
City of Wyandotte, Michigan Department of
Municipal Services

**Financial Report
with Supplemental Information
September 30, 2018**

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Independent Auditor's Report

To the Board of Directors
City of Wyandotte, Michigan Department
of Municipal Services

Report on the Financial Statements

We have audited the accompanying financial statements of each major fund of City of Wyandotte, Michigan Department of Municipal Services (the "Department") as of and for the year ended September 30, 2018 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 opinions 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. 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 opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of each major fund of City of Wyandotte, Michigan Department of Municipal Services as of September 30, 2018 and the changes in its 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, Michigan as of September 30, 2018, the changes in its financial position, and the changes in its cash flows, where applicable thereof, 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.

To the Board of Directors
City of Wyandotte, Michigan Department
of Municipal Services

As discussed in Note 2 to the basic financial statements, during the year ended September 30, 2018, the Department adopted new accounting guidance of GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*, which establishes accounting and financial reporting standards for other postemployment benefits provided to the employees of governmental entities. Our opinion is not modified with respect to this matter.

Required Supplemental Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and other required supplemental information, 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, 2017 financial statements, and we expressed unmodified audit opinions on each major fund in our report dated February 14, 2018. In our opinion, the summarized comparative information presented herein as of and for the year ended September 30, 2017 is consistent, in all material respects, with the audited financial statements from which it has been derived.



February 21, 2019

City of Wyandotte, Michigan Department of Municipal Services

Management's Discussion and Analysis

Our discussion and analysis of the City of Wyandotte, Michigan Department of Municipal Services' (the "Department") performance provides an overview of the Department's financial activities for the year ended September 30, 2018. Please read it in conjunction with the Department's financial statements.

Using this Annual Report

The City of Wyandotte, Michigan Department of Municipal Services is a department created by the City of Wyandotte, Michigan (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 increased compared to the prior year by approximately 6.3 percent, while operating expenses increased by approximately 2.9 percent. The increase in revenue is attributed to a revised heating steam rate effective January 1, 2018. The increase in operating expenses is attributable to an increase in transmission costs caused by less excess transmission available to be utilized by the Department during the fiscal year and an increased variance in costs incurred relative to sales of power generated on power purchase agreements for which the Department is contractually obligated.
- The Electric Fund's operating income increased to \$4,231,237, as compared to operating income of \$2,886,923 in the previous year.
- As required, the Department adopted Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions* (OPEB) during the fiscal year. As a result, the statement of net position includes a liability for the unfunded portion of the Department's retiree healthcare costs. In order to adopt GASB Statement No. 75, the beginning net position for the fiscal year has been restated. The beginning net position of the Electric Fund was restated by approximately \$(9,262,000). The net OPEB liability for the Electric Fund resulting from this reporting change is approximately \$15,866,000 at September 30, 2018.
- The Department previously implemented GASB Statement No. 68, which requires the recognition of the unfunded pension benefit obligation as a liability and a more comprehensive measurement of the annual costs of pension benefits. The impact on operating income for the year ended September 30, 2018 was \$274,882. The net pension liability for the Electric Fund is approximately \$5,370,000 at September 30, 2018.

City of Wyandotte, Michigan Department of Municipal Services

Management's Discussion and Analysis (Continued)

- 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 exceeded 110 percent (approximately 232 percent for the year ended September 30, 2018).

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 \$476,828 for the year ended September 30, 2018 was added back to the computation of amounts available for debt. Refer to Note 10 for additional details regarding the net OPEB obligation. Also, for the purpose of computing the above debt service coverage ratio, the Department's current year increase to the net pension liability of \$274,882 was added back to the computation of amounts available for debt. Refer to Note 9 for additional details regarding the net pension liability. Another financial covenant in the Department's bond ordinance requires actual expenditures of the Department to not exceed the budget. The Department's actual operating expenses did not exceed the budget.

- This year's financial statements report unrestricted net position for the Electric Fund of \$(700,310) compared to \$5,470,512 in the prior year. The decrease is strictly due to adopting the new reporting requirements for postemployment benefits other than pensions as required by GASB 75.
- The Electric Fund reported a special item on the statement of revenue, expenses, and changes in net position due to an impairment loss associated with the termination of steam service to BASF Corporation. Refer to Note 5 for additional details regarding the impairment loss.

Water Fund

- The Water Fund's operating revenue increased by approximately 3.1 percent, while operating expenses decreased by approximately 9.2 percent compared to the prior year. The increase in operating revenue is attributed to an adjustment to fixed meter charges, which offsets the trending decline in water usage. The decrease in operating expenses is attributed to the net decrease in actual and accrued retiree pension obligations. For the current fiscal year, this is primarily due to the transfer of an employee from the water department to the electric department.
- Operating income in the current year increased by \$493,517 and resulted in income for the current year of \$122,234. The Department continues to review its rate structure for the water utility, along with other options, to maintain the financial condition of the Water Fund so that operating and capital requirements continue to be met. In order to meet those requirements, usage and meter rates were adjusted effective November 1, 2018.
- As required, the Department adopted Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions* (OPEB) during the fiscal year. As a result, the statement of net position includes a liability for the unfunded portion of the Department's retiree healthcare costs. In order to adopt GASB Statement No. 75, the beginning net position for the fiscal year has been restated. The beginning net position of the Water Fund was restated by approximately \$(2,092,000). The net OPEB liability for the Water Fund resulting from this reporting change is approximately \$3,624,000 at September 30, 2018.
- The Department previously implemented GASB Statement No. 68, which requires the recognition of the unfunded pension benefit obligation as a liability and a more comprehensive measurement of the annual costs of pension benefits. The impact on operating income for the year ended September 30, 2018 was \$(50,287). This decrease is due to the transfer of an employee to the Electric Fund. The net pension liability for the Water Department is approximately \$1,467,000 at September 30, 2018.

City of Wyandotte, Michigan Department of Municipal Services

Management's Discussion and Analysis (Continued)

- This year's financial statements report unrestricted net position for the Water Fund of \$(353,036) compared to \$2,974,009 in the prior year. The decrease is strictly due to adopting the new reporting requirements for postemployment benefits other than pensions as required by GASB 75.

Cable Television Fund

- The Cable Television Fund realized operating income of \$285,648 in the current year, as compared to operating income of \$338,969 in the prior year. The Department has stabilized declining margins on cable television programming due to continued programming royalty increases by implementing a time sensitive periodic adjustment for the pass through of these cost increases on a semiannual basis.
- The Cable Television Fund has generated sufficient working capital so that capital requirements have been met without financing through additional debt currently.
- The Cable Television Fund continues to experience positive growth in internet subscribers.
- As required, the Department adopted Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions* (OPEB), during the fiscal year. As a result, the statement of net position includes a liability for the unfunded portion of the Department's retiree healthcare costs. In order to adopt GASB Statement No. 75, the beginning net position for the fiscal year has been restated. The beginning net position of the Cable Television Fund was restated by approximately \$(1,592,000). The net OPEB liability for the Cable Television Fund resulting from this reporting change is approximately \$2,791,000 at September 30, 2018.
- The Department previously implemented GASB Statement No. 68, which requires the recognition of the unfunded pension benefit obligation as a liability and a more comprehensive measurement of the annual costs of pension benefits. The impact on operating income for the year ended September 30, 2018 was \$(105,698). The net pension liability for the Cable Television Fund is approximately \$980,000 at September 30, 2018.
- This year's financial statements report unrestricted net position for the Cable Television Fund of \$1,052,570 compared to \$1,989,449 in the prior year. The decrease is strictly due to adopting the new reporting requirements for postemployment benefits other than pensions, as required by GASB 75.

City of Wyandotte, Michigan Department of Municipal Services

Management's Discussion and Analysis (Continued)

Condensed Financial Information

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

	September 30			
	2017	2018	Change	Percent Change
Assets				
Current and other assets:				
Cash and investments	\$ 21,453,486	\$ 25,136,026	\$ 3,682,540	17.2
Receivables	7,809,434	8,610,732	801,298	10.3
Other assets	13,245,354	9,155,666	(4,089,688)	(30.9)
Property, plant, and equipment	42,703,138	43,277,606	574,468	1.3
Total assets	85,211,412	86,180,030	968,618	1.1
Deferred Outflows of Resources	1,167,715	2,103,226	935,511	80.1
Liabilities				
Current and other liabilities	7,072,631	6,781,258	(291,373)	(4.1)
Long-term liabilities:				
Due within one year	1,770,311	2,928,593	1,158,282	65.4
Due in more than one year	32,072,863	29,320,986	(2,751,877)	(8.6)
Net pension liability	7,808,813	7,816,872	8,059	0.1
Net OPEB obligation	7,508,242	22,281,032	14,772,790	196.8
Total liabilities	56,232,860	69,128,741	12,895,881	22.9
Net Position				
Net investment in capital assets	18,026,819	17,249,549	(777,270)	(4.3)
Restricted	1,685,478	1,905,742	220,264	13.1
Unrestricted	10,433,970	(776)	(10,434,746)	(100.0)
Total net position	<u>\$ 30,146,267</u>	<u>\$ 19,154,515</u>	<u>\$ (10,991,752)</u>	(36.5)

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

	Year Ended September 30			
	2017	2018	Change	Percent Change
Operating Revenue	\$ 51,191,684	\$ 53,996,769	\$ 2,805,085	5.5
Operating Expense	48,337,075	49,357,650	1,020,575	2.1
Nonoperating revenue (expense) - Net	(1,461,769)	(1,444,960)	16,809	(1.1)
Capital grant	34,172	-	(34,172)	(100.0)
Special item	-	(1,240,026)	(1,240,026)	100.0
Change in Net Position	1,427,012	1,954,133	527,121	36.9
Net Position - Beginning of year - As restated	28,719,255	17,200,382	(11,518,873)	(40.1)
Net Position - End of year	<u>\$ 30,146,267</u>	<u>\$ 19,154,515</u>	<u>\$ (10,991,752)</u>	(36.5)

As indicated in Note 2, the summarized comparative information for fiscal year 2017 has not been restated due to the lack of information available related to GASB Statement No. 75 for the year.

City of Wyandotte, Michigan Department of Municipal Services

Management's Discussion and Analysis (Continued)

Capital Assets 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 utilized proceeds from Series 2015 bonds for the purpose of paying the cost of design, acquisition, and construction of improvements to the City's electric utility system. The most significant capital improvements funded by the bonds during the fiscal year were made primarily for enhanced metering (AMI), significant substation improvements, and construction at the power plant of two auxiliary boilers for heating steam production. This project will provide the long-term requirements necessary for the support of the heating steam rate (ST).

The most significant capital improvements in the Water Fund were made for the ongoing water meter replacement, including AMI enhancements, water main replacement, and replacement of department vehicles.

The Cable Television Fund focused on improvements in customer premises equipment and necessary improvements for the Headend.

Purchases of capital assets for both the Water and Cable Television funds were funded from operations without any additional debt incurred.

Economic Factors and Next Year's Operations

The Electric Fund will continue utilizing an economic dispatch approach for managing power supply to meet requirements and work further to ensure that the utilization of natural gas is as efficient as possible when considering potential new alternatives to electric generation in the City. Contractual rates for steam agreements have been adjusted to reflect current cost of service and will be adjusted to reflect the revised cost of service for operating the two new auxiliary boilers upon project completion.

The Water Fund continued to meet current recommended working capital and infrastructure needs; however, rates required adjustment to proactively address a continued erosion in volume and anticipated future capital needs. The final phase of the water filter plant rehabilitation will commence during the next fiscal year and, when completed, will position filter plant operations many years into the future.

The Cable Television Fund continues to be impacted by the escalating costs for programming, and, as a solution, a mechanism has been established by the Department to address programming cost increases through a periodic programming royalty adjustment pass through of those increases. The Cable Television Fund will also begin the process to implement infrastructure that will provide the ability to continue to offer current and future Wyandotte Internet/cable services. Included in this project will be building an efficient Fiber to the Premises (FTTP) system and Headend migration.

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 Services

Statement of Net Position

September 30, 2018
(with comparative totals for September 30, 2017)

	Electric Fund	Water Fund	Cable Television Fund	September 30, 2018	For Comparative Purposes Only - September 30, 2017
Assets					
Current assets:					
Cash and cash equivalents	\$ 15,719,387	\$ 5,088,534	\$ 4,328,105	\$ 25,136,026	\$ 21,453,486
Receivables (Note 4)	6,932,680	655,408	1,022,644	8,610,732	7,809,434
Due from other funds (Note 6)	15,128	-	915	16,043	115
Fuel, materials, supplies, and other inventories	1,694,009	121,319	41,714	1,857,042	1,697,553
Prepaid expenses and other assets	459,908	57,118	56,697	573,723	553,585
Total current assets	24,821,112	5,922,379	5,450,075	36,193,566	31,514,173
Noncurrent assets:					
Restricted assets (Note 8)	6,708,858	-	-	6,708,858	10,938,601
Property, plant, and equipment: (Note 5)					
Assets not subject to depreciation	6,209,316	106,336	42,089	6,357,741	2,398,249
Assets subject to depreciation	22,977,020	10,829,667	3,113,178	36,919,865	40,304,889
Long-term receivable	-	-	-	-	55,500
Total noncurrent assets	35,895,194	10,936,003	3,155,267	49,986,464	53,697,239
Total assets	60,716,306	16,858,382	8,605,342	86,180,030	85,211,412
Deferred Outflows of Resources					
Bond refunding loss being amortized	915,251	-	-	915,251	949,149
Deferred pension costs (Note 9)	74,011	20,212	13,505	107,728	218,566
Deferred OPEB costs (Note 10)	769,220	175,695	135,332	1,080,247	-
Total deferred outflows of resources	1,758,482	195,907	148,837	2,103,226	1,167,715
Liabilities					
Current liabilities:					
Accounts payable	1,280,789	780,370	508,145	2,569,304	1,981,882
Due to City of Wyandotte, Michigan (Note 11)	40,349	330,103	2,468	372,920	411,468
Due to other funds (Note 6)	-	3,044	12,999	16,043	115
Accrued liabilities and other	2,525,339	269,863	243,486	3,038,688	3,905,767
Unearned revenue	-	-	-	-	12,296
Customer deposits	768,953	-	15,350	784,303	760,265
Current portion of long-term debt (Note 7)	2,691,583	-	-	2,691,583	1,268,669
Total current liabilities	7,307,013	1,383,380	782,448	9,472,841	8,340,462
Noncurrent liabilities:					
Payable from restricted assets	237,010	-	-	237,010	501,642
Net pension liability (Note 9)	5,370,310	1,466,566	979,996	7,816,872	7,808,813
Net OPEB obligation (Note 10)	15,865,829	3,623,858	2,791,345	22,281,032	7,508,242
Other noncurrent liabilities	-	-	-	-	25,520
Long-term debt - Net of current portion (Note 7)	29,320,986	-	-	29,320,986	32,048,181
Total noncurrent liabilities	50,794,135	5,090,424	3,771,341	59,655,900	47,892,398
Total liabilities	58,101,148	6,473,804	4,553,789	69,128,741	56,232,860
Net Position					
Net investment in capital assets	3,168,208	10,933,521	3,147,820	17,249,549	18,026,819
Restricted (Note 8)	1,905,742	-	-	1,905,742	1,685,478
Unrestricted	(700,310)	(353,036)	1,052,570	(776)	10,433,970
Total net position	\$ 4,373,640	\$ 10,580,485	\$ 4,200,390	\$ 19,154,515	\$ 30,146,267

City of Wyandotte, Michigan Department of Municipal Services

Statement of Revenue, Expenses, and Changes in Net Position

Year Ended September 30, 2018
(with comparative totals for year ended September 30, 2017)

	Electric Fund	Water Fund	Cable Television Fund	September 30, 2018	For Comparative Purposes Only - September 30, 2017
Operating Revenue					
Sale of water	\$ -	\$ 3,849,163	\$ -	\$ 3,849,163	\$ 3,743,636
Sale of electricity	39,385,102	-	-	39,385,102	37,010,549
Sales to subscribers	-	-	10,248,769	10,248,769	9,852,334
Other operating revenue	239,115	14,604	260,016	513,735	585,165
Total operating revenue	39,624,217	3,863,767	10,508,785	53,996,769	51,191,684
Operating Expenses					
Production, pumping, and purification	25,702,800	743,184	-	26,445,984	25,252,554
Distribution	2,095,223	1,038,245	1,225,627	4,359,095	3,881,633
Cable television royalties and retransmission fees	-	-	5,379,597	5,379,597	5,154,065
Office and administrative	2,583,161	767,790	678,528	4,029,479	3,868,685
General fringes and other	1,872,550	297,440	1,898,663	4,068,653	4,932,709
Transportation	100,568	30,981	28,763	160,312	128,613
Customer services	248,409	254,037	1,966	504,412	523,439
Depreciation	2,790,269	609,856	1,009,993	4,410,118	4,595,377
Total operating expenses	35,392,980	3,741,533	10,223,137	49,357,650	48,337,075
Operating Income	4,231,237	122,234	285,648	4,639,119	2,854,609
Nonoperating Revenue (Expense)					
Grant revenue	58,780	-	-	58,780	88,554
Grant expenses	(110,440)	-	-	(110,440)	(82,051)
Amortization related to long-term debt	(12,520)	-	-	(12,520)	(12,520)
Interest expense	(1,496,785)	-	-	(1,496,785)	(1,550,802)
Investment income	112,432	893	2,680	116,005	95,050
Total nonoperating (expense) revenue	(1,448,533)	893	2,680	(1,444,960)	(1,461,769)
Capital Grants	-	-	-	-	34,172
Income - Before special item	2,782,704	123,127	288,328	3,194,159	1,427,012
Special Item - Impairment loss (Note 5)	(1,240,026)	-	-	(1,240,026)	-
Change in Net Position	1,542,678	123,127	288,328	1,954,133	1,427,012
Net Position - Beginning of year - As restated (Note 2)	2,830,962	10,457,358	3,912,062	17,200,382	28,719,255
Net Position - End of year	\$ 4,373,640	\$ 10,580,485	\$ 4,200,390	\$ 19,154,515	\$ 30,146,267

City of Wyandotte, Michigan Department of Municipal Services

Statement of Cash Flows

Year Ended September 30, 2018
(with comparative totals for year ended September 30, 2017)

	Electric Fund	Water Fund	Cable Television Fund	September 30, 2018	For Comparative Purposes Only - September 30, 2017
Cash Flows from Operating Activities					
Cash received from customers	\$ 38,822,074	\$ 3,812,166	\$ 10,561,231	\$ 53,195,471	\$ 52,110,727
Cash payments to suppliers for goods and services	(25,899,527)	(479,615)	(7,467,033)	(33,846,175)	(33,407,006)
Cash payments to employees for services	(6,182,074)	(1,851,555)	(1,815,261)	(9,848,890)	(8,899,858)
Net cash provided by operating activities	6,740,473	1,480,996	1,278,937	9,500,406	9,803,863
Cash Flows from Noncapital Financing Activities					
Interfund borrowing and repayments - Net	(15,243)	3,159	12,084	-	-
Receipts paid from (to) City of Wyandotte, Michigan	4,162	(52,350)	2,468	(45,720)	(291,532)
Net cash (used in) provided by noncapital financing activities	(11,081)	(49,191)	14,552	(45,720)	(291,532)
Cash Flows from Capital and Related Financing Activities					
Grant revenue	58,780	-	-	58,780	88,554
Grant expenses	(110,440)	-	-	(110,440)	(82,051)
Principal and interest paid on capital debt	(2,804,907)	-	-	(2,804,907)	(2,780,049)
Purchase of capital assets	(4,675,098)	(1,964,901)	(621,328)	(7,261,327)	(4,282,789)
Net cash used in capital and related financing activities	(7,531,665)	(1,964,901)	(621,328)	(10,117,894)	(7,056,335)
Cash Flows Provided by Investment Activities -					
Interest received on investments	112,432	893	2,680	116,005	95,050
Net (Decrease) Increase in Cash	(689,841)	(532,203)	674,841	(547,203)	2,551,046
Cash - Beginning of year	23,118,086	5,620,737	3,653,264	32,392,087	29,841,041
Cash - End of year	<u>\$ 22,428,245</u>	<u>\$ 5,088,534</u>	<u>\$ 4,328,105</u>	<u>\$ 31,844,884</u>	<u>\$ 32,392,087</u>
Classification of Cash					
Cash and investments	\$ 15,719,387	\$ 5,088,534	\$ 4,328,105	\$ 25,136,026	\$ 21,453,486
Restricted assets	6,708,858	-	-	6,708,858	10,938,601
Total cash	<u>\$ 22,428,245</u>	<u>\$ 5,088,534</u>	<u>\$ 4,328,105</u>	<u>\$ 31,844,884</u>	<u>\$ 32,392,087</u>

City of Wyandotte, Michigan Department of Municipal Services

Statement of Cash Flows (Continued)

Year Ended September 30, 2018
(with comparative totals for year ended September 30, 2017)

	Electric Fund	Water Fund	Cable Television Fund	September 30, 2018	For Comparative Purposes Only - September 30, 2017
Reconciliation of Operating Income to Net Cash from Operating Activities					
Operating income	\$ 4,231,237	\$ 122,234	\$ 285,648	\$ 4,639,119	\$ 2,854,609
Adjustments to reconcile operating income to net cash from operating activities:					
Depreciation	2,790,269	609,856	1,009,993	4,410,118	4,595,377
Changes in assets and liabilities:					
Receivables	(802,143)	(51,601)	52,446	(801,298)	919,043
Inventory	(162,736)	2,641	606	(159,489)	(841,602)
Prepaid insurance and other current assets	77,637	8,484	(14,755)	71,366	(28,841)
Accounts payable	(352,162)	686,219	(60,482)	273,575	505,721
Unearned revenue	-	-	(12,296)	(12,296)	(12,336)
Net pension or OPEB liability	1,450,346	253,320	131,298	1,834,964	-
Deferrals related to pension or OPEB	(698,636)	(152,810)	(117,963)	(969,409)	-
Accrued and other liabilities	206,661	2,653	4,442	213,756	1,811,892
Total adjustments	<u>2,509,236</u>	<u>1,358,762</u>	<u>993,289</u>	<u>4,861,287</u>	<u>6,949,254</u>
Net cash provided by operating activities	<u><u>\$ 6,740,473</u></u>	<u><u>\$ 1,480,996</u></u>	<u><u>\$ 1,278,937</u></u>	<u><u>\$ 9,500,406</u></u>	<u><u>\$ 9,803,863</u></u>
Significant Noncash Transactions					
Capital contributions	\$ -	\$ -	\$ -	\$ -	\$ 34,172
Asset impairment (Note 5)	1,240,026	-	-	1,240,026	-

Note 1 - Significant Accounting Policies

The accounting policies of City of Wyandotte, Michigan Department of Municipal Services (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 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, 2018 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. The following is a summary of the significant accounting policies used by the Department:

Report Presentation

These financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recognized 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.

Specific Balances and Transactions

Cash and Investments

Cash and cash equivalents include cash on hand. In addition, the statement of cash flows includes both restricted and unrestricted cash equivalents and short-term investments with a maturity of three months or less when acquired. Short-term investments are reported at fair value.

Inventories and Prepaid Items

Inventories are valued at lower of cost or market, determined by the average cost method for general inventory. Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items.

Note 1 - Significant Accounting Policies (Continued)

Restricted Assets

Certain assets are restricted pursuant to contractual restrictions, grant reserves, and unspent bond proceeds. Refer to Note 8 for further discussion.

Significant Customers

The electric department has three significant customers: BASF Corporation, Downriver Utility Wastewater Authority (formerly Wayne County Sewage/Pumping Station), and Wyandotte Henry Ford Hospital, representing approximately 20, 9, and 4 percent, respectively, of the electric department's operating revenue for the year ended September 30, 2018.

The water department has three significant customers: BASF Corporation, The Department of Municipal Services' Electric Department, and Wayne County Sewage/Pumping Station, representing approximately 18, 2, and 4 percent, respectively, of the water department's operating revenue for the year ended September 30, 2018.

Capital Assets

Capital assets are defined by the Department as assets with an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated acquisition value at the date of donation.

Interest incurred during the construction of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

Capital assets are depreciated using the straight-line method over the following useful lives:

Capital Asset Class	Depreciable Life - 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

Impaired Assets

Assets deemed to be permanently impaired are reported at the lower of fair value or carrying value. The Department had a significant asset become impaired during the year ended September 30, 2018. Refer to Note 5.

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.

September 30, 2018

Note 1 - Significant Accounting Policies (Continued)

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.

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 future periods and will not be recognized as an outflow of resources (expense) until then.

The Department has three items that qualify for reporting in this category. They are deferred charges on bond refunding loss, deferred pension costs, and deferred OPEB costs. The refunding loss results from the difference in the carrying value of the refunded debt and the reacquisition price. The amount is deferred and amortized over the shorter of the life of the refunded or refunding debt. Refer to Notes 9 and 10 and for information related to deferred pension costs and deferred OPEB costs, respectively.

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 future periods and 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

Net position of the Department is classified in three components. Net investment in capital assets consists of capital assets net of accumulated depreciation and is reduced by the current balances of any outstanding borrowings used to finance the purchase or construction of those assets. The restricted component of net position consists of restricted assets reduced by liabilities and deferred inflows of resources related to those assets. Unrestricted net position is the remaining net position that does not meet the definition of invested in capital or restricted.

Net Position Flow Assumption

The Department will sometimes fund outlays for a particular purpose from both restricted and unrestricted resources. In order to calculate the amounts to report as restricted net position and unrestricted net position in the statement of net position, 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

The Department offers a defined benefit pension plan to its employees. The Department records a net pension liability for the difference between the total pension liability calculated by the actuary and the pension plan's fiduciary net position. For the purpose of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Wyandotte Employees' Retirement System and additions to/deductions from the pension plan's fiduciary net position have been determined on the same basis as they are reported by the pension plan. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

In addition, the Department provides retirement benefits to all employees hired after October 1, 2006 through a defined contribution plan and retiree health savings plan.

Note 1 - Significant Accounting Policies (Continued)

Other Postemployment Benefit Costs

The Department offers retiree healthcare benefits to retirees. The Department records a net OPEB liability for the difference between the total OPEB liability calculated by the actuary and the OPEB plan's fiduciary net position. For the purpose of measuring the net OPEB liability, deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the OPEB plan and additions to/deductions from the OPEB plan's fiduciary net position have been determined on the same basis as they are reported by the OPEB plan. For this purpose, benefit payments are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value, except for money market investments and participating interest-earning investment contracts that have a maturity at the time of purchase of one year or less, which are reported at cost. The net OPEB liability has been liquidated from Department funds which individual salaries are paid.

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 in the statement of net position.

Proprietary Funds Operating Classification

Proprietary funds distinguish operating revenue and expenses from nonoperating items. Operating revenue and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of proprietary funds are charges to customers for sales or services. Operating expenses for these funds include the cost of sales or services, administrative expenses, and may include depreciation on capital assets. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

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 emissions 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 1 - Significant Accounting Policies (Continued)

Comparative Data

The basic financial statements include certain prior year summarized comparative information in total but not at the level of detail required for a presentation in accordance with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the government's financial statements for the year ended September 30, 2017, from which the summarized information was derived.

Upcoming Accounting Pronouncements

In November 2016, the Governmental Accounting Standards Board (GASB) issued Statement No. 83, *Certain Asset Retirement Obligations*, which establishes criteria for determining the timing and pattern of recognition of a liability and a corresponding deferred outflow of resources for asset retirement obligations. 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 the Department's financial statements for the year ending September 30, 2019.

In June 2017, the GASB issued Statement No. 87, *Leases*, which improves accounting and financial reporting for leases by governments. This statement requires recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources. 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 the Department's financial statements for the year ending September 30, 2021.

In March 2018, the GASB issued Statement No. 88, *Certain Disclosures Related to Debt, Including Direct Borrowings and Direct Placements*. This statement establishes criteria to improve the information that is disclosed in the notes to the government financial statements related to debt, including direct borrowings and direct placements. It also clarifies which liabilities governments should include when disclosing information related to debt. 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 the Department's financial statements for the year ending September 30, 2019.

In June 2018, the GASB issued Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*, which simplifies accounting for interest cost incurred before the end of construction and requires those costs to be expensed in the period incurred. As a result, interest cost incurred before the end of a construction period will not be capitalized and included in the historical cost of a capital asset reported in a business-type activity or enterprise fund. This statement also reiterates that, in financial statements prepared using the current financial resources measurement focus, interest cost incurred before the end of a construction period should be recognized as an expenditure on a basis consistent with governmental fund accounting principles. The requirements of the standard will be applied prospectively and result in increased interest expense during periods of construction. The provisions of this statement are effective for the Department's financial statements for the year ending September 30, 2021.

Note 2 - Change in Accounting Principle

During the current year, the Department adopted GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*. As a result, the statement of net position includes a liability for the unfunded portion of the Department's retiree healthcare costs. Some of the change in this net OPEB liability will be recognized immediately as part of the OPEB expense measurement, and part will be deferred and recognized over future years. Refer to the other postemployment benefit plan footnote for further details.

Note 2 - Change in Accounting Principle (Continued)

The beginning net position for the year ended September 30, 2018 has been restated in order to adopt GASB Statement No. 75. The fiscal year 2017 financial statements have not been restated due to the lack of information available to the net OPEB liability and related activity for that year.

As a result of implementing this statement, the beginning net position of the Electric Fund, Water Fund, and Cable Television Fund has been restated as follows:

	Electric Fund	Water Fund	Cable Television Fund
Net position - September 30, 2017	\$ 12,093,242	\$ 12,549,185	\$ 5,503,840
GASB 45 net OPEB obligation	5,357,501	1,205,539	945,202
GASB 75 net OPEB liability	<u>(14,619,781)</u>	<u>(3,297,366)</u>	<u>(2,536,980)</u>
Net position - September 30, 2017 - As restated	<u>\$ 2,830,962</u>	<u>\$ 10,457,358</u>	<u>\$ 3,912,062</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 matures not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

The Department has designated three 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, commercial paper rated within the two highest classifications, which matures not more than 270 days after the date of purchase, bank accounts, and CDs, but not the remainder of state statutory authority, as listed above. The Department's deposits and investments 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. At year end, the Department had \$28,559,250 of bank deposits (checking and savings accounts) that were uninsured and uncollateralized. The Department's federal depository insurance coverage is combined with all the deposits of City of Wyandotte, Michigan; hence, the specific coverage pertaining to the Department cannot be determined. The City of Wyandotte, Michigan (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.

Note 3 - Deposits and Investments (Continued)

Interest Rate Risk

Interest rate risk is the risk that the value of investments will decrease as a result of a rise in interest rates. The Department's investment policy does not restrict investment maturities other than commercial paper, which can only be purchased with a 270-day maturity.

At year end, the Department had the following investments:

Investment	Fair Value	Weighted-average Maturity (Years)
Primary Government		
Commercial paper	\$ 1,997,730	0.04

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 September 30, 2018, the credit quality ratings of debt securities are as follows:

Investment	Carrying Value	Rating	Rating Organization
Primary Government			
Commercial paper	\$ 1,997,730	P-1	Moody's

Concentration of Credit Risk

The Department places no limit on the amount it may invest in any one issuer. A total of 100 percent of the Department's investments are in JPMorgan commercial paper; these investments represent approximately 6.5 percent of the Department's cash and investments combined. The underlying securities are commercial paper issues of various entities of the highest rating required by the bond ordinance.

Fair Value Measurements

The Department categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. Investments that are measured at fair value using net asset value per share (or its equivalent) as a practical expedient are not classified in the fair value hierarchy below.

In instances whereby inputs used to measure fair value fall into different levels in the above fair value hierarchy, fair value measurements in their entirety are categorized based on the lowest level input that is significant to the valuation. The Department's assessment of the significance of particular inputs to these fair value measurements requires judgment and considers factors specific to each asset or liability.

The Department's recurring fair value measurement as of September 30, 2018 relates to the commercial paper of \$1,997,730 and is valued using a matrix pricing model (Level 2 inputs).

September 30, 2018

Note 4 - Billed and Unbilled Accounts Receivable

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

	2018				2017
	Electric	Water	Cable	Total	Total
Billed	\$ 4,294,930	\$ 419,571	\$ 1,152,644	\$ 5,867,145	\$ 5,321,525
Unbilled	2,753,570	242,837	-	2,996,407	2,724,103
Due from other governmental units	26,180	-	-	26,180	26,306
Less allowance for doubtful accounts	(142,000)	(7,000)	(130,000)	(279,000)	(262,500)
Total	\$ 6,932,680	\$ 655,408	\$ 1,022,644	\$ 8,610,732	\$ 7,809,434

Unbilled accounts receivable from customers represent services that have been provided to customers through September 30, 2018 for which billings were processed subsequent to year end.

Note 5 - Capital Assets

Capital asset activity of the Department's business-type activities was as follows:

	Balance September 30, 2017	Additions	Disposals and Adjustments	Balance September 30, 2018
Capital assets not being depreciated - Construction in progress	\$ 2,398,249	\$ 3,999,798	\$ (40,306)	\$ 6,357,741
Capital assets being depreciated:				
Utility plant	104,202,876	326,371	(3,258,158)	101,271,089
Transmission	5,911,181	-	-	5,911,181
Pumping	7,189,757	16,466	-	7,206,223
Purification	3,944,873	8,636	-	3,953,509
Distribution	63,786,875	1,453,987	-	65,240,862
Transportation	3,451,829	192,444	-	3,644,273
Stores	1,148,552	-	-	1,148,552
Cable equipment	4,184,034	215,906	-	4,399,940
Studio	603,990	29,955	-	633,945
General	3,911,024	21,355	-	3,932,379
Total capital assets being depreciated	198,334,991	2,265,120	(3,258,158)	197,341,953
Accumulated depreciation:				
Utility plant	92,079,121	1,268,913	(2,018,132)	91,329,902
Transmission	5,723,959	90,603	-	5,814,562
Pumping	2,666,883	149,293	-	2,816,176
Purification	3,717,413	23,919	-	3,741,332
Distribution	43,367,777	2,092,206	-	45,459,983
Transportation	2,791,947	217,320	-	3,009,267
Stores	912,519	16,266	-	928,785
Cable equipment	2,666,449	381,453	-	3,047,902
Studio	564,599	13,925	-	578,524
General	3,539,435	156,220	-	3,695,655
Total accumulated depreciation	158,030,102	4,410,118	(2,018,132)	160,422,088
Net capital assets being depreciated	40,304,889	(2,144,998)	(1,240,026)	36,919,865
Net capital assets	\$ 42,703,138	\$ 1,854,800	\$ (1,280,332)	\$ 43,277,606

Note 5 - Capital Assets (Continued)

Depreciation expense was \$2,790,269 and \$2,978,886 for the Electric Fund, \$609,856 and \$633,501 for the Water Fund, and \$1,009,993 and \$982,990 for the Cable Television Fund and has been included in operating expenses of the appropriate fund for the years ended September 30, 2018 and 2017, respectively.

Special Item

During the current year, the electric department terminated steam service provided to a significant customer, BASF Corporation (BASF). The electric department constructed a dedicated steam line to provide steam service to BASF, which was dismantled due to the termination of steam service. The steam line had an original cost of \$3,258,158 and accumulated depreciation of \$2,018,132 at the time of impairment. The impairment loss of \$1,240,026 was reported as a special item on the statement of revenue, expenses, and changes in net position.

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, 2018 are as follows:

	Spent to Date	Remaining Commitment
Micro wind turbines	\$ 399,057	\$ 67,650
Advanced metering infrastructure (AMI)	1,882,190	252,810
Auxiliary steam boiler	3,003,818	2,740,000
Sub 6 - 69 kV switch upgrades	15,256	31,970
Sub 6 & 8 PT installation	-	11,320
Sub 6 69 kV switch replacement	-	273,577
Installation of ABB transformer 720	82,492	147,175
Sub 8 & 10 breaker replacement	-	348,250
Total	\$ 5,382,813	\$ 3,872,752

Note 6 - Interfund Receivables, Payables, and Transfers

The composition of interfund balances is as follows:

Receivable Fund	Payable Fund	Amount
Electric Fund	Water Fund	\$ 2,129
	Cable Fund	12,999
	Total Electric Fund	15,128
Cable Fund	Water Fund	915
	Total	\$ 16,043

These balances result from the time lag between the dates on which goods and services are provided or reimbursable expenditures occur, transactions are recorded in the accounting system, and payments between funds are made.

September 30, 2018

Note 7 - Long-term Debt

The Electric Fund long-term debt activity for the year ended September 30, 2018 can be summarized as follows:

	Beginning Balance	Reductions	Ending Balance	Due within One Year
Long-term debt:				
2008 Electric Installment Purchase Agreement	\$ 383,691	\$ (285,590)	\$ 98,101	\$ 98,101
2010 Electric Installment Purchase Agreement	1,091,556	(531,738)	559,818	559,818
2014 Electric Installment Purchase Agreement	499,482	(121,341)	378,141	123,664
2015 Series A Electric System Revenue and Revenue Refunding Bonds	21,505,000	(330,000)	21,175,000	615,000
2015 Series B Electric System Revenue and Revenue Refunding Bonds	8,840,000	-	8,840,000	1,295,000
Total principal outstanding	32,319,729	(1,268,669)	31,051,060	2,691,583
Unamortized bond premiums - 2015 Series A	997,120	(35,611)	961,509	-
Total long-term debt	<u>\$ 33,316,849</u>	<u>\$ (1,304,280)</u>	<u>\$ 32,012,569</u>	<u>\$ 2,691,583</u>

Debt Service Requirements to Maturity

Annual debt service requirements to maturity for the above long-term debt are as follows:

Years Ending September 30	Principal	Interest	Total
2019	\$ 2,691,583	\$ 1,430,496	\$ 4,122,079
2020	1,796,032	1,314,262	3,110,294
2021	1,898,445	1,226,673	3,125,118
2022	1,840,000	1,134,703	2,974,703
2023	1,935,000	1,040,977	2,975,977
2024-2028	8,575,000	3,819,164	12,394,164
2029-2033	3,205,000	2,627,150	5,832,150
2034-2038	3,365,000	1,856,375	5,221,375
2039-2043	3,895,000	968,625	4,863,625
2044-2048	1,850,000	93,750	1,943,750
Total	<u>\$ 31,051,060</u>	<u>\$ 15,512,175</u>	<u>\$ 46,563,235</u>

Interest

For the years ended September 30, 2018 and 2017, total interest costs of \$1,496,785 and \$1,550,802, respectively, were incurred in the Electric Fund.

Defeased Debt

In 2015, the City defeased certain bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust accounts' assets and liabilities for the defeased bonds are not included in the basic financial statements. At September 30, 2018, \$3,280,000 of bonds outstanding are considered defeased.

Note 7 - Long-term Debt (Continued)

Electric Fund Revenue Bonds

The 2015 Series A and B Revenue and Refunding Bonds are payable out of the net revenue before capital contributions of the Electric Fund. During the year, net operating revenue, as defined, of the system was \$6,538,162. Fiscal year 2019 debt service requirements total \$3,307,978. The City of Wyandotte, Michigan has no liability for these bonds if the net revenue pledged should prove insufficient.

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 construction of improvements to the system
- Sale, lease, or other disposition of all or any substantial part of the system
- Granting any franchise or other rights or operating a system that will compete with 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

Note 8 - Restricted Net Position

Restricted assets consist of the following:

	2018	2017
	Electric Fund/ Total	Total
Restricted working capital - MPPA	\$ 1,230,080	\$ 1,230,080
Unspent bond proceeds	5,094,084	9,324,144
Restricted grant reserves	384,694	384,377
Total restricted assets	6,708,858	10,938,601
Less unspent bond proceeds	(5,094,084)	(9,324,144)
Plus energy optimization surplus	290,968	71,021
Total restricted net position	\$ 1,905,742	\$ 1,685,478

All assets legally restricted relate to activity of the Electric Fund. When an expense is incurred that allows the use of restricted assets (such as allowable expenses pursuant to the Electric System Revenue and Revenue Refunding Bonds, Series 2015A and Series 2015B), those assets are applied before utilizing any unrestricted assets.

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.

The unspent bond proceeds relate to the Electric System Revenue and Revenue Refunding Bonds, Series 2015A and Series 2015B. At September 30, 2018, there was \$237,010 of liabilities to be paid from these restricted bond proceeds.

The assets restricted for grant reserves represent the balances outstanding as of September 30, 2018 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.

Note 8 - Restricted Net Position (Continued)

In accordance with Michigan Public Act 295 of 2008, the Department is required to establish energy optimization programs. The Department charges energy optimization fees, for which the funds are required to be spent on energy optimization programs. The surplus from these energy optimization fees has been reported as restricted net position at September 30, 2018.

Note 9 - Pension Plans

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 plan is a cost-sharing multiple-employer defined benefit pension plan administered by the City of Wyandotte Employees' Retirement System Board. 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, Michigan's September 30, 2018 annual financial report, which may be obtained at the City's offices at 3200 Biddle Avenue.

The Department also provides pension benefits that cover all employees of the Department hired on or after October 1, 2006 through a defined contribution plan administered by City of Wyandotte, Michigan. 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, 2018, there are 58 employees participating in the defined contribution plan.

Benefits Provided

The plan provides retirement, disability, and death benefits to plan members and their beneficiaries. Benefit terms are established and amended by contractual agreements between the City and employee union representation. Retirement benefits are calculated as follows:

Final average compensation (FAC) is multiplied by 1.65, 1.7, or 1.7 percent for nonexempt, exempt, and hourly members, respectively. FAC is calculated as the highest three consecutive years out of the last 10 years.

Plan members with 30 years (25 years for the Department's hourly employees) of service or age 60 with 10 years of service are eligible to retire. Department employees have a mandatory retirement age of 70 years. Salaried (exempt and nonexempt) plan members with 25 years of service, or age 55 with 10 years of service, are eligible for early retirement. All plan members at age 25 with 10 years of service are vested. All plan members are eligible for nonduty disability benefits after 10 years of service and for duty-related disability benefits upon hire. Disability retirement benefits are determined in the same manner as retirement benefits, but are payable immediately without actuarial reduction. Death benefits equal the worker's compensation benefit.

The plan is closed to new entrants.

Note 9 - Pension Plans (Continued)

Contributions

Article 9, Section 24 of the State of Michigan constitution requires that financial benefits arising on account of employee service rendered in each year be funded during that year. Accordingly, the retirement system retains an independent actuary to determine the annual contribution. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by plan members during the year, with an additional amount to finance any unfunded accrued liability. The Department's contractually required contribution rate for the year ended September 30, 2018 was 66.17 percent of annual payroll. Contributions to the plan from the Department were \$1,300,341 for the year ended September 30, 2018. Department employees are not required to contribute.

Net Pension Liability

At September 30, 2018, the Department reported a liability of \$7,816,872 for its proportionate share of the net pension liability. The net pension liability was measured as of September 30, 2018, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of September 30, 2017, which used updated procedures to roll forward the estimated liability to September 30, 2018. The Department's proportion of the net pension liability was based on the Department's actuarially required contribution for the year ended September 30, 2018 relative to all other contributing employers. At September 30, 2018, the Department's proportion was 27.5 percent, which was an increase of 0.7 percent from its proportion measured as of September 30, 2017.

Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

For the year ended September 30, 2018, the Department recognized pension expense of \$1,365,638 from all plans, which includes defined contribution plan expense of \$284,821.

At September 30, 2018, the Department reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Net difference between projected and actual earnings on pension plan investments	\$ 107,728	\$ -

Amounts reported as deferred outflows of resources related to pensions will be recognized in pension expense as follows:

Years Ending September 30	Amount
2019	\$ 263,075
2020	(114,926)
2021	(69,641)
2022	29,220
Total	\$ 107,728

Actuarial Assumptions

The total pension liability in the September 30, 2018 actuarial valuation was determined using an inflation assumption of 3.0 percent, assumed salary increases (including inflation) of 4.4 percent to 8.0 percent, an investment rate of return (net of investment expenses) of 7.0 percent, and the RP-2014 mortality table projected seven years with MP-2014.

Note 9 - Pension Plans (Continued)

Discount Rate

The discount rate used to measure the total pension liability was 7.0 percent. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current contribution rate and that department contributions will be made at rates equal to the difference between actuarially determined contribution rates and the employee rate.

Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Investment Rate of Return

Best estimates of geometric real rates of return as of the September 30, 2018 measurement date for each major asset class included in the pension plan's target asset allocation, as disclosed in the investment footnote, are summarized in the following tables:

Asset Class	Target Allocation	Long-term Expected Real Rate of Return
Large-cap U.S. value equity	13.00 %	4.49 %
Large-cap U.S. growth equity	12.00	3.93
Small-/mid-cap U.S. equity	8.00	4.88
Developed non-U.S. equity	11.00	5.35
Emerging non-U.S. equity	2.00	8.00
Global fixed income	7.00	-
Core U.S. fixed income	33.00	1.00
Hedged strategies	12.00	3.01
Cash	2.00	-

Sensitivity of the Net Pension Liability to Changes in the Discount Rate

The following presents the net pension liability of the Department, calculated using the discount rate of 7.0 percent, as well as what the Department's net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower or 1 percentage point higher than the current rate:

	1 Percent Decrease (6.0%)	Current Discount Rate (7.0%)	1 Percent Increase (8.0%)
Net pension liability of the City of Wyandotte Employees' Retirement System	\$ 10,339,425	\$ 7,816,872	\$ 5,658,773

Note 10 - Other Postemployment Benefit Plan

Plan Description

The Department provides OPEB for all employees who meet eligibility requirements. The plan is a cost-sharing multiple-employer plan administered by the City of Wyandotte City Council. City of Wyandotte Retiree Health Care Plan issues a publicly available financial report that can be obtained at the City's offices at 3200 Biddle Avenue.

Note 10 - Other Postemployment Benefit Plan (Continued)

Benefits Provided

The City of Wyandotte Retiree Health Care Plan provides healthcare benefits for retirees and their dependents. Benefits are provided through a third-party insurer, and the full cost of the benefits is covered by the plan. The plan is closed to nonunion exempt and nonexempt employees hired after October 1, 2011 and union employees hired after October 1, 2013. These employees are covered under a health savings account.

Contributions

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 insurance premiums are due for payment. Plan members are not required to contribute to the plan. Contributions to the plan from the Department were \$843,669 for the year ended September 30, 2018.

Net OPEB Liability

At September 30, 2018, the Department reported a liability of \$22,281,032 for its proportionate share of the net OPEB liability. The net OPEB liability was measured as of September 30, 2018, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of September 30, 2017, which used updated procedures to roll forward the estimated liability to September 30, 2018. The Department's proportion of the net OPEB liability was based on the Department's actuarially required contribution for the year ended September 30, 2018 relative to all other contributing employers. At September 30, 2018, the Department's proportion was 25.2 percent, which was the same proportion measured as of September 30, 2017.

OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

For the year ended September 30, 2018, the Department recognized OPEB expense of \$1,707,204.

At September 30, 2018, the Department reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ 665,008	\$ -
Changes in assumptions	411,489	-
Net difference between projected and actual earnings on OPEB plan investments	3,750	-
Total	<u>\$ 1,080,247</u>	<u>\$ -</u>

Amounts reported as deferred outflows of resources related to OPEB will be recognized in OPEB expense as follows:

Years Ending September 30	Amount
2019	\$ 611,335
2020	467,038
2021	937
2022	937
Total	<u>\$ 1,080,247</u>

Note 10 - Other Postemployment Benefit Plan (Continued)

Actuarial Assumptions

The total OPEB liability in the September 30, 2018 actuarial valuation was determined using an inflation assumption of 3 percent; assumed salary increases (including inflation) of 4.4 percent to 8.0 percent; an investment rate of return (net of investment expenses) of 6.0 percent; a healthcare cost trend rate of 8.0 percent for 2019, decreasing to an ultimate rate of 3.0 percent for 2034 and later years; and the RP-2014 mortality table projected seven years with scale MP-2014.

Discount Rate

The discount rate used to measure the total OPEB liability was 3.83 percent. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current contribution rate and that department contributions will be made at rates equal to the difference between actuarially determined contribution rates and the employee rate.

Based on those assumptions, the OPEB plan's fiduciary net position was not projected to be available to make all projected future benefit payments of current active and inactive employees through the year 2024. Therefore, the discount rate was determined by blending the long-term expected rate of return on OPEB plan investments 6.0 percent with the current yield for 20-year, tax-exempt general obligation municipal bonds with an average rating of AA/Aa or higher, which currently stands at 3.83 percent (as reported in Fidelity Index's "20-Year Municipal GO AA Index" as of September 28, 2018).

Investment Rate of Return

The long-term expected rate of return on OPEB plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of OPEB plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and adding expected inflation. Best estimates of geometric real rates of return as of the September 30, 2018 measurement date for each major asset class included in the OPEB plan's target asset allocation, as disclosed in the investment footnote, are summarized in the following tables:

Asset Class	Target Allocation	Long-term Expected Real Rate of Return
Domestic equity	45.00 %	7.13 %
International equity	15.00	7.18
Domestic fixed income	21.00	2.90
Global fixed income	7.00	2.50
Real estate and alternatives	10.00	4.60
Cash	2.00	1.70

Sensitivity of the Net OPEB Liability to Changes in the Discount Rate

The following presents the net OPEB liability of the Department, calculated using the discount rate of 3.83 percent, as well as what the Department's net OPEB liability would be if it were calculated using a discount rate that is 1 percentage point lower or 1 percentage point higher than the current rate:

	1 Percent Decrease (2.83%)	Current Discount Rate (3.83%)	1 Percent Increase (4.83%)
Net OPEB liability of the City of Wyandotte Retiree Health Care Plan	\$ 25,438,060	\$ 22,281,032	\$ 19,758,404

Note 10 - Other Postemployment Benefit Plan (Continued)

Sensitivity of the Net OPEB Liability to Changes in the Healthcare Cost Trend Rate

The following presents the net OPEB liability of the Department, calculated using the healthcare cost trend rate of 8.0 percent, as well as what the Department's net OPEB liability would be if it were calculated using a healthcare cost trend rate that is 1 percentage point lower or 1 percentage point higher than the current rate:

	1 Percent Decrease (7.0%)	Current Healthcare Cost Trend Rate (8.0%)	1 Percent Increase (9.0%)
Net OPEB liability of the City of Wyandotte Retiree Health Care Plan	\$ 19,425,256	\$ 22,281,032	\$ 25,887,611

Note 11 - Related Party Transactions

City-owned facilities are users of the Department's 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 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, 2018 and 2017.

Beginning in 2009, the Water Department began paying the City a franchise fee based on a calculation of the reasonable costs incurred by the City that are attributable to the Department.

A summary of these transactions with the City for the years ended September 30, 2018 and 2017 is as follows:

	2018	2017
Department revenue:		
Electric and water services	\$ 665,106	\$ 666,966
Street and public safety lighting	632,148	642,503
Collection fee	67,697	65,883
City of Wyandotte - TIFA contribution	48,718	-
Department expenses:		
In lieu of property taxes	(632,148)	(642,503)
Cable television franchise fees	(490,120)	(471,775)
Water franchise fee	(175,000)	(175,000)
City services	(888,527)	(877,325)
Building rent	(180,000)	(180,000)
Remittances to City for sewage use charge collections	(4,517,775)	(4,334,168)
Payable to City of Wyandotte, Michigan - Sewage Disposal Fund	(329,097)	(382,453)
Payable to City of Wyandotte, Michigan - Solid Waste Disposal Fund	(43,823)	(29,015)
Receivable from City of Wyandotte, Michigan - General Fund	-	126

Note 12 - 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.

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, 2016	\$ 142,128
Estimated claims incurred - Net of changes in estimate	4,458
Claim payments	<u>(29,468)</u>
Estimated liability - September 30, 2017	117,118
Estimated claims incurred - Net of changes in estimate	47,376
Claim payments	<u>(29,647)</u>
Estimated liability - September 30, 2018	<u><u>\$ 134,847</u></u>

Note 13 - Contingent Liabilities

The Department 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.

Required Supplemental Information

City of Wyandotte, Michigan Department of Municipal Services

Required Supplemental Information
Schedule of the Department's Proportionate Share of the Net Pension Liability
City of Wyandotte Employees' Retirement System

	Last Four Fiscal Years			
	Plan Years Ended September 30			
	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Department's proportion of the net pension liability	27.50000 %	26.80000 %	23.00000 %	20.10000 %
Department's proportionate share of the net pension liability	\$ 7,816,872	\$ 7,808,813	\$ 7,294,656	\$ 6,562,394
Department's covered payroll	\$ 1,992,720	\$ 2,136,740	\$ 2,016,799	\$ 2,698,824
Department's proportionate share of the net pension liability as a percentage of its covered payroll	392.27 %	365.45 %	361.69 %	243.16 %
Plan fiduciary net position as a percentage of total pension liability	69.97 %	69.10 %	66.40 %	65.30 %

City of Wyandotte, Michigan Department of Municipal Services

Required Supplemental Information Schedule of Department Contributions

Last Ten Fiscal Years Years Ended September 30

	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
Actuarially determined contribution	\$ 1,300,341	\$ 1,166,654	\$ 888,524	\$ 856,067	\$ 796,272	\$ 888,456	\$ 773,346	\$ 626,722	\$ 649,458	\$ 499,359
Contributions in relation to the actuarially determined contribution	1,300,341	1,166,654	888,524	856,067	796,272	888,456	773,346	626,722	649,458	499,359
Contribution Deficiency	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Covered Payroll	\$ 1,992,720	\$ 2,136,740	\$ 2,016,799	\$ 2,698,824	\$ 2,816,681	\$ 3,649,775	\$ 3,593,488	\$ 3,801,227	\$ 4,303,522	\$ 4,539,471
Contributions as a Percentage of Covered Payroll	65.25 %	54.60 %	44.06 %	31.72 %	28.27 %	24.34 %	21.52 %	16.49 %	15.09 %	11.00 %

Notes to Schedule of Department Contributions

Actuarial valuation information relative to the determination of contributions:

Valuation date Actuarially determined contribution rates are calculated as of September 30 each year, which is 12 months prior to the beginning of the fiscal year in which contributions are reported.

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Entry age normal
Amortization method	Level dollar
Remaining amortization period	18 years, closed
Asset valuation method	Four-year smoothed market value
Inflation	2.75 percent
Salary increase	3.0 to 8.1 percent
Investment rate of return	7.0 percent
Retirement age	Experience-based table of rates that are specific to the type of eligibility condition
Mortality	RP-2014 Mortality Table projected seven years with scale MP-2014
Other information	Early Retirement Incentive Program (ERIP): UAL associated with the ERIP amortized by level dollar contributions year, five years starting with the contribution for the fiscal year beginning October 1, 2016

City of Wyandotte, Michigan Department of Municipal Services

Required Supplemental Information
Schedule of the Department's Proportionate Share of the Net OPEB Liability
City of Wyandotte Retiree Health Care Plan

	Last Two Fiscal Years	
	Years Ended September 30	
	<u>2018</u>	<u>2017</u>
Department's proportion of the net OPEB liability	25.20000 %	25.20000 %
Department's proportionate share of the net OPEB liability	\$ 22,281,032	\$ 20,454,127
Department's covered employee payroll	\$ 1,704,773	\$ 1,772,744
Department's proportionate share of the net OPEB liability as a percentage of its covered employee payroll	1,306.98 %	1,153.81 %
Plan fiduciary net position as a percentage of total OPEB liability	2.90 %	2.51 %

City of Wyandotte, Michigan Department of Municipal Services

Required Supplemental Information
 Schedule of OPEB Contributions
 City of Wyandotte Retiree Health Care Plan

**Last Ten Fiscal Years
 Years Ended September 30**

	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
Contractually required contribution	\$ 1,548,307	\$ 1,947,495	\$ 1,943,281	\$ 1,943,297	\$ 1,625,575	\$ 1,625,587	\$ 1,583,990	\$ 1,583,990	\$ 1,328,503	\$ 1,248,066
Contributions in relation to the contractually required contribution	843,669	1,008,055	913,342	670,437	957,464	726,637	707,065	612,802	572,913	718,989
Contribution Deficiency	\$ 704,638	\$ 939,440	\$ 1,029,939	\$ 1,272,860	\$ 668,111	\$ 898,950	\$ 876,925	\$ 971,188	\$ 755,590	\$ 529,077