
City of Wyandotte, Michigan Department of
Municipal Services

**Financial Report
with Supplemental Information
September 30, 2019**

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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, 2019 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, 2019 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, 2019, 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

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, 2018 financial statements, and we expressed unmodified audit opinions on each major fund in our report dated February 21, 2019. In our opinion, the summarized comparative information presented herein as of and for the year ended September 30, 2018 is consistent, in all material respects, with the audited financial statements from which it has been derived.



February 5, 2020

Our discussion and analysis of 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, 2019. 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 decreased compared to the prior year by approximately 3.0 percent, while operating expenses decreased by approximately 1.8 percent. The decrease in revenue is attributed to a mild summer in 2019, which resulted in decreased residential electric demand. The decrease in operating expenses is attributable to favorable market prices for the purchase of wholesale power and decreased demand due to the mild summer.
- The Electric Fund's operating income decreased to \$3,674,598, as compared to operating income of \$4,231,237 in the previous year.
- The Department previously adopted Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* (OPEB). As a result, the statement of net position includes a liability for the unfunded portion of the Department's retiree healthcare costs. The impact on operating income for the year ended September 30, 2019 was \$1,699,500. The net OPEB liability, a noncurrent liability, for the Electric Fund is approximately \$18,703,000 at September 30, 2019.
- 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, 2019 was \$(283,674). The net pension liability for the Electric Fund is approximately \$5,210,000 at September 30, 2019.
- 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 265 percent for the year ended September 30, 2019).

City of Wyandotte, Michigan Department of Municipal Services

Management's Discussion and Analysis (Continued)

- For the purpose of computing the above debt service coverage ratio, the Department's current year increase to the net other postemployment benefit (OPEB) obligation of \$1,699,546 for the year ended September 30, 2019 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 decrease to the net pension liability of \$(283,674) 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 \$(926,411) compared to \$(700,310) in the prior year. The decrease is due to the increase in restricted assets for the Energy Optimization surplus. The deficit in unrestricted net position is primarily a result of the net pension liability and net OPEB liability.

Water Fund

- The Water Fund's operating revenue increased by approximately 10.3 percent, while operating expenses decreased by approximately 1.6 percent compared to the prior year. The increase in operating revenue is attributed to an adjustment to both the water usage and fixed meter charges offsetting the trending decline in water usage. The decrease in operating expenses is attributed to the net decrease in actual and accrued retiree pension and healthcare obligations. For actual healthcare expenses during the current fiscal year, this is primarily due to the transition of retired employees into 65 and over retiree healthcare plans. The general manager's department was also restructured, resulting in decreased expenses during the current year.
- Operating income in the current year increased by \$456,607 and resulted in operating income for the current year of \$578,841. 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 October 1, 2019.
- The Department previously adopted Governmental Accounting Standards Board 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. The impact on operating income for the year ended September 30, 2019 was \$78,000. The net OPEB liability, a noncurrent liability, for the Water Fund is approximately \$3,926,000 at September 30, 2019.
- 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, 2019 was \$(140,465). The net pension liability, a noncurrent liability, for the Water Fund is approximately \$1,357,000 at September 30, 2019.
- This year's financial statements report unrestricted net position for the Water Fund of \$(318,036) compared to \$(353,036) in the prior year. The deficit in unrestricted net position is primarily a result of the net pension liability and net OPEB liability.

Cable Television Fund

- The Cable Television Fund realized operating income of \$970,450 in the current year, as compared to operating income of \$285,648 in the prior year. The Department has stabilized declining margins on cable television programming due to continued programming royalty cost increases by implementing a time sensitive periodic adjustment for the pass through of these cost increases, on a semiannual basis, and implementing a sports programming fee.

City of Wyandotte, Michigan Department of Municipal Services

Management's Discussion and Analysis (Continued)

- The Cable Television Fund continues to experience positive growth in internet subscribers, adding approximately 950 new, internet-only subscribers in the prior two fiscal years.
- The Department previously adopted Governmental Accounting Standards Board 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. The net OPEB liability, a noncurrent liability, for the Cable Television Fund resulting from this reporting change is approximately \$3,297,000 at September 30, 2019.
- 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, 2019 was \$(184,753). The net pension liability, a noncurrent liability, for the Cable Television Fund is approximately \$813,000 at September 30, 2019.
- This year's financial statements report unrestricted net position for the Cable Television Fund of \$2,424,637 compared to \$1,052,570 in the prior year.

Condensed Financial Information

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

	2018	2019	Change	Percent Change
Assets				
Current and other assets:				
Cash and investments	\$ 25,136,026	\$ 29,192,785	\$ 4,056,759	16.1
Receivables	8,610,732	8,412,002	(198,730)	(2.3)
Other assets	9,155,666	4,066,743	(5,088,923)	(55.6)
Property, plant, and equipment - Net	43,277,606	48,205,065	4,927,459	11.4
Total assets	86,180,030	89,876,595	3,696,565	4.3
Deferred Outflows of Resources	2,103,226	3,804,600	1,701,374	80.9
Liabilities				
Current and other liabilities	6,781,258	6,737,702	(43,556)	(0.6)
Long-term liabilities:				
Due within one year	2,928,593	2,322,440	(606,153)	(20.7)
Due in more than one year	29,320,986	27,946,652	(1,374,334)	(4.7)
Net pension liability	7,816,872	7,379,709	(437,163)	(5.6)
Net OPEB obligation	22,281,032	25,926,799	3,645,767	16.4
Total liabilities	69,128,741	70,313,302	1,184,561	1.7
Net Position				
Net investment in capital assets	17,249,549	20,081,531	2,831,982	16.4
Restricted	1,905,742	2,106,172	200,430	10.5
Unrestricted	(776)	1,180,190	1,180,966	152,186.3
Total net position	<u>\$ 19,154,515</u>	<u>\$ 23,367,893</u>	<u>\$ 4,213,378</u>	22.0

City of Wyandotte, Michigan Department of Municipal Services

Management's Discussion and Analysis (Continued)

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

	2018	2019	Change	Percent Change
Operating Revenue	\$ 53,996,769	\$ 53,880,882	\$ (115,887)	(0.2)
Operating Expense	49,357,650	48,656,993	(700,657)	(1.4)
Nonoperating Expense - Net	(1,444,960)	(1,010,511)	434,449	(30.1)
Special Item	(1,240,026)	-	1,240,026	(100.0)
Change in Net Position	1,954,133	4,213,378	2,259,245	115.6
Net Position - Beginning of year - As restated	17,200,382	19,154,515	1,954,133	11.4
Net Position - End of year	<u><u>\$ 19,154,515</u></u>	<u><u>\$ 23,367,893</u></u>	<u><u>\$ 4,213,378</u></u>	22.0

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 the completion of the enhanced metering (AMI) system, significant substation improvements and construction at the power plant of two auxiliary boilers for heating steam production that are anticipated to be online for service beginning in January/February 2020. The aux boiler project will provide the long-term requirements necessary for the support of the heating steam rate (ST). Engineering work progressed on potential future generation recommendations for the power plant.

The most significant capital improvements in the Water Fund were made for water main replacement, ongoing water meter replacement/AMI enhancements, purchase of a new backhoe, and phase III of the filter plant rehabilitation.

The Cable Television Fund focused on improvements in customer premises equipment and engineering and design work for the headend migration and system evaluation/rebuild.

Purchases of capital assets for both the Water and Cable Television funds were funded from operations without any additional debt incurred except for capital lease acquisition of new copiers in conjunction with the City.

Economic Factors and Next Year's Operations

The Electric Fund will continue utilizing an economic dispatch approach for managing power supply (including hedged and real time purchase of market power, transmission, and capacity) 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, addressing infrastructure and government mandates. The final phase of the water filter plant rehabilitation commenced during the 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, addressing these programming cost adjustments through a periodic programming royalty adjustment pass through. The Cable Television Fund has started 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, 2019
(with comparative totals for September 30, 2018)

	Electric Fund	Water Fund	Cable Television Fund	2019	2018
Assets					
Current assets:					
Cash and cash equivalents	\$ 18,448,253	\$ 4,801,575	\$ 5,942,957	\$ 29,192,785	\$ 25,136,026
Receivables (Note 3)	6,616,846	861,662	933,494	8,412,002	8,610,732
Due from other funds (Note 5)	-	-	1,560	1,560	16,043
Fuel, materials, supplies, and other inventories	983,014	123,008	57,009	1,163,031	1,857,042
Prepaid expenses and other assets	388,905	51,545	42,460	482,910	573,723
Total current assets	26,437,018	5,837,790	6,977,480	39,252,288	36,193,566
Noncurrent assets:					
Restricted assets (Note 8)	2,419,242	-	-	2,419,242	6,708,858
Property, plant, and equipment: (Note 4)					
Assets not subject to depreciation	7,011,761	918,671	281,157	8,211,589	6,357,741
Assets subject to depreciation	26,893,670	10,577,709	2,522,097	39,993,476	36,919,865
Total noncurrent assets	36,324,673	11,496,380	2,803,254	50,624,307	49,986,464
Total assets	62,761,691	17,334,170	9,780,734	89,876,595	86,180,030
Deferred Outflows of Resources					
Bond refunding loss being amortized	881,353	-	-	881,353	915,251
Deferred pension costs (Note 9)	197,291	51,399	30,767	279,457	107,728
Deferred OPEB costs (Note 10)	1,907,207	400,387	336,196	2,643,790	1,080,247
Total deferred outflows of resources	2,985,851	451,786	366,963	3,804,600	2,103,226
Liabilities					
Current liabilities:					
Accounts payable	1,310,373	725,184	604,521	2,640,078	2,569,304
Due to City of Wyandotte, Michigan (Note 11)	39,003	316,903	-	355,906	372,920
Due to other funds (Note 5)	1,170	390	-	1,560	16,043
Accrued liabilities and other	2,407,040	281,382	190,458	2,878,880	3,038,688
Customer deposits	845,928	-	15,350	861,278	784,303
Current portion of long-term debt (Note 6)	1,925,067	276	828	1,926,171	2,691,583
Total current liabilities	6,528,581	1,324,135	811,157	8,663,873	9,472,841
Noncurrent liabilities:					
Payable from restricted assets	396,269	-	-	396,269	237,010
Net pension liability (Note 9)	5,209,916	1,357,288	812,505	7,379,709	7,816,872
Net OPEB obligation (Note 10)	18,703,362	3,926,465	3,296,972	25,926,799	22,281,032
Long-term debt - Net of current portion (Note 6)	27,942,074	1,145	3,433	27,946,652	29,320,986
Total noncurrent liabilities	52,251,621	5,284,898	4,112,910	61,649,429	59,655,900
Total liabilities	58,780,202	6,609,033	4,924,067	70,313,302	69,128,741
Net Position					
Net investment in capital assets	5,787,579	11,494,959	2,798,993	20,081,531	17,249,549
Restricted (Note 8)	2,106,172	-	-	2,106,172	1,905,742
Unrestricted	(926,411)	(318,036)	2,424,637	1,180,190	(776)
Total net position	<u>\$ 6,967,340</u>	<u>\$ 11,176,923</u>	<u>\$ 5,223,630</u>	<u>\$ 23,367,893</u>	<u>\$ 19,154,515</u>

City of Wyandotte, Michigan Department of Municipal Services

Statement of Revenue, Expenses, and Changes in Net Position

Year Ended September 30, 2019
(with comparative totals for year ended September 30, 2018)

	Electric Fund	Water Fund	Cable Television Fund	2019	2018
Operating Revenue					
Sale of water	\$ -	\$ 4,239,152	\$ -	\$ 4,239,152	\$ 3,849,163
Sale of electricity	38,183,973	-	-	38,183,973	39,385,102
Sales to subscribers	-	-	10,755,003	10,755,003	10,248,769
Other operating revenue	237,669	21,685	443,400	702,754	513,735
Total operating revenue	38,421,642	4,260,837	11,198,403	53,880,882	53,996,769
Operating Expenses					
Production, pumping, and purification	24,851,421	822,379	-	25,673,800	26,445,984
Distribution	2,240,180	1,105,153	1,261,103	4,606,436	4,359,095
Cable television royalties and retransmission fees	-	-	5,377,374	5,377,374	5,379,597
Office and administrative	2,336,117	726,282	663,418	3,725,817	4,029,479
General fringes and other	2,492,499	127,336	1,880,540	4,500,375	4,068,653
Transportation	78,467	35,312	25,688	139,467	160,312
Customer services	257,704	261,359	10,500	529,563	504,412
Depreciation	2,490,656	604,175	1,009,330	4,104,161	4,410,118
Total operating expenses	34,747,044	3,681,996	10,227,953	48,656,993	49,357,650
Operating Income	3,674,598	578,841	970,450	5,223,889	4,639,119
Nonoperating Revenue (Expense)					
Grant revenue	181,773	-	-	181,773	58,780
Grant expenses	(186)	-	-	(186)	(110,440)
Amortization related to long-term debt	(12,520)	-	-	(12,520)	(12,520)
Interest expense	(1,384,099)	(63)	(190)	(1,384,352)	(1,496,785)
Investment income	134,134	17,660	52,980	204,774	116,005
Total nonoperating (expense) revenue	(1,080,898)	17,597	52,790	(1,010,511)	(1,444,960)
Income - Before special item	2,593,700	596,438	1,023,240	4,213,378	3,194,159
Special Item - Impairment loss (Note 4)	-	-	-	-	(1,240,026)
Change in Net Position	2,593,700	596,438	1,023,240	4,213,378	1,954,133
Net Position - Beginning of year	4,373,640	10,580,485	4,200,390	19,154,515	17,200,382
Net Position - End of year	\$ 6,967,340	\$ 11,176,923	\$ 5,223,630	\$ 23,367,893	\$ 19,154,515

City of Wyandotte, Michigan Department of Municipal Services

Statement of Cash Flows

Year Ended September 30, 2019
(with comparative totals for year ended September 30, 2018)

	Electric Fund	Water Fund	Cable Television Fund	2019	2018
Cash Flows from Operating Activities					
Cash received from customers	\$ 38,744,169	\$ 4,054,698	\$ 11,287,899	\$ 54,086,766	\$ 53,195,471
Cash payments to suppliers for goods and services	(23,530,141)	(1,265,016)	(7,191,833)	(31,986,990)	(33,846,175)
Cash payments to employees for services	(6,322,979)	(1,912,656)	(1,864,490)	(10,100,125)	(9,848,890)
Net cash provided by operating activities	8,891,049	877,026	2,231,576	11,999,651	9,500,406
Cash Flows from Noncapital Financing Activities					
Interfund borrowing and repayments - Net	16,298	(2,654)	(13,644)	-	-
Receipts paid to City of Wyandotte, Michigan	(867)	(13,315)	(2,814)	(16,996)	(45,720)
Net cash provided by (used in) noncapital financing activities	15,431	(15,969)	(16,458)	(16,996)	(45,720)
Cash Flows from Capital and Related Financing Activities					
Grant revenue	181,773	-	-	181,773	58,780
Grant expenses	(186)	-	-	(186)	(110,440)
Principal and interest paid on capital debt	(4,374,065)	(238)	(715)	(4,375,018)	(2,804,907)
Purchase of capital assets	(6,408,886)	(1,165,438)	(652,531)	(8,226,855)	(7,261,327)
Net cash used in capital and related financing activities	(10,601,364)	(1,165,676)	(653,246)	(12,420,286)	(10,117,894)
Cash Flows Provided by Investment Activities -					
Interest received on investments	134,134	17,660	52,980	204,774	116,005
Net (Decrease) Increase in Cash	(1,560,750)	(286,959)	1,614,852	(232,857)	(547,203)
Cash - Beginning of year	22,428,245	5,088,534	4,328,105	31,844,884	32,392,087
Cash - End of year	<u>\$ 20,867,495</u>	<u>\$ 4,801,575</u>	<u>\$ 5,942,957</u>	<u>\$ 31,612,027</u>	<u>\$ 31,844,884</u>
Classification of Cash					
Cash and investments	\$ 18,448,253	\$ 4,801,575	\$ 5,942,957	\$ 29,192,785	\$ 25,136,026
Restricted assets	2,419,242	-	-	2,419,242	6,708,858
Total cash	<u>\$ 20,867,495</u>	<u>\$ 4,801,575</u>	<u>\$ 5,942,957</u>	<u>\$ 31,612,027</u>	<u>\$ 31,844,884</u>
Reconciliation of Operating Income to Net Cash from Operating Activities					
Operating income	\$ 3,674,598	\$ 578,841	\$ 970,450	\$ 5,223,889	\$ 4,639,119
Adjustments to reconcile operating income to net cash from operating activities:					
Depreciation	2,490,656	604,175	1,009,330	4,104,161	4,410,118
Changes in assets and liabilities:					
Receivables	322,527	(206,139)	89,496	205,884	(801,298)
Inventory	969,266	(1,689)	(15,295)	952,282	(159,489)
Prepaid insurance and other current assets	49,291	5,573	14,237	69,101	71,366
Accounts payable	7,627	(55,086)	64,526	17,067	273,575
Unearned revenue	-	-	-	-	(12,296)
Net pension or OPEB liability	2,677,139	193,329	338,136	3,208,604	1,834,964
Deferrals related to pension or OPEB	(1,261,267)	(255,879)	(218,126)	(1,735,272)	(969,409)
Accrued and other liabilities	(38,788)	13,901	(21,178)	(46,065)	213,756
Total adjustments	5,216,451	298,185	1,261,126	6,775,762	4,861,287
Net cash provided by operating activities	<u>\$ 8,891,049</u>	<u>\$ 877,026</u>	<u>\$ 2,231,576</u>	<u>\$ 11,999,651</u>	<u>\$ 9,500,406</u>
Significant Noncash Transactions					
Direct financed capital acquisitions	\$ 800,865	\$ 1,596	\$ 4,786	\$ 807,247	\$ -
Asset impairment (Note 4)	-	-	-	-	1,240,026

See notes to financial statements.

September 30, 2019

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) applicable to governmental units.

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, 2019 as enterprise funds.

Accounting and Reporting Principles

The Department follows accounting principles generally accepted in the United States of America 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.

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 one significant customer, BASF Corporation, representing approximately 21 percent of the electric department's operating revenue for the year ended September 30, 2019.

The water department has one significant customer, BASF Corporation, representing approximately 20 percent of the water department's operating revenue for the year ended September 30, 2019.

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:

<u>Capital Asset Class</u>	<u>Depreciable Life - Years</u>
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 (see Note 4).

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.

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.

September 30, 2019

Note 1 - Significant Accounting Policies (Continued)

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.

September 30, 2019

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 from 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 in the current year. For the year ended September 30, 2019, the Department sold \$11,500 of emission allowances.

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, 2018, from which the summarized information was derived.

Upcoming Accounting Pronouncements

In January 2017, the Governmental Accounting Standards Board (GASB) issued Statement No. 84, *Fiduciary Activities*. This statement establishes criteria for identifying fiduciary activities of all state and local governments. An activity meeting the criteria should be reported in a fiduciary fund in the basic financial statements. 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, 2020.

In June 2017, the Governmental Accounting Standards Board issued GASB 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 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 September 30, 2021 fiscal year.

Note 2 - 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 that matures not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions that 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.

September 30, 2019

Note 2 - Deposits and Investments (Continued)

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 are in accordance with statutory authority.

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 \$30,578,603 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 - Billed and Unbilled Accounts Receivable

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

	2019				2018
	Electric	Water	Cable	Total	Total
Billed	\$ 3,966,526	\$ 537,600	\$ 1,057,898	\$ 5,562,024	\$ 5,867,145
Unbilled	2,792,627	334,847	-	3,127,474	2,996,407
Due from other governmental units	6,693	115	346	7,154	26,180
Less allowance for doubtful accounts	(149,000)	(10,900)	(124,750)	(284,650)	(279,000)
Total	\$ 6,616,846	\$ 861,662	\$ 933,494	\$ 8,412,002	\$ 8,610,732

Unbilled accounts receivable from customers represent services that have been provided to customers through September 30, 2019 for which billings were processed subsequent to year end.

September 30, 2019

Note 4 - Capital Assets

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

	Balance September 30, 2018	Additions	Disposals and Adjustments	Balance September 30, 2019
Capital assets not being depreciated - Construction in progress	\$ 6,357,741	\$ 6,763,171	\$ (4,909,323)	\$ 8,211,589
Capital assets being depreciated:				
Utility plant	101,271,089	597,165	428,537	102,296,791
Transmission	5,911,181	-	-	5,911,181
Pumping	7,206,223	46,497	-	7,252,720
Purification	3,953,509	-	-	3,953,509
Distribution	65,240,862	797,165	4,469,458	70,507,485
Transportation	3,644,273	657,783	(203,825)	4,098,231
Stores	1,148,552	-	-	1,148,552
Cable equipment	4,399,940	40,638	-	4,440,578
Studio	633,945	13,892	-	647,837
General	3,932,379	115,309	11,328	4,059,016
Total capital assets being depreciated	197,341,953	2,268,449	4,705,498	204,315,900
Accumulated depreciation:				
Utility plant	91,329,902	976,542	-	92,306,444
Transmission	5,814,562	61,468	-	5,876,030
Pumping	2,816,176	126,236	-	2,942,412
Purification	3,741,332	16,766	-	3,758,098
Distribution	45,459,983	2,042,342	-	47,502,325
Transportation	3,009,267	347,568	(203,825)	3,153,010
Stores	928,785	15,713	-	944,498
Cable equipment	3,047,902	359,525	-	3,407,427
Studio	578,524	15,952	-	594,476
General	3,695,655	142,049	-	3,837,704
Total accumulated depreciation	160,422,088	4,104,161	(203,825)	164,322,424
Net capital assets being depreciated	36,919,865	(1,835,712)	4,909,323	39,993,476
Net capital assets	\$ 43,277,606	\$ 4,927,459	\$ -	\$ 48,205,065

Depreciation expense was \$2,490,656 and \$2,790,269 for the Electric Fund, \$604,175 and \$609,856 for the Water Fund, and \$1,009,330 and \$1,009,993 for the Cable Television Fund and has been included in operating expenses of the appropriate fund for the years ended September 30, 2019 and 2018, respectively.

Special Item

During 2018, 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.

September 30, 2019

Note 4 - Capital Assets (Continued)

Construction Commitments

The Department has active construction projects and other purchase commitments at year end. The Department's commitments (some with contractors/suppliers and others committed based on resolution of the Commission and, thus, considered a future obligation by management) as of September 30, 2019 are as follows:

	Spent to Date	Remaining Commitment
Auxiliary steam boiler	\$ 4,371,514	\$ 1,495,794
Filter plant rehabilitation - Phase III	645,350	1,936,050
Total	<u>\$ 5,016,864</u>	<u>\$ 3,431,844</u>

Note 5 - Interfund Receivables, Payables, and Transfers

The composition of interfund balances is as follows:

Fund Borrowed From	Fund Loaned To	Amount
Cable Fund	Electric Fund	\$ 1,170
	Water Fund	390
	Total Cable Fund	<u>\$ 1,560</u>

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, 2019

Note 6 - Long-term Debt

The Electric Fund long-term debt activity for the year ended September 30, 2019 can be summarized as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due within One Year
Long-term debt:					
Direct borrowings and direct placements:					
2008 Electric Installment Purchase Agreement	\$ 98,101	\$ -	\$ (98,101)	\$ -	\$ -
2010 Electric Installment Purchase Agreement	559,818	-	(559,818)	-	-
2014 Electric Installment Purchase Agreement	378,141	-	(123,664)	254,477	126,032
Total direct borrowings and direct placements principal outstanding	1,036,060	-	(781,583)	254,477	126,032
Other debt:					
2015 Series A Electric System Revenue and Revenue Refunding Bonds	21,175,000	-	(615,000)	20,560,000	655,000
2015 Series B Electric System Revenue and Revenue Refunding Bonds	8,840,000	-	(1,295,000)	7,545,000	1,015,000
Total other debt principal outstanding	30,015,000	-	(1,910,000)	28,105,000	1,670,000
Unamortized bond premiums	961,509	-	(35,611)	925,898	-
Total long-term debt	32,012,569	-	(2,727,194)	29,285,375	1,796,032
Capital leases (Note 7)	-	807,247	(219,799)	587,448	130,139
Total electric fund long-term debt	\$ 32,012,569	\$ 807,247	\$ (2,946,993)	\$ 29,872,823	\$ 1,926,171

The Department had deferred outflows of \$881,353 related to deferred charges on bond refundings at September 30, 2019.

Note 6 - Long-term Debt (Continued)

Debt Service Requirements to Maturity

Annual debt service requirements to maturity for the above bonds and note obligations are as follows:

Years Ending September 30	Electric Fund				
	Direct Borrowings and Direct Placements		Other Debt		Total
	Principal	Interest	Principal	Interest	
2020	\$ 126,032	\$ 4,872	\$ 1,670,000	\$ 1,309,390	\$ 3,110,294
2021	128,445	2,459	1,770,000	1,224,214	3,125,118
2022	-	-	1,840,000	1,134,703	2,974,703
2023	-	-	1,935,000	1,040,977	2,975,977
2024	-	-	2,015,000	942,911	2,957,911
2025-2029	-	-	7,445,000	3,454,353	10,899,353
2030-2034	-	-	2,970,000	2,488,300	5,458,300
2035-2039	-	-	3,420,000	1,686,750	5,106,750
2040-2044	-	-	4,090,000	769,000	4,859,000
2045-2049	-	-	950,000	23,750	973,750
Total	\$ 254,477	\$ 7,331	\$ 28,105,000	\$ 14,074,348	\$ 42,441,156

Interest

For the years ended September 30, 2019 and 2018, total interest costs of \$1,384,098 and \$1,496,785, respectively, were incurred in the Electric Fund. For the year ended September 30, 2019, total interest costs of \$63 and \$190 were incurred in the Water and Cable funds, respectively. No interests costs were incurred for fiscal year end 2018 for the Water and Cable funds.

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, 2019, \$3,050,000 of bonds outstanding are considered defeased.

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 \$7,898,205. Fiscal year 2020 debt service requirements total \$2,979,390. The City of Wyandotte, Michigan has no liability for these bonds if the net revenue pledged should prove insufficient.

Note 7 - Capital Leases

The Department leases vehicles and equipment under long-term lease arrangements that are classified as capital leases. For financial statement purposes, the present values of the net minimum lease payments have been capitalized and are being amortized over the useful lives of the assets. Under the terms of the lease agreements, payments ranging from \$30 to \$4,406 are due monthly through February 2024. The leases have been imputed with interest at annual rates ranging from 0 percent to 6.6 percent.

At September 30, 2019, property under capital leases consists of vehicles and equipment with a gross cost of \$807,247. Accumulated depreciation on the property under capital leases was \$102,966 at September 30, 2019.

September 30, 2019

Note 7 - Capital Leases (Continued)

Property under capital leases consists of the following at September 30, 2019:

2014 Freightliner	\$ 177,669
2015 Freightliner	149,913
Wind turbines	237,935
Copiers	<u>21,931</u>
Subtotal	587,448
Less current maturities	<u>(130,138)</u>
Long-term obligations under capital leases	<u>\$ 457,310</u>

The future minimum lease payments under capital leases are as follows:

Years Ending September 30	Amount
2020	\$ 149,019
2021	149,474
2022	149,474
2023	149,014
2024	<u>36,288</u>
Total	633,269
Less amount representing interest	<u>45,821</u>
Present value of net minimum lease payments	<u>\$ 587,448</u>

Note 8 - Restricted Net Position

Restricted assets consist of the following:

	2019	2018
	Electric Fund/ Total	Total
Restricted working capital - MPPA	\$ 1,166,178	\$ 1,230,080
Unspent bond proceeds	867,936	5,094,084
Restricted grant reserves	<u>385,128</u>	<u>384,694</u>
Total restricted assets	2,419,242	6,708,858
Less unspent bond proceeds	(867,936)	(5,094,084)
Plus energy optimization surplus	<u>554,866</u>	<u>290,968</u>
Total restricted net position	<u>\$ 2,106,172</u>	<u>\$ 1,905,742</u>

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.

Note 8 - Restricted Net Position (Continued)

The unspent bond proceeds relate to the Electric System Revenue and Revenue Refunding Bonds, Series 2015A and Series 2015B. At September 30, 2019, there was \$396,269 of liabilities to be paid from these restricted bond proceeds.

The assets restricted for grant reserves represent the balances outstanding as of September 30, 2019 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.

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, 2019.

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, 2019 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.

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, 2019 was 74.35 percent of annual payroll. Contributions to the plan from the Department were \$1,321,873 for the year ended September 30, 2019. Department employees are not required to contribute.

Net Pension Liability

At September 30, 2019, the Department reported a liability of \$7,379,709 for its proportionate share of the net pension liability. The net pension liability was measured as of September 30, 2019, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of September 30, 2018, which used updated procedures to roll forward the estimated liability to September 30, 2019. The Department's proportion of the net pension liability was based on the Department's actuarially required contribution for the year ended September 30, 2019 relative to all other contributing employers. At September 30, 2019, the Department's proportion was 25.9 percent, which was an decrease of 1.6 percent from its proportion measured as of September 30, 2018.

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

For the year ended September 30, 2019, the Department recognized pension expense of \$1,215,688 from all plans, which includes defined contribution plan expense of \$312,416.

At September 30, 2019, 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	\$ 279,457	\$ -

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

Years Ending September 30	Amount
2020	\$ (1,894)
2021	40,814
2022	134,048
2023	106,489
Total	\$ 279,457

Actuarial Assumptions

The total pension liability in the September 30, 2019 actuarial valuation was determined using an inflation assumption of 2.75 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, 2019 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	15.00 %	6.30 %
Large-cap U.S. growth equity	13.00	4.37
Small-/mid-cap U.S. equity	8.00	5.61
Developed non-U.S. equity	11.00	6.47
Emerging non-U.S. equity	4.00	9.14
Global fixed income	4.00	0.69
Core U.S. fixed income	28.00	1.15
High-yield U.S. fixed income	5.00	3.51
Hedged strategies	10.00	2.75
Cash or cash equivalents	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 Percentage Point Decrease (6.0%)	Current Discount Rate (7.0%)	1 Percentage Point Increase (8.0%)
Net pension liability of the City of Wyandotte Employees' Retirement System	\$ 9,687,838	\$ 7,379,709	\$ 5,376,044

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, Michigan City Council. The 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 \$809,846 for the year ended September 30, 2019.

Net OPEB Liability

At September 30, 2019, the Department reported a liability of \$25,926,799 for its proportionate share of the net OPEB liability. The net OPEB liability was measured as of September 30, 2019, 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, 2019. The Department's proportion of the net OPEB liability was based on the Department's actuarially required contribution for the year ended September 30, 2019 relative to all other contributing employers. At September 30, 2019, the Department's proportion was 25.2 percent, which was the same proportion measured as of September 30, 2018.

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

For the year ended September 30, 2019, the Department recognized OPEB expense of \$3,035,365.

At September 30, 2019, 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	\$ 295,821	\$ -
Changes in assumptions	2,335,643	-
Net difference between projected and actual earnings on OPEB plan investments	12,326	-
Total	\$ 2,643,790	\$ -

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

Years Ending September 30	Amount
2020	\$ 1,697,225
2021	940,871
2022	3,316
2023	2,378
Total	\$ 2,643,790

September 30, 2019

Note 10 - Other Postemployment Benefit Plan (Continued)

Actuarial Assumptions

The total OPEB liability in the September 30, 2019 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 2020, 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 2.75 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 2023. 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 2.75 percent (as reported in Fidelity Index's "20-Year Municipal GO AA Index" as of September 28, 2019).

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, 2019 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 2.75 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 Percentage Point Decrease (1.75%)	Current Discount Rate (2.75%)	1 Percentage Point Increase (3.75%)
Net OPEB liability of the City of Wyandotte Retiree Health Care Plan	\$ 29,822,316	\$ 25,926,799	\$ 22,771,844

September 30, 2019

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 Percentage Point Decrease (7.0%)	Current Healthcare Cost Trend Rate (8.0%)	1 Percentage Point Increase (9.0%)
Net OPEB liability of the City of Wyandotte Retiree Health Care Plan	\$ 22,175,585	\$ 25,926,799	\$ 30,634,957

Assumption Changes

The discount rate decreased from 3.83 percent to 2.75 percent for the year ended September 30, 2019.

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, 2019 and 2018.

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, 2019 and 2018 is as follows:

	2019	2018
Department revenue:		
Electric and water services	\$ 693,481	\$ 665,106
Street and public safety lighting	677,623	632,148
Collection fee	63,088	67,697
City of Wyandotte - TIFA contribution	-	48,718
Department expenses:		
In lieu of property taxes	(677,623)	(632,148)
Cable television franchise fees	(516,488)	(490,120)
Water franchise fee	(175,000)	(175,000)
City services	(890,641)	(888,527)
Building rent	(180,000)	(180,000)
Remittances to City for sewage use charge collections	(4,272,303)	(4,517,775)
Payable to City of Wyandotte, Michigan - Sewage Disposal Fund	(316,903)	(329,097)
Payable to City of Wyandotte, Michigan - Solid Waste Disposal Fund	(39,003)	(43,823)

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, 2017	\$ 117,118
Estimated claims incurred - Net of changes in estimate	47,376
Claim payments	<u>(29,647)</u>
Estimated liability - September 30, 2018	134,847
Estimated claims incurred - Net of changes in estimate	11,022
Claim payments	<u>(14,260)</u>
Estimated liability - September 30, 2019	<u><u>\$ 131,609</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 Five Fiscal Years				
	Years Ended September 30				
	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Department's proportion of the net pension liability	25.90000 %	27.50000 %	26.80000 %	23.00000 %	20.10000 %
Department's proportionate share of the net pension liability	\$ 7,379,709	\$ 7,816,872	\$ 7,808,813	\$ 7,294,656	\$ 6,562,394
Department's covered payroll	\$ 1,830,998	\$ 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	403.04 %	392.27 %	365.45 %	361.69 %	243.16 %
Plan fiduciary net position as a percentage of total pension liability	69.75 %	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

	2019	2018	2017	2016	2015	2014	2013	2012	2011	2010
Actuarially determined contribution	\$ 1,321,873	\$ 1,300,341	\$ 1,166,654	\$ 888,524	\$ 856,067	\$ 796,272	\$ 888,456	\$ 773,346	\$ 626,722	\$ 649,458
Contributions in relation to the actuarially determined contribution	1,321,873	1,300,341	1,166,654	888,524	856,067	796,272	888,456	773,346	626,722	649,458
Contribution Deficiency	\$ -									
Covered Payroll	\$ 1,830,998	\$ 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
Contributions as a Percentage of Covered Payroll	72.19 %	65.25 %	54.60 %	44.06 %	31.72 %	28.27 %	24.34 %	21.52 %	16.49 %	15.09 %

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, two years prior to the end of the fiscal year in which the contributions are reported.

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Entry age normal
Amortization method	Level dollar
Remaining amortization period	17 years closed, 2 years closed for Early Retirement Incentive Program
Asset valuation method	Four-year smoothed market value
Inflation	2.75 percent
Salary increase	3.0 percent 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 MP-2014

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 Three Fiscal Years		
	Years Ended September 30		
	<u>2019</u>	<u>2018</u>	<u>2017</u>
Department's proportion of the net OPEB liability	25.20000 %	25.20000 %	25.20000 %
Department's proportionate share of the net OPEB liability	\$ 25,926,799	\$ 22,281,032	\$ 20,454,127
Department's covered employee payroll	\$ 1,824,314	\$ 1,704,773	\$ 1,772,744
Department's proportionate share of the net OPEB liability as a percentage of its covered employee payroll	1,421.18 %	1,306.98 %	1,153.81 %
Plan fiduciary net position as a percentage of total OPEB liability	2.07 %	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**

	2019	2018	2017	2016	2015	2014	2013	2012	2011	2010
Contractually required contribution	\$ 1,548,307	\$ 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
Contributions in relation to the contractually required contribution	809,486	843,669	1,008,055	913,342	670,437	957,464	726,637	707,065	612,802	572,913
Contribution Deficiency	\$ 738,821	\$ 704,638	\$ 939,440	\$ 1,029,939	\$ 1,272,860	\$ 668,111	\$ 898,950	\$ 876,925	\$ 971,188	\$ 755,590