

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

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**Financial Report  
September 30, 2012**

# **City of Wyandotte, Michigan**

## **Department of Municipal Service**

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### **Contents**

<b>Report Letter</b>	1-2
<b>Management's Discussion and Analysis</b>	3-6
<b>Basic Financial Statements</b>	
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, 2012, 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 an opinion on these financial statements based on our audit. The prior year partial comparative information has been derived from the Department's 2011 financial statements and in our report dated March 19, 2012, we expressed an unqualified opinion on the 2011 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, 2012 and the respective changes in financial position 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

Accounting principles generally accepted in the United States of America require that management's discussion and analysis, as identified in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, 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 to the required supplemental information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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, 2011, from which such partial information was derived.

*Plante & Moran, PLLC*

March 8, 2013

# **City of Wyandotte, Michigan**

## **Department of Municipal Service**

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### **Management's Discussion and Analysis**

Our discussion and analysis of the City of Wyandotte, Michigan Department of Municipal Service's (the "Department") performance provides an overview of the Department's financial activities for the fiscal year ended September 30, 2012. 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 was comparable to the prior year, decreasing by less than 1 percent, while operating expenses decreased by almost 3 percent. The decrease in operating expenses is attributable to decreases in power production costs.
- Accordingly, the Electric Fund's operating income was \$5,379,718 compared to operating income of \$4,493,004 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 194 percent for the year ended September 30, 2012). 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 \$570,546 for the year ended September 30, 2012 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**

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### **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 did not exceed the budget.
- All internal short-term borrowings from other funds were paid back during the current year.

#### **Water Fund**

- The financial performance of the Water Fund remained relatively stable in the current year. Operating revenue increased by approximately 5 percent while operating expenses were stable compared to the prior year. Operating income in the current year increased by \$181,817 and was \$304,339 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 past couple of years, no contributions were made.
- This year's financial statement reports unrestricted net assets of \$3,558,476 (as compared to only \$2,861,625 in the prior year). The Department is continuing to review its rate structure for the water utility, along with other options, to continue to maintain the financial condition of the Water Fund.
- All internal short-term loans made to other funds were repaid to the Water Fund during the year.

#### **Cable Television Fund**

- The Cable Television Fund's operating revenue increased by approximately 15 percent compared to the prior year. The increase was primarily due to franchise fees and retransmission fees now being passed on to customers. This resulted in a combined increase to operating revenue of approximately \$663,000.
- The Cable Television Fund realized operating income of \$988,164 in the current year. This represented an increase of \$1,104,478 in operating income as compared to the operating loss of (\$116,314) realized in the prior year. As noted above, these results are primarily attributable to the franchise fee and retransmission fee revenue described above. Additionally, subscriber rates were once again increased, causing both basic cable and internet revenue to increase substantially over the prior year.
- All internal short-term borrowings from other funds were paid back during the current year.
- In May 2012, the Cable Television Fund filed a five-year deficit elimination plan with the Michigan Department of Treasury, showing the deficit in unrestricted net assets being eliminated by 2015. The deficit has been eliminated at the end of the current year.

# 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	
	2012	2011	Amount	Percent
<b>Assets</b>				
Current assets	\$ 19,840,914	\$ 17,934,639	\$ 1,906,275	10.63
Restricted assets	9,185,742	8,980,490	205,252	2.29
Property, plant, and equipment	56,326,285	59,399,352	(3,073,067)	(5.17)
Other	1,250,843	1,400,855	(150,012)	(10.71)
<b>Total assets</b>	<b>86,603,784</b>	<b>87,715,336</b>	<b>(1,111,552)</b>	<b>(1.27)</b>
<b>Liabilities</b>				
Current liabilities	12,231,961	15,840,184	(3,608,223)	(22.78)
Liabilities payable from restricted assets	5,162,302	4,917,353	244,949	4.98
Long-term liabilities	32,516,387	36,666,652	(4,150,265)	(11.32)
<b>Total liabilities</b>	<b>49,910,650</b>	<b>57,424,189</b>	<b>(7,513,539)</b>	<b>(13.08)</b>
<b>Net Assets</b>				
Invested in capital assets - Net of debt	18,729,627	17,434,263	1,295,364	7.43
Restricted assets	8,358,440	8,113,137	245,303	3.02
Unrestricted	9,605,067	4,743,747	4,861,320	102.48
<b>Total net assets</b>	<b>\$ 36,693,134</b>	<b>\$ 30,291,147</b>	<b>\$ 6,401,987</b>	<b>21.13</b>

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

	Year Ended September 30		Change	
	2012	2011	Amount	Percent
Total operating revenue	\$ 55,214,927	\$ 53,881,241	\$ 1,333,686	2.48
Total operating expenses	48,542,706	49,382,029	(839,323)	(1.70)
<b>Operating Income</b>	<b>6,672,221</b>	<b>4,499,212</b>	<b>2,173,009</b>	<b>48.30</b>
Other nonoperating expense	(270,234)	(651,779)	381,545	(58.54)
<b>Net Income</b>	<b>\$ 6,401,987</b>	<b>\$ 3,847,433</b>	<b>\$ 2,554,554</b>	<b>66.40</b>

# **City of Wyandotte, Michigan**

## **Department of Municipal Service**

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### **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 substation and capital equipment, geothermal infrastructure, and made improvements to the boilers at the power plant. Also included in capital equipment was the purchase of a cat loader 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 most significant capital purchases in the Water Fund were for a roof replacement at the filter plant, to build a new garage, and for water meters and GIS system investments. All asset purchases were paid from operations.

The Cable Television Fund continued to make significant investments in cable and internet modems and converters, which comprised the majority of capital purchases during the year 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 prior 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 also has implemented several rate increases in the Water and Cable Funds to improve its financial condition and has otherwise reviewed its operating revenue structure within the Cable Television Fund to restore its working capital.

#### **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				
	2012			2011	
	Electric Fund	Water Fund	Cable Television Fund	Total	Total
<b>Assets</b>					
<b>Current Assets</b>					
Cash and investments (Note 3)	\$ 5,393,454	\$ 3,956,119	\$ 552,098	\$ 9,901,671	\$ 2,142,478
Accounts receivable:					
Billed (Note 4)	3,464,102	265,706	1,047,591	4,777,399	4,803,453
Unbilled contributions	186,142	-	-	186,142	-
Unbilled customer billings	2,733,106	265,844	-	2,998,950	3,447,413
Due from other funds (Note 6)	-	-	-	-	3,555,843
Fuel, materials, supplies, and other inventories	1,616,586	114,861	100,413	1,831,860	3,934,911
Prepaid insurance and other current assets	99,095	18,523	27,274	144,892	50,541
Total current assets	<u>13,492,485</u>	<u>4,621,053</u>	<u>1,727,376</u>	<u>19,840,914</u>	<u>17,934,639</u>
<b>Noncurrent Assets</b>					
Restricted assets (Note 8)	8,846,240	169,751	169,751	9,185,742	8,980,490
Bond issuance costs (Note 13)	1,250,843	-	-	1,250,843	1,400,855
Property, plant, and equipment - Net (Note 5)	45,229,777	7,900,597	3,195,911	56,326,285	59,399,352
Total noncurrent assets	<u>55,326,860</u>	<u>8,070,348</u>	<u>3,365,662</u>	<u>66,762,870</u>	<u>69,780,697</u>
Total assets	<u><b>\$ 68,819,345</b></u>	<u><b>\$ 12,691,401</b></u>	<u><b>\$ 5,093,038</b></u>	<u><b>\$ 86,603,784</b></u>	<u><b>\$ 87,715,336</b></u>
<b>Liabilities and Net Assets</b>					
<b>Current Liabilities</b>					
Current portion of long-term debt (Note 7)	\$ 5,142,406	\$ -	\$ 141,329	\$ 5,283,735	\$ 5,102,713
Accounts payable	1,969,170	124,493	501,522	2,595,185	3,314,456
Due to other funds (Note 6)	-	-	-	-	3,555,843
Due to City of Wyandotte (Note 10)	155,697	36,113	-	191,810	1,181,086
Other accrued liabilities	2,341,092	288,067	394,333	3,023,492	1,962,165
Deferred revenue	-	-	73,976	73,976	86,312
Customer deposits and other current liabilities	1,044,588	-	19,175	1,063,763	637,609
Total current liabilities	<u>10,652,953</u>	<u>448,673</u>	<u>1,130,335</u>	<u>12,231,961</u>	<u>15,840,184</u>
<b>Liabilities to be Paid from Restricted Assets -</b>					
Debt service payable	5,162,302	-	-	5,162,302	4,917,353
<b>Noncurrent Liabilities</b>					
Long-term debt - Net of current portion and amount payable from restricted assets (Note 7)	29,155,869	-	72,897	29,228,766	34,213,231
Net OPEB obligation (Note 14)	2,282,859	613,904	390,858	3,287,621	2,453,421
Total noncurrent liabilities	<u>31,438,728</u>	<u>613,904</u>	<u>463,755</u>	<u>32,516,387</u>	<u>36,666,652</u>
Total liabilities	<u>47,253,983</u>	<u>1,062,577</u>	<u>1,594,090</u>	<u>49,910,650</u>	<u>57,424,189</u>
<b>Net Assets</b>					
Invested in property, plant, and equipment - Net of related debt	7,847,345	7,900,597	2,981,685	18,729,627	17,434,263
Restricted (Note 8)	8,018,938	169,751	169,751	8,358,440	8,113,137
Unrestricted	5,699,079	3,558,476	347,512	9,605,067	4,743,747
Total net assets	<u>21,565,362</u>	<u>11,628,824</u>	<u>3,498,948</u>	<u>36,693,134</u>	<u>30,291,147</u>
Total liabilities and net assets	<u><b>\$ 68,819,345</b></u>	<u><b>\$ 12,691,401</b></u>	<u><b>\$ 5,093,038</b></u>	<u><b>\$ 86,603,784</b></u>	<u><b>\$ 87,715,336</b></u>

# City of Wyandotte, Michigan

## Department of Municipal Service

### Statement of Revenue, Expenses, and Changes in Net Assets

	Year Ended September 30				
	2012			2011	
	Electric Fund	Water Fund	Cable Television Fund	Total	Total
<b>Operating Revenue</b>	\$ 41,977,196	\$ 3,689,086	\$ 9,548,645	\$ 55,214,927	\$ 53,881,241
<b>Operating Expenses</b>					
Production, pumping, and purification	23,577,692	847,504	-	24,425,196	25,951,881
Distribution	1,533,245	515,570	764,167	2,812,982	2,936,647
Cable television royalties	-	-	5,080,079	5,080,079	4,351,869
Customer service	136,212	54,020	57,538	247,770	233,710
Office and administrative	1,045,120	367,638	469,657	1,882,415	1,935,524
General fringes and other	5,597,195	963,049	1,427,153	7,987,397	8,257,779
Transportation	87,456	27,462	41,340	156,258	138,109
Depreciation	4,620,558	609,504	720,547	5,950,609	5,576,510
Total operating expenses	<u>36,597,478</u>	<u>3,384,747</u>	<u>8,560,481</u>	<u>48,542,706</u>	<u>49,382,029</u>
<b>Operating Income</b>	5,379,718	304,339	988,164	6,672,221	4,499,212
<b>Nonoperating Income (Expenses)</b>					
Grant revenue	2,097,669	-	-	2,097,669	2,454,511
Grant expenses	(1,815,802)	-	-	(1,815,802)	(1,501,237)
Contribution revenue	186,142	-	-	186,142	-
Interest and other income	491,920	166,667	616,309	1,274,896	538,996
Interest expense	(1,746,184)	-	(11,247)	(1,757,431)	(1,888,341)
Amortization of bond issuance costs	(255,708)	-	-	(255,708)	(255,708)
Total nonoperating (expenses) income	<u>(1,041,963)</u>	<u>166,667</u>	<u>605,062</u>	<u>(270,234)</u>	<u>(651,779)</u>
<b>Net Income</b>	4,337,755	471,006	1,593,226	6,401,987	3,847,433
<b>Net Assets - Beginning of year</b>	<u>17,227,607</u>	<u>11,157,818</u>	<u>1,905,722</u>	<u>30,291,147</u>	<u>26,443,714</u>
<b>Net Assets - End of year</b>	<u>\$ 21,565,362</u>	<u>\$ 11,628,824</u>	<u>\$ 3,498,948</u>	<u>\$ 36,693,134</u>	<u>\$ 30,291,147</u>

# City of Wyandotte, Michigan

## Department of Municipal Service

### Statement of Cash Flows

	Year Ended September 30				
	2012				2011
	Electric Fund	Water Fund	Cable Television Fund	Total	Total
<b>Cash Flows from Operating Activities</b>					
Cash received from customers	\$ 42,731,650	\$ 2,681,544	\$ 9,294,391	\$ 54,707,585	\$ 51,868,305
Cash payments to suppliers for goods and services	(24,232,981)	(1,740,133)	(6,858,742)	(32,831,856)	(38,545,169)
Cash payments to employees for services	(4,319,827)	(897,503)	(969,603)	(6,186,933)	(6,182,911)
Net cash provided by operating activities	14,178,842	43,908	1,466,046	15,688,796	7,140,225
<b>Cash Flows from Noncapital Financing Activities -</b>					
Interfund borrowings and repayments - Net	(1,494,533)	3,555,843	(2,061,310)	-	-
<b>Cash Flows from Capital and Related Financing Activities</b>					
Proceeds from debt issuance	201,798	-	-	201,798	759,783
Grant revenue	2,115,718	-	-	2,115,718	2,250,102
Grant expenses	(1,815,802)	-	-	(1,815,802)	(1,501,237)
Principal and interest paid on long-term debt	(6,470,356)	-	(153,063)	(6,623,419)	(6,950,209)
Customer contribution	-	-	-	-	138,000
City contribution	-	-	200,000	200,000	-
Purchase of capital assets	(2,388,150)	(383,562)	(274,264)	(3,045,976)	(3,777,343)
Net cash used in capital and related financing activities	(8,356,792)	(383,562)	(227,327)	(8,967,681)	(9,080,904)
<b>Cash Flows from Investing Activities - Interest received on investments and other income</b>	660,354	166,667	416,309	1,243,330	538,996
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	4,987,871	3,382,856	(406,282)	7,964,445	(1,401,683)
<b>Cash and Cash Equivalents - Beginning of year</b>	9,251,823	743,014	1,128,131	11,122,968	12,524,651
<b>Cash and Cash Equivalents - End of year</b>	<b>\$ 14,239,694</b>	<b>\$ 4,125,870</b>	<b>\$ 721,849</b>	<b>\$ 19,087,413</b>	<b>\$ 11,122,968</b>
<b>Reconciliation to Statement of Net Assets</b>					
Cash and investments	\$ 5,393,454	\$ 3,956,119	\$ 552,098	\$ 9,901,671	\$ 2,142,478
Restricted assets	8,846,240	169,751	169,751	9,185,742	8,980,490
Total	<b>\$ 14,239,694</b>	<b>\$ 4,125,870</b>	<b>\$ 721,849</b>	<b>\$ 19,087,413</b>	<b>\$ 11,122,968</b>

# City of Wyandotte, Michigan

## Department of Municipal Service

### Statement of Cash Flows (Continued)

	Year Ended September 30				
	2012				2011
	Electric Fund	Water Fund	Cable Television Fund	Total	Total
<b>Reconciliation of Operating Income to Net Cash from Operating Activities</b>					
Operating income	\$ 5,379,718	\$ 304,339	\$ 988,164	\$ 6,672,221	\$ 4,499,212
Adjustments to reconcile operating income to net cash from operating activities:					
Depreciation	4,620,558	609,504	720,547	5,950,609	5,576,510
Bad debt expense	99,996	-	60,000	159,996	140,000
Changes in assets and liabilities:					
Receivables	654,458	(1,007,542)	(314,254)	(667,338)	(2,152,936)
Inventory	2,091,943	(13,053)	24,161	2,103,051	(789,426)
Prepaid insurance and other current assets	(59,715)	(20,017)	(16,113)	(95,845)	15,213
Accounts payable	(554,998)	47,512	39,710	(467,776)	(956,688)
Accrued and other liabilities	1,475,251	148,584	21,692	1,645,527	1,095,268
Due to City of Wyandotte	(48)	(25,419)	-	(25,467)	(272,227)
Deferred revenue	-	-	(12,336)	(12,336)	(12,336)
Customer deposits and other current liabilities	471,679	-	(45,525)	426,154	(2,365)
Net cash provided by operating activities	<u>\$ 14,178,842</u>	<u>\$ 43,908</u>	<u>\$ 1,466,046</u>	<u>\$ 15,688,796</u>	<u>\$ 7,140,225</u>

# **City of Wyandotte, Michigan**

## **Department of Municipal Service**

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### **Notes to Financial Statements**

#### **September 30, 2012**

#### **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, 2012.

#### **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

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### Notes to Financial Statements September 30, 2012

#### **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 nonoperating 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 19 percent, 5 percent, and 3 percent, respectively, of the electric department's operating revenue for the year ended September 30, 2012.

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, 9 percent, and 2 percent, respectively, of the water department's operating revenue for the year ended September 30, 2012.

**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

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### Notes to Financial Statements September 30, 2012

#### 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

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### Notes to Financial Statements September 30, 2012

#### **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.

#### **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.



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

**Notes to Financial Statements**  
**September 30, 2012**

**Note 3 - Deposits and Investments (Continued)**

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 certificates of deposit accounts which approximate \$6,831,000 at September 30, 2012. 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.

**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	\$ 13,268,815	AAA	Moody’s

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

**Notes to Financial Statements**  
**September 30, 2012**

**Note 4 - Billed and Unbilled Accounts Receivable**

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

	2012			2011	
	Electric Fund	Water Fund	Cable Television Fund	Total	Total
Accounts receivable	\$ 3,794,249	\$ 265,706	\$ 1,075,344	\$ 5,135,299	\$ 5,155,337
Less allowance for uncollectible accounts	<u>(330,147)</u>	<u>-</u>	<u>(27,753)</u>	<u>(357,900)</u>	<u>(351,884)</u>
Net accounts receivable	<u>\$ 3,464,102</u>	<u>\$ 265,706</u>	<u>\$ 1,047,591</u>	<u>\$ 4,777,399</u>	<u>\$ 4,803,453</u>

Unbilled accounts receivable from customers represent services that have been provided to customers through September 30, 2012 for which billings were processed subsequent to year end. Unbilled contributions represent amounts due to the Department from the Tax Increment Financing Authority (TIFA) for project work completed by the Department through September 30, 2012 that will be billed to and paid for by the TIFA in a period subsequent to year end.

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

**Notes to Financial Statements**  
**September 30, 2012**

**Note 5 - Property, Plant, and Equipment**

	Balance September 30, 2011	Additions	Disposals and Adjustments	Balance September 30, 2012
Capital assets not being depreciated -				
Construction in progress	\$ 846,688	\$ -	\$ (531,007)	\$ 315,681
Capital assets being depreciated:				
Utility plant	110,643,596	1,527,647	-	112,171,243
Transmission	6,944,828	614,220	-	7,559,048
Pumping	2,923,048	298,303	-	3,221,351
Purification	3,743,643	78,065	-	3,821,708
Distribution	49,650,691	299,257	-	49,949,948
Transportation	2,291,419	486,568	-	2,777,987
Stores	963,421	25,000	-	988,421
Cable equipment	2,426,038	152,615	-	2,578,653
Studio	541,083	3,863	-	544,946
General	3,509,971	66,444	(542,354)	3,034,061
Total capital assets being depreciated	183,637,738	3,551,982	(542,354)	186,647,366
Accumulated depreciation:				
Utility plant	75,713,406	3,310,913	-	79,024,319
Transmission	5,172,848	94,750	-	5,267,598
Pumping	1,843,675	141,478	-	1,985,153
Purification	3,526,181	45,660	-	3,571,841
Distribution	31,310,639	1,993,882	(398,921)	32,905,600
Transportation	1,616,866	131,982	-	1,748,848
Stores	831,667	15,331	-	846,998
Cable equipment	1,533,443	87,931	-	1,621,374
Studio	501,926	11,431	-	513,357
General	3,034,423	117,251	-	3,151,674
Total accumulated depreciation	125,085,074	5,950,609	(398,921)	130,636,762
Net capital assets being depreciated	58,552,664	(2,398,627)	(143,433)	56,010,604
Net capital assets	\$ 59,399,352	\$ (2,398,627)	\$ (674,440)	\$ 56,326,285

Depreciation of \$4,620,558 and \$4,368,680 for the Electric Fund, \$609,504 and \$590,212 for the Water Fund, and \$720,547 and \$617,618 for the Cable Television Fund has been included in operating expenses of the appropriate fund for the years ended September 30, 2012 and 2011, respectively.

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

**Notes to Financial Statements**  
**September 30, 2012**

**Note 5 - Property, Plant, and Equipment (Continued)**

**Construction and Purchase Commitments** - The Department has active construction projects and other purchase commitments at year end. The Department's commitments with contractors/suppliers as of September 30, 2012 are as follows:

	<u>Spent to Date</u>	<u>Remaining Commitment</u>
Fort Street Lighting Upgrade	\$ -	\$ 440,000
Coal Contract (Coal Re-sold to C. Reiss)	-	934,774
Coal Contract (Contract satisfied)	-	511,642
Coal - Shipping (Chicago to Wyan.)	-	215,129
Substation #9/T&D Construction	<u>607,128</u>	<u>367,872</u>
Total	<u>\$ 607,128</u>	<u>\$ 2,469,417</u>

**Note 6 - Interfund Receivables and Payables**

Interfund 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. As of September 30, 2012, there were no outstanding interfund balances.

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

**Notes to Financial Statements**  
**September 30, 2012**

**Note 7 - Long-term Debt**

**Outstanding Debt**

Long-term debt outstanding is as follows:

	2012			2011
	Electric Fund	Cable Television Fund	Total	Total
2002 Revenue Refunding Bonds - Net of unamortized premium and deferred refunding charge	\$ -	\$ -	\$ -	\$ 2,941,676
1998 installment purchase agreement	-	-	-	41,531
2005A Revenue Bonds - Net of unamortized premium	2,431,410	-	2,431,410	3,041,898
2005B Revenue Bonds - Net of unamortized premium	6,183,805	-	6,183,805	6,584,549
2009 Revenue Refunding Bonds - Net of unamortized premium and deferred refunding charge	24,632,281	-	24,632,281	24,623,677
2007 installment purchase agreement		36,197	36,197	36,197
2008 installment purchase agreement	1,614,568	-	1,614,568	1,833,159
2010 installment purchase agreement	3,222,471	-	3,222,471	3,551,937
2011 installment purchase agreement	367,186	178,029	545,215	711,320
2012 installment purchase agreement	181,554	-	181,554	
Less current portion	(5,142,406)	(141,329)	(5,283,735)	(5,102,713)
Less portion payable from restricted assets	<u>(4,335,000)</u>	<u>-</u>	<u>(4,335,000)</u>	<u>(4,050,000)</u>
Total long-term debt - Net of current portion and amount payable from restricted assets	<u>\$ 29,155,869</u>	<u>\$ 72,897</u>	<u>\$ 29,228,766</u>	<u>\$ 34,213,231</u>

# City of Wyandotte, Michigan

## Department of Municipal Service

### Notes to Financial Statements September 30, 2012

#### 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, 2012 and 2011:

	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 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	2012 Electric Installment Purchase Agreement	Total
Long-term debt - October 1, 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 on refunding	-	-	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 issued	-	-	-	-	-	-	-	-	-	-	201,798	201,798
Deferred charge and premiums	-	-	167,916	-	-	-	36,204	-	-	-	-	204,120
Debt retired	(600,000)	(400,000)	(3,050,000)	(41,531)	-	(218,591)	-	(329,466)	(100,285)	(65,820)	(20,244)	(4,825,937)
Debt refunded	-	-	-	-	-	-	-	-	-	-	-	-
Discount	(10,488)	(744)	(59,592)	-	-	-	(27,600)	-	-	-	-	(98,424)
Long-term debt - September 30, 2012	\$ 2,431,410	\$ 6,183,805	\$ -	\$ -	\$ 36,197	\$ 1,614,568	\$ 24,632,281	\$ 3,222,471	\$ 178,029	\$ 367,186	\$ 181,554	\$ 38,847,501

**Debt Service Requirements** - The annual total principal and interest requirements to service all debt outstanding as of September 30, 2012, 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)				2009 Electric Fund Refunding Bonds		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		2012 Electric Installment Purchase Agreement		Total
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	
2013	\$ 600,000	\$ 81,000	\$ 500,000	\$ 237,675	\$ 3,235,000	\$ 969,625	\$ 36,197	\$ -	\$ 209,240	\$ 63,086	\$ 357,364	\$ 140,177	\$ 105,132	\$ 6,572	\$ 68,118	\$ 12,816	\$ 27,684	\$ 5,405	\$ 6,655,091
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	28,583	4,504	6,551,274
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	29,511	3,573	6,505,877
2016	600,000	-	650,000	161,800	3,645,000	515,675	-	-	260,912	36,171	459,200	88,968	-	-	154,936	4,131	95,775	744	6,673,312
2017	-	-	375,000	-	3,790,000	364,075	-	-	272,973	24,110	494,494	68,993	-	-	-	-	-	-	5,389,645
2018-2022	-	-	2,125,000	569,438	4,940,000	725,862	-	-	383,691	12,420	1,091,556	71,835	-	-	-	-	-	-	9,919,802
2023-2027	-	-	1,425,000	121,125	1,555,000	365,924	-	-	-	-	-	-	-	-	-	-	-	-	3,467,049
2028-2029	-	-	-	-	740,000	19,951	-	-	-	-	-	-	-	-	-	-	-	-	759,951
Total	\$ 2,400,000	\$ 156,000	\$ 6,175,000	\$ 1,495,138	\$ 24,770,000	\$ 4,424,462	\$ 36,197	\$ -	\$ 1,614,568	\$ 242,201	\$ 3,222,471	\$ 602,094	\$ 178,030	\$ 8,192	\$ 367,186	\$ 34,683	\$ 181,553	\$ 14,226	\$ 45,922,001

**Interest** - For the years ended September 30, 2012 and 2011, total interest costs of \$1,746,184 and \$1,888,598, respectively, were incurred in the Electric Fund and \$11,247 and \$9,743, respectively, were incurred in the Cable Fund.

# City of Wyandotte, Michigan

## Department of Municipal Service

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### Notes to Financial Statements September 30, 2012

#### 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 \$10,937,517 compared to the annual debt service requirement of \$5,802,699. 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, 2012 and 2011 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, 2012**

**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	
				2012	2011
Amount of issue - \$31,990,000					
Date of issue - July 9, 2002					
* Amounts were defeased in 2009					
	4.00	10/01/11	\$ 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
Unamortized premium - Net of deferred refunding charge				-	(108,324)
Net				\$ -	\$ 2,941,676

	Interest Rate (Percent)	Date of Maturity	Amount of Annual Maturity	Principal Outstanding	
				2012	2011
Amount of issue - \$6,000,000					
Date of issue - August 10, 2005					
	4.50	10/01/11	\$ 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				2,400,000	3,000,000
Unamortized premium				31,410	41,898
Net				\$ 2,431,410	\$ 3,041,898



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

**Notes to Financial Statements**  
**September 30, 2012**

**Note 7 - Long-term Debt (Continued)**

	Interest Rate (Percent)	Date of Maturity	Amount of Annual Maturity	Principal Outstanding	
				2012	2011
Amount of issue - \$7,475,000					
Date of issue - September 1, 2005					
	3.75	10/01/11	\$ 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				6,175,000	6,575,000
Unamortized premium				8,805	9,549
Net				<u>\$ 6,183,805</u>	<u>\$ 6,584,549</u>

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

**Notes to Financial Statements**  
**September 30, 2012**

**Note 7 - Long-term Debt (Continued)**

	Interest Rate (Percent)	Date of Maturity	Amount of Annual Maturity	Principal Outstanding	
				2012	2011
Amount of issue - \$24,770,000					
Date of issue - February 26, 2009					
	4.00	10/01/11	\$ -	\$ -	\$ -
	4.00	10/01/12	3,235,000	3,235,000	3,235,000
	5.00	10/01/13	3,355,000	3,355,000	3,355,000
	4.00	10/01/14	3,510,000	3,510,000	3,510,000
	4.00	10/01/15	3,645,000	3,645,000	3,645,000
	4.00	10/01/16	3,790,000	3,790,000	3,790,000
	5.00	10/01/17	3,955,000	3,955,000	3,955,000
	4.00	10/01/18	230,000	230,000	230,000
	4.00	10/01/19	240,000	240,000	240,000
	5.25	10/01/20	250,000	250,000	250,000
	5.25	10/01/21	265,000	265,000	265,000
	5.25	10/01/22	280,000	280,000	280,000
	5.25	10/01/23	295,000	295,000	295,000
	5.25	10/01/24	310,000	310,000	310,000
	5.25	10/01/25	325,000	325,000	325,000
	5.25	10/01/26	345,000	345,000	345,000
	5.25	10/01/27	360,000	360,000	360,000
	5.25	10/01/28	380,000	380,000	380,000
Total face value				24,770,000	24,770,000
Unamortized premium - Net of deferred refunding charge				(137,719)	(146,323)
Net				<u>\$ 24,632,281</u>	<u>\$ 24,623,677</u>

**Electric Fund 2012 Installment Purchase Contract** - In December 2011, the Department entered into a limited tax general obligation installment purchase contract for the purpose of purchasing a wheel loader to be used by the City's power plant. The Department was authorized to borrow \$201,798 in accordance with the terms of the contract. Payments of \$2,764 are due monthly including interest at a rate of 3.2 percent through November 2015. The outstanding principal balance at September 30, 2012 is \$181,554.

**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, 2012 is \$367,186.

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

**Notes to Financial Statements**  
**September 30, 2012**

**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. 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	
		2012	2011
2/1/12	\$ 301,927	\$ -	\$ 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		<u>\$ 3,222,471</u>	<u>\$ 3,551,937</u>

Amount of issue - \$3,866,200  
Date of issue - February 26, 2010  
Interest rate - 4.35%

**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 \$332,253 related to the agreement, of which \$218,591 was applied as principal and \$113,662 represents interest expense. The outstanding principal balance at September 30, 2012 is \$1,614,568.

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

**Notes to Financial Statements**  
**September 30, 2012**

**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. As demonstrated below, the installment purchase was paid off in the current year.

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	
			2012	2011
Amount of contract - \$3,994,031				
Date of issue - October 16, 1998				
Interest rate - 4.16%				
	05/01/12	\$ 187,500	\$ -	\$ -
	11/01/12	187,500	-	41,531
Total			\$ -	\$ 41,531

**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 2013. At September 30, 2012, the outstanding principal balance was \$36,197.

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

**Notes to Financial Statements**  
**September 30, 2012**

**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, 2012 is \$178,030.

**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:

	2012			2011	
	Electric Fund	Water Fund	Cable Television Fund	Total	Total
Bond proceeds	\$ -	\$ -	\$ -	\$ -	\$ -
Debt service	8,846,240	-	-	8,846,240	8,641,186
Retiree healthcare	-	169,751	169,751	339,502	339,304
Total restricted assets	8,846,240	169,751	169,751	9,185,742	8,980,490
Less accrued interest payable from restricted assets	(827,302)	-	-	(827,302)	(867,353)
Net restricted assets	<u>\$ 8,018,938</u>	<u>\$ 169,751</u>	<u>\$ 169,751</u>	<u>\$ 8,358,440</u>	<u>\$ 8,113,137</u>

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 \$2,690,738, 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

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### Notes to Financial Statements September 30, 2012

#### 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, 2012, 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, 2012 annual financial report, which may be obtained at the City offices at 3131 Biddle Avenue.

At September 30, 2011, the date of the Department's most recent actuarial valuation, membership consisted of the following:

Retirees and beneficiaries currently receiving benefits	75
Terminated employees entitled to benefits but not yet receiving them	16
Current active employees	60

**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, 2012**

**Note 9 - Pension Plans (Continued)**

**Annual Pension Cost** - For the year ended September 30, 2012, the Department's annual pension cost of \$773,346 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:

	2012	2011	2010
Annual pension cost (APC)	\$ 773,346	\$ 626,722	\$ 649,458
Percentage of APC contributed	100%	100%	100%
Net pension obligation	\$ -	\$ -	\$ -

Funded status and funding progress for actuarial valuation of September 30, 2011 are as follows:

	<u>System Total</u>	<u>Department Allocation</u>
Actuarial value of assets	\$ 59,628,852	\$ 19,777,557
Actuarial accrued liability (AAL) (entry age)	82,314,913	N/A *
Unfunded AAL (UAAL)	22,686,061	N/A *
Funded ratio	72.4%	N/A *
Covered payroll	7,428,795	3,593,488
UAAL as a percentage of covered payroll	305.4%	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, 2011, 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.

# City of Wyandotte, Michigan

## Department of Municipal Service

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### Notes to Financial Statements September 30, 2012

#### Note 9 - Pension Plans (Continued)

**Additional Information** - The Department's 2012 contribution represented approximately 21 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, 2012 (the date of the most recent actuary report) was approximately \$7,429,000. The Department's covered payroll was approximately \$3,594,000.

#### 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, 2012, there were 41 employees in the defined contribution plan.

The Department's total payroll during the current year covering this group of employees was \$2,375,327. The current year contribution was calculated based on covered payroll in the same amount, resulting in an employer contribution of \$239,870. Department employees' contributions were \$118,766.

#### 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.

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, 2012 and 2011.



# City of Wyandotte, Michigan

## Department of Municipal Service

### Notes to Financial Statements September 30, 2012

#### Note 10 - Related Party Transactions (Continued)

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, 2012 and 2011 is as follows:

	2012	2011
Department revenue:		
Electric and water services	\$ 739,227	\$ 725,657
Street and public safety lighting	457,777	476,314
Collection fee	83,326	73,911
Department expenses:		
In lieu of property taxes	(457,577)	(476,314)
Cable television franchise fee	(476,589)	(418,564)
Water franchise fee	(200,000)	(200,000)
City services	(642,773)	(699,004)
Installment purchase agreement payment	-	(44,352)
Remittances to City for sewer use charge collections	(4,900,000)	(3,500,000)
Payable to City of Wyandotte - Sewage Disposal Fund	(492,757)	(670,635)
Payable to City of Wyandotte - Solid Waste Disposal Fund	(18,693)	(18,741)
Payable to City of Wyandotte - General Fund	(137,004)	(137,004)
Payable to City of Wyandotte - Water mains	-	(354,706)
Contributions by the City (Vinewood Substation)	186,142	-

#### 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.

**Workers' Compensation** - All claims incurred are the responsibility of the Department up to \$1,000,000 per employee (in the case of disease) or \$1,000,000 per accident (for bodily injury). The Department has purchased commercial insurance coverage for claims incurred, which exceed the amounts previously described.

# City of Wyandotte, Michigan

## Department of Municipal Service

### Notes to Financial Statements September 30, 2012

#### Note 11 - Risk Management (Continued)

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, 2010	\$ 356,975
Estimated claims incurred - Net of changes in estimates	(11,883)
Claim payments	<u>(29,776)</u>
Estimated liability - September 30, 2011	315,316
Estimated claims incurred - Net of changes in estimates	(2,301)
Claim payments	<u>(22,865)</u>
Estimated liability - September 30, 2012	<u>\$ 290,150</u>

#### Note 12 - Commitments and Contingencies

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. Oral arguments were held in the Wayne County Circuit Court in December 2012 and as of the date of this report, the case is now under submission, with a decision anticipated to be received in the near future. 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, 2012 and 2011.

# **City of Wyandotte, Michigan**

## **Department of Municipal Service**

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### **Notes to Financial Statements**

#### **September 30, 2012**

#### **Note 12 - Commitments and Contingencies (Continued)**

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 prior 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, which was also paid in the prior year. In addition, the Department is 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 already completed numerous projects at the electric power plant to improve its compliance; however, it is estimated that the cost for the additional controls and project work will be between \$8 million and \$10 million if a baghouse is installed. During the current year, the Department ceased coal combustion in one of their boilers, began using natural gas in that boiler, and entered into negotiations with the EPA. As part of the negotiations, the Department has proposed that the EPA modify the consent decree to forego the installation of the baghouse if it continues to burn natural gas and no longer burn coal in that boiler. As of the date of this report, negotiations on this matter were pending.

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.

#### **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, 2012 and 2011. Amortization expense for the 2005 revenue bonds amounted to \$37,848 for the years ended September 30, 2012 and 2011. Amortization expense for the 2009 refunding bonds was \$50,064 for the years ended September 30, 2012 and 2011.

# City of Wyandotte, Michigan

## Department of Municipal Service

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### Notes to Financial Statements September 30, 2012

#### 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, 2011, 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	77

**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; these amounts (as adjusted for the implicit rate subsidy pursuant to GASB No. 45) were approximately \$490,000, \$132,000, and \$84,000, respectively, during the year ended September 30, 2012 and \$427,000, \$117,000, and \$69,000 in the Electric, Water, and Cable Funds, respectively, during the year ended September 30, 2011.

**Funding Progress** - For the year ended September 30, 2012, 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:

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

**Notes to Financial Statements**  
**September 30, 2012**

**Note 14 - Postemployment Benefits (Continued)**

Annual required contribution (recommended)	\$ 1,583,990
Interest on the prior year's net OPEB obligation	110,404
Less adjustment to the annual required contribution	<u>(153,129)</u>
Annual OPEB cost	1,541,265
Amounts contributed:	
Payments of current premiums	(707,065)
Advance funding	<u>-</u>
Increase in net OPEB obligation	834,200
OPEB obligation - Beginning of year	<u>2,453,421</u>
OPEB obligation - End of year	<u>\$ 3,287,621</u>

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

	Actuarial Valuation as of		
	September 30		
	2011	2009	2006
Actuarial value of assets	\$ -	\$ -	\$ -
Actuarial accrued liability (AAL) (entry age)	18,428,534	17,381,962	18,012,350
Unfunded AAL (UAAL)	18,428,534	17,381,962	18,012,350
Funded ratio	- %	- %	- %
Covered payroll	*	*	4,539,471
UAAL as a percentatge of covered payroll	*	*	396.8%

\* The September 30, 2011 and 2009 valuations amortize 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.

**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.

# City of Wyandotte, Michigan

## Department of Municipal Service

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### Notes to Financial Statements September 30, 2012

#### **Note 14 - Postemployment Benefits (Continued)**

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, 2011 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, 2011 was 28 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.

#### **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.

# City of Wyandotte, Michigan

## Department of Municipal Service

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### Notes to Financial Statements September 30, 2012

#### **Note 15 - Upcoming Accounting Pronouncements (Continued)**

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.

In June 2012, the GASB issued GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*. Statement No. 68 requires governments providing defined benefit pensions to recognize their unfunded pension benefit obligation as a liability for the first time, and to more comprehensively and comparably measure the annual costs of pension benefits. This net pension liability that will be recorded on the government-wide, proprietary, and discretely presented component units statements will be computed differently than the current unfunded actuarial accrued liability, using specific parameters set forth by the GASB. The statement also enhances accountability and transparency through revised note disclosures and required supplemental information (RSI). The Department is currently evaluating the impact this standard will have on the financial statements when adopted. The provisions of this statement are effective for financial statements for the Department's 2014-2015 fiscal year.