

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

**Financial Report
September 30, 2006**

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

We have audited the accompanying basic financial statements of the City of Wyandotte, Michigan Department of Municipal Service as of and for the year ended September 30, 2006. These financial statements are the responsibility of the Department of Municipal Service's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year partial comparative information has been derived from the Department's 2005 financial statements and in our report dated January 18, 2006, we expressed an unqualified opinion on the 2005 basic financial statements.

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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the City of Wyandotte, Michigan Department of Municipal Service at September 30, 2006 and the results of its income and cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

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

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

The financial statements include partial prior year comparative information. Such information does not include all of the information required to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Department of Municipal Service's financial statements for the year ended September 30, 2005, from which such partial information was derived.

Plante & Moran, PLLC

March 6, 2007

City of Wyandotte, Michigan

Department of Municipal Service

Management's Discussion and Analysis

Our discussion and analysis of Wyandotte Department of Municipal Service's performance provides an overview of the Department's financial activities for the fiscal year ended September 30, 2006. Please read it in conjunction with the Department's financial statements.

Using this Annual Report

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

Financial Highlights

Electric Fund

- The Electric Fund's operating revenue increased for the year by approximately 16 percent from last year, partially due to off-system sales (wholesale sales to customers outside the City's geographic boundary), an increase in the power supply recovery charge, and sales to a new steam customer.
- The Electric Fund's operating expenses increased from last year by approximately 14 percent, as a result of a significant increase in fuel and power production costs.
- Accordingly, the Electric Fund's operating loss decreased by approximately \$500,000. Although the loss decreased from the prior year, it still caused the Electric Fund to use more of its working capital than planned (as well as monies from the capital improvement restricted asset account).
- In 2005, the Department entered into an agreement with BASF to provide steam service. In connection with this agreement, the Department issued bonds in 2005 to construct the steam delivery system. The agreement with BASF provides 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 for a period of years. BASF began making the payments as outlined in the agreement to the Department during the current year.

City of Wyandotte, Michigan

Department of Municipal Service

Management's Discussion and Analysis (Continued)

- The Department's bond ordinance specifies that the Department's Electric Fund budget provide net revenue that equals or exceeds 110 percent of its annual debt service requirement. The ratio that measures the relationship between the Department's net revenue and its annual debt service requirement is known as the "debt service coverage ratio." While the 110 percent debt service coverage ratio test is prospective, it is important that the Department's actual results yield net revenue that equals or exceeds 110 percent of the annual debt service requirement. The actual debt service coverage ratio for the year did not exceed 110 percent (approximately 81 percent for the year ended September 30, 2006).
- Another financial covenant in the Department's bond ordinance requires that actual expenditures of the Department do not exceed budget. During the current year, the Department had to amend its budget in order to comply with this ordinance.

Water Fund

- The financial performance of the Water Fund continued to improve in the current year. Although operating revenue only increased slightly, operating expenses decreased causing operating net income to increase by 38 percent.
- As a result of the rate increases made in 2005, the Water Fund is restoring its working capital position. The Water Fund has been assisted by annual contributions from the City's Tax Increment Financing Authority for water main construction. The current year contribution was approximately \$81,680.
- This year's financial statement reports unrestricted net assets of approximately \$813,000 (as compared to only \$60,000 in the prior year). The Commission is continuing to review its rate structure of the water utility, along with other options to improve the financial condition of the Water Fund.

Cable Television Fund

- The Cable Television Fund's operating revenue increased by 3.7 percent, mainly due to increases in cable Internet revenues of \$147,000.
- Due to an increase in operating expenses of 11.6 percent, the Cable Television Fund realized an operating net loss of approximately \$142,000.
- The Cable Fund still continues to accumulate excess operating cash to retire the debt outstanding on the rebuild of its fiber optic cable network completed in 1999. The restriction of that cash (approximately \$1.05 million) has resulted in a deficit in unrestricted net assets of approximately \$323,000.

City of Wyandotte, Michigan

Department of Municipal Service

Management's Discussion and Analysis (Continued)

Condensed Financial Information

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

	September 30		Change	
	2006	2005	Amount	Percent
Assets				
Current assets	\$ 8,946,911	\$ 9,328,046	\$ (381,135)	(4.09)
Restricted assets	16,179,134	25,077,469	(8,898,335)	(35.48)
Property, plant, and equipment	60,477,141	59,350,433	1,126,708	1.90
Other	3,193,721	1,247,670	1,946,051	155.97
Total assets	88,796,907	95,003,618	(6,206,711)	(6.53)
Liabilities				
Current liabilities	9,450,373	10,019,802	(569,429)	(5.68)
Liabilities payable from restricted assets	4,605,454	4,697,593	(92,139)	(1.96)
Long-term debt	46,219,508	49,972,416	(3,752,908)	(7.51)
Total liabilities	60,275,335	64,689,811	(4,414,476)	(6.82)
Net Assets				
Invested in capital assets - Net of debt	13,318,322	14,445,796	(1,127,474)	N/A
Restricted assets	11,344,991	11,622,097	(277,106)	(2.38)
Unrestricted	3,858,259	4,245,914	(387,655)	(9.13)
Total net assets	\$ 28,521,572	\$ 30,313,807	\$ (1,792,235)	N/A

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

	Year Ended September 30		Change	
	2006	2005	Amount	Percent
Total operating revenue	\$ 38,944,940	\$ 34,435,133	\$ 4,509,807	13.10
Total operating expenses	39,454,620	35,061,985	4,392,635	12.53
Operating Loss	(509,680)	(626,852)	117,172	(18.69)
Contributions	81,680	275,654	(193,974)	(70.37)
Other nonoperating expense	(1,364,235)	(1,668,614)	304,379	(18.24)
Net Loss	\$ (1,792,235)	\$ (2,019,812)	\$ 227,577	(11.27)

City of Wyandotte, Michigan

Department of Municipal Service

Management's Discussion and Analysis (Continued)

Capital Asset and Debt Administration

In 2005, the Department issued two series of revenue bonds. The purposes of the bonds included the construction of a steam line in connection with its agreement with BASF, to reimburse the Electric Fund's working capital for a portion of the turbine repair project completed in 2004, a future project related to the purchase and installation of an automatic meter reading system (a joint Electric and Water Fund project), diesel generators for the power plant's ability to have "black start" capabilities, and other capital related projects. The project which has yet to be completed is the automatic meter reading project.

Economic Factors and Next Year's Rates

The Electric Fund continues to be significantly impacted by fuel and power production costs. A spike in fuel costs in 2005 and 2006 required the Department to increase the power supply adjustment rider contained in its electric rate structure twice. As a result, the Department continues to work with a rate consultant to update its cost of service study and electric rate structure in light of the significant changes occurring to fuel costs. The Department has implemented several rate increases in the Water Fund to improve its financial condition and additional rate increases will be necessary to restore its working capital.

Contacting the Department's Management

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

City of Wyandotte, Michigan

Department of Municipal Service

Statement of Net Assets

	September 30				
	2006			2005	
	Electric Fund	Water Fund	Cable Television Fund	Total	Total
Assets					
Current Assets					
Cash and investments (Note 3)	\$ -	\$ 281,781	\$ 175,960	\$ 457,741	\$ 2,524,552
Accounts receivable:					
Billed (Note 4)	2,158,172	186,128	370,585	2,714,885	1,983,162
Construction (Note 4)	636,000	-	-	636,000	-
Unbilled	2,183,671	192,300	-	2,375,971	2,075,971
Due from other funds	51,756	809,409	103,480	964,645	-
Fuel, materials, supplies, and other inventories	1,543,032	99,759	71,903	1,714,694	2,671,292
Prepaid insurance and other current assets	31,550	10,256	41,169	82,975	73,069
Total current assets	6,604,181	1,579,633	763,097	8,946,911	9,328,046
Noncurrent Assets					
Long-term construction receivable (Note 4)	2,046,000	-	-	2,046,000	-
Restricted assets (Note 7)	14,821,924	155,893	1,201,317	16,179,134	25,077,469
Bond issuance costs (Note 12)	1,147,721	-	-	1,147,721	1,247,670
Property, plant, and equipment (Note 5)	48,720,990	8,158,934	3,597,217	60,477,141	59,350,433
Total noncurrent assets	66,736,635	8,314,827	4,798,534	79,849,996	85,675,572
Total assets	\$ 73,340,816	\$ 9,894,460	\$ 5,561,631	\$ 88,796,907	\$ 95,003,618
Liabilities and Net Assets					
Current Liabilities					
Current portion of long-term debt (Note 6)	\$ 3,475,000	\$ -	\$ 375,000	\$ 3,850,000	\$ 3,690,000
Accounts payable	837,419	9,970	293,937	1,141,326	2,671,385
Due to other funds	892,889	30,582	41,174	964,645	-
Due to City of Wyandotte - Sewage Disposal (Note 9)	-	412,868	-	412,868	666,889
Accrued compensation	207,512	50,044	44,338	301,894	291,020
Other accrued liabilities	1,204,894	262,889	380,324	1,848,107	1,757,909
Deferred revenue	-	-	147,992	147,992	160,328
Customer deposits and other current liabilities	604,866	-	178,675	783,541	782,271
Total current liabilities	7,222,580	766,353	1,461,440	9,450,373	10,019,802
Liabilities to be Paid from Restricted Assets					
Debt service payable	4,605,454	-	-	4,605,454	3,742,642
Accounts payable	-	-	-	-	954,951
Total liabilities to be paid from restricted assets	4,605,454	-	-	4,605,454	4,697,593
Long-term Debt - Net of current portion and amount payable from restricted assets (Note 6)	44,677,977	-	1,541,531	46,219,508	49,972,416
Net Assets					
Invested in property, plant, and equipment - Net of related debt	3,478,702	8,158,934	1,680,686	13,318,322	14,445,796
Restricted (Note 7)	9,987,781	155,893	1,201,317	11,344,991	11,622,097
Unrestricted (deficit)	3,368,322	813,280	(323,343)	3,858,259	4,245,914
Total net assets	16,834,805	9,128,107	2,558,660	28,521,572	30,313,807
Total liabilities and net assets	\$ 73,340,816	\$ 9,894,460	\$ 5,561,631	\$ 88,796,907	\$ 95,003,618

City of Wyandotte, Michigan

Department of Municipal Service

Statement of Revenue, Expenses, and Changes in Net Assets

	Year Ended September 30				
	2006				2005
	Electric Fund	Water Fund	Cable Television Fund	Total	Total
Operating Revenue	\$ 30,038,002	\$ 2,916,192	\$ 5,990,746	\$ 38,944,940	\$ 34,435,133
Operating Expenses					
Production, pumping, and purification	20,393,723	672,565	-	21,066,288	17,360,082
Distribution	1,281,893	520,493	718,683	2,521,069	2,242,805
Cable television royalties	-	-	3,150,460	3,150,460	2,829,405
Customer service	130,584	46,727	77,148	254,459	264,203
Office and administrative	444,133	213,892	403,238	1,061,263	1,018,621
General and miscellaneous	3,831,564	662,364	1,268,406	5,762,334	5,379,871
Transportation	73,598	17,410	17,128	108,136	92,458
Depreciation	4,524,536	508,659	497,416	5,530,611	5,874,540
Total operating expenses	30,680,031	2,642,110	6,132,479	39,454,620	35,061,985
Operating Income (Loss)	(642,029)	274,082	(141,733)	(509,680)	(626,852)
Nonoperating Income (Expenses)					
Gain on sale of asset	6,121	144	40,256	46,521	54,563
Interest and other income	1,063,971	148,228	133,505	1,345,704	730,342
Interest expense	(2,570,748)	-	(85,764)	(2,656,512)	(2,391,419)
Amortization of bond issuance costs	(99,948)	-	-	(99,948)	(62,100)
Total nonoperating income (expenses)	(1,600,604)	148,372	87,997	(1,364,235)	(1,668,614)
Income (Loss) - Before contribution of fixed assets	(2,242,633)	422,454	(53,736)	(1,873,915)	(2,295,466)
Contribution of Fixed Assets	-	81,680	-	81,680	275,654
Net Income (Loss)	(2,242,633)	504,134	(53,736)	(1,792,235)	(2,019,812)
Net Assets - Beginning of year	19,077,438	8,623,973	2,612,396	30,313,807	32,333,619
Net Assets - End of year	<u>\$ 16,834,805</u>	<u>\$ 9,128,107</u>	<u>\$ 2,558,660</u>	<u>\$ 28,521,572</u>	<u>\$ 30,313,807</u>

City of Wyandotte, Michigan

Department of Municipal Service

Statement of Cash Flows

	Year Ended September 30				
	2006			2005	
	Electric Fund	Water Fund	Cable Television Fund	Total	Total
Cash Flows from Operating Activities					
Cash received from customers	\$ 29,101,065	\$ 2,874,106	\$ 5,938,046	\$ 37,913,217	\$ 34,202,808
Cash payments to suppliers for goods and services	(22,547,744)	(1,663,307)	(4,664,845)	(28,875,896)	(22,638,553)
Cash payments to employees for services	(3,960,723)	(910,395)	(925,328)	(5,796,446)	(5,576,173)
Net cash provided by operating activities	2,592,598	300,404	347,873	3,240,875	5,988,082
Cash Flows from Noncapital Financing Activities -					
Interfund borrowings	774,435	(774,435)	-	-	-
Cash Flows from Capital and Related Financing Activities					
Proceeds on long-term debt	-	-	-	-	13,475,000
Principal and interest paid on long-term debt	(4,925,844)	-	(460,764)	(5,386,608)	(5,186,419)
Bond issuance costs paid	-	-	-	-	(493,483)
Asset constructed for customer - Net of repayments	(2,682,000)	-	-	(2,682,000)	-
Proceeds from sale of fixed assets	6,121	144	40,256	46,521	54,563
Purchase of capital assets - Net of reimbursements	(6,754,892)	(171,414)	(603,332)	(7,529,638)	(2,169,013)
Net cash used in (provided by) capital and related financing activities	(14,356,615)	(171,270)	(1,023,840)	(15,551,725)	5,680,648
Cash Flows from Investing Activities - Interest received on investments	1,063,971	148,228	133,505	1,345,704	730,342
Net Increase (Decrease) in Cash and Cash Equivalents	(9,925,611)	(497,073)	(542,462)	(10,965,146)	12,399,072
Cash and Cash Equivalents - Beginning of year	24,747,535	934,747	1,919,739	27,602,021	15,202,949
Cash and Cash Equivalents - End of year	\$ 14,821,924	\$ 437,674	\$ 1,377,277	\$ 16,636,875	\$ 27,602,021
Reconciliation to Balance Sheet					
Cash and investments	\$ -	\$ 281,781	\$ 175,960	\$ 457,741	\$ 2,524,552
Restricted assets	14,821,924	155,893	1,201,317	16,179,134	25,077,469
Total	\$ 14,821,924	\$ 437,674	\$ 1,377,277	\$ 16,636,875	\$ 27,602,021

City of Wyandotte, Michigan

Department of Municipal Service

Statement of Cash Flows (Continued)

	Year Ended September 30				
	2006				2005
	Electric Fund	Water Fund	Cable Television Fund	Total	Total
Reconciliation of Operating Income (Loss) to Net Cash from Operating Activities					
Operating income (loss)	\$ (642,029)	\$ 274,082	\$ (141,733)	\$ (509,680)	\$ (626,852)
Adjustments to reconcile operating income (loss) to net cash from operating activities:					
Depreciation/Amortization	4,524,536	508,659	497,416	5,530,611	5,874,540
Changes in assets and liabilities:					
Receivables	(936,937)	(42,086)	(52,700)	(1,031,723)	(232,325)
Inventory	840,650	(1,190)	117,138	956,598	(390,853)
Prepaid insurance and other current assets	41,519	(10,256)	(41,169)	(9,906)	11,828
Accounts payable	(1,375,279)	(149,064)	(6,667)	(1,531,010)	1,045,619
Accrued and other liabilities	56,395	(21,328)	66,005	101,072	81,037
Due to City of Wyandotte	-	(254,021)	-	(254,021)	161,916
Interfund balances	66,698	(4,392)	(62,306)	-	-
Deferred revenue	-	-	(12,336)	(12,336)	(12,336)
Customer deposits and other current liabilities	17,045	-	(15,775)	1,270	75,508
Net cash provided by operating activities	<u>\$ 2,592,598</u>	<u>\$ 300,404</u>	<u>\$ 347,873</u>	<u>\$ 3,240,875</u>	<u>\$ 5,988,082</u>

Noncash capital and related financing activities - Water Fund - During the years ended September 30, 2006 and 2005, \$81,680 and \$275,654, respectively, of asset additions were contributed to the Department.

City of Wyandotte, Michigan

Department of Municipal Service

Notes to Financial Statements
September 30, 2006

Note 1 - Nature of Entity

The Department of Municipal Service (the "Department") is a department created by the City of Wyandotte, Michigan (the "City") that is governed and operated independently from the City by the Municipal Service Commission (the "Commission"). The Commission provides electric, water, cable television, and Internet services to users in the City and accounts for these activities in separate funds.

The funds of the Department are included in the basic financial statements of the City at September 30, 2006.

Note 2 - Summary of Significant Accounting Policies

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

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

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Private sector standards of accounting issued prior to December 1, 1989 are generally followed in the financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board. The Department has elected not to apply private sector standards issued after December 31, 1989.

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

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

City of Wyandotte, Michigan

Department of Municipal Service

Notes to Financial Statements
September 30, 2006

Note 2 - Summary of Significant Accounting Policies (Continued)

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

Assets, Liabilities, and Net Assets

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

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 18 percent, 7 percent, and 4 percent, respectively, of the electric department's operating revenue for the year ended September 30, 2006.

The water department has four significant customers: BASF Corporation, Wayne County, the Department of Municipal Service's electric department, and Wyandotte Hospital, representing approximately 12 percent, 4 percent, 2 percent, and 2 percent, respectively, of the water department's operating revenue for the year ended September 30, 2006.

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.

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

City of Wyandotte, Michigan

Department of Municipal Service

Notes to Financial Statements
September 30, 2006

Note 2 - Summary of Significant Accounting Policies (Continued)

Pension Plan - The Department has a defined benefit retirement plan covering substantially all permanent, full-time employees through participation in the City of Wyandotte Employees' Retirement System. Annual retirement expense includes a provision for funding prior service costs in excess of fund assets on the basis of funding such excess over a remaining period of 11 years as of September 2006. The Department's policy is to fund retirement cost accrued.

Use of Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

Emissions Allowance - The Environmental Protection Agency has granted emission allowances to the Department related to the emission of certain pollutants. No amounts are recorded at the date of the grant. The Department estimates the allowances needed for future years. As appropriate, the Department may purchase additional allowances or sell the estimated future excess allowances. The purchase and sale of allowances by emission type is accounted for separately and is 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 purchases or sales of allowances in the current year.

City of Wyandotte, Michigan

Department of Municipal Service

Notes to Financial Statements September 30, 2006

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 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 Pension Trust Fund and Retiree Health Care Fund are also authorized by Michigan Public Act 314 of 1965, as amended, to invest in certain reverse repurchase agreements, stocks, diversified investment companies, annuity investment contracts, real estate leased to public entities, mortgages, real estate (if the trust fund's assets exceed \$250 million), debt or equity of certain small businesses, certain state and local government obligations, and certain other specified investment vehicles.

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

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

Custodial Credit Risk of Bank Deposits - Custodial credit risk is the risk that in the event of a bank failure, the Department's deposits may not be returned to it. The Department does not have a deposit policy for custodial credit risk. At year end, the Department had \$229,852 of bank deposits (certificates of deposit and checking and savings accounts) that were uninsured and uncollateralized. The Department believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the Department evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

City of Wyandotte, Michigan
Department of Municipal Service

Notes to Financial Statements
September 30, 2006

Note 3 - Deposits and Investments (Continued)

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

<u>Investment Type</u>	<u>Fair Value</u>	<u>Rating</u>	<u>Rating Organization</u>
Bank investment pools	\$ 16,616,897	Aaa	Moody's

Note 4 - Billed and Unbilled Accounts Receivable

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

	<u>2006</u>				<u>2005</u>
	<u>Electric Fund</u>	<u>Water Fund</u>	<u>Cable Television Fund</u>	<u>Total</u>	<u>Total</u>
Accounts receivable	\$ 2,308,800	\$ 188,105	\$ 391,367	\$ 2,888,272	\$ 2,105,796
Less allowance for uncollectible accounts	<u>(150,628)</u>	<u>(1,977)</u>	<u>(20,782)</u>	<u>(173,387)</u>	<u>(122,634)</u>
Net accounts receivable	<u>\$ 2,158,172</u>	<u>\$ 186,128</u>	<u>\$ 370,585</u>	<u>\$ 2,714,885</u>	<u>\$ 1,983,162</u>

Unbilled accounts receivable represent services that have been provided to customers through September 30, 2006 for which billings were processed subsequent to year end.

City of Wyandotte, Michigan
Department of Municipal Service

Notes to Financial Statements
September 30, 2006

Note 4 - Billed and Unbilled Accounts Receivable (Continued)

During the current year, the Department entered into an agreement with a customer related to the construction of an asset. Under the terms of the agreement, the Department used proceeds from the 2005A Revenue Bonds to construct a steam line that will be used by the customer. The customer agreed to reimburse the Department for 50 percent of the debt service costs of the bond. Varying monthly payments will be made by the customer through December 31, 2010. The Department has recorded accounts receivable and reduced the cost underlying asset for the principal reimbursements. Interest reimbursements are offset against interest expense when received. During the current year, the Department received \$360,000 from the customer: \$318,000 for debt principal reimbursements which reduced accounts receivable and \$42,000 for interest which reduced interest expense. At September 30, 2006, the outstanding balance related to this agreement is \$2,682,000. The current portion of the receivable balance is \$636,000 and is recorded as an account receivable.

Note 5 - Property, Plant, and Equipment

	Balance October 1, 2005	Additions	Disposals and Adjustments	Balance September 30, 2006
Capital assets being depreciated:				
Utility plant	\$ 92,725,138	\$ 1,734,718	\$ (1,827,660)	\$ 96,287,516
Transmission	5,797,768	-	-	5,797,768
Pumping	2,118,495	31,794	-	2,150,289
Purification	3,752,785	399,929	880	4,151,834
Distribution	36,307,812	39,340	29,591	36,317,561
Transportation	1,576,251	4,658	-	1,580,909
Stores	777,546	1,992	-	779,538
Cable equipment	1,179,799	65,750	-	1,245,549
Studio	472,895	-	-	472,895
General	3,108,969	620,121	-	3,729,090
Construction in progress	1,958,746	3,759,017	1,827,660	3,890,103
Total capital assets being depreciated	149,776,204	6,657,319	30,471	156,403,052

City of Wyandotte, Michigan
Department of Municipal Service

Notes to Financial Statements
September 30, 2006

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

	Balance October 1, 2005	Additions	Disposals and Adjustments	Balance September 30, 2006
Accumulated depreciation:				
Utility plant	\$ 55,029,048	\$ 3,530,905	\$ -	\$ 58,559,953
Transmission	4,295,868	161,656	-	4,457,524
Pumping	925,293	136,730	-	1,062,023
Purification	2,986,318	102,655	-	3,088,973
Distribution	21,873,441	1,238,317	880	23,110,878
Transportation	1,171,390	90,429	29,591	1,232,228
Stores	579,445	40,670	-	620,115
Cable equipment	692,940	138,052	-	830,992
Studio	426,291	12,943	-	439,234
General	2,445,737	78,254	-	2,523,991
Total accumulated depreciation	<u>90,425,771</u>	<u>5,530,611</u>	<u>30,471</u>	<u>95,925,911</u>
Net capital assets being depreciated	<u>\$ 59,350,433</u>	<u>\$ 1,126,708</u>	<u>\$ -</u>	<u>\$ 60,477,141</u>

Depreciation of \$4,524,536 and \$4,910,706 for the Electric Fund, \$508,659 and \$475,341 for the Water Fund, and \$497,416 and \$488,492 for the Cable Television Fund has been included in operating expenses of the appropriate fund for the years ended September 30, 2006 and 2005, respectively.

Construction Commitments - At year end, the Department has an active construction project. Commitments with contractors in which the department expects to utilize bond proceeds are as follows:

	Spent to Date	Remaining Commitment
Automated Meter Reading System	<u>\$ 336,905</u>	<u>\$ 2,495,270</u>

City of Wyandotte, Michigan
Department of Municipal Service

Notes to Financial Statements
September 30, 2006

Note 6 - Long-term Debt

Outstanding Debt

Long-term debt outstanding is as follows:

	2006		2005	
	Electric Fund	Cable Television Fund	Total	Total
1992 Revenue Refunding Bonds - Net of unamortized discount and deferred refunding credit	\$ 7,660,000	\$ -	\$ 7,660,000	\$ 9,920,000
2002 Revenue Refunding Bonds - Net of unamortized premium and deferred refunding charge	30,225,370		30,225,370	30,422,046
1998 installment purchase agreement		1,916,531	1,916,531	2,291,531
2005A Revenue Bonds - Net of unamortized premium	6,094,338	-	6,094,338	6,104,826
2005B Revenue Bonds - Net of unamortized premium	7,488,269	-	7,488,269	7,489,013
Less current portion	(3,475,000)	(375,000)	(3,850,000)	(3,690,000)
Less portion payable from restricted assets	(3,315,000)	-	(3,315,000)	(2,565,000)
Total long-term debt - Net of current portion and amount payable from restricted assets	<u>\$ 44,677,977</u>	<u>\$ 1,541,531</u>	<u>\$ 46,219,508</u>	<u>\$ 49,972,416</u>

City of Wyandotte, Michigan

Department of Municipal Service

Notes to Financial Statements September 30, 2006

Note 6 - 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, 2006 and 2005:

	2005 Series A Electric System Revenue Bonds (Net of Premium)	2005 Series B Electric System Revenue Bonds (Net of Premium)	2002 Revenue Refunding Bonds (Net of Premium and Deferred Refunding Charge)	1992 Revenue Refunding Bonds (Net of Discount and Deferred Refunding Credit)	1998 Cable Installment Purchase Agreement	Total
Long-term debt - October 1, 2004	\$ -	\$ -	\$ 30,608,722	\$ 12,045,000	\$ 2,666,531	\$ 45,320,253
Debt issued	6,000,000	7,475,000	-	-	-	13,475,000
Debt retired	-	-	(295,000)	(2,125,000)	(375,000)	(2,795,000)
Deferred charge on refunding	-	-	167,916	-	-	167,916
Premium (discount) amortization	104,826	14,013	(59,592)	-	-	59,247
Long-term debt - September 30, 2005	6,104,826	7,489,013	30,422,046	9,920,000	2,291,531	56,227,416
Debt retired	-	-	(305,000)	(2,260,000)	(375,000)	(2,940,000)
Deferred charge on refunding	-	-	167,916	-	-	167,916
Premium (discount) amortization	(10,488)	(744)	(59,592)	-	-	(70,824)
Long-term debt - September 30, 2006	<u>\$ 6,094,338</u>	<u>\$ 7,488,269</u>	<u>\$ 30,225,370</u>	<u>\$ 7,660,000</u>	<u>\$ 1,916,531</u>	<u>\$ 53,384,508</u>

Debt Service Requirements - The annual total principal and interest requirements to service all debt outstanding as of September 30, 2006, excluding unamortized discount premiums on bonds payable, and deferred refunding charges are as follows:

Years Ending Sept. 30	2005 Electric Revenue Bonds (Series A&B)				2002 Electric Fund Refunding Bonds		1992 Electric Fund Refunding Bonds		1998 Cable Installment Purchase Agreement		Total
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	
2007	\$ 600,000	\$ 219,900	\$ -	\$ 305,050	\$ 315,000	\$ 1,482,214	\$ 2,400,000	\$ 328,750	\$ 375,000	\$ 76,635	\$ 6,102,549
2008	600,000	200,400	-	305,050	325,000	1,471,651	2,550,000	169,375	375,000	60,998	6,057,474
2009	600,000	179,400	250,000	296,300	335,000	1,459,926	2,710,000	-	375,000	45,360	6,250,986
2010	600,000	159,000	300,000	285,800	2,835,000	1,355,031	-	-	375,000	29,722	5,939,553
2011	600,000	138,000	350,000	272,675	2,945,000	1,241,649	-	-	375,000	14,085	5,936,409
2012-2016	3,000,000	267,000	2,650,000	1,062,250	16,690,000	3,971,893	-	-	41,531	1,179	27,683,853
2017-2021	-	-	2,050,000	569,438	7,945,000	219,031	-	-	-	-	10,783,469
2022-2026	-	-	1,875,000	121,125	-	-	-	-	-	-	1,996,125
Total	<u>\$ 6,000,000</u>	<u>\$ 1,163,700</u>	<u>\$ 7,475,000</u>	<u>\$ 3,217,688</u>	<u>\$ 31,390,000</u>	<u>\$ 11,201,395</u>	<u>\$ 7,660,000</u>	<u>\$ 498,125</u>	<u>\$ 1,916,531</u>	<u>\$ 227,979</u>	<u>\$ 70,750,418</u>

City of Wyandotte, Michigan

Department of Municipal Service

Notes to Financial Statements
September 30, 2006

Note 6 - Long-term Debt (Continued)

Interest - For the years ended September 30, 2006 and 2005, total interest costs of \$2,570,748 and \$2,290,024, respectively, were incurred in the Electric Fund. For the years ended September 30, 2006 and 2005, total interest costs of \$85,764 and \$101,395, respectively, were incurred in the Cable Fund.

Electric Fund Revenue Bonds - The 1992 and the 2002 Electric Revenue Refunding Bonds and the 2005 Series A and B Revenue Bonds are payable out of the net revenue of the Electric Fund. The City of Wyandotte, Michigan has no liability for these bonds if the net revenue pledged should prove insufficient.

An agreement has been entered into with BASF for steam service related to the 2005 Revenue Bonds. This agreement provides 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 2010.

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 assets of the Electric Fund at September 30, 2006 and 2005 is approximately \$255,000 and \$259,000, respectively, earmarked for future repairs of the system pursuant to the ordinance. Also included in the current liabilities of the Electric Fund at September 30, 2006 is that 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, 2006

Note 6 - Long-term Debt (Continued)

The following represents maturity schedules of the outstanding bonds payable:

Interest Rate (Percent)	Date of Maturity	Amount of Annual Maturity	Principal Outstanding	
			2006	2005
Amount of issue - \$61,185,000				
Date of issue - April 1, 1992				
*Amounts were defeased in 2002				
6.25	10/01/05	2,260,000	\$ -	\$ 2,260,000
6.25	10/01/06	2,400,000	2,400,000	2,400,000
6.25	10/01/07	2,550,000	2,550,000	2,550,000
6.25	10/01/08	2,710,000	2,710,000	2,710,000
6.25	10/01/09	2,875,000	*	*
6.25	10/01/10	3,060,000	*	*
6.25	10/01/11	3,245,000	*	*
6.25	10/01/12	3,455,000	*	*
6.25	10/01/13	3,665,000	*	*
6.25	10/01/14	3,900,000	*	*
6.25	10/01/15	4,140,000	*	*
6.25	10/01/16	4,400,000	*	*
6.25	10/01/17	4,675,000	*	*
Total			<u>\$ 7,660,000</u>	<u>\$ 9,920,000</u>
Amount of issue - \$31,990,000				
Date of issue - July 9, 2002				
3.25	10/01/05	\$ 305,000	\$ -	\$ 305,000
3.25	10/01/06	315,000	315,000	315,000
3.25	10/01/07	325,000	325,000	325,000
3.50	10/01/08	335,000	335,000	335,000
3.70	10/01/09	2,835,000	2,835,000	2,835,000
3.85	10/01/10	2,945,000	2,945,000	2,945,000
4.00	10/01/11	3,050,000	3,050,000	3,050,000
4.10	10/01/12	3,180,000	3,180,000	3,180,000
5.38	10/01/13	3,305,000	3,305,000	3,305,000
5.38	10/01/14	3,485,000	3,485,000	3,485,000
5.38	10/01/15	3,670,000	3,670,000	3,670,000
5.38	10/01/16	3,870,000	3,870,000	3,870,000
5.38	10/01/17	4,075,000	4,075,000	4,075,000
Total face value			31,390,000	31,695,000
Unamortized premium - Net of deferred refunding charge			<u>(1,164,630)</u>	<u>(1,272,954)</u>
Net			<u>\$ 30,225,370</u>	<u>\$ 30,422,046</u>

City of Wyandotte, Michigan
Department of Municipal Service

Notes to Financial Statements
September 30, 2006

Note 6 - Long-term Debt (Continued)

	Interest Rate (Percent)	Date of Maturity	Amount of Annual Maturity	Principal Outstanding 2006	Principal Outstanding 2005
Amount of issue - \$6,000,000					
Date of issue - August 10, 2005					
	3.25	10/01/06	\$ 600,000	\$ 600,000	\$ 600,000
	3.25	10/01/07	600,000	600,000	600,000
	3.50	10/01/08	600,000	600,000	600,000
	3.40	10/01/09	600,000	600,000	600,000
	3.50	10/01/10	600,000	600,000	600,000
	4.50	10/01/11	600,000	600,000	600,000
	5.00	10/01/12	600,000	600,000	600,000
	5.00	10/01/13	600,000	600,000	600,000
	4.50	10/01/14	600,000	600,000	600,000
	4.00	10/01/15	600,000	600,000	600,000
Total face value				6,000,000	6,000,000
Unamortized premium				94,338	104,826
Net				<u>\$ 6,094,338</u>	<u>\$ 6,104,826</u>

City of Wyandotte, Michigan
Department of Municipal Service

Notes to Financial Statements
September 30, 2006

Note 6 - Long-term Debt (Continued)

	Interest Rate (Percent)	Date of Maturity	Amount of Annual Maturity	Principal Outstanding 2006	Principal Outstanding 2005
Amount of issue - \$7,475,000					
Date of issue - September 1, 2005					
	3.50	10/01/08	\$ 250,000	\$ 250,000	\$ 250,000
	3.50	10/01/09	300,000	300,000	300,000
	3.75	10/01/10	350,000	350,000	350,000
	3.75	10/01/11	400,000	400,000	400,000
	4.00	10/01/12	500,000	500,000	500,000
	4.50	10/01/13	525,000	525,000	525,000
	4.00	10/01/14	575,000	575,000	575,000
	4.50	10/01/15	650,000	650,000	650,000
	4.00	10/01/16	375,000	375,000	375,000
	4.00	10/01/17	400,000	400,000	400,000
	4.00	10/01/18	400,000	400,000	400,000
	4.00	10/01/19	425,000	425,000	425,000
	4.13	10/01/20	450,000	450,000	450,000
	4.15	10/01/21	450,000	450,000	450,000
	4.25	10/01/22	475,000	475,000	475,000
	4.25	10/01/23	475,000	475,000	475,000
	4.25	10/01/24	475,000	475,000	475,000
		Total face value		7,475,000	7,475,000
		Unamortized premium		13,269	14,013
		Net		<u>\$ 7,488,269</u>	<u>\$ 7,489,013</u>

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

City of Wyandotte, Michigan
Department of Municipal Service

Notes to Financial Statements
September 30, 2006

Note 6 - Long-term Debt (Continued)

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

	Date of Maturity	Amount of Annual Maturity	Principal Outstanding	
			2006	2005
Amount of contract - \$3,994,031				
Date of issue - October 16, 1998				
Interest rate - 4.16%				
	11/01/05	\$ 187,500	\$ -	\$ 187,500
	05/01/06	187,500	-	187,500
	11/01/06	187,500	187,500	187,500
	05/01/07	187,500	187,500	187,500
	11/01/07	187,500	187,500	187,500
	05/01/08	187,500	187,500	187,500
	11/01/08	187,500	187,500	187,500
	05/01/09	187,500	187,500	187,500
	11/01/09	187,500	187,500	187,500
	05/01/10	187,500	187,500	187,500
	11/01/10	187,500	187,500	187,500
	05/01/11	187,500	187,500	187,500
	11/01/11	187,500	41,531	41,531
	Total		<u>\$ 1,916,531</u>	<u>\$ 2,291,531</u>

Note 7 - Restricted Assets

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

City of Wyandotte, Michigan
Department of Municipal Service

Notes to Financial Statements
September 30, 2006

Note 7 - Restricted Assets (Continued)

Restricted assets consist of the following:

	2006			2005	
	Electric Fund	Water Fund	Cable Television Fund	Total	Total
Bond proceeds	\$ 3,543,689	\$ -	\$ -	\$ 3,543,689	\$ 12,302,230
Debt service	9,337,027	-	1,045,424	10,382,451	9,849,466
Capital improvements	1,160,504	-	-	1,160,504	1,878,809
Retiree health care	780,704	155,893	155,893	1,092,490	1,046,964
Total restricted assets	14,821,924	155,893	1,201,317	16,179,134	25,077,469
Less accrued interest payable from restricted assets	(1,290,454)	-	-	(1,290,454)	(1,153,142)
Less construction costs payable from restricted assets	-	-	-	-	(954,951)
Net restricted assets	<u>\$ 13,531,470</u>	<u>\$ 155,893</u>	<u>\$ 1,201,317</u>	<u>\$ 14,888,680</u>	<u>\$ 22,969,376</u>

The Electric Fund assets restricted for debt service are pursuant to the 1992 revenue bond ordinance for revenue bond debt service. In conjunction with the bond ordinance, the Commission passed a resolution to reserve retained earnings in the Electric Fund of \$4,679,010, which represents 125 percent of the average annual debt service requirement for all outstanding bonds.

Assets have also been restricted in the Electric Fund for future capital improvements and to assist in paying future bond principal and interest payments pursuant to a resolution approved by the Commission.

Assets have been restricted in the Cable Fund to assist in paying future principal and interest payments on the installment purchase contract.

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

City of Wyandotte, Michigan
Department of Municipal Service

Notes to Financial Statements
September 30, 2006

Note 8 - Defined Benefit Pension Plan

Plan Description - The Department participates in the City of Wyandotte Employees' Retirement System, a defined benefit pension plan that covers all employees of the City. 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 supplementary information for the system) is presented in the City of Wyandotte's September 30, 2006 annual financial report, which may be obtained at the City offices at 3131 Biddle Avenue.

At September 30, 2005, the date of the Department's most recent actuarial valuation, membership consisted of the following:

Retirees and beneficiaries currently receiving benefits	65
Terminated employees entitled to benefits but not yet receiving them	21
Current active employees	101

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. For the year ended September 30, 2006, the Department's contribution was approximately \$657,000 for the plan, which was equal to the Department's required and actual contribution.

Three-year Trend Information

Funding information for the Department's participation in the pension plan for the fiscal years ended September 30 is as follows:

	2006	2005	2004
Annual pension cost (APC)	\$ 657,000	\$ 720,000	\$ 488,000
Percentage of APC contributed	100%	100%	100%
Net pension obligation	-	-	-

City of Wyandotte, Michigan

Department of Municipal Service

Notes to Financial Statements
September 30, 2006

Note 8 - Defined Benefit Pension Plan (Continued)

Additional Information - The Department's 2006 contribution represented approximately 25 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 Citywide PERS. The valuation payroll for all employees covered by the system for the year ended September 30, 2005 (the date of the most recent actuary report) was approximately \$9,650,000. The Department's covered payroll was approximately \$5,398,000.

Note 9 - 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 expenses is a franchise fee payable to the City equal to 8 percent and 5 percent of the gross revenue of the Cable Television Fund for the years ended September 30, 2006 and 2005, respectively.

A summary of these transactions with the City for the years ended September 30, 2006 and 2005 is as follows:

	2006	2005
Department revenue:		
Electric and water services	\$ 540,907	\$ 523,167
Street and public safety lighting	436,477	433,019
Collection fee	86,086	83,786
Department expenses:		
In lieu of property taxes	(436,477)	(433,019)
Cable television franchise fee	(460,034)	(288,447)
City services	(200,000)	-
Remittances to City for sewer use charge collections	(3,400,000)	(3,050,000)
Payable to City of Wyandotte - Sewage Disposal Fund	(412,868)	(666,889)
Water mains contributed by the City	81,680	275,654

City of Wyandotte, Michigan

Department of Municipal Service

Notes to Financial Statements
September 30, 2006

Note 10 - 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 \$850,000 per employee (in the case of disease) or \$850,000 per accident (for bodily injury). The Department has purchased commercial insurance coverage for claims incurred, which exceed the amounts previously described.

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

Estimated liability - October 1, 2004	\$ 562,296
Estimated claims incurred, including changes in estimates	(21,823)
Claim payments	<u>16,223</u>
Estimated liability - September 30, 2005	556,696
Estimated claims incurred, including changes in estimates	(87,301)
Claim payments	<u>38,224</u>
Estimated liability - September 30, 2006	<u><u>\$ 507,619</u></u>

City of Wyandotte, Michigan

Department of Municipal Service

Notes to Financial Statements
September 30, 2006

Note 11 - Contingencies

In March 2005, United Skilled Trades, Inc. (UST) filed a suit against the Department and others. UST alleges that it is owed money from the Department for services rendered pursuant to a contract for repair of a turbine. UST alleges that the Department is indebted to them in the amount of \$1,100,000. The Department is vigorously defending its position that no material amounts are due to UST. Consistent with the Department's position, no payable has been recorded in the Department's financial statements at September 30, 2006 related to this matter.

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

Note 12 - Bond Issuance Costs

During the years ended September 30, 2005 and 2002, the Department incurred bond issuance costs in the amount of \$517,983 and \$931,515, respectively. The 2005 bond issuance costs related to new debt issuances (Series 2005A and 2005B) and the 2002 bond issuance costs related to the 2002 revenue refunding bonds. Amortization expense for the 2002 revenue refunding amounted to \$62,100 for the years ended September 30, 2006 and 2005. Amortization expense for the 2005 revenue bonds amounted to \$37,848 for the year ended September 30, 2006. There was no amortization expense for the 2005 debt issuances in 2005.

Note 13 - Postemployment Benefits

The Department provides health care benefits to all full-time employees upon retirement in accordance with labor contracts. Currently, 69 retirees are eligible. The Department includes pre-Medicare retirees and their dependents in its insured health care plan, with some contribution required by most participants, depending upon employee group classifications. The Department purchases Medicare supplemental insurance for retirees eligible for Medicare. Net expenditures for postemployment health care benefits are recognized in the Electric and Water Funds as the insurance premiums become due; this amounted to approximately \$368,000 and \$68,000, respectively, during the year ended September 30, 2006 and \$413,000 and \$73,000, respectively, during the year ended September 30, 2005.

City of Wyandotte, Michigan
Department of Municipal Service

Notes to Financial Statements
September 30, 2006

Note 13 - Postemployment Benefits (Continued)

The Governmental Accounting Standards Board has recently released Statement No. 45, *Accounting and Reporting by Employers for Postemployment Benefits Other Than Pensions*. The new pronouncement provides guidance for local units of government in recognizing the cost of retiree health care, as well as any “other” postemployment benefits (other than pensions). The new rules will cause the government-wide financial statements to recognize the cost of providing retiree health care coverage over the working life of the employee, rather than at the time the health care premiums are paid. The new pronouncement is effective for the year ending September 30, 2009.