

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

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**Financial Report  
September 30, 2014**

# **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, 2014 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, 2014 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 1, 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, 2014, 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.

As discussed in Note 2 to the basic financial statements, during the year ended September 30, 2014, the Department adopted new accounting guidance, Governmental Accounting Standards Board Statement No. 65, *Items Previously Reported as Assets and Liabilities*. This guidance establishes accounting and financial reporting standards that reclassify, as deferred inflows and outflows of resources, certain items that were previously reported as assets and liabilities. 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.

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

### **Report on Summarized Comparative Information**

We have previously audited the Department's September 30, 2013 financial statements and we expressed an unmodified audit opinion on those audited financial statements in our report dated January 29, 2014. In our opinion, the summarized comparative information presented herein as of and for the year ended September 30, 2013 is consistent, in all material respects, with the audited financial statements from which it has been derived.

### **Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated February 27, 2015 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 & Morse, PLLC*

February 27, 2015

# **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, 2014. Please read it in conjunction with the Department's financial statements.

#### **Using this Annual Report**

The City of Wyandotte, Michigan Department of Municipal Services (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 Services 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.

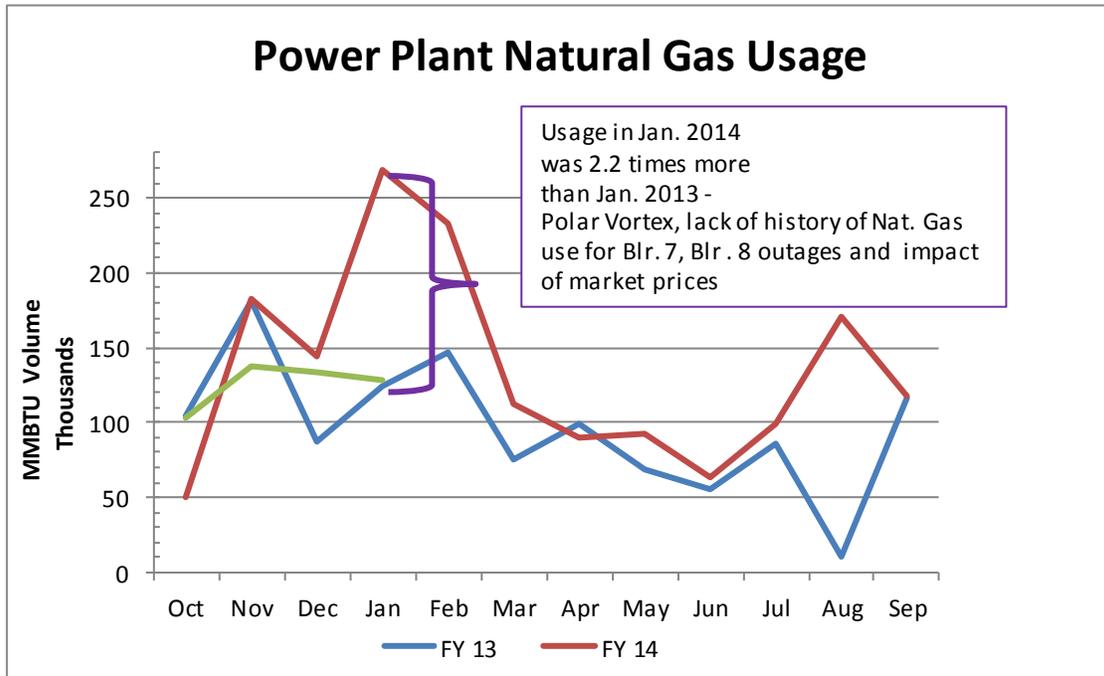
#### **Financial Highlights**

##### **Electric Fund**

- The Electric Fund's operating revenue was comparable to the prior year, increasing by approximately 2 percent, while operating expenses increased by approximately 22 percent. The increase in operating expenses is attributable to the inefficiencies of existing equipment required for the production of steam utilizing natural gas, availability of other internal generation for the production of steam, and higher than forecasted market prices for natural gas during the harsh winter of 2014 due to the demand for natural gas.
- Accordingly, the Electric Fund's operating loss was \$3,439,920 compared to operating income of \$4,240,525 in the previous year. In addition to the existing facilities and their operating inefficiencies with respect to natural gas usage volumes, the decrease in operating income was also attributable to the historic weather experienced during the winter months of 2014 that impacted natural gas prices.

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

**Management’s Discussion and Analysis**



- The Department’s bond ordinance specifies that the Department’s Electric Fund budget should 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 fell below 110 percent (approximately 35 percent for the year ended September 30, 2014).

# City of Wyandotte, Michigan

## Department of Municipal Service

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### 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 \$638,126 for the year ended September 30, 2014 was added back to the computation of amounts available for debt. Refer to Note 13 for additional details regarding net OPEB obligation.

- Another financial covenant in the Department's bond ordinance requires actual expenditures of the Department to 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 approximately 1 percent while operating expenses decreased by approximately 6.0 percent compared to the prior year. Operating income in the current year increased by \$244,439 and was \$636,408 at year end.
- Through a planned series of water rate adjustments over the past several years, the Water Fund has built adequate working capital and unrestricted net position to address ongoing and necessary infrastructure improvements and maintenance required by the system. One such project in progress is the reconstruction of the water filters at the Water Filter Plant.
- This year's financial statement reports unrestricted net position of \$5,421,744 (as compared to \$4,276,004 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 so that operating and capital requirements are met.

#### Cable Television Fund

- The Cable Television Fund's operating revenue decreased by less than 1/2 of 1 percent compared to the prior year. The flat nature of operating revenue was primarily due to rate adjustments made to reflect costs to provide services.
  - The Cable Television Fund realized operating income of \$1,005,231 in the current year. This represented a decrease of \$91,079 in operating income as compared to operating income of \$1,096,310 realized in the prior year.
  - Costs for cable programming content continue to be a primary contributor 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 and financial condition so that operating and capital requirements are met.

# City of Wyandotte, Michigan

## Department of Municipal Service

### Management's Discussion and Analysis (Continued)

- This year's financial statement reports unrestricted net position of \$3,169,756 as compared to \$1,948,698 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, many of which are currently in progress.

### Condensed Financial Information

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

	September 30		Change	
	2014	2013	Amount	Percent
<b>Assets</b>				
Current assets	\$ 21,723,493	\$ 24,445,490	\$ (2,721,997)	(11.13)
Restricted assets	8,270,092	8,250,262	19,830	0.24
Property, plant, and equipment	<u>49,973,790</u>	<u>53,335,907</u>	<u>(3,362,117)</u>	(6.30)
Total assets	79,967,375	86,031,659	(6,064,284)	(7.05)
<b>Deferred Outflows of Resources</b>	506,853	543,057	(36,204)	(6.67)
<b>Liabilities</b>				
Current liabilities	13,624,564	12,591,285	1,033,279	8.21
Liabilities payable from restricted assets	5,300,971	5,207,238	93,733	1.80
Long-term liabilities	<u>24,015,798</u>	<u>28,410,297</u>	<u>(4,394,499)</u>	(15.47)
Total liabilities	42,941,333	46,208,820	(3,267,487)	(7.07)
<b>Net Assets</b>				
Invested in capital assets - Net of debt	20,704,377	19,620,025	1,084,352	5.53
Restricted assets	7,262,102	7,125,702	136,400	1.91
Unrestricted	<u>9,566,416</u>	<u>13,620,169</u>	<u>(4,053,753)</u>	(29.76)
Total net assets	<u>\$ 37,532,895</u>	<u>\$ 40,365,896</u>	<u>\$ (2,833,001)</u>	(7.02)

# 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	
	2014	2013	Amount	Percent
Total operating revenue	\$ 56,967,047	\$ 56,100,077	\$ 866,970	1.55
Total operating expenses	58,765,328	50,371,273	8,394,055	16.66
<b>Operating (Loss) Income</b>	(1,798,281)	5,728,804	(7,527,085)	(131.39)
Other nonoperating expense	(1,034,720)	(807,827)	(226,893)	(28.09)
<b>Net (Loss) Income</b>	<b>\$ (2,833,001)</b>	<b>\$ 4,920,977</b>	<b>\$ (7,753,978)</b>	(157.57)

#### 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, invested in a new roof for the power plant, and installed geothermal infrastructure.

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 for roof replacement 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. Phase I of the local programming studio relocation was completed along with preliminary engineering and planning for the Homes per Node reduction and conversion to all digital programming.

All funds converted to a new ERP software system during the fiscal year. In addition, this project required the Cable Television Fund to purchase software specific to the cable industry to facilitate administrative matters, including billing.

Purchases of capital assets for all funds during the year were funded from operations except for the power plant roof project which was financed through an installment purchase agreement. Both the Water and Cable Television Funds have no current or long-term debt at the end of the current year.

# **City of Wyandotte, Michigan**

## **Department of Municipal Service**

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### **Management's Discussion and Analysis (Continued)**

#### **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 due to the increased use of natural gas. Natural gas usage also skyrocketed during the harsh winter of 2014 due to increased market demands which led to significantly higher than expected costs. 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.

Steps taken for next year's operations include modifications made to the steamline that reduces generation requirements, laddered basis purchases to further minimize volatility in the natural gas market, and reduced plant house service usage due to steam production modifications. Necessary funding has also been contingently approved in the next fiscal year to address long-term facility needs for the use of natural gas in generation and for redundancy in purchased electricity.

Through a series of rate adjustments based on costs to provide service, the Water Fund and Cable Television Fund have improved their financial condition and position to meet recommended working capital and infrastructure needs. Significant capital projects will commence for both funds during the next fiscal year. Also, the Cable Television Fund continues to be impacted by the escalating costs for programming requiring a continual evaluation of rates so that any necessary adjustments can be made to match service costs.

#### **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				
	2014			2013	
	Electric Fund	Water Fund	Cable Television Fund	Total	Total
<b>Assets</b>					
Current assets:					
Cash and cash equivalents	\$ 2,217,371	\$ 6,660,309	\$ 3,576,436	\$ 12,454,116	\$ 14,404,211
Receivables:					
Billed (Note 4)	3,971,066	294,701	873,320	5,139,087	5,250,160
Unbilled customer billings	2,494,311	229,398	-	2,723,709	3,387,986
Due from other governmental units (Note 6)	36,923	-	24,405	61,328	53,462
Due from other funds	91,778	-	-	91,778	6,992
Fuel, materials, supplies, and other inventories	878,716	110,979	60,306	1,050,001	1,166,031
Prepaid insurance and other inventories	127,444	44,824	31,206	203,474	176,648
Total current assets	9,817,609	7,340,211	4,565,673	21,723,493	24,445,490
Noncurrent assets:					
Restricted assets (Note 8)	8,270,092	-	-	8,270,092	8,250,262
Property, plant, and equipment - Net (Note 5)	40,055,661	7,336,041	2,582,088	49,973,790	53,335,907
Total noncurrent assets	48,325,753	7,336,041	2,582,088	58,243,882	61,586,169
Total assets	58,143,362	14,676,252	7,147,761	79,967,375	86,031,659
<b>Deferred Outflows of Resources - Deferred</b>					
charges on refunding	506,853	-	-	506,853	543,057
<b>Liabilities</b>					
Current liabilities:					
Accounts payable	2,126,067	148,112	527,138	2,801,317	2,013,357
Due to City of Wyandotte (Note 10)	194,267	797,460	9,757	1,001,484	1,048,814
Due to other funds (Note 6)	-	12,446	79,332	91,778	6,992
Accrued liabilities and other	2,141,550	301,321	190,936	2,633,807	2,840,941
Unearned revenue	187,344	-	49,304	236,648	149,653
Customer deposits and other current liabilities	1,053,488	-	18,100	1,071,588	1,037,704
Current portion of long-term debt (Note 7)	5,787,942	-	-	5,787,942	5,493,824
Total current liabilities	11,490,658	1,259,339	874,567	13,624,564	12,591,285
Noncurrent liabilities:					
Liabilities to be paid from restricted assets	5,300,971	-	-	5,300,971	5,207,238
Net OPEB obligation (Note 13)	3,531,996	659,128	521,350	4,712,474	4,125,182
Long-term debt - Net of current portion and amount payable from restricted assets (Note 7)	19,303,324	-	-	19,303,324	24,285,115
Total noncurrent liabilities	28,136,291	659,128	521,350	29,316,769	33,617,535
Total liabilities	39,626,949	1,918,467	1,395,917	42,941,333	46,208,820
<b>Equity - Net position</b>					
Net investment in capital assets	10,786,248	7,336,041	2,582,088	20,704,377	19,620,025
Restricted	7,262,102	-	-	7,262,102	7,125,702
Unrestricted	974,916	5,421,744	3,169,756	9,566,416	13,620,169
Total net position	<u>\$ 19,023,266</u>	<u>\$ 12,757,785</u>	<u>\$ 5,751,844</u>	<u>\$ 37,532,895</u>	<u>\$ 40,365,896</u>

The Notes to Financial Statements are an  
Integral Part of this Statement.

# City of Wyandotte, Michigan

## Department of Municipal Service

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

	Year Ended September 30				
	2014				2013
	Electric Fund	Water Fund	Cable Television Fund	Total	Total
<b>Operating Revenue</b>	\$ 43,521,230	\$ 3,734,464	\$ 9,711,353	\$ 56,967,047	\$ 56,100,077
<b>Operating Expenses</b>					
Production, pumping, and purification	34,519,717	864,826	-	35,384,543	27,332,417
Distribution	1,399,440	473,935	759,501	2,632,876	2,688,383
Cable television royalties	-	-	4,967,116	4,967,116	5,005,583
Customer service	89,478	69,049	16,555	175,082	215,533
Office and administrative	421,943	161,250	315,491	898,684	841,188
General fringes and other	5,645,800	938,866	1,916,012	8,500,678	8,334,407
Transportation	62,421	31,907	30,940	125,268	139,402
Depreciation	4,822,351	558,223	700,507	6,081,081	5,814,360
Total operating expenses	46,961,150	3,098,056	8,706,122	58,765,328	50,371,273
<b>Operating (Loss) Income</b>	(3,439,920)	636,408	1,005,231	(1,798,281)	5,728,804
<b>Nonoperating Income (Expenses)</b>					
Grant revenue	648,341	-	-	648,341	1,134,165
Grant expenses	(596,101)	-	-	(596,101)	(944,884)
Interest and other income	116,981	689	61,253	178,923	507,801
Interest expense	(1,264,261)	-	(1,622)	(1,265,883)	(1,504,909)
Total nonoperating (expenses) income	(1,095,040)	689	59,631	(1,034,720)	(807,827)
<b>Net (Loss) Income</b>	(4,534,960)	637,097	1,064,862	(2,833,001)	4,920,977
<b>Net Position - Beginning of year (Note 2)</b>	23,558,226	12,120,688	4,686,982	40,365,896	35,444,919
<b>Net Position - End of year</b>	<b>\$ 19,023,266</b>	<b>\$ 12,757,785</b>	<b>\$ 5,751,844</b>	<b>\$ 37,532,895</b>	<b>\$ 40,365,896</b>

# City of Wyandotte, Michigan

## Department of Municipal Service

### Statement of Cash Flows

	Year Ended September 30				
	2014				2013
	Electric Fund	Water Fund	Cable Television Fund	Total	Total
<b>Cash Flows from Operating Activities</b>					
Cash received from customers	\$ 44,078,545	\$ 3,771,932	\$ 9,884,054	\$ 57,734,531	\$ 55,166,680
Cash payments to suppliers for goods and services	(36,860,654)	(1,596,204)	(7,179,071)	(45,635,929)	(37,462,689)
Cash payments to employees for services	(4,017,652)	(956,014)	(918,985)	(5,892,651)	(6,334,806)
Net cash provided by operating activities	3,200,239	1,219,714	1,785,998	6,205,951	11,369,185
<b>Cash Flows from Noncapital Financing Activities</b>					
Interfund borrowing and repayments - Net	(84,786)	11,478	73,308	-	-
Receipts from (paid to) City of Wyandotte	36,024	(93,111)	9,757	(47,330)	854,458
Net cash (used in) provided by noncapital financing activities	(48,762)	(81,633)	83,065	(47,330)	854,458
<b>Cash Flows from Capital and Related Financing Activities</b>					
Proceeds from debt issuance	850,000	-	-	850,000	-
Grant revenue	648,341	-	-	648,341	1,338,446
Grant expenses	(596,101)	-	-	(596,101)	(944,884)
Principal and interest paid on capital debt	(6,364,986)	-	(83,471)	(6,448,457)	(6,733,964)
Purchase of capital assets	(1,869,962)	(219,374)	(632,256)	(2,721,592)	(2,528,659)
Net cash used in capital and related financing activities	(7,332,708)	(219,374)	(715,727)	(8,267,809)	(8,869,061)
<b>Cash Flows from Investment Activities - Interest received on investments and other income</b>	116,981	689	61,253	178,923	212,478
<b>Net (Decrease) Increase in Cash and Cash Equivalents</b>	(4,064,250)	919,396	1,214,589	(1,930,265)	3,567,060
<b>Cash and Cash Equivalents - Beginning of year</b>	14,551,713	5,740,913	2,361,847	22,654,473	19,087,413
<b>Cash and Cash Equivalents - End of year</b>	<b>\$ 10,487,463</b>	<b>\$ 6,660,309</b>	<b>\$ 3,576,436</b>	<b>\$ 20,724,208</b>	<b>\$ 22,654,473</b>
<b>Reconciliation to Statement of Net Position</b>					
Cash and investments	\$ 2,217,371	\$ 6,660,309	\$ 3,576,436	\$ 12,454,116	\$ 14,404,211
Restricted assets	8,270,092	-	-	8,270,092	8,250,262
Total	<b>\$ 10,487,463</b>	<b>\$ 6,660,309</b>	<b>\$ 3,576,436</b>	<b>\$ 20,724,208</b>	<b>\$ 22,654,473</b>

# City of Wyandotte, Michigan

## Department of Municipal Service

### Statement of Cash Flows (Continued)

	Year Ended September 30				
	2014				2013
	Electric Fund	Water Fund	Cable Television Fund	Total	Total
<b>Reconciliation of Operating (Loss) Income to Net Cash from Operating Activities</b>					
Operating (loss) income	\$ (3,439,920)	\$ 636,408	\$ 1,005,231	\$ (1,798,281)	\$ 5,728,804
Adjustments to reconcile operating (loss) income to net cash from operating activities:					
Depreciation and amortization	4,822,351	558,223	700,507	6,081,081	5,814,360
Bad debt expense	163,032	41,252	331,842	536,126	160,000
Changes in assets and liabilities:					
Receivables	394,283	(3,784)	(159,141)	231,358	(1,093,397)
Inventory	107,077	9,562	(609)	116,030	665,829
Prepaid insurance and other current assets	211,635	(14,097)	4,639	202,177	(239,462)
Accounts payable	370,320	18,489	82,135	470,944	(264,813)
Accrued and other liabilities	(288,118)	27,809	(169,359)	(429,668)	633,713
Due to City of Wyandotte	-	-	-	-	2,546
Unearned revenue	221,453	-	(12,561)	208,892	(12,336)
Customer deposits and other current liabilities	638,126	(54,148)	3,314	587,292	(26,059)
Net cash provided by operating activities	<u>\$ 3,200,239</u>	<u>\$ 1,219,714</u>	<u>\$ 1,785,998</u>	<u>\$ 6,205,951</u>	<u>\$ 11,369,185</u>

# **City of Wyandotte, Michigan**

## **Department of Municipal Service**

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### **Notes to Financial Statements**

#### **September 30, 2014**

#### **Note I - 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 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, 2014 as enterprise funds.

##### **Accounting and Reporting Principles**

The Department follows accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. Accounting and financial reporting pronouncements are promulgated by the Governmental Accounting Standards Board.

##### **Report 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 cash flows. Governmental accounting principles that require financial reports to include two different perspectives - the government-wide perspective and the fund-based perspective - do not apply.

##### **Basis of Accounting**

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

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### Notes to Financial Statements September 30, 2014

#### Note I - Summary of Significant Accounting Policies (Continued)

##### Specific Balances and Transactions

**Cash and 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 is 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 25, 8, and 3 percent, respectively, of the Electric Department's operating revenue for the year ended September 30, 2014.

The Water Department has three significant customers: BASF Corporation, the Department of Municipal Service's Electric Department, and the Wyandotte Hospital, representing approximately 14, 7, and 3 percent, respectively, of the Water Department's operating revenue for the year ended September 30, 2014.

**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, 2014**

**Note I - Summary of Significant Accounting Policies (Continued)**

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

Capital Asset Class	Lives (Years)
Utility plant	20-25
Transmission	10-15
Pumping	40-50
Purification	20-40
Distribution	10-15
Transportation	4-15
Stores	10-15
Cable equipment	10
Studio	10-15
General	5-10

**Long-term Obligations** - In the financial statements, long-term debt and other long-term obligations are reported as liabilities. Bond premiums and discounts 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 expensed at the time they are incurred.

**Unearned Revenue** - Unearned 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. Within the Electric Fund, unearned revenue relates to grant awards advance funded but not yet earned. These amounts will be recognized as earned.

**Deferred Outflows/Inflows of Resources**

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element represents a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (expense) until then. The Department has one item that qualifies for reporting in this category. It is the deferred charge on refunding reported in the statement of net position. A deferred charge on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt.

# City of Wyandotte, Michigan

## Department of Municipal Service

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### Notes to Financial Statements September 30, 2014

#### **Note 1 - Summary of Significant Accounting Policies (Continued)**

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element represents an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources (revenue) until that time. The Department has no items that qualify for reporting in this category.

#### **Net Position Flow Assumption**

Sometimes the Department will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted net position and unrestricted net position in the financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the Department's policy to consider restricted net position to have been depleted before unrestricted net position is applied.

**Pension and Other Postemployment Benefit Costs** - The Department offers both pension and retiree healthcare benefits to retirees, through participation in the City of Wyandotte Employees' Retirement System. 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 underpaid amount, if any.

In addition, the Department provides pension benefits to all employees hired after October 1, 2006 through a defined contribution plan.

**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. There is no liability for unpaid accumulated sick leave since the Department does not have a policy to pay any amounts when employees separate from service with the Department. All vacation pay is accrued when incurred.

**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.

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

**Notes to Financial Statements**  
**September 30, 2014**

**Note 1 - Summary of Significant Accounting Policies (Continued)**

**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.

**Note 2 - Change in Accounting**

During the current year, the Department adopted GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. The objective of this statement is to establish standards that reclassify certain items that were previously reported as assets and liabilities and instead to classify them as deferred inflows of resources, deferred outflows of resources, or outflows of resources.

As a result of implementing this statement, the following assets and liabilities as of September 30, 2013 have been reclassified within the statements, as indicated:

Item	Amount	Prior Reporting Classification/Treatment	New Classification After Adoption of GASB Statement No. 65
Deferred amounts on debt refundings	\$ 543,057	Adjustment to the bonds payable liability	Deferred outflow of resources
Bond issuance costs	1,100,831	Asset	Outflow of resources (an expense)

The financial statements for the year ended September 30, 2013 have been restated in order to conform with GASB Statement No. 65.

The effect of this correction was to expense bond issuance costs rather than capitalizing them and reporting them as an asset.

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

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**Notes to Financial Statements**  
**September 30, 2014**

**Note 2 - Change in Accounting (Continued)**

The effect of this change is as follows:

	<u>Electric Fund</u>
Net position - September 30, 2013 - As previously reported	\$ 24,659,057
Capitalized bond issuance cost expensed under GASB Statement No. 65	<u>(1,100,831)</u>
Net position - September 30, 2013 - As restated	<u>\$ 23,558,226</u>

**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 two banks 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.

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

**Notes to Financial Statements**  
**September 30, 2014**

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

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 \$9,577,640 at September 30, 2014. 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	Fair Value	Rating	Rating Organization
Bank investment pools	\$ 10,453,790	AAA	Moody's

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

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

	2014				2013
	Electric	Water	Cable	Total	Total
Accounts receivable	\$ 4,188,066	\$ 311,201	\$ 1,039,320	\$ 5,538,587	\$ 5,644,138
Less allowance for uncollectibles	(217,000)	(16,500)	(166,000)	(399,500)	(393,978)
Net receivables	<u>\$ 3,971,066</u>	<u>\$ 294,701</u>	<u>\$ 873,320</u>	<u>\$ 5,139,087</u>	<u>\$ 5,250,160</u>

Unbilled accounts receivable from customers represent services that have been provided to customers through September 30, 2014 for which billings were processed subsequent to year end.

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

**Notes to Financial Statements**  
**September 30, 2014**

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

	Balance September 30, 2013	Reclassifications	Additions	Disposals and Adjustments	Balance September 30, 2014
Capital assets not being depreciated - Construction in progress	\$ 638,929	\$ (62,075)	\$ 348,684	\$ -	\$ 925,538
Capital assets being depreciated:					
Utility plant	112,565,224	(547,137)	1,253,684	-	113,271,771
Transmission	7,978,386	(2,067,205)	-	-	5,911,181
Pumping	3,442,218	(231,208)	83,328	-	3,294,338
Purification	3,964,446	(128,781)	75,726	-	3,911,391
Distribution	50,716,403	3,583,221	462,961	-	54,762,585
Transportation	3,138,297	-	987	(71,734)	3,067,550
Stores	988,421	(56,754)	31,754	-	963,421
Cable equipment	2,662,726	(552,307)	281,615	-	2,392,034
Studio	544,946	7,336	23,756	-	576,038
General	3,107,736	54,910	156,469	-	3,319,115
Total capital assets being depreciated	189,108,803	62,075	2,370,280	(71,734)	191,469,424
Accumulated depreciation:					
Utility plant	82,369,733	(1,169)	3,393,985	-	85,762,549
Transmission	5,325,148	35,744	91,258	-	5,452,150
Pumping	2,122,860	(600)	125,389	-	2,247,649
Purification	3,604,855	-	27,409	-	3,632,264
Distribution	34,669,250	363,461	1,966,777	-	36,999,488
Transportation	1,966,606	(4,825)	235,556	(71,734)	2,125,603
Stores	860,873	(417)	10,098	-	870,554
Cable equipment	1,757,132	(64,795)	116,417	-	1,808,754
Studio	521,318	-	9,555	-	530,873
General	3,214,050	(327,399)	104,637	-	2,991,288
Total accumulated depreciation	136,411,825	-	6,081,081	(71,734)	142,421,172
Net capital assets being depreciated	52,696,978	62,075	(3,710,801)	-	49,048,252
Net capital assets	\$ 53,335,907	\$ -	\$ (3,362,117)	\$ -	\$ 49,973,790

Depreciation of \$4,824,979 and \$4,550,312 for the Electric Fund, \$558,223 and \$612,301 for the Water Fund, and \$700,507 and \$651,747 for the Cable Television Fund has been included in operating expenses of the appropriate fund for the years ended September 30, 2014 and 2013, respectively.

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

**Notes to Financial Statements**  
**September 30, 2014**

**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, 2014 are as follows:

	<u>Spent to Date</u>	<u>Remaining Commitment</u>
Fort Street lighting upgrade	\$ 463,063	\$ 516,136
BASF Geothermal Phase II installation	<u>14,481</u>	<u>255,519</u>
Total	<u>\$ 477,544</u>	<u>\$ 771,655</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>
<b>Due to/from Other Funds</b>		
Electric Fund	Cable Television Fund	\$ 79,332
	Water Fund	<u>12,446</u>
	Total Electric Fund	<u>\$ 91,778</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, 2014**

**Note 7 - Long-term Debt**

**Outstanding Debt**

Long-term debt outstanding is as follows:

	Interest Rate Ranges	2014		2013
		Electric Fund	Total	Total
2005A Revenue Bonds - Net of unamortized premium	4.00-5.00%	\$ 1,210,434	\$ 1,210,434	\$ 1,820,922
2005B Revenue Bonds - Net of unamortized premium	4.00-4.50%	5,157,317	5,157,317	5,683,061
2009 Revenue Refunding Bonds - Net of unamortized premium and deferred outflow	4.00-5.25%	18,566,342	18,566,342	21,948,942
2008 installment purchase agreement	4.53%	1,166,961	1,166,961	1,405,328
2010 installment purchase agreement	4.35%	2,471,012	2,471,012	2,865,107
2011 installment purchase agreement	3.75-4.73%	233,930	233,930	386,496
2012 installment purchase agreement	3.20%	120,270	120,270	149,083
2014 installment purchase agreement	2%	850,000	850,000	-
Less current portion		(5,787,942)	(5,787,942)	(5,493,824)
Less portion payable from restricted assets		(4,685,000)	(4,685,000)	(4,480,000)
Total long-term debt - Net of current portion and amount payable from restricted assets		\$ 19,303,324	\$ 19,303,324	\$ 24,285,115

# City of Wyandotte, Michigan

## Department of Municipal Service

### Notes to Financial Statements September 30, 2014

#### 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, 2014 and 2013:

	Long-term Debt - September 30, 2013		Deferred Charge and Premiums	Debt Retired	Debt Refunded	Discount	Long-term Debt - September 30, 2014		Due Within One Year
2005 Series A Electric System Revenue Bonds (Net of Premiums)	\$ 1,820,922	\$ -	\$ -	\$ (600,000)	\$ -	\$ (10,488)	\$ 1,210,434	\$ (600,000)	
2005 Series B Electric System Revenue Bonds (Net of Premiums)	5,683,061	-	-	(525,000)	-	(745)	5,157,316	(650,000)	
2008 Electric Installment Purchase Agreement	1,405,328	-	-	(238,367)	-	-	1,166,961	(249,385)	
2009 Series A Electric Revenue and Refunding Bonds (Net of Premiums)	21,948,942	-	-	(3,355,000)	-	(27,600)	18,566,342	(3,645,000)	
2010 Electric Installment Purchase Agreement	2,865,107	-	-	(394,095)	-	-	2,471,012	(425,763)	
2011 Cable Installment Purchase Agreement	81,849	-	-	(81,849)	-	-	-	-	
2011 Electric Installment Purchase Agreement	304,647	-	-	(70,717)	-	-	233,930	(73,415)	
2012 Electric Installment Purchase Agreement	149,083	-	-	(28,812)	-	-	120,271	(29,748)	
2014 Electric Installment Purchase Agreement	-	850,000	-	-	-	-	850,000	(114,631)	
<b>Total long-term debt</b>	<b>\$ 34,258,939</b>	<b>\$ 850,000</b>	<b>\$ -</b>	<b>\$ (5,293,840)</b>	<b>\$ -</b>	<b>\$ (38,833)</b>	<b>\$ 29,776,266</b>	<b>\$ (5,787,942)</b>	

**Debt Service Requirements** - The annual total principal and interest requirements to service all debt outstanding as of September 30, 2014, excluding unamortized discount premiums on bonds payable, are as follows:

Years Ending September 30	Principal	Interest	Total
2015	\$ 5,577,941	\$ 1,059,077	\$ 6,637,018
2016	5,982,975	821,568	6,804,543
2017	5,051,528	615,821	5,667,349
2018	5,293,669	365,663	5,659,332
2019	1,411,583	304,444	1,716,027
2020-2024	3,731,032	901,533	4,632,565
2025-2029	2,323,445	192,247	2,515,692
<b>Total</b>	<b>\$ 29,372,173</b>	<b>\$ 4,260,353</b>	<b>\$ 33,632,526</b>

**Interest** - For the years ended September 30, 2014 and 2013, total interest costs of \$1,264,261 and \$1,499,070, respectively, were incurred in the Electric Fund and \$1,622 and \$5,839, respectively, were incurred in the Cable Television Fund.

# City of Wyandotte, Michigan

## Department of Municipal Service

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### Notes to Financial Statements September 30, 2014

#### 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 \$1,995,070 compared to the annual debt service requirement of \$5,751,926. 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, 2014 and 2013 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, 2014**

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

**Events After the Net Position Date** - On December 9, 2014, the Department issued Electric System Revenue Bond Anticipation Notes totaling \$ 4,085,000. These notes will be repaid on July 1, 2015 and January 1, 2016 at interest rates of 1.00 percent and 1.10 percent, respectively, before Series 2015 Bonds are issued.

The Notes were issued for the purpose of paying costs to acquire and construct improvements to the Electric Utility System of the City.

**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:

	<u>2014</u>		<u>2013</u>
	<u>Electric Fund</u>	<u>Total</u>	<u>Total</u>
Restricted working capital - MPPA	\$ 673,100	\$ 673,100	\$ 324,700
Debt service	7,204,973	7,204,973	7,528,240
Restricted grant reserves	<u>392,019</u>	<u>392,019</u>	<u>397,322</u>
Total restricted assets	8,270,092	8,270,092	8,250,262
Less accrued interest and other items payable from restricted assets	<u>(1,007,990)</u>	<u>(1,007,990)</u>	<u>(1,124,560)</u>
Total restricted net position	<u>\$ 7,262,102</u>	<u>\$ 7,262,102</u>	<u>\$ 7,125,702</u>

All assets legally restricted relate to activity of the Electric Fund.

The 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 \$1,984,500, which represents 10 percent of the principal 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.

The assets restricted for MPPA working capital are contractually restricted by way of an energy services agreement entered into with the MPPA by the Department in October 2012.

# City of Wyandotte, Michigan

## Department of Municipal Service

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### Notes to Financial Statements September 30, 2014

#### Note 8 - Restricted Net Position (Continued)

The assets restricted for for grant reserves represent the balances outstanding as of September 30, 2014 related to grant funds advanced to the Department by the Department of Energy in 2011 to be used for loan loss reserves and interest rate buy-downs on approved energy related projects for qualifying customers of the Department.

The Commission, pursuant to a resolution, authorized the creation of a restricted account for environmental expenses. At September 30, 2014, no monies have been transferred.

#### 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, 2014 annual financial report, which may be obtained at the City offices at 3131 Biddle Avenue.

At September 30, 2013, the date of the Department's most recent actuarial valuation, membership consisted of the following:

Retirees and beneficiaries currently receiving benefits	88
Terminated employees entitled to benefits but not yet receiving them	14
Current active employees	45

**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 1 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, 2014, the Department's annual pension cost of \$796,272 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:

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

**Notes to Financial Statements**  
**September 30, 2014**

**Note 9 - Defined Benefit Pension Plan (Continued)**

	<u>2014</u>	<u>2013</u>	<u>2012</u>
Annual pension cost (APC)	\$ 796,272	\$ 888,456	\$ 773,346
Percentage of APC contributed	100 %	100 %	100 %
Net pension obligation	\$ -	\$ -	\$ -

Funded status and funding progress for the actuarial valuation as of September 30, 2013 are as follows:

	<u>System Total</u>	<u>Department Allocation</u>	
Actuarial value of assets	\$ 61,042,504	\$ 20,623,215	
Actuarial accrued liability (AAL) (entry age)	83,294,911	N/A	*
Unfunded AAL (UAAL)	22,252,407	N/A	*
Funded ratio	73.3 %	N/A	
Covered payroll	5,718,130	2,816,681	
UAAL as percentage of covered payroll	389.2 %	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, 2013, 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 2014 contribution represented approximately 23 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, 2013 (the date of the most recent actuary report) was approximately \$5,718,000. The Department's covered payroll for 2014 was approximately \$2,832,000.

# **City of Wyandotte, Michigan**

## **Department of Municipal Service**

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### **Notes to Financial Statements**

#### **September 30, 2014**

#### **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, 2014, there were 58 employees in the defined contribution plan.

The Department's total payroll during the current year covering this group of employees was \$2,864,790. The current year contribution was calculated based on covered payroll in the same amount, resulting in an employer contribution of \$286,480. Department employees' contributions were \$143,240.

#### **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, 2014 and 2013.

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, 2014

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

A summary of these transactions with the City for the years ended September 30, 2014 and 2013 is as follows:

	2014	2013
Department revenue:		
Electric and water services	\$ 682,314	\$ 701,219
Street and public safety lighting	634,521	541,067
Collection fee	76,420	77,321
Department expenses:		
In lieu of property taxes	(634,521)	(541,067)
Cable television franchise fees	(485,568)	(487,313)
Water franchise fee	(200,000)	(200,000)
City services	(779,808)	(747,277)
Remittances to City for sewage use charge collections	(2,477,433)	(3,185,256)
Payable to City of Wyandotte - Sewage Disposal Fund	(791,208)	(890,571)
Payable to City of Wyandotte - Solid Waste Disposal Fund	(37,749)	(21,239)
Payable to City of Wyandotte - General Fund	(156,518)	(137,004)
Payable to City of Wyandotte - Water Mains	(6,252)	-
Payable to City of Wyandotte - Cable	(9,757)	-

#### 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, 2014**

**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, 2012	\$ 290,150
Estimated claims incurred - Net of changes in estimate	35,391
Claim payments	<u>(63,820)</u>
Estimated liability - September 30, 2013	261,721
Estimated claims incurred - Net of changes in estimate	(13,467)
Claim payments	<u>(62,025)</u>
Estimated liability - September 30, 2014	<u>\$ 186,229</u>

**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. In November 2014, a Stipulation for Entry of Judgment and Proposed Judgment was jointly presented to the Court and a final settlement agreement was reached in full and final satisfaction of the judgment for \$360,000 and this matter is now resolved. The Department has recorded a liability of \$360,000 at September 30, 2014 related to this matter.

# **City of Wyandotte, Michigan**

## **Department of Municipal Service**

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### **Notes to Financial Statements**

#### **September 30, 2014**

#### **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 burns coal in that boiler. The Department remains committed to working cooperatively with the EPA to resolve all issues of past noncompliance, establish a system of accountability and safeguards to ensure future compliance, and negotiate the terms of a new Consent Decree that will provide for Wyandotte's future generation at the Facility, including the construction of new, natural gas-fired units. As of the date of this report, negotiations on this matter were pending.

During the year ended September 30, 2014 the Department identified certain issues of noncompliance with the consent decree and reported them to the EPA. The Department has corrected the issues of noncompliance and is currently negotiating a settlement with the EPA. The estimated penalties for noncompliance have been recorded as a liability at September 30, 2014.

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

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

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**Notes to Financial Statements**  
**September 30, 2014**

**Note 13 - 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 Statement No. 45) were approximately \$717,000, \$134,000, and \$106,000, respectively, during the year ended September 30, 2014 and \$510,000, \$127,000, and \$91,000 in the Electric, Water, and Cable Television Funds, respectively, during the year ended September 30, 2013.

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

**Notes to Financial Statements**  
**September 30, 2014**

**Note 13 - Other Postemployment Benefits (Continued)**

**Funding Progress** - For the year ended September 30, 2014 the Department has estimated the cost of providing retiree healthcare 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)	\$ 1,625,575
Interest on the prior year's net OPEB obligation	185,634
Less adjustment to the annual required contribution	<u>(266,980)</u>
Annual OPEB cost	1,544,229
Amounts contributed - Payments of current premiums	<u>(956,937)</u>
Increase in net OPEB obligation	587,292
OPEB obligation - Beginning of year	<u>4,125,182</u>
OPEB obligation - End of year	<u><u>\$ 4,712,474</u></u>

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

**Notes to Financial Statements**  
**September 30, 2014**

**Note 13 - Other Postemployment Benefits (Continued)**

Funded status and funding progress for the 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 percentage 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.

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.

# City of Wyandotte, Michigan

## Department of Municipal Service

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### Notes to Financial Statements September 30, 2014

#### **Note 13 - Other Postemployment Benefits (Continued)**

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.

#### **Note 14 - Upcoming Accounting Pronouncements**

In June 2012, the GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions*. Statement No. 68 requires governments providing defined benefit pensions to recognize their unfunded pension benefit obligation as a liability for the first time, and to more comprehensively and comparably measure the annual costs of pension benefits. This net pension liability that will be recorded on the government-wide, proprietary, and discretely presented component 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 year ending September 30, 2015.