	(1,501,237)	-
Principal and interest paid on long-term debt	(6,488,725)	-	(461,484)	(6,950,209)	(6,122,489)
Customer contribution	138,000	-	-	138,000	636,000
Purchase of capital assets	(2,865,057)	(67,680)	(844,606)	(3,777,343)	(7,268,014)
Net cash used in capital and related financing activities	(8,017,837)	(67,680)	(995,387)	(9,080,904)	(8,703,521)
Cash Flows from Investing Activities - Interest received on investments	268,547	171,562	98,887	538,996	474,216
Net (Decrease) Increase in Cash and Cash Equivalents	(1,587,907)	461,311	(275,087)	(1,401,683)	(3,656,279)
Cash and Cash Equivalents - Beginning of year	10,839,730	281,703	1,403,218	12,524,651	16,180,930
Cash and Cash Equivalents - End of year	\$ 9,251,823	\$ 743,014	\$ 1,128,131	\$ 11,122,968	\$ 12,524,651
Reconciliation to Statement of Net Assets					
Cash and investments	\$ 610,637	\$ 573,362	\$ 958,479	\$ 2,142,478	\$ 3,322,366
Restricted assets	8,641,186	169,652	169,652	8,980,490	9,202,285
Total	\$ 9,251,823	\$ 743,014	\$ 1,128,131	\$ 11,122,968	\$ 12,524,651

City of Wyandotte, Michigan

Department of Municipal Service

Statement of Cash Flows (Continued)

	Year Ended September 30				
	2011				2010
	Electric Fund	Water Fund	Cable Television Fund	Total	Total
Reconciliation of Operating Income (Loss) to Net Cash from Operating Activities					
Operating income (loss)	\$ 4,493,004	\$ 122,522	\$ (116,314)	\$ 4,499,212	\$ (2,152,133)
Adjustments to reconcile operating income (loss) to net cash from operating activities:					
Depreciation	4,368,680	590,212	617,618	5,576,510	6,021,899
Bad debt expense	75,000	-	65,000	140,000	140,000
Changes in assets and liabilities:					
Receivables	(2,061,788)	43,055	(134,203)	(2,152,936)	(465,066)
Inventory	(746,381)	(1,158)	(41,887)	(789,426)	282,724
Prepaid insurance and other current assets	3,382	13,460	(1,629)	15,213	105,530
Accounts payable	(1,045,049)	42,158	46,203	(956,688)	(352,895)
Accrued and other liabilities	715,884	160,802	218,582	1,095,268	922,817
Due to City of Wyandotte	4,215	(276,442)	-	(272,227)	94,260
Deferred revenue	-	-	(12,336)	(12,336)	(12,336)
Customer deposits and other current liabilities	30,235	-	(32,600)	(2,365)	(11,774)
Net cash provided by operating activities	<u>\$ 5,837,182</u>	<u>\$ 694,609</u>	<u>\$ 608,434</u>	<u>\$ 7,140,225</u>	<u>\$ 4,573,026</u>

Noncash Capital and Related Financing Activities - Water Fund - During the years ended September 30, 2011 and 2010, \$0 and \$166,661, respectively, of asset additions were contributed to the Department.

City of Wyandotte, Michigan

Department of Municipal Service

Notes to Financial Statements

September 30, 2011

Note 1 - Nature of Entity

The Department of Municipal Service (the “Department”) is a department created by the City of Wyandotte, Michigan (the “City”) that is governed and operated independently from the City by the Municipal Service Commission (the “Commission”). The Commission provides electric, water, cable television, and Internet services to users in the City and accounts for these activities in the following separate major funds: Electric Fund, Water Fund, and Cable Television Fund.

The funds of the Department are included in the basic financial statements of the City at September 30, 2011.

Note 2 - Summary of Significant Accounting Policies

The accounting policies of the Department conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies:

Reporting Entity - The accompanying basic financial statements have been prepared in accordance with criteria established by the Governmental Accounting Standards Board for determining the various governmental organizations to be included in the reporting entity. In accordance with these guidelines, there are no component units to be included in these financial statements.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Private sector standards of accounting issued on or before November 30, 1989 are generally followed in the financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board. The Department has elected not to apply private sector standards issued after November 30, 1989.

As a general rule, the effect of interfund activity has been eliminated from the financial statements.

Proprietary funds distinguish operating revenue and expenses from nonoperating items. Operating revenue and expenses generally result from providing services in connection with a proprietary fund’s principal ongoing operations.

City of Wyandotte, Michigan

Department of Municipal Service

Notes to Financial Statements September 30, 2011

Note 2 - Summary of Significant Accounting Policies (Continued)

The operating revenue represents billings to customers based primarily on usage by the Department's customers. Operating expenses for proprietary funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as non-operating revenue and expenses.

Assets, Liabilities, and Net Assets

Cash Equivalents - Cash equivalents consist of highly liquid investments with an original maturity of three months or less, including certificates of deposit, government investment pools, and other cash management funds. In addition, the statement of cash flows includes both restricted and unrestricted cash and cash equivalents. Investments are reported at fair value, based on quoted market prices.

Receivables and Payables - In general, outstanding balances between funds are reported as "due to/from other funds." Activities between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as "advances to/from other funds."

Inventories - Inventories are stated at the lower of cost, determined by the average cost method for general inventory and determined by the first-in, first-out method for coal inventory, or market.

Significant Customers - The electric department has three significant customers: BASF Corporation, Wayne County, and Wyandotte Hospital, representing approximately 28 percent, 8 percent, and 5 percent, respectively, of the electric department's operating revenue for the year ended September 30, 2011.

The water department has three significant customers: BASF Corporation, the Department of Municipal Service's Electric Department, and the Wyandotte Hospital, representing approximately 13 percent, 8 percent, and 2 percent, respectively, of the water department's operating revenue for the year ended September 30, 2011.

Property, Plant, and Equipment - Property, plant, and equipment are recorded at cost or, if donated, at their estimated fair value on the date donated. Depreciation is charged as an expense against the operations of the Department on a straight-line basis. No depreciation expense has been recorded for amounts reflected as construction in progress.

City of Wyandotte, Michigan

Department of Municipal Service

Notes to Financial Statements September 30, 2011

Note 2 - Summary of Significant Accounting Policies (Continued)

Property, plant, and equipment are defined by the Department as assets with an estimated useful life of more than one year. Interest incurred during the construction of capital assets being financed is included as part of the capitalized value of the assets constructed. During the current year, there was no interest expense capitalized.

Property, plant, and equipment are depreciated using the following useful lives:

Utility plant	20-25 years
Transmission	10-15 years
Pumping	40-50 years
Purification	20-40 years
Distribution	10-15 years
Transportation	4-15 years
Stores	10-15 years
Cable equipment	10 years
Studio	10-15 years
General	5-10 years

Deferred Revenue - Deferred revenue relates to a contract in the Cable Television Fund between the Department and Wyandotte Public Schools related to construction and usage of the Department's fiber optic cable system. Monies received in advance will be recognized over the term of the contract.

Compensated Absences (Vacation and Sick Leave) - It is the Department's policy to permit employees to accumulate earned but unused sick and vacation pay benefits. All vacation pay is accrued when incurred.

Long-term Obligations - Long-term debt and other long-term obligations are reported as liabilities. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

Pension Plan - The Department has a defined benefit retirement plan covering substantially all permanent, full-time employees hired before October 1, 2006 through participation in the City of Wyandotte Employees' Retirement System. In addition, the Department provides pension benefits to all employees of the Department hired on or after October 1, 2006 through a defined contribution plan. The Department's policy is to fund retirement cost accrued.

City of Wyandotte, Michigan

Department of Municipal Service

Notes to Financial Statements September 30, 2011

Note 2 - Summary of Significant Accounting Policies (Continued)

Other Postemployment Benefit Costs - The Department offers retiree healthcare benefits to retirees. The Department receives an actuarial valuation to compute the annual required contribution (ARC) necessary to fund the obligation over the remaining amortization period. The Department reports the full accrual cost equal to the current year required contribution, adjusted for interest and "adjustment to the ARC" on the beginning of year unpaid amount, if any.

Use of Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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 revenue and expenses during the period. Actual results could differ from those estimates.

Emissions Allowance - The Environmental Protection Agency has granted emission allowances to the Department related to the emission of certain pollutants. No amounts are recorded at the date of the grant. The Department estimates the allowances needed for future years. As appropriate, the Department may purchase additional allowances or sell the estimated future excess allowances. The purchase and sale of allowances by emission type are accounted for separately and are not offset against transactions involving allowances of different emission types. Purchased allowances net of proceeds from the sale of related allowances are recorded as an asset and will be expensed during the applicable period. Proceeds from the sale of allowances are recognized as income at the time of sale.

There were no emissions allowances purchased or sold in the current year.

Fund Deficits - The Cable Television Fund has both a negative unrestricted net asset balance and negative working capital, thus passing the State of Michigan's recently enacted test for determining when a fund deficit exists. The Department is working on completing a deficit elimination plan to be filed with the State of Michigan.

City of Wyandotte, Michigan

Department of Municipal Service

Notes to Financial Statements September 30, 2011

Note 3 - Deposits and Investments

Michigan Compiled Laws Section 129.91 (Public Act 20 of 1943, as amended) authorizes local governmental units to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. A local unit is allowed to invest in bonds, securities, and other direct obligations of the United States or any agency or instrumentality of the United States; repurchase agreements; bankers' acceptances of United States banks; commercial paper rated within the two highest classifications, which matures not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

The Department has designated one bank for the deposit of its funds. The investment policy adopted by the board in accordance with Public Act 196 of 1997 has authorized investment in bonds and securities of the United States government and bank accounts and CDs, but not the remainder of state statutory authority as listed above. The Department's deposits and investment policies are in accordance with statutory authority.

The Department's cash and investments are subject to two types of risk, which are examined in more detail below:

Custodial Credit Risk of Bank Deposits - Custodial credit risk is the risk that in the event of a bank failure, the Department's deposits may not be returned to it. The Department's deposits are comprised of checking and savings accounts which approximate \$4,785,000 at September 30, 2011. The Department's federal depository insurance coverage is combined with all of the deposits of the City of Wyandotte, Michigan; hence, the specific coverage pertaining to the deposits of the Department cannot be determined. The City of Wyandotte (and therefore the Department) does not have a deposit policy for custodial credit risk. The organization as a whole believes 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 Department evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

City of Wyandotte, Michigan
Department of Municipal Service

Notes to Financial Statements
September 30, 2011

Note 3 - Deposits and Investments (Continued)

Credit Risk - State law limits investments in commercial paper to the top two ratings issued by nationally recognized statistical rating organizations. The Department has no investment policy that would further limit its investment choices. As of year end, the credit quality ratings of debt securities (other than the U.S. government) are as follows:

Investment Type	Fair Value	Rating	Rating Organization
Bank investment pools	\$11,890,016	AAA	Moody's
Governmental money trust	149,066	N/A	Not rated

Note 4 - Billed and Unbilled Accounts Receivable

Billed accounts receivable, net of allowance for uncollectible accounts, are as follows:

	2011				2010
	Electric Fund	Water Fund	Cable Television Fund	Total	Total
Accounts receivable	\$ 4,063,650	\$ 251,734	\$ 839,953	\$ 5,155,337	\$ 4,175,753
Less allowance for uncollectible accounts	<u>(305,268)</u>	<u>-</u>	<u>(46,616)</u>	<u>(351,884)</u>	<u>(283,812)</u>
Net accounts receivable	<u>\$ 3,758,382</u>	<u>\$ 251,734</u>	<u>\$ 793,337</u>	<u>\$ 4,803,453</u>	<u>\$ 3,891,941</u>

Unbilled accounts receivable represent services that have been provided to customers through September 30, 2011 for which billings were processed subsequent to year end.

Additionally, a portion of the prior year accounts receivable for the Electric Fund related to an agreement entered into with a customer for the construction of an asset. The receivable represented the customer's portion of the costs which were being reimbursed to the Department. At September 30, 2010, the outstanding balance related to this agreement was \$138,000, which was recorded as a current account receivable. As of September 30, 2011, the initial term of this agreement was expired and thus there are no outstanding receivables recorded.

City of Wyandotte, Michigan
Department of Municipal Service

Notes to Financial Statements
September 30, 2011

Note 5 - Property, Plant, and Equipment

	Balance September 30, 2010	Additions	Disposals and Adjustments	Balance September 30, 2011
Capital assets not being depreciated -				
Construction in progress	\$ 304,537	\$ 542,151	\$ -	\$ 846,688
Capital assets being depreciated:				
Utility plant	110,032,658	610,938	-	110,643,596
Transmission	6,123,262	821,566	-	6,944,828
Pumping	2,923,048	-	-	2,923,048
Purification	3,743,643	-	-	3,743,643
Distribution	48,323,946	1,326,745	-	49,650,691
Transportation	1,842,339	449,080	-	2,291,419
Stores	963,421	-	-	963,421
Cable equipment	2,426,038	-	-	2,426,038
Studio	541,083	-	-	541,083
General	3,483,112	26,859	-	3,509,971
Total capital assets being depreciated	180,402,550	3,235,188	-	183,637,738
Accumulated depreciation:				
Utility plant	72,387,517	3,325,889	-	75,713,406
Transmission	5,072,968	99,880	-	5,172,848
Pumping	1,696,249	147,426	-	1,843,675
Purification	3,469,281	56,900	-	3,526,181
Distribution	29,678,484	1,632,155	-	31,310,639
Transportation	1,529,956	86,910	-	1,616,866
Stores	802,126	29,541	-	831,667
Cable equipment	1,468,106	65,337	-	1,533,443
Studio	491,368	10,558	-	501,926
General	2,912,509	121,914	-	3,034,423
Total accumulated depreciation	119,508,564	5,576,510	-	125,085,074
Net capital assets being depreciated	60,893,986	(2,341,322)	-	58,552,664
Net capital assets	\$ 61,198,523	\$(1,799,171)	\$ -	\$ 59,399,352

Depreciation of \$4,368,680 and \$4,577,297 for the Electric Fund, \$590,212 and \$647,559 for the Water Fund, and \$617,618 and \$797,043 for the Cable Television Fund has been included in operating expenses of the appropriate fund for the years ended September 30, 2011 and 2010, respectively.

City of Wyandotte, Michigan
Department of Municipal Service

Notes to Financial Statements
September 30, 2011

Note 6 - Interfund Receivables and Payables

The composition of interfund balances is as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Water Fund	Cable Fund	\$ 2,061,310
Water Fund	Electric Fund	<u>1,494,533</u>
	Total	<u>\$ 3,555,843</u>

These balances result from the time lag between the dates that goods and services are provided or reimbursable expenditures occur, transactions are recorded in the accounting system, and payments between funds are made. These balances can also be the result of a fund's use of pooled cash in excess of their equity in the pooled cash account.

City of Wyandotte, Michigan
Department of Municipal Service

Notes to Financial Statements
September 30, 2011

Note 7 - Long-term Debt

Outstanding Debt

Long-term debt outstanding is as follows:

	2011		2010	
	Electric Fund	Cable Television Fund	Total	Total
2002 Revenue Refunding Bonds - Net of unamortized premium and deferred refunding charge	\$ 2,941,676	\$ -	\$ 2,941,676	\$ 5,778,352
1998 installment purchase agreement	-	41,531	41,531	416,531
2005A Revenue Bonds - Net of unamortized premium	3,041,898	-	3,041,898	3,652,386
2005B Revenue Bonds - Net of unamortized premium	6,584,549	-	6,584,549	6,935,293
2009 Revenue Refunding Bonds - Net of unamortized premium and deferred refunding charge	24,623,677	-	24,623,677	24,615,073
2007 installment purchase agreement		36,197	36,197	80,549
2008 installment purchase agreement	1,833,159	-	1,833,159	2,059,082
2010 installment purchase agreement	3,551,937	-	3,551,937	3,866,200
2011 installment purchase agreement	433,006	278,314	711,320	-
Less current portion	(4,924,701)	(178,012)	(5,102,713)	(4,990,945)
Less portion payable from restricted assets	(4,050,000)	-	(4,050,000)	(3,895,000)
Total long-term debt - Net of current portion and amount payable from restricted assets	<u>\$ 34,035,201</u>	<u>\$ 178,030</u>	<u>\$ 34,213,231</u>	<u>\$ 38,517,521</u>

City of Wyandotte, Michigan

Department of Municipal Service

Notes to Financial Statements

September 30, 2011

Note 7 - Long-term Debt (Continued)

Changes in Long-term Debt

The following is a summary of long-term debt transactions of the Department for the years ended September 30, 2011 and 2010:

	2005 Series A Electric System Revenue Bonds (Net of Premium)	2005 Series B Electric System Revenue Bonds (Net of Premium)	2002 Revenue Refunding Bonds (Net of Premium and Deferred Refunding Charge)	1998 Cable Installment Purchase Agreement	2007 Cable Installment Purchase Agreement	2008 Electric Installment Purchase Agreement	2009 Series A Electric System Revenue and Refunding Bonds (Net of Premium)	2010 Electric Installment Purchase Agreement	2011 Cable Installment Purchase Agreement	2011 Electric Installment Purchase Agreement	Total
Long-term debt - October 1, 2009	\$ 4,262,874	\$ 7,236,037	\$ 8,505,028	\$ 791,531	\$ 118,442	\$ 2,258,034	\$ 24,606,469.00	\$ -	\$ -	\$ -	\$ 47,778,415
Debt issued	-	-	-	-	-	-	-	3,866,200	-	-	3,866,200
Deferred charge on refunding	-	-	167,916	-	-	-	36,204	-	-	-	204,120
Debt retired	(600,000)	(300,000)	(2,835,000)	(375,000)	(37,893)	(198,952)	-	-	-	-	(4,346,845)
Debt refunded	-	-	-	-	-	-	-	-	-	-	-
Discount	(10,488)	(744)	(59,592)	-	-	-	(27,600)	-	-	-	(98,424)
Long-term debt - September 30, 2010	3,652,386	6,935,293	5,778,352	416,531	80,549	2,059,082	24,615,073	3,866,200	-	-	47,403,466
Debt issued	-	-	-	-	-	-	-	-	310,703	449,080	759,783
Deferred charge and premiums	-	-	167,916	-	-	-	36,204	-	-	-	204,120
Debt retired	(600,000)	(350,000)	(2,945,000)	(375,000)	(44,352)	(225,923)	-	(314,263)	(32,389)	(16,074)	(4,903,001)
Debt refunded	-	-	-	-	-	-	-	-	-	-	-
Discount	(10,488)	(744)	(59,592)	-	-	-	(27,600)	-	-	-	(98,424)
Long-term debt - September 30, 2011	\$ 3,041,898	\$ 6,584,549	\$ 2,941,676	\$ 41,531	\$ 36,197	\$ 1,833,159	\$ 24,623,677	\$ 3,551,937	\$ 278,314	\$ 433,006	\$ 43,365,944

Debt Service Requirements - The annual total principal and interest requirements to service all debt outstanding as of September 30, 2011, excluding unamortized discount premiums on bonds payable and deferred refunding charges, are as follows:

Years Ending Sept 30	2005 Electric Revenue Bonds (Series A&B)				2002 Electric Fund Refunding Bonds		2009 Electric Fund Refunding Bonds		1998 Cable Installment Purchase Agreement		2007 Cable Installment Purchase Agreement		2008 Electric Installment Purchase Agreement		2010 Electric Installment Purchase Agreement		2011 Cable Installment Purchase Agreement		2011 Electric Installment Purchase Agreement		Total
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest			
2012	\$ 600,000	\$ 111,000	\$ 400,000	\$ 257,675	\$ 3,050,000	\$ -	\$ -	\$ 1,099,025	\$ 41,531	\$ 1,179	\$ 36,197	\$ -	\$ 199,995	\$ 79,314	\$ 329,466	\$ 154,509	\$ 100,284	\$ 11,407	\$ 60,240	\$ 15,319	\$ 6,547,141
2013	600,000	81,000	500,000	237,675	-	-	3,235,000	969,625	-	-	-	-	227,836	69,247	357,364	140,177	105,132	6,572	68,118	12,816	6,610,562
2014	600,000	51,000	525,000	214,050	-	-	3,355,000	801,875	-	-	-	-	238,367	58,716	394,095	124,632	72,898	1,620	70,717	10,217	6,518,187
2015	600,000	24,000	575,000	191,050	-	-	3,510,000	661,475	-	-	-	-	249,385	47,698	425,762	107,489	-	-	73,415	7,519	6,472,793
2016	600,000	-	650,000	161,800	-	-	3,645,000	515,675	-	-	-	-	260,912	36,171	459,200	88,968	-	-	160,516	4,131	6,582,373
2017-2021	-	-	2,050,000	569,438	-	-	8,465,000	969,450	-	-	-	-	656,664	36,530	1,586,050	140,828	-	-	-	-	14,473,960
2022-2026	-	-	1,875,000	121,125	-	-	1,475,000	447,561	-	-	-	-	-	-	-	-	-	-	-	-	3,918,686
2027-2029	-	-	-	-	-	-	1,085,000	58,801	-	-	-	-	-	-	-	-	-	-	-	-	1,143,801
Total	\$ 3,000,000	\$ 267,000	\$ 6,575,000	\$ 1,752,813	\$ 3,050,000	\$ -	\$ 24,770,000	\$ 5,523,487	\$ 41,531	\$ 1,179	\$ 36,197	\$ -	\$ 1,833,159	\$ 327,676	\$ 3,551,937	\$ 756,603	\$ 278,314	\$ 19,599	\$ 433,006	\$ 50,002	\$ 52,267,503

Interest - For the years ended September 30, 2011 and 2010, total interest costs of \$1,878,598 and \$1,888,768, respectively, were incurred in the Electric Fund and \$9,743 and \$28,658, respectively, were incurred in the Cable Fund.

City of Wyandotte, Michigan

Department of Municipal Service

Notes to Financial Statements September 30, 2011

Note 7 - Long-term Debt (Continued)

Electric Fund Revenue Bonds - The 1992 and the 2002 Electric Revenue Refunding Bonds, the 2005 Series A and B Revenue Bonds, and the 2009 Refunding Bonds are payable out of the net revenue of the Electric Fund. During the year, net operating revenue of the system was \$10,517,400 compared to the annual debt service requirement of \$5,681,701. The City of Wyandotte, Michigan has no liability for these bonds if the net revenue pledged should prove insufficient.

An agreement was entered into with BASF for steam service related to the 2005 Revenue Bonds. This agreement provided for reimbursement to the Department for one-half of the principal and associated interest of the 2005 Electric Revenue Bonds (Series A) actually used by the Department to fund the construction of the steam expansion project through December 2010. On January 1, 2011, the initial period expired. Pursuant to language set forth in the original agreement, the customer continues to reimburse the Department a significant portion of the related debt service payments in the form of a "facilities charge." The Department records these facilities charges as revenue upon receipt (at which time it is considered to be earned).

The revenue bond ordinance contains certain covenants and provisions that, among other matters, relate to the following:

- Segregation of proceeds of the revenue bond issue
- Segregation of Electric Fund revenue
- Segregation of assets for debt service payments
- Segregation of assets for construction of improvements to the system
- Periodic transfers of net revenue to those funds segregated for debt service payments
- Sale, lease, or other disposition of all or any substantial part of the system
- Establishment of rates sufficient to provide for required level of debt service coverage
- Adoption of and adherence to budgeted operation and maintenance expenses

Included in the current liabilities of the Electric Fund at September 30, 2011 and 2010 is the portion of the bond principal that was to be transferred within the next year to the Bond and Interest Redemption Fund for payment of bond principal.

City of Wyandotte, Michigan
Department of Municipal Service

Notes to Financial Statements
September 30, 2011

Note 7 - Long-term Debt (Continued)

The following represents maturity schedules of the outstanding bonds payable:

	Interest Rate (Percent)	Date of Maturity	Amount of Annual Maturity	Principal Outstanding	
				2011	2010
Amount of issue - \$31,990,000					
Date of issue - July 9, 2002					
* Amounts were defeased in 2009					
	3.85%	10/01/10	\$ 2,945,000	\$ -	\$ 2,945,000
	4.00	10/01/11	3,050,000	3,050,000	3,050,000
	4.10	10/01/12	3,180,000	*	*
	5.38	10/01/13	3,305,000	*	*
	5.38	10/01/14	3,485,000	*	*
	5.38	10/01/15	3,670,000	*	*
	5.38	10/01/16	3,870,000	*	*
	5.38	10/01/17	4,075,000	*	*
Total face value				3,050,000	5,995,000
Unamortized premium - Net of deferred refunding charge				(108,324)	(216,648)
Net				<u>\$ 2,941,676</u>	<u>\$ 5,778,352</u>

	Interest Rate (Percent)	Date of Maturity	Amount of Annual Maturity	Principal Outstanding	
				2011	2010
Amount of issue - \$6,000,000					
Date of issue - August 10, 2005					
	3.50%	10/01/10	\$ 600,000	\$ -	\$ 600,000
	4.50	10/01/11	600,000	600,000	600,000
	5.00	10/01/12	600,000	600,000	600,000
	5.00	10/01/13	600,000	600,000	600,000
	4.50	10/01/14	600,000	600,000	600,000
	4.00	10/01/15	600,000	600,000	600,000
Total face value				3,000,000	3,600,000
Unamortized premium				41,898	52,386
Net				<u>\$ 3,041,898</u>	<u>\$ 3,652,386</u>

City of Wyandotte, Michigan
Department of Municipal Service

Notes to Financial Statements
September 30, 2011

Note 7 - Long-term Debt (Continued)

	Interest Rate (Percent)	Date of Maturity	Amount of Annual Maturity	Principal Outstanding	
				2011	2010
Amount of issue - \$7,475,000					
Date of issue - September 1, 2005					
	3.75%	10/01/10	\$ 350,000	\$ -	\$ 350,000
	3.75	10/01/11	400,000	400,000	400,000
	4.00	10/01/12	500,000	500,000	500,000
	4.50	10/01/13	525,000	525,000	525,000
	4.00	10/01/14	575,000	575,000	575,000
	4.50	10/01/15	650,000	650,000	650,000
	4.00	10/01/16	375,000	375,000	375,000
	4.00	10/01/17	400,000	400,000	400,000
	4.00	10/01/18	400,000	400,000	400,000
	4.00	10/01/19	425,000	425,000	425,000
	4.13	10/01/20	450,000	450,000	450,000
	4.15	10/01/21	450,000	450,000	450,000
	4.25	10/01/22	475,000	475,000	475,000
	4.25	10/01/23	475,000	475,000	475,000
	4.25	10/01/24	475,000	475,000	475,000
Total face value				6,575,000	6,925,000
Unamortized premium				9,549	10,293
Net				<u>\$ 6,584,549</u>	<u>\$ 6,935,293</u>

City of Wyandotte, Michigan
Department of Municipal Service

Notes to Financial Statements
September 30, 2011

Note 7 - Long-term Debt (Continued)

	Interest Rate (Percent)	Date of Maturity	Amount of Annual Maturity	Principal Outstanding	
				2011	2010
Amount of issue - \$24,770,000					
Date of issue - February 26, 2009					
4.00%	10/01/10	\$ -	\$ -	\$ -	\$ -
4.00	10/01/11	-	-	-	-
4.00	10/01/12	3,235,000	3,235,000	3,235,000	3,235,000
5.00	10/01/13	3,355,000	3,355,000	3,355,000	3,355,000
4.00	10/01/14	3,510,000	3,510,000	3,510,000	3,510,000
4.00	10/01/15	3,645,000	3,645,000	3,645,000	3,645,000
4.00	10/01/16	3,790,000	3,790,000	3,790,000	3,790,000
5.00	10/01/17	3,955,000	3,955,000	3,955,000	3,955,000
4.00	10/01/18	230,000	230,000	230,000	230,000
4.00	10/01/19	240,000	240,000	240,000	240,000
5.25	10/01/20	250,000	250,000	250,000	250,000
5.25	10/01/21	265,000	265,000	265,000	265,000
5.25	10/01/22	280,000	280,000	280,000	280,000
5.25	10/01/23	295,000	295,000	295,000	295,000
5.25	10/01/24	310,000	310,000	310,000	310,000
5.25	10/01/25	325,000	325,000	325,000	325,000
5.25	10/01/26	345,000	345,000	345,000	345,000
5.25	10/01/27	360,000	360,000	360,000	360,000
5.25	10/01/28	380,000	380,000	380,000	380,000
Total face value			24,770,000	24,770,000	24,770,000
Unamortized premium - Net of deferred refunding charge			(146,323)	(154,927)	(154,927)
Net			<u>\$ 24,623,677</u>	<u>\$ 24,615,073</u>	<u>\$ 24,615,073</u>

Electric Fund 2011 Installment Purchase Contract - In June 2011, the Department entered into a limited tax general obligation installment purchase contract for the purpose of purchasing a bulldozer to be used by the City's power plant. The Department was authorized to borrow \$449,080 in accordance with the terms of the contract. Payments of \$6,745 are due monthly including interest at a rate of 3.75 percent through July 2016. The outstanding principal balance at September 30, 2011 is \$433,006.

City of Wyandotte, Michigan
Department of Municipal Service

Notes to Financial Statements
September 30, 2011

Note 7 - Long-term Debt (Continued)

Electric Fund 2010 Installment Purchase Contract - In February 2010, the Department entered into a limited tax general obligation installment purchase contract for the purpose of financing the purchase and installation of equipment to improve efficiency, reduce emissions, and upgrade fire protection systems of the City's electrical power plants. The Department was authorized to borrow \$3,866,200 in accordance with the terms of the contract. Beginning in February 2011, annual debt service payments, at a rate of 4.35 percent are due, as shown in the following table.

	Date of Maturity	Amount of Annual Maturity	Principal Outstanding	
			2011	2010
Amount of issue - \$3,866,200				
Date of issue - February 26, 2010				
Interest rate - 4.35%				
	2/1/11	\$ 277,248	\$ -	\$ 314,263
	2/1/12	301,927	329,466	329,466
	2/1/13	336,128	357,364	357,364
	2/1/14	380,883	394,095	394,095
	2/1/15	421,183	425,762	425,762
	2/1/16	464,493	459,200	459,200
	2/1/17	511,013	494,494	494,494
	2/1/18	560,963	531,738	531,738
	2/1/19	612,362	559,818	559,818
Total			\$ 3,551,937	\$ 3,866,200

Electric Fund 2008 Installment Purchase Contract - In January 2008, the Department entered into a limited tax general obligation installment purchase contract for the purpose of financing the purchase and installation of equipment to reduce power usage and increase efficiency of the City's electrical power plants. The Department was authorized to borrow \$2,288,959 in accordance with the terms of the contract (with the deferral of interest for the first year being added to the principal balance as outlined in the amortization schedule included in the agreement, the final contract amount was \$2,385,761). Beginning in February 2009, monthly debt service payments of \$24,757 at a rate of 7.06 percent are due. Final payment on the contract will be made in January 2019. During the current year, the Department remitted \$314,858 related to the agreement, of which \$225,923 was applied as principal and \$88,935 represents interest expense.

City of Wyandotte, Michigan
Department of Municipal Service

Notes to Financial Statements
September 30, 2011

Note 7 - Long-term Debt (Continued)

Cable Television Fund 1998 Installment Purchase Contract - In October 1998, the Department entered into a limited tax general obligation installment purchase contract for the purpose of financing the purchase and installation of a fiber optic cable network for the Department's cable television system. The Department was authorized to borrow up to \$4,500,000 in accordance with the terms of the contract (at closing date of the borrowing in April 2001, the final contract amount was \$3,994,031). Beginning in May 1999, interest-only payments at a rate of 4.16 percent per annum are due semiannually with principal payments due as shown in the following table.

The installment liabilities are general obligations of the City of Wyandotte and the City would be held responsible should the revenue of the Cable Television Fund prove insufficient to retire the obligations.

	Date of Maturity	Amount of Annual Maturity	Principal Outstanding	
			2011	2010
Amount of contract - \$3,994,031				
Date of issue - October 16, 1998				
Interest rate - 4.16%				
	11/01/10	\$ 187,500	\$ -	\$ 187,500
	05/01/11	187,500	-	187,500
	11/01/11	187,500	41,531	41,531
Total			<u>\$ 41,531</u>	<u>\$ 416,531</u>

Cable Television Fund 2007 Installment Purchase Contract - The Department entered into a shared installment purchase contract with the City of Wyandotte, Michigan for the purpose of financing the purchase of computer software and equipment. Department borrowings under the original contract were \$200,000; however, the contract was amended during 2008 to extend an additional \$33,453 of borrowings, resulting in total borrowings of \$233,453. Payments of \$3,696 are due monthly including interest at 4.14 percent through September 2011. During the current year, the Department remitted \$50,516 to the City related to the agreement, of which \$44,352 was applied to the principal and the remaining \$6,164 represents interest expense. The outstanding principal balance at September 30, 2011 is \$36,197.

City of Wyandotte, Michigan
Department of Municipal Service

Notes to Financial Statements
September 30, 2011

Note 7 - Long-term Debt (Continued)

Cable Fund 2011 Installment Purchase Contract - In April 2011, the Department entered into a limited tax general obligation installment purchase contract for the purpose of purchasing internet upgrade equipment and a compressed natural gas vehicle to be used by the City's cable department. The Department was authorized to borrow \$310,703 in accordance with the terms of the contract. Payments of \$9,275 are due monthly including interest at a rate of 4.73 percent through June 2014. The outstanding principal balance at September 30, 2011 is \$278,313.

Note 8 - Restricted Assets

Certain assets are restricted pursuant to commission resolution. When an expense is incurred that allows the use of restricted assets (such as bond debt principal and interest), those assets are applied before utilizing any unrestricted assets.

Restricted assets consist of the following:

	2011			2010	
	Electric Fund	Water Fund	Cable Television Fund	Total	Total
Bond proceeds	\$ -	\$ -	\$ -	\$ -	\$ 599,255
Debt service	8,641,186	-	-	8,641,186	8,263,914
Capital improvements	-	-	-	-	-
Retiree healthcare	-	169,652	169,652	339,304	339,116
Total restricted assets	8,641,186	169,652	169,652	8,980,490	9,202,285
Less bond proceeds	-	-	-	-	(599,256)
Less accrued interest payable from restricted assets	(867,353)	-	-	(867,353)	(1,026,220)
Net restricted assets	\$ 7,773,833	\$ 169,652	\$ 169,652	\$ 8,113,137	\$ 7,576,809

The Electric Fund assets restricted for debt service are pursuant to the 1992 revenue bond ordinance for revenue bond debt service. In conjunction with the bond ordinance, the Commission passed a resolution to reserve retained earnings in the Electric Fund of \$2,952,533, which represents 125 percent of the average annual debt service requirement for all outstanding bonds. The remaining amount of the restriction relates to monies set aside to cover the future principal and interest payments on the bonds.

City of Wyandotte, Michigan

Department of Municipal Service

Notes to Financial Statements September 30, 2011

Note 8 - Restricted Assets (Continued)

In the Water and Cable Funds, monies have been restricted to pay future retiree healthcare costs, pursuant to a resolution approved by the Commission.

In the Electric Fund, the Commission, pursuant to a resolution, authorized the creation of a restricted account for environmental expenses. At September 30, 2011, no monies have been transferred.

Note 9 - Pension Plans

Defined Benefit Pension Plan

Plan Description - The Department participates in the City of Wyandotte Employees' Retirement System, a defined benefit pension plan that covers all employees of the City hired before October 1, 2006. The system provides retirement, disability, and death benefits to plan members and their beneficiaries. The City of Wyandotte Employees' Retirement System's financial report (which includes financial statements and required supplemental information for the system) is presented in the City of Wyandotte's September 30, 2011 annual financial report, which may be obtained at the City offices at 3131 Biddle Avenue.

At September 30, 2010, the date of the Department's most recent actuarial valuation, membership consisted of the following:

Retirees and beneficiaries currently receiving benefits	73
Terminated employees entitled to benefits but not yet receiving them	16
Current active employees	63

Contributions - Plan member contributions are recognized in the period in which the contributions are due. Employer contributions to the plan are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan. Administrative costs of the plan are financed through investment earnings. Please refer to Note 2 for further significant accounting policies.

Funding Policy - The obligation to contribute to and maintain the system for these employees was established by negotiation with the Department's collective bargaining unit and City ordinance. Effective October 1, 1994, employee contributions are no longer required.

City of Wyandotte, Michigan
Department of Municipal Service

Notes to Financial Statements
September 30, 2011

Note 9 - Pension Plans (Continued)

Annual Pension Cost - For the year ended September 30, 2011, the Department's annual pension cost of \$626,722 for the plan was equal to the Department's required and actual contribution. Funding information for the Department's participation in the pension plan for the fiscal years ended September 30 is as follows:

	2011	2010	2009
Annual pension cost (APC)	\$ 626,722	\$ 649,458	\$ 499,359
Percentage of APC contributed	100%	100%	100%
Net pension obligation	\$ -	\$ -	\$ -

Funded status and funding progress for actuarial valuation of September 30, 2010 is as follows:

	System Total	Department Allocation
Actuarial value of assets	\$ 61,667,711	\$ 20,327,304
Actuarial accrued liability (AAL) (entry age)	81,579,669	N/A *
Unfunded AAL (UAAL)	19,911,958	N/A *
Funded ratio	75.6%	N/A *
Covered payroll	7,683,934	3,801,227
UAAL as a percentage of covered payroll	259.1%	N/A *

* Department UAAL not broken out in actuarial valuation; thus, UAAL and funding ratios are not available.

Actuarial Methods and Assumptions - The annual required contribution was determined as part of an actuarial valuation at September 30, 2009, using the aggregate method. Significant actuarial assumptions used include (i) a 7.5 percent investment rate of return and (ii) projected salary increases of 4.5 percent to 9.6 percent per year, which include an inflation component of 4.5 percent. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility over a four-year period. The unfunded actuarial liability is being amortized as a level percent of payroll on a closed basis. The remaining amortization period for the Department is seven years.

City of Wyandotte, Michigan

Department of Municipal Service

Notes to Financial Statements September 30, 2011

Note 9 - Pension Plans (Continued)

Additional Information - The Department's 2011 contribution represented approximately 19.5 percent of total contributions required of all participating entities. The assets of the entire system can be called upon to satisfy the obligations of any particular division since the system is ultimately a City-wide PERS. The valuation payroll for all employees covered by the system for the year ended September 30, 2010 (the date of the most recent actuary report) was approximately \$7,684,000. The Department's covered payroll was approximately \$3,800,000.

Defined Contribution Pension Plan

Plan Description - The Department provides pension benefits that cover all employees of the Department hired on or after October 1, 2006 through a defined contribution plan. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. Employees are eligible to participate from the date of employment. As established by a Commission-approved resolution, the Department contributes 10 percent of gross earnings and the employees contribute 5 percent. New employees' accounts are fully vested after five years of service. Employees who choose to switch from the defined benefit plan to the defined contribution plan will be vested immediately. At September 30, 2011, there were 41 employees in the defined contribution plan.

The Department's total payroll during the current year covering this group of employees was \$2,315,162. The current year contribution was calculated based on covered payroll in the same amount, resulting in an employer contribution of \$231,516. Department employees' contributions were \$115,758.

Note 10 - Related Party Transactions

City-owned facilities are users of Department electric and water services. The Department includes its revenue charges from the sale of such services. Pursuant to the revenue bond ordinance, the Department charges the City for street and public safety lighting services. In turn, the City has charged the Department an equal amount for services in lieu of property taxes. In 2006, the Department also began paying the City a fee for use of City services (i.e., police and fire protection, etc.) and infrastructure. The Department also provides billing and cash collection services for the City's sewer use charges, which are then remitted to the City upon collection. The Department earns a related collection fee for these services.

City of Wyandotte, Michigan

Department of Municipal Service

Notes to Financial Statements September 30, 2011

Note 10 - Related Party Transactions (Continued)

Included in the Department's cable expenses is a franchise fee payable to the City equal to 5 percent of the gross revenue of the Cable Television Fund for the years ended September 30, 2011 and 2010.

Beginning in 2009, the water department began paying the City a franchise fee based on an annual dollar amount agreed upon by the City and the Department.

A summary of these transactions with the City for the years ended September 30, 2011 and 2010 is as follows:

	2011	2010
Department revenue:		
Electric and water services	\$ 725,657	\$ 605,043
Street and public safety lighting	476,314	506,330
Collection fee	73,911	68,494
Department expenses:		
In lieu of property taxes	(476,314)	(506,330)
Cable television franchise fee	(418,564)	(383,341)
Water franchise fee	(200,000)	(200,000)
City services	(699,004)	(500,000)
Installment purchase agreement payment	(44,352)	(37,893)
Remittances to City for sewer use charge collections	(3,500,000)	(3,000,000)
Payable to City of Wyandotte - Sewage Disposal Fund	(670,635)	(947,073)
Payable to City of Wyandotte - Solid Waste Disposal Fund	(18,741)	(151,530)
Payable to City of Wyandotte - General Fund	(137,004)	-
Payable to City of Wyandotte - Water mains	(354,706)	(354,706)
Water mains contributed by the City	-	166,661

Note 11 - Risk Management

The Department is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The Department has purchased commercial insurance for claims related to general liability and medical benefits. The Department is partially uninsured for workers' compensation claims. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

City of Wyandotte, Michigan

Department of Municipal Service

Notes to Financial Statements September 30, 2011

Note 11 - Risk Management (Continued)

Workers' Compensation - All claims incurred are the responsibility of the Department up to \$850,000 per employee (in the case of disease) or \$850,000 per accident (for bodily injury). The Department has purchased commercial insurance coverage for claims incurred, which exceed the amounts previously described.

The Department estimates the liability for workers' compensation claims that have been incurred through the end of the fiscal year, including both those claims that have been reported as well as those that have not yet been reported. These estimates are recorded in the Department's Electric Fund, Water Fund, and Cable Television Fund.

Changes in the estimated liability were as follows:

Estimated liability - October 1, 2009	\$ 405,867
Estimated claims incurred - Including changes in estimates	(80,100)
Claim payments	<u>31,208</u>
Estimated liability - September 30, 2010	356,975
Estimated claims incurred - Including changes in estimates	(43,761)
Claim payments	<u>2,102</u>
Estimated liability - September 30, 2011	<u>\$ 315,316</u>

Note 12 - Commitments and Contingencies

The Department has entered into various contracts for the purchase and transportation of coal which is used by the Electric Fund. Under the terms of the contracts, the Department is subject to minimum purchase requirements. During the year ended September 30, 2010, the Department failed to meet certain minimum transportation requirements and was assessed a deficiency penalty totaling \$329,868. This amount has been included in the operating expenses of the Electric Fund. During the year ended September 30, 2011, the Department did not incur any deficiency penalties but did incur losses related to the resale of coal totaling approximately \$570,000 which have been included in the operating expenses of the Electric Fund.

City of Wyandotte, Michigan

Department of Municipal Service

Notes to Financial Statements September 30, 2011

Note 12 - Commitments and Contingencies (Continued)

In March 2005, United Skilled Trades, Inc. (UST) filed a suit against the Department and others. UST alleged that it was owed money from the Department for services rendered pursuant to a contract for repair of a turbine. UST alleged that the Department is indebted to them in the amount of \$1,100,000. The Department vigorously defended its position that no material amounts were due to UST. On February 21, 2008, the Department received a decision in the case. The Court's bench verdict denied most of the claims of UST but did award two of its claims. The Court also ordered that any monies owing UST from this award be reduced by the Department's legal fees and other applicable costs. UST disputed the decision. In March 2010, the judge clarified and amended the earlier bench verdict and entered a judgment awarding \$1.2 million to UST. In May 2010, the Department filed motions to alter and amend judgment for a new trial; however, this was denied by the Circuit Court. On June 2, 2010, the Department filed a claim of appeal with the Michigan Court of Appeals and, as of January 19, 2011, all briefs were filed. As of the date of this report, the Department awaits argument in the Wayne County Circuit Court. The Department expects the award amount to be reduced. Management's estimate of the liability due UST has been recorded in the financial statements of the Electric Fund as of September 30, 2011.

The Department received a notice of violation several years ago from the U.S. Environmental Protection Agency (EPA) related to the electric power plant. During the current year, the Department entered into a consent decree with the EPA related to this violation. Under the terms and conditions of the consent decree, the Department was required to pay a \$112,000 penalty and \$220,000 to purchase natural gas vehicles. In addition, the Department is also required to install additional controls at the power plant and perform a substantial supplemental environmental project which will achieve continuous compliance with emissions limits. The Department estimates that the cost for the additional controls and project work will be between \$8 million and \$10 million. Based on the status of the pending settlements, the Department anticipates that the equipment installation will be completed by 2014. During the negotiation process with the EPA, the Department already completed numerous projects at the electric power plant to improve its compliance.

The Department also continues to be involved in various contingent matters arising in the normal course of operations. While insurance coverage and other potential remedies are available in certain circumstances to varying degrees, no opinion can currently be given as to the ultimate outcome of these matters. No provision has been made for the ultimate liability, if any, that may result from the resolution of these matters.

City of Wyandotte, Michigan

Department of Municipal Service

Notes to Financial Statements September 30, 2011

Note 13 - Bond Issuance Costs

During the years ended September 30, 2005 and 2002, the Department incurred bond issuance costs in the amount of \$517,983 and \$931,515, respectively. The 2005 bond issuance costs related to new debt issuances (Series 2005A and 2005B) and the 2002 bond issuance costs related to the 2002 revenue refunding bonds. New refunding bonds were issued by the Department in 2009 incurring issuance costs in the amount of \$980,518. Amortization expense for the 2002 revenue refunding amounted to \$62,100 for the years ended September 30, 2011 and 2010. Amortization expense for the 2005 revenue bonds amounted to \$37,848 for the years ended September 30, 2011 and 2010. Amortization expense for the 2009 refunding bonds was \$50,064 for the years ended September 30, 2011 and 2010.

Note 14 - Postemployment Benefits

Plan Description - The Department provides healthcare benefits to all full-time employees upon retirement in accordance with labor contracts. The Department includes pre-Medicare retirees and their dependents in its insured healthcare plan, with some contribution required by most participants, depending upon employee group classifications. The Department purchases Medicare supplemental insurance for retirees eligible for Medicare.

This is a single employer defined benefit plan administered by the Department. The plan does not issue a separate stand-alone financial statement.

At September 30, 2009, the date of the Department's most recent actuarial valuation, membership consisted of the following:

Retirees and beneficiaries currently receiving benefits	56
Terminated employees entitled to benefits but not yet receiving them	-
Current active employees	91

Funding Policy - The labor contracts do not require a contribution from union employees. Nonunion employees are required to pay 20 percent of healthcare costs. Retiree healthcare costs are recognized when paid by the Department on a "pay-as-you-go" basis. The Department has no obligation to make contributions in advance of when the insurance premiums are due for payment. Net expenditures for postemployment healthcare benefits are recognized in the Electric, Water, and Cable Funds as the insurance premiums become due; this amounted to approximately \$427,000, \$117,000, and \$69,000, respectively, during the year ended September 30, 2011 and \$388,000, \$115,000, and \$69,000 in the electric, water, and cable funds, respectively, during the year ended September 30, 2010.

City of Wyandotte, Michigan
Department of Municipal Service

Notes to Financial Statements
September 30, 2011

Note 14 - Postemployment Benefits (Continued)

Funding Progress - For the year ended September 30, 2011, the Department has estimated the cost of providing retiree healthcare benefits through an actuarial valuation as of September 30, 2009. The valuation computes an annual required contribution, which represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed 30 years. This valuation's computed contribution and actual funding are summarized as follows:

Annual required contribution (recommended)	\$ 1,583,990
Interest on the prior year's net OPEB obligation	67,812
Less adjustment to the annual required contribution	<u>(92,513)</u>
Annual OPEB cost	1,559,289
Amounts contributed:	
Payments of current premiums	(612,802)
Advance funding	<u>-</u>
Increase in net OPEB obligation	946,487
OPEB obligation - Beginning of year	<u>1,506,934</u>
OPEB obligation - End of year	<u>\$ 2,453,421</u>

Funded status and funding progress for the two most recent actuarial valuations are as follows:

	Actuarial Valuation as of	
	September 30	
	<u>2009</u>	<u>2006</u>
Actuarial value of assets	\$ -	\$ -
Actuarial accrued liability (AAL) (entry age)	17,381,962	18,012,350
Unfunded AAL (UAAL)	17,381,962	18,012,350
Funded ratio	- %	- %
Covered payroll	*	4,539,471
UAAL as a percentage of covered payroll	*	396.8%

* The September 30, 2009 valuation amortizes the unfunded actuarial accrued liability as a level dollar amount, not the level percentage used in the September 30, 2006 valuation; therefore, the covered payroll and UAAL as a percentage of covered payroll are not reported in the valuation.

City of Wyandotte, Michigan

Department of Municipal Service

Notes to Financial Statements September 30, 2011

Note 14 - Postemployment Benefits (Continued)

Actuarial Methods and Assumptions - Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

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 plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the September 30, 2009 actuarial valuation, the entry age actuarial cost method was used. The actuarial assumptions included a 4.5 percent investment rate of return (net of administrative expenses), which is a blended rate of the expected long-term investment returns on plan assets and on the employer's own investments calculated based on the funded level of the plan at the valuation date, and an annual healthcare cost trend rate of 9 percent initially, reduced by decrements to an ultimate rate of 4.5 percent after 10 years. Both rates included a 4.5 percent inflation assumption. The UAAL is being amortized as a level dollar amount on a closed basis. The remaining amortization period at September 30, 2009 was 30 years.

Additional Information - The Department was included in the City of Wyandotte, Michigan's actuarial valuation for the City of Wyandotte Retiree Health Care Plan. Additional information about the plan, including actuarial methods and assumptions, can be found in the City of Wyandotte, Michigan's financial report.

City of Wyandotte, Michigan
Department of Municipal Service

Notes to Financial Statements
September 30, 2011

Note 15 - Upcoming Accounting Pronouncements

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 Interpretations, APB Opinions, and Accounting Research Bulletins of the AICPA Committee on Accounting Procedure. The Department is currently evaluating the impact this standard will have on the financial statements when adopted during the Department's 2012-2013 fiscal year.

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 Department's 2012-2013 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.