

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

**Financial Report
September 30, 2013**

City of Wyandotte, Michigan

Department of Municipal Service

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Independent Auditor's Report

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

Report on the Financial Statements

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, 2013 and the related notes to the financial statements, which collectively comprise the Department's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

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

Opinion

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 as of September 30, 2013 and the changes in financial position and, where applicable, cash flows, for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

We draw attention to Note I, which explains that these financial statements present only the Department and do not purport to, and do not, present fairly the financial position of the City of Wyandotte as of September 30, 2013, the changes in its financial position, and the changes in its cash flows, where applicable, for the year then ended, in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplemental Information

Accounting principles generally accepted in the United States of America require that the 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.

Report on Summarized Comparative Information

We have previously audited the Department's September 30, 2012 financial statements and we expressed an unmodified audit opinion on those audited financial statements in our report dated March 8, 2013. In our opinion, the summarized comparative information presented herein as of and for the year ended September 30, 2012 is consistent, in all material respects, with the audited financial statements from which it has been derived.

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated January 29, 2014 on our consideration of the City of Wyandotte, Michigan Department of Municipal Service's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Wyandotte, Michigan Department of Municipal Service's internal control over financial reporting and compliance.

Plante & Moran, PLLC

January 29, 2014

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 (the "Department") performance provides an overview of the Department's financial activities for the fiscal year ended September 30, 2013. 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, internet, and VoIP phone 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 position and the statement of revenue, expenses, and changes in net position 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, increasing by less than 2 percent, while operating expenses increased by almost 5 percent. The increase in operating expenses is attributable to the increased volume of natural gas required for power production in existing facilities.
- Accordingly, the Electric Fund's operating income was \$4,240,525 compared to operating income of \$5,379,718 in the previous year. In addition to the existing facilities and their operating efficiencies with respect to natural gas usage volumes, the decrease in operating income was also attributable to the mild weather experienced during the summer months of 2013 that impacted electric usage.
- 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 165 percent for the year ended September 30, 2013).

City of Wyandotte, Michigan

Department of Municipal Service

Management's Discussion and Analysis (Continued)

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 \$837,561 for the year ended September 30, 2013 was added back to the computation of amounts available for debt. Refer to Note 14 for additional details regarding net OPEB obligation.

- 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.

Water Fund

- The financial performance of the Water Fund remained relatively stable in the current year. Operating revenue increased by less than one-quarter of 1 percent while operating expenses decreased by approximately 2.5 percent compared to the prior year. Operating income in the current year increased by \$87,630 and was \$391,969 at year end.
- Through a planned series of water rate adjustments over the past several years, the Water Fund has built an adequate working capital position and continues to build an adequate unrestricted net position to address ongoing infrastructure improvements and maintenance required by the system. 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 several years, no contributions were made.
- This year's financial statement reports unrestricted net position of \$4,276,004 (as compared to \$3,558,476 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.

Cable Television Fund

- The Cable Television Fund's operating revenue increased by approximately 2 percent compared to the prior year. The increase was primarily due to rate adjustments that more adequately reflect costs to provide services. This resulted in a combined increase to operating revenue of approximately \$200,000.
- The Cable Television Fund realized operating income of \$1,096,310 in the current year. This represented an increase of \$108,146 in operating income as compared to operating income of \$988,164 realized in the prior year. As noted above, these results are primarily attributable to the rate adjustments described above.
 - Through a planned series of cable rate adjustments over the past several years the Cable Television Fund has been restoring its working capital position.

City of Wyandotte, Michigan

Department of Municipal Service

Management's Discussion and Analysis (Continued)

- This year's financial statement reports unrestricted net position of \$1,948,698 as compared to \$347,512 in the prior year. The Department reviews its rate structure annually, along with other options, in order to continue to maintain the financial condition of the Cable Television Fund. The Department is also building an adequate unrestricted net position that will allow it to address overall system infrastructure improvements.

Condensed Financial Information

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

	September 30		Change	
	2013	2012	Amount	Percent
Assets				
Current assets	\$ 25,056,927	\$ 19,840,914	\$ 5,216,013	26.29
Restricted assets	7,867,828	9,185,742	(1,317,914)	(14.35)
Property, plant, and equipment	53,335,907	56,326,285	(2,990,378)	(5.31)
Other	1,100,831	1,250,843	(150,012)	(11.99)
Total assets	87,361,493	86,603,784	757,709	0.87
Liabilities				
Current liabilities	12,820,288	12,231,961	588,327	4.81
Liabilities payable from restricted assets	5,207,238	5,162,302	44,936	0.87
Long-term liabilities	27,867,240	32,516,387	(4,649,147)	(14.30)
Total liabilities	45,894,766	49,910,650	(4,015,884)	(8.05)
Net Assets				
Invested in capital assets - Net of debt	20,720,856	18,729,627	1,991,229	10.63
Restricted assets	7,140,590	8,358,440	(1,217,850)	(14.57)
Unrestricted	13,605,281	9,605,067	4,000,214	41.65
Total net assets	<u>\$ 41,466,727</u>	<u>\$ 36,693,134</u>	<u>\$ 4,773,593</u>	13.01

City of Wyandotte, Michigan

Department of Municipal Service

Management's Discussion and Analysis (Continued)

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

	Year Ended September 30		Change	
	2013	2012	Amount	Percent
Total operating revenue	\$ 56,100,077	\$ 55,214,927	\$ 885,150	1.60
Total operating expenses	50,371,273	48,542,706	1,828,567	3.77
Operating Income	5,728,804	6,672,221	(943,417)	(14.14)
Nonoperating expense	(955,211)	(270,234)	(684,977)	253.48
Net Income	\$ 4,773,593	\$ 6,401,987	\$ (1,628,394)	(25.44)

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 equipment and geothermal infrastructure and made improvements to the boilers, controls, and intake screens at the power plant. Also included in capital asset additions were the purchase of a forklift for the power plant and a Digger Derrick unit for the electric transmission and distribution system. In addition, significant completion occurred on the Fort Street lighting upgrade project with the balance of the project expected to be completed during the 2014 calendar year.

The most significant capital purchases in the Water Fund were for continued water main and meter replacements. Additional infrastructure improvements at the filter plant for valves and to the 6th Street facility for roofing were also completed during the fiscal year.

The Cable Television Fund made investments as necessary in cable and internet modems and converters, which comprised the majority of capital purchases during the year.

Purchases of capital assets for all funds during the year were funded from operations and no new debt was issued.

Economic Factors and Next Year's Operations

The Electric Fund has been significantly impacted by the operating efficiencies caused by existing boilers on power production costs due to the increased use of natural gas. The Department continues to work on alternative plans to insure that the utilization of natural gas is as efficient as possible given the existing facilities. The Department has also implemented a series of rate adjustments in the Water and Cable Television Funds to improve its financial condition and position those funds to meet recommended working capital and infrastructure needs for the future.

City of Wyandotte, Michigan

Department of Municipal Service

Management's Discussion and Analysis (Continued)

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 Position

	September 30				
	2013			2012	
	Electric Fund	Water Fund	Cable Television Fund	Total	Total
Assets					
Current assets:					
Cash and cash equivalents (Note 3)	\$ 7,023,473	\$ 5,571,119	\$ 2,192,053	\$ 14,786,645	\$ 9,901,671
Receivables:					
Billed (Note 4)	3,737,806	282,979	1,070,426	5,091,211	4,751,219
Unbilled contributions	-	-	-	-	186,142
Unbilled customer billings	3,109,398	278,588	-	3,387,986	2,998,950
Due from other governmental units	212,411	-	-	212,411	26,180
Due from other funds (Note 6)	6,992	-	-	6,992	-
Fuel, materials, supplies, and other inventories	985,793	120,541	59,697	1,166,031	1,831,860
Prepaid insurance and other inventories	339,079	30,727	35,845	405,651	144,892
Total current assets	15,414,952	6,283,954	3,358,021	25,056,927	19,840,914
Noncurrent assets:					
Restricted assets (Note 8)	7,528,240	169,794	169,794	7,867,828	9,185,742
Bond issuance costs (Note 13)	1,100,831	-	-	1,100,831	1,250,843
Property, plant, and equipment - Net (Note 5)	43,010,678	7,674,890	2,650,339	53,335,907	56,326,285
Total noncurrent assets	51,639,749	7,844,684	2,820,133	62,304,566	66,762,870
Total assets	\$ 67,054,701	\$ 14,128,638	\$ 6,178,154	\$ 87,361,493	\$ 86,603,784
Liabilities and Net Position					
Current portion of long-term debt (Note 7)	5,411,975	-	81,849	5,493,824	5,283,735
Accounts payable	1,755,747	129,623	445,003	2,330,373	2,595,185
Due to other funds (Note 6)	-	968	6,024	6,992	-
Due to City of Wyandotte (Note 10)	158,243	890,571	-	1,048,814	191,810
Other accrued liabilities	2,207,134	273,512	360,295	2,840,941	3,023,492
Deferred revenue	-	-	61,640	61,640	73,976
Customer deposits and other current liabilities	1,019,379	-	18,325	1,037,704	1,063,763
Total current liabilities	10,552,478	1,294,674	973,136	12,820,288	12,231,961
Noncurrent liabilities:					
Liabilities to be paid from restricted assets	5,207,238	-	-	5,207,238	5,162,302
Long-term debt - Net of current portion and amount payable from restricted assets (Note 7)	23,742,058	-	-	23,742,058	29,228,766
Net OPEB obligation (Note 14)	2,893,870	713,276	518,036	4,125,182	3,287,621
Total noncurrent liabilities	31,843,166	713,276	518,036	33,074,478	37,678,689
Total liabilities	42,395,644	2,007,950	1,491,172	45,894,766	49,910,650
Net Position					
Net investment in capital assets	10,477,476	7,674,890	2,568,490	20,720,856	18,729,627
Restricted (Note 8)	6,801,002	169,794	169,794	7,140,590	8,358,440
Unrestricted	7,380,579	4,276,004	1,948,698	13,605,281	9,605,067
Total net position	24,659,057	12,120,688	4,686,982	41,466,727	36,693,134
Total liabilities and net position	\$ 67,054,701	\$ 14,128,638	\$ 6,178,154	\$ 87,361,493	\$ 86,603,784

City of Wyandotte, Michigan

Department of Municipal Service

Statement of Revenue, Expenses, and Changes in Net Assets

	Year Ended September 30				
	2013				2012
	Electric Fund	Water Fund	Cable Television Fund	Total	Total
Operating Revenue	\$ 42,659,454	\$ 3,691,068	\$ 9,749,555	\$ 56,100,077	\$ 55,214,927
Operating Expenses					
Production, pumping, and purification	26,478,288	854,129	-	27,332,417	24,425,196
Distribution	1,431,688	476,165	780,530	2,688,383	2,812,982
Cable television royalties	-	-	5,005,583	5,005,583	5,080,079
Customer service	134,453	53,563	27,517	215,533	247,770
Office and administrative	331,691	169,269	340,228	841,188	1,048,216
General fringes and other	5,405,089	1,106,855	1,822,463	8,334,407	8,821,596
Transportation	87,408	26,817	25,177	139,402	156,258
Depreciation	4,550,312	612,301	651,747	5,814,360	5,950,609
Total operating expenses	38,418,929	3,299,099	8,653,245	50,371,273	48,542,706
Operating Income	4,240,525	391,969	1,096,310	5,728,804	6,672,221
Nonoperating Income (Expenses)					
Grant revenue	1,134,165	-	-	1,134,165	2,097,669
Grant expenses	(944,884)	-	-	(944,884)	(1,815,802)
Contribution revenue	-	-	-	-	186,142
Interest and other income	310,343	99,895	97,563	507,801	1,274,896
Interest expense	(1,499,070)	-	(5,839)	(1,504,909)	(1,757,431)
Amortization of bond issuance costs	(147,384)	-	-	(147,384)	(255,708)
Total nonoperating (expenses) income	(1,146,830)	99,895	91,724	(955,211)	(270,234)
Net Income	3,093,695	491,864	1,188,034	4,773,593	6,401,987
Net Position - Beginning of year	21,565,362	11,628,824	3,498,948	36,693,134	30,291,147
Net Position - End of year	\$ 24,659,057	\$ 12,120,688	\$ 4,686,982	\$ 41,466,727	\$ 36,693,134

City of Wyandotte, Michigan

Department of Municipal Service

Statement of Cash Flows

	Year Ended September 30				2012
	2013			Total	
	Electric Fund	Water Fund	Cable Television Fund		
Cash Flows from Operating Activities					
Cash received from customers	\$ 41,778,909	\$ 3,661,051	\$ 9,726,720	\$ 55,166,680	\$ 54,707,585
Cash payments to suppliers for goods and services	(28,736,723)	(1,700,615)	(7,025,351)	(37,462,689)	(32,831,856)
Cash payments to employees for services	(4,500,119)	(914,120)	(920,567)	(6,334,806)	(6,186,933)
Net cash provided by operating activities	8,542,067	1,046,316	1,780,802	11,369,185	15,688,796
Cash Flows from Noncapital Financing Activities					
Interfund borrowing and repayments - Net	(6,992)	968	6,024	-	-
Sewage collections due to City of Wyandotte	-	854,458	-	854,458	-
Net cash (used in) provided by noncapital financing activities	(6,992)	855,426	6,024	854,458	-
Cash Flows from Capital and Related Financing Activities					
Proceeds from debt issuance	-	-	-	-	201,798
Grant revenue	1,338,446	-	-	1,338,446	2,115,718
Grant expenses	(944,884)	-	-	(944,884)	(1,815,802)
Principal and interest paid on capital debt	(6,595,748)	-	(138,216)	(6,733,964)	(6,623,419)
City contribution	-	-	-	-	200,000
Purchase of capital assets	(2,006,491)	(415,993)	(106,175)	(2,528,659)	(3,045,976)
Net cash used in capital and related financing activities	(8,208,677)	(415,993)	(244,391)	(8,869,061)	(8,967,681)
Cash Flows from Investment Activities - Interest received on investments and other income	(14,379)	129,294	97,563	212,478	1,243,330
Net Increase in Cash and Cash Equivalents	312,019	1,615,043	1,639,998	3,567,060	7,964,445
Cash and Cash Equivalents - Beginning of year	14,239,694	4,125,870	721,849	19,087,413	11,122,968
Cash and Cash Equivalents - End of year	\$ 14,551,713	\$ 5,740,913	\$ 2,361,847	\$ 22,654,473	\$ 19,087,413
Reconciliation to Statement of Net Position					
Cash and investments	\$ 7,023,473	\$ 5,571,119	\$ 2,192,053	\$ 14,786,645	\$ 9,901,671
Restricted assets	7,528,240	169,794	169,794	7,867,828	9,185,742
Total	\$ 14,551,713	\$ 5,740,913	\$ 2,361,847	\$ 22,654,473	\$ 19,087,413

City of Wyandotte, Michigan

Department of Municipal Service

Statement of Cash Flows (Continued)

	Year Ended September 30				
	2013			2012	
	Electric Fund	Water Fund	Cable Television Fund	Total	Total
Reconciliation of Operating Income to Net Cash from Operating Activities					
Operating income	\$ 4,240,525	\$ 391,969	\$ 1,096,310	\$ 5,728,804	\$ 6,672,221
Adjustments to reconcile operating income to net cash from operating activities:					
Depreciation and amortization	4,550,312	612,301	651,747	5,814,360	5,950,609
Bad debt expense	100,000	-	60,000	160,000	159,996
Changes in assets and liabilities:					
Receivables	(980,545)	(30,017)	(82,835)	(1,093,397)	(667,338)
Inventory	630,793	(5,680)	40,716	665,829	2,103,051
Prepaid insurance and other current assets	(232,562)	(3,423)	(3,477)	(239,462)	(95,845)
Accounts payable	(213,424)	5,130	(56,519)	(264,813)	(467,776)
Accrued and other liabilities	469,631	76,036	88,046	633,713	1,645,527
Due to City of Wyandotte	2,546	-	-	2,546	(25,467)
Deferred revenue	-	-	(12,336)	(12,336)	(12,336)
Customer deposits and other current liabilities	(25,209)	-	(850)	(26,059)	426,154
Net cash provided by operating activities	<u>\$ 8,542,067</u>	<u>\$ 1,046,316</u>	<u>\$ 1,780,802</u>	<u>\$ 11,369,185</u>	<u>\$ 15,688,796</u>

City of Wyandotte, Michigan

Department of Municipal Service

Notes to Financial Statements

September 30, 2013

Note 1 - Nature of the 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, 2013 as enterprise funds.

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.

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.

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.

City of Wyandotte, Michigan

Department of Municipal Service

Notes to Financial Statements September 30, 2013

Note 2 - Summary of Significant Accounting Policies (Continued)

Assets, Liabilities, and Net Position or Equity

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." Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year is 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 17, 5, and 3 percent, respectively, of the electric department's operating revenue for the year ended September 30, 2013.

The water department has three significant customers: BASF Corporation, the Department of Municipal Service's Electric Department, and the Wyandotte Hospital, representing approximately 12, 10, and 2 percent, respectively, of the water department's operating revenue for the year ended September 30, 2013.

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.

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.

City of Wyandotte, Michigan

Department of Municipal Service

Notes to Financial Statements September 30, 2013

Note 2 - Summary of Significant Accounting Policies (Continued)

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.

Other Postemployment Benefit Costs - The Department offers 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.

City of Wyandotte, Michigan

Department of Municipal Service

Notes to Financial Statements September 30, 2013

Note 2 - Summary of Significant Accounting Policies (Continued)

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.

Reclassifications - Certain amounts presented in the prior year data have been reclassified in order to be consistent with the current year's presentation.

Implementation of GASB Statement No. 63 - In June 2011, the GASB issued Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. The 2013 financial report reflects the implementation of this statement. 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.

City of Wyandotte, Michigan

Department of Municipal Service

Notes to Financial Statements September 30, 2013

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. The law also allows investments outside the state of Michigan when fully insured. The 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 mature 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 several 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 \$5,899,000 at September 30, 2013. 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, 2013

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	Fair Value	Rating	Rating Organization
Bank investment pools	\$ 16,981,432	AAA	Moody's

Note 4 - Billed and Unbilled Accounts Receivable

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

	2013				2012
	Electric	Water	Cable	Total	Total
Accounts receivable	\$ 4,102,512	\$ 282,979	\$ 1,099,698	\$ 5,485,189	\$ 5,109,119
Less allowance for uncollectibles	<u>(364,706)</u>	<u>-</u>	<u>(29,272)</u>	<u>(393,978)</u>	<u>(357,900)</u>
Net receivables	<u>\$ 3,737,806</u>	<u>\$ 282,979</u>	<u>\$ 1,070,426</u>	<u>\$ 5,091,211</u>	<u>\$ 4,751,219</u>

Unbilled accounts receivable from customers represent services that have been provided to customers through September 30, 2013 for which billings were processed subsequent to year end.

City of Wyandotte, Michigan
Department of Municipal Service

Notes to Financial Statements
September 30, 2013

Note 5 - Property, Plant, and Equipment

	Balance September 30, 2012	Additions	Disposals and Adjustments	Balance September 30, 2013
Capital assets not being depreciated - Construction in progress	\$ 315,681	\$ 323,248	\$ -	\$ 638,929
Capital assets being depreciated:				
Utility plant	112,171,243	424,651	(30,670)	112,565,224
Transmission	7,559,048	419,338	-	7,978,386
Pumping	3,221,351	220,867	-	3,442,218
Purification	3,821,708	142,738	-	3,964,446
Distribution	49,949,948	837,971	(71,516)	50,716,403
Transportation	2,777,987	399,008	(38,698)	3,138,297
Stores	988,421	-	-	988,421
Cable equipment	2,578,653	84,073	-	2,662,726
Studio	544,946	-	-	544,946
General	3,034,061	73,675	-	3,107,736
Total capital assets being depreciated	186,647,366	2,602,321	(140,884)	189,108,803
Accumulated depreciation:				
Utility plant	79,024,319	3,345,414	-	82,369,733
Transmission	5,267,598	57,550	-	5,325,148
Pumping	1,985,153	137,707	-	2,122,860
Purification	3,571,841	33,014	-	3,604,855
Distribution	32,905,600	1,763,650	-	34,669,250
Transportation	1,748,848	257,055	(39,297)	1,966,606
Stores	846,998	13,875	-	860,873
Cable equipment	1,621,374	135,758	-	1,757,132
Studio	513,357	7,961	-	521,318
General	3,151,674	62,376	-	3,214,050
Total accumulated depreciation	130,636,762	5,814,360	(39,297)	136,411,825
Net capital assets being depreciated	56,010,604	(3,212,039)	(101,587)	52,696,978
Net capital assets	\$ 56,326,285	\$ (2,888,791)	\$ (101,587)	\$ 53,335,907

Depreciation of \$4,550,312 and \$4,620,558 for the Electric Fund, \$612,301 and \$609,504 for the Water Fund, and \$651,747 and \$720,547 for the Cable Television Fund has been included in operating expenses of the appropriate fund for the years ended September 30, 2013 and 2012, respectively.

City of Wyandotte, Michigan
Department of Municipal Service

Notes to Financial Statements
September 30, 2013

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

Construction Commitments - The Department has active construction projects and other purchase commitments at year end. The Department's commitments (some with contractors/suppliers, and others committed based on resolution of the Commission and thus considered a future obligation by management) as of September 30, 2013 are as follows:

	<u>Spent to Date</u>	<u>Remaining Commitment</u>
Fort Street lighting upgrade	\$ 395,036	\$ 584,163
BASF Geothermal Phase II installation	9,531	260,469
Templin Building geothermal installation	<u>107,520</u>	<u>123,630</u>
Total	<u>\$ 512,087</u>	<u>\$ 968,262</u>

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>
Due to/from Other Funds		
Electric Fund	Cable Television Fund	\$ 6,024
	Water Fund	<u>968</u>
	Total Electric Fund	<u>\$ 6,992</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.

City of Wyandotte, Michigan
Department of Municipal Service

Notes to Financial Statements
September 30, 2013

Note 7 - Long-term Debt

Outstanding Debt

Long-term debt outstanding is as follows:

	Interest Rate Ranges	2013			2012
		Electric Fund	Cable Television Fund	Total	Total
2005A Revenue Bonds - Net of unamortized premium	4.00-5.00%	\$ 1,820,922	\$ -	\$ 1,820,922	\$ 2,431,410
2005B Revenue Bonds - Net of unamortized premium	4.00-4.50%	5,683,061	-	5,683,061	6,183,805
2009 Revenue Refunding Bonds - Net of unamortized premium and deferred refunding charge	4.00-5.25%	21,405,885	-	21,405,885	24,632,281
2007 installment purchase agreement	4.14%	-	-	-	36,197
2008 installment purchase agreement	4.53%	1,405,328	-	1,405,328	1,614,568
2010 installment purchase agreement	4.35%	2,865,107	-	2,865,107	3,222,471
2011 installment purchase agreement	3.75-4.73%	304,647	81,849	386,496	545,215
2012 installment purchase agreement	3.20%	149,083	-	149,083	181,554
Less current portion		(5,411,975)	(81,849)	(5,493,824)	(5,283,735)
Less portion payable from restricted assets		(4,480,000)	-	(4,480,000)	(4,335,000)
Total long-term debt - Net of current portion and amount payable from restricted assets		\$ 23,742,058	\$ -	\$ 23,742,058	\$ 29,228,766

City of Wyandotte, Michigan

Department of Municipal Service

Notes to Financial Statements September 30, 2013

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, 2013 and 2012:

	Long-term Debt - September 30, 2012	Debt Issued	Deferred Charge and Premiums	Debt Retired	Debt Refunded	Discount	Long-term Debt - September 30, 2013	Due Within One Year
2005 Series A Electric System Revenue Bonds (Net of Premiums)	\$ 2,431,410	\$ -	\$ -	\$ (600,000)	\$ -	\$ (10,488)	\$ 1,820,922	\$ (600,000)
2005 Series B Electric System Revenue Bonds (Net of Premiums)	6,183,805	-	-	(500,000)	-	(744)	5,683,061	(575,000)
2007 Cable Installment Purchase Agreement	36,197	-	-	(36,197)	-	-	-	-
2008 Electric Installment Purchase Agreement	1,614,568	-	-	(209,240)	-	-	1,405,328	(238,367)
2009 Series A Electric Revenue and Refunding Bonds (Net of Premiums)	24,632,281	-	36,204	(3,235,000)	-	(27,600)	21,405,885	(3,510,000)
2010 Electric Installment Purchase Agreement	3,222,471	-	-	(357,364)	-	-	2,865,107	(394,095)
2011 Cable Installment Purchase Agreement	178,029	-	-	(96,180)	-	-	81,849	(81,849)
2011 Electric Installment Purchase Agreement	367,186	-	-	(62,539)	-	-	304,647	(70,717)
2012 Electric Installment Purchase Agreement	181,554	-	-	(32,471)	-	-	149,083	(23,795)
Total long-term debt	\$ 38,847,501	\$ -	\$ 36,204	\$ (5,128,991)	\$ -	\$ (38,832)	\$ 33,715,882	\$ (5,493,823)

Debt Service Requirements - The annual total principal and interest requirements to service all debt outstanding as of September 30, 2013, excluding unamortized discount premiums on bonds payable and deferred refunding charges, are as follows:

Years Ending September 30	Electric Fund			Cable Television Fund			
	Principal	Interest	Total	Principal	Interest	Total	Total
2014	\$ 5,206,975	\$ 1,264,180	\$ 6,471,155	\$ 81,849	\$ 1,622	\$ 83,471	\$ 6,554,626
2015	5,463,073	1,042,804	6,505,877	-	-	-	6,505,877
2016	5,871,402	807,489	6,678,891	-	-	-	6,678,891
2017	4,932,467	603,978	5,536,445	-	-	-	5,536,445
2018	5,172,328	356,101	5,528,429	-	-	-	5,528,429
2019-2023	4,122,919	1,083,378	5,206,297	-	-	-	5,206,297
2024-2028	2,585,000	300,276	2,885,276	-	-	-	2,885,276
2029	380,000	-	380,000	-	-	-	380,000
Total	\$ 33,734,164	\$ 5,458,206	\$ 39,192,370	\$ 81,849	\$ 1,622	\$ 83,471	\$ 39,275,841

Interest - For the years ended September 30, 2013 and 2012, total interest costs of \$1,499,070 and \$1,746,184, respectively, were incurred in the Electric Fund and \$5,839 and \$11,247, respectively, were incurred in the Cable Television Fund.

City of Wyandotte, Michigan

Department of Municipal Service

Notes to Financial Statements

September 30, 2013

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 \$9,543,318 compared to the annual debt service requirement of \$5,768,300. 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, 2013 and 2012 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, 2013

Note 8 - Restricted Net Position

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:

	2013			2012	
	Electric Fund	Water Fund	Cable Television Fund	Total	Total
Debt service	\$ 7,528,240	\$ -	\$ -	\$ 7,528,240	\$ 8,846,240
Retiree healthcare	-	169,794	169,794	339,588	339,502
Total restricted assets	7,528,240	169,794	169,794	7,867,828	9,185,742
Less accrued interest payable from restricted assets	(727,238)	-	-	(727,238)	(827,302)
Total restricted net position	<u>\$ 6,801,002</u>	<u>\$ 169,794</u>	<u>\$ 169,794</u>	<u>\$ 7,140,590</u>	<u>\$ 8,358,440</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 \$2,398,653, 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.

In the Water and Cable Television 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, 2013, no monies have been transferred.

City of Wyandotte, Michigan
Department of Municipal Service

Notes to Financial Statements
September 30, 2013

Note 9 - Defined Benefit Pension Plan

Defined Benefit 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, 2013 annual financial report, which may be obtained at the City offices at 3131 Biddle Avenue.

At September 30, 2012, the date of the Department's most recent actuarial valuation, membership consisted of the following:

Retirees and beneficiaries currently receiving benefits	77
Terminated employees entitled to benefits but not yet receiving them	15
Current active employees	58

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. 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.

Annual Pension Cost - For the year ended September 30, 2013, the Department's annual pension cost of \$888,456 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:

	<u>2013</u>	<u>2012</u>	<u>2011</u>
Annual pension cost (APC)	\$ 888,456	\$ 773,346	\$ 626,722
Percentage of APC contributed	100 %	100 %	100 %
Net pension obligation	\$ -	\$ -	\$ -

City of Wyandotte, Michigan
Department of Municipal Service

Notes to Financial Statements
September 30, 2013

Note 9 - Defined Benefit Pension Plan (Continued)

Funded status and funding progress for actuarial valuation of September 30, 2012 are as follows:

	<u>System Total</u>	<u>Department Allocation</u>	
Actuarial value of assets	\$ 60,434,373	\$ 20,306,142	
Actuarial accrued liability (AAL) (entry age)	84,173,702	N/A	*
Unfunded AAL (UAAL)	23,739,329	N/A	*
Funded ratio	71.8 %	N/A	
Covered payroll	6,803,552	3,649,775	
UAAL as percentage of covered payroll	348.9 %	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, 2012, using the entry age actuarial cost 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.

Additional Information - The Department's 2013 contribution represented approximately 22 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 \$6,804,000. The Department's covered payroll for 2013 was approximately \$3,650,000.

City of Wyandotte, Michigan

Department of Municipal Service

Notes to Financial Statements

September 30, 2013

Note 9 - Defined Benefit Pension Plan (Continued)

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, 2013, there were 52 employees in the defined contribution plan.

The Department's total payroll during the current year covering this group of employees was \$2,353,076. The current year contribution was calculated based on covered payroll in the same amount, resulting in an employer contribution of \$235,308. Department employees' contributions were \$117,654.

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, 2013 and 2012.

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.

City of Wyandotte, Michigan
Department of Municipal Service

Notes to Financial Statements
September 30, 2013

Note 10 - Related Party Transactions (Continued)

A summary of these transactions with the City for the years ended September 30, 2013 and 2012 is as follows:

	2013	2012
Department revenue:		
Electric and water services	\$ 701,219	\$ 739,227
Street and public safety lighting	541,067	457,777
Collection fee	-	83,326
Department expenses:		
In lieu of property taxes	(541,067)	(457,577)
Cable television franchise fees	(487,313)	(476,589)
Water franchise fee	(200,000)	(200,000)
City services	(747,277)	(642,773)
Remittances to City for sewage use charge collections	(3,185,256)	(4,900,000)
Payable to City of Wyandotte - Sewage Disposal Fund	(890,571)	36,113
Payable to City of Wyandotte - Solid Waste Disposal Fund	(21,239)	(18,693)
Payable to City of Wyandotte - General Fund	(137,004)	(137,004)
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 \$2,000,000 per employee (in the case of disease) or \$2,000,000 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, 2013

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 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, 2011	\$ 315,316
Estimated claims incurred - Net of changes in estimated	(2,301)
Claim payments	<u>(22,865)</u>
Estimated liability - September 30, 2012	290,150
Estimated claims incurred - Net of changes in estimated	35,391
Claim payments	<u>(63,820)</u>
Estimated liability - September 30, 2013	<u>\$ 261,721</u>

City of Wyandotte, Michigan

Department of Municipal Service

Notes to Financial Statements

September 30, 2013

Note 12 - Contingent Liabilities

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 on April 2, 2013 the Michigan Court of Appeals issued its opinion reversing the Court's judgment in part and remanding the case back to the Circuit Court for further proceedings. 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 and on July 16, 2013 the Department filed a Motion for Entry of Judgment requesting the Circuit Court to accept and enter a proposed judgment of \$ 454,492.91. Management's estimate of the anticipated judgement/settlement to be paid to UST has been recorded as a liability in the financial statements of the Electric Fund as of September 30, 2013 and 2012.

City of Wyandotte, Michigan

Department of Municipal Service

Notes to Financial Statements

September 30, 2013

Note 12 - Contingent Liabilities (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 and 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 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. To address the matter more cost effectively, 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 year ended September 30, 2013. Amortization expense for the 2005 revenue bonds amounted to \$37,848 for the years ended September 30, 2013. Amortization expense for the 2009 refunding bonds was \$50,064 for the year ended September 30, 2013.

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Notes to Financial Statements
September 30, 2013

Note 14 - Other 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 Television Funds as the insurance premiums become due; these amounts (as adjusted for the implicit rate subsidy pursuant to GASB No. 45) were approximately \$510,000, \$127,000, and \$91,000, respectively, during the year ended September 30, 2013 and \$490,000, \$132,000, and \$84,000 in the Electric, Water, and Cable Television Funds, respectively, during the year ended September 30, 2012.

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Notes to Financial Statements
September 30, 2013

Note 14 - Other Postemployment Benefits (Continued)

Funding Progress - For the year ended September 30, 2013 the Department has estimated the cost of providing retiree health care benefits through an actuarial valuation as of September 30, 2011. 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 of 28 years. This valuation's computed contribution and actual funding are summarized as follows:

Annual required contribution (recommended)	\$ 1,625,587
Interest on the prior year's net OPEB obligation	147,943
Less adjustment to the annual required contribution	<u>(208,832)</u>
Annual OPEB cost	1,564,698
Amounts contributed:	
Payments of current premiums	(727,137)
Advance funding	<u>-</u>
Increase in net OPEB obligation	837,561
OPEB obligation - Beginning of year	<u>3,287,621</u>
OPEB obligation - End of year	<u>\$ 4,125,182</u>

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

	Actuarial Valuation as of		
	September 30		
	<u>2011</u>	<u>2009</u>	<u>2006</u>
Actuarial value of assets	\$ -	\$ -	\$ -
Actuarial accrued liability (AAL) (entry age)	18,428,534	17,381,962.0	18,012,350
Unfunded AAL (UAAL)	18,428,534	17,381,962.0	18,012,350
Funded ratio	- %	- %	- %
Covered payroll	*	*	4,539,471
UAAL as a percentage of covered payroll	*	*	396.8 %

City of Wyandotte, Michigan

Department of Municipal Service

Notes to Financial Statements September 30, 2013

Note 14 - Other Postemployment Benefits (Continued)

- * 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.

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 4.55 percent after 10 years. Both rates included a 4.5 percent inflation assumption. The actuarial value of assets was determined using techniques that spread the effects of short-term volatility in the market value of investments over a five-year period. The UAAL is being amortized as a level percentage of projected payroll on an open 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.

City of Wyandotte, Michigan

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Notes to Financial Statements

September 30, 2013

Note 15 - Upcoming Accounting Pronouncements

In March 2012, the GASB issued GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, which is required to be implemented for financial statements for periods beginning after December 15, 2012. Statement No. 65 establishes accounting and financial reporting standards that reclassify, as deferred outflows and inflows of resources, certain items that were previously reported as assets and liabilities. This Statement also provides other financial reporting guidance related to the impact of the financial statement elements deferred outflows of resources and deferred inflows of resources. Statement No. 65 will be implemented for the Department's 2014 fiscal year.

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 supplementary 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 year ended September 30, 2015.