



CITY OF WARREN, MICHIGAN  
WATER & SEWER SYSTEM

2010

ANNUAL FINANCIAL REPORT

FISCAL YEAR ENDED  
DECEMBER 31, 2010

# CITY OF WARREN

## WATER & SEWER SYSTEM

### ANNUAL FINANCIAL REPORT

FISCAL YEAR ENDED DECEMBER 31, 2010

**Robert Maleszyk**  
Certified Public Accountant  
City Controller

Member of the Government Finance Officers Association of the United States and Canada

# CITY OF WARREN

**James R. Fouts**  
Mayor

**One City Square**  
Warren, Michigan 48093

## ADMINISTRATION

City of Warren was incorporated January 1, 1957, under Act 279, P.A. 1909 as amended (Home Rule Act). The 2010 population per Federal Census, 134,056

City is administered by a Mayor, a Council of nine members, Treasurer and Clerk, all of whom are elected to four-year terms.

## PRESENT ELECTIVE OFFICERS

(Terms expire November 11, 2011)

### MAYOR

JAMES R. FOUTS

### COUNCIL

Mary M. Kamp, President

Donna Kaczor Caumartin, Vice President

Keith Sadowski, Secretary

Scott C. Stevens, Asst Secretary

Robert Boccomino

Patrick Green

Mark Liss

Kathy J. Vogt

Steven Warner

### TREASURER

Carolyn Kurkowski Mocerri

### CITY CLERK

Paul Wojno

### DIRECTOR OF PUBLIC SERVICE

Richard Sabaugh

### CITY CONTROLLER

Robert Maleszyk, CPA

### AUDITOR

Ramie E. Phillips, Jr., P.C.

Certified Public Accountant

CITY OF WARREN, MICHIGAN  
WATER & SEWER SYSTEM  
2010 ANNUAL FINANCIAL REPORT

TABLE OF CONTENTS

<b>LETTER OF TRANSMITTAL</b>	i - vii
<b>MANAGEMENT'S DISCUSSION AND ANALYSIS</b>	viii - xv
<b>AUDITOR'S REPORT</b>	xvi
<b>FINANCIAL STATEMENTS</b>	
Comparative Balance Sheet	1 - 2
Comparative Statement of Net Assets	3 - 4
Statement of Net Assets	5
Comparative Statement of Revenues, Expenses and Changes in Net Assets	6
Comparative Statement of Income	7
Comparative Statement of Cash Flows	8 - 9
Notes to Financial Statements	10 - 49
<b>SUPPLEMENTARY INFORMATION</b>	
Combined Statement of Revenues, Expenses and Changes in Net Assets	S1 - S2
Statement of Revenues - Budget & Actual	S3
Statement of Expenditures - Budget & Actual	S4
Detailed Statement of Expenditures - Budget & Actual	S5 - S7
Statement of Restricted Reserves	S8 - S9
Statement of Construction Program Reserves	S10 - S11
Investments In Operating & Restricted Funds	S12
Schedule of Fixed Assets & Depreciation	S13 - S14
Capital Assets - Narrative & Chart	S15 - S16
Operating Statistics	S17
Water Sales Trend Chart - Fiscal Years 2001 through 2010	S18
Source of Revenues Chart	S19
Major Components Distribution Chart	S20
Comparison of Total Revenues and Total Expenditures & Transfers - Fiscal Years 2001 through 2010 - Narrative & Chart	S21
Comparison of Total Operating Revenue and Operating Expense - Fiscal Years 2001 through 2010 - Narrative & Chart	S22



**JAMES R. FOUTS, MAYOR**

Office of the Controller  
One City Square  
Warren, Michigan 48093  
{586} 574-4600

**Robert Maleszyk, C.P.A.**  
City Controller

October 24, 2011

To the Honorable Mayor  
and Members of Warren City Council

Ladies and Gentlemen:

It is my pleasure to provide you with the following financial report for the City of Warren Water & Sewer System for the fiscal year ending December 31, 2010. We believe the data is accurate in all material aspects; that it is presented in a manner designed to fairly indicate the financial position of the Water & Sewer System as of December 31, 2010, and the results of operations for the 2010 fiscal year; and that it includes the disclosures necessary for the reader to gain maximum understanding of the System's financial activity.

### **OPERATIONS**

In the fiscal year 2010, there were approximately 734 million cubic feet of water sold. The Water & Sewer System had net operating revenue {before depreciation} of \$10,964,827. A comparison of the original budget and actual is as follows:

	<u>Budget</u>	<u>Actual</u>
Operating revenues	\$ 33,737,900	\$ 37,288,056
Operating expenses	( 28,312,402)	( 26,323,229)
Operating revenue	5,425,498	10,964,827
Non-operating revenue	160,000	7,645
Non-operating expense	_____ -	_____ (103,379)
Increase in net assets from operations	<u>\$ 5,585,498</u>	<u>\$ 10,869,093</u>

October 24, 2011  
To the Honorable Mayor  
and Members of the Warren City Council

Other factors affecting the Net Assets are summarized as follows:

Increase in net assets from operations	\$ 10,869,093
Interest earnings – reserve funds	18,406
Other expense – reserve funds	(617,243)
Depreciation expense	(4,084,029)
Debt service interest	<u>(1,647,226)</u>
Net decrease in net assets	4,539,001
Net assets – January 1, 2010	<u>69,696,330</u>
Net assets – December 31, 2010	<u>\$ 74,235,331</u>

Revenues for 2010 were structured to provide funds for operating costs and to provide for the annual debt service cost of fixed asset acquisitions. Each outstanding revenue bond issue requires the System to generate sufficient net income to pay the annual principal and interest due on the bond issue.

Operations for the fiscal year ending December 31, 2010, including restricted reserve activity and the non-cash expense of depreciation in the amount of \$4,084,029 resulted in operating income of \$6,880,798 on operating revenues of \$37,288,056. Debt service interest of \$1,647,226 relates to interest on long term financing instruments. The interest income of \$7,645 generated through the restricted reserves was credited to the reserve from which the investment was made.

Sales volume increased 3.0% from fiscal year 2009 and was 5% above budget estimates. The summer weather conditions were the major factor for this increase. With the exception of fiscal year 2010, sales over the last decade have generally fallen below budget levels.

October 24, 2011  
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Historical water usage has declined as a result of empty nesters, smaller family sizes, aging meters, and the depressed economic climate. Therefore, future estimates used in the budget process must be adjusted to be line with actual sales and trends. The sales estimate used in preparation of the 2011 fiscal year budget was revised downward by 4 million cubic feet {from 699 million to 695 million cubic feet} and will be adjusted in subsequent years as necessary.

Water loss, the difference between the volume of water purchased and that sold to system users was 8.8% in 2010. As the utility system ages it is expected that there will be increases in lost volume through both undetected leaks and water lost in repair activity. Added to this is an aging meter registration system, the accuracy of which diminishes over time. A major water meter replacement program throughout the City was approved during fiscal year 2010 to resolve the water loss issue with meter registration.

### **RESERVES**

The Water & Sewer System has provided and restricted adequate funds to complete all construction projects in progress at December 31, 2010.

Balances in restricted reserves at December 31, 2010, net of current assets and liabilities, including accounts payable and construction in progress, total \$18,719,580, of which \$7.2 million is restricted to meet revenue bond debt requirements in the Debt Service Reserve. Another \$9.2 million is allocated for construction projects in progress. The balance is earmarked for pending project awards and emergencies.

Long term financing remains the only viable alternative to meet future infrastructure replacement needs. Rates and charges recommended by the Administration and adopted by the City Council must be sufficient to generate net operating revenue to meet annual debt payments of existing revenue bonds and any subsequent financing deemed necessary.

October 24, 2011  
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## **DEBT SERVICE AND DEBT ADMINISTRATION**

Warren's favorable Standard & Poor's bond rating {"AA"} indicates that the City's bonds are of good, sound investment quality, suitable for bank investment and that the City has a strong capacity to pay principal and interest. The maintenance of a favorable rating depends on our ability to provide strong, cost-effective management for both the Water Division and the Waste Water Treatment Plant. We must be able to function within current budget appropriations and respond to changing circumstances without adversely affecting overall efficiency.

## **ADMINISTRATION**

The Water & Sewer System's accounting records are fully computerized as part of the total management information system. The computerization of the accounting records and water billing system has provided for more comprehensive and timely reporting. Data terminals installed in the Water Division business offices facilitate rapid response to customer inquiries by providing immediate access to customer account records. The recently approved meter replacement program allows for an automatic fixed based reading system and will effectively reduce the need for estimated water bills when complete.

The City is divided into four districts for purposes of reading and billing accounts. One district is composed of industrial and larger commercial accounts and the remaining three districts are primarily residential in character. Effective in 2001 all accounts were billed monthly with readings for all but the large commercial/industrial district performed through an agreement with Consumers Energy to use handheld remote devices to capture meter reading. The need for this agreement will be eliminated over the next few years as old meters are replaced with the new meters and meter reading technology.

October 24, 2011  
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### **WASTE WATER TREATMENT FACILITY**

The Waste Water Treatment Plant provides first, second and third stage treatment of sanitary wastes collected in a separated sanitary sewer system covering the entire 34.5 square miles of the City. The facility utilizes primary sedimentation and intensified aeration in the secondary system followed by a gravity filtration third stage of treatment. Phosphorus removal is accomplished by chemical addition to the secondary section of the plant. The sludge removed from each of the three stages of treatment is incinerated in an odor-free, multiple hearth incinerator. Sophisticated computerized equipment is used to operate and monitor facility processes. The operation of a high-level treatment facility such as the Waste Water Treatment Plant requires substantial budgetary allocations for electricity, gas and chemical treatment materials.

During fiscal year 2010, a major energy savings initiative was approved to convert the incinerator waste to energy providing nearly 25% of the electricity required to operate the plant. Furthermore, during 2010 construction continued on the Ultraviolet Disinfection System. This system is capable of disinfecting water faster than chlorine without cumbersome retention tanks and harmful chemicals.

Our facility was one of the first advanced wastewater treatment plants to be placed in service and it continues to meet the stringent discharge limitations imposed by State and Federal authorities. Warren residents can be rightfully proud of the Waste Water Treatment Plant's outstanding record of operation. They should also be aware that the unit cost of tertiary treatment is considerably lower than that of suburban customers of the City of Detroit Sewage Treatment System.

### **WATER DIVISION MAINTENANCE FACILITY**

The Water Division Maintenance Facility is located at 12821 Stephens between Hoover and Schoenherr Roads. It is adjacent to the Department of Public Works offices and maintenance facility providing for greater convenience in the repair and maintenance of rolling stock.

October 24, 2011  
To the Honorable Mayor  
and Members of the Warren City Council

The individuals assigned to this facility are responsible for the maintenance and repairs of the water system, sewer system, and meter reading system. Maintenance on the water system includes the repair of the water mains throughout the City, water service installations, service repairs, locating services, and gate valve and hydrant maintenance.

Sewer maintenance includes evaluating and cleaning sanitary sewers using specialized equipment, such as television vehicles, vactors, rodders, and bucket machines. A systematic program of sewer cleaning helps reduce basement flooding. Sewer maintenance also includes the task of repairing manholes and investigating and resolving citizen complaints regarding plugged main sewers.

Maintenance on the meter reading system encompasses the locating of defective wiring, shorts, pinched wires, bad pins, and testing of remote reader testing. The testing, repair, and replacement of water meters is also included in this maintenance area, and is performed both in shop and onsite.

### **LITIGATION**

According to the City Attorney, the Water & Sewer System currently has no outstanding litigation that would adversely impact the Financial Statements.

### **AUDIT**

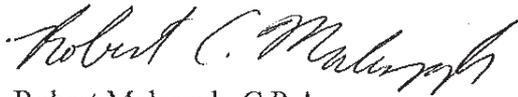
The City Charter requires an annual audit of the books of account, financial records, and transactions of the Water & Sewer System of the City by a Certified Public Accountant. This requirement has been complied with and the auditor's opinion has been included in this report.

October 24, 2011  
To the Honorable Mayor  
and Members of the Warren City Council

### ACKNOWLEDGMENT

The preparation of this report has been accomplished through the dedicated services of the staff of the Water & Sewer System and the Controller's Office. I would like to at this time express my appreciation to the Honorable Mayor and City Council for their support of my staff and their willingness to consider alternative methods of managing both financial and human resources to safeguard the health and welfare of the citizens of Warren and operate the City's Water & Sewer System in a responsible and progressive manner.

Respectfully submitted,



Robert Maleszyk, C.P.A.  
City Controller

## CITY OF WARREN WATER & SEWER SYSTEM MANAGEMENT'S DISCUSSION AND ANALYSIS

This narrative overview accompanies the City of Warren Water & Sewer System financial report for the fiscal year ended December 31, 2010. This discussion and analysis is designed to assist the reader in focusing on financial performance during the fiscal year and significant changes and issues. Readers are encouraged to consider the information presented here in conjunction with the financial statements as a whole.

### **Financial Highlights**

- Total Net Assets, the difference between total assets and total liabilities increased from \$69.7 million at December 31, 2009 to \$74.2 million at December 31, 2010. The increase is primarily due to an increase in unrestricted net assets. Unrestricted funds increased by \$4.5 million as a result of operating and non-operating activities.
- Operating income, after depreciation of \$4,084,029, was \$6,880,798 in fiscal year 2010 on sales volume of 734,852 MCF {thousand cubic feet}. Compared to the 2009 operating income of \$282,999 on sales of 713,369 MCF this was a favorable change of \$6,597,799. The principal difference in comparative financial results between the current year and the prior year was an increase in revenues attributable to increased water usage. Sales volume unexpectedly increased during fiscal year 2010. The summer months were hot and abnormally dry resulting in a higher demand for water. Water sales in volume were 3.0% higher than the previous year, generating \$4,159,014 additional operating revenues, net of the wholesale water cost. The 2010 budget was predicted on sales of 699 million cubic feet while actual sales were 734 million cubic feet, exceeding expectations by 5.0%.
- Net income, after interest earnings of \$26,051, and \$1,862,440 in debt service interest and bond discount amortization was \$4,539,001. Compared to the 2009 net loss of \$1,632,870, this was a favorable change of \$6,171,871. The net income was mainly attributable to not only a favorable increase in sales volume, but also a decrease in expenses. Operating expenses before depreciation decreased by \$1,234,561, mainly attributable to major cuts in spending in the Water & Sewer Maintenance and Waste Water Treatment Plant sectors.

CITY OF WARREN WATER & SEWER SYSTEM  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
{continued}

- The Water & Sewer System's total accounts receivable increased from \$12.2 million at December 31, 2009 to \$14 million at December 31, 2010. There are five components that make up total accounts receivable, being outstanding tax roll, utility billing, miscellaneous, unbilled charges, and a reserve for bad debts of \$100,760. Accounts receivable balances increased in all but one area from the previous fiscal year. Rate increases is one factor attributable to the increase from one year to the next. Higher charges are typically associated with increased rates. The continued depressed economic climate of Michigan and the ability to pay for services is another factor affecting total accounts receivable. The number of customer accounts with outstanding balances at December 31, 2010 increased by 3% from December 31, 2009.
- Total cash and cash equivalents, which include both unrestricted and restricted funds, increased from \$7.7 million at December 31, 2009 to \$16.2 million at December 31, 2010. This \$8.5 million favorable change is mainly attributable to the System's net income from operating activities as well as proceeds from the issuance of bonds during the fiscal year.
- Water loss is an issue worth mentioning. This is the difference between retail sales and wholesale purchases. In 2010, the amount of water sold to retail customers totaled approximately 734 million cubic feet while wholesale purchases from the City of Detroit were 805 million cubic feet, a loss of 8.8%, down from the 10.2% loss during fiscal year 2009. A reasonable amount of water loss is a normal occurrence. There are several internal activities where water flows through the system without being registered on a retail meter, such as fire fighting, water main breaks, testing and repair of fire hydrants and cleaning of sewer lines. A major factor in water loss is registration from aging meters still in service at the end of fiscal year 2010. There were 202 water main breaks in fiscal year 2010, a decrease of 6% from the 214 breaks in fiscal year 2009. The decrease in water main breaks is a positive indicator that the pressure reducing valves recently installed and operating at entry points are working effectively.

CITY OF WARREN WATER & SEWER SYSTEM  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
{continued}

**Overview of Financial Statements**

This discussion and analysis is intended to serve as an introduction to the Water & Sewer System's financial statements, which is comprised of the basic financial statements and the notes to the financial statements. The Water & Sewer System is comprised of an operating and maintenance fund and five special purpose reserves. The special purpose reserves are established primarily for the purpose of segregating capital and debt service activities of the System. The activities of the operating fund and reserves are consolidated in the basic financial statements with capital activities reflected as changes in fixed assets and debt service activities disclosed in the Non-Operating section of the Comparative Statement of Income and the Comparative Statement of Revenues, Expenses and Changes in Retained Earnings.

This report also contains other supplemental information in addition to the basic financial statements themselves.

**Basic financial statements** – The basic financial statements are designed to provide the readers with a broad overview of the System's finances, in a manner similar to a private-sector business.

The balance sheet presents information on all the System's assets and liabilities, with the difference reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the System is improving or deteriorating. Net assets increase when actual revenues exceed actual expenses and increases to assets without a corresponding increase in liabilities also increase net assets.

The statements of revenues, expenses and changes in fund net assets present information showing how the System's net assets changed during the fiscal year. All changes in net assets are recorded as the underlying event occurs, regardless of time of related cash flows. Thus revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., earned but unused compensatory time).

CITY OF WARREN WATER & SEWER SYSTEM  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
{continued}

**Notes to financial statements** – The notes provide additional information that is essential to a full understanding of the data provided in the basic financial statements. The notes to the financial statements can be found on pages 10-49 of this report.

**Other information** – In addition to the basic financial statements and accompanying notes, this report also presents certain *supplementary information* concerning the System's net revenues, budget to actual comparisons of revenues and expenses and statistical trend data on the System's users, water purchases and sales comparison and water loss and composition of capital assets.

**Financial Analysis**

Net assets may serve, over time, as a useful indicator of an entity's financial position. In the case of the Water & Sewer System, assets exceeded liabilities by \$74,235,331 at the close of the 2010 fiscal year. This represents an increase of \$4,539,001 {6.1%} from the previous year. The unrestricted net assets were \$9,191,733. The System maintains a debt service reserve in the amount of \$7,156,512 to meet revenue bond covenants.

The largest portion of the System's net assets {61.7%} reflects its investment in capital assets {e.g., water mains, sewer lines, buildings, water meters, repair equipment, etc.} less any related debt used to acquire those assets that are still outstanding. The System uses these assets to provide services and consequently these assets are not available to liquidate liabilities or other spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that resources needed to repay this debt must be provided from other sources as well.

CITY OF WARREN WATER & SEWER SYSTEM  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
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**Water & Sewer System's Net Assets {in millions}**

	2010	2009
Current & other assets	46.9	30.7
Capital assets	<u>104.5</u>	<u>103.5</u>
Total assets	<u>151.4</u>	<u>134.2</u>
Long-term liabilities	57.8	46.9
Other liabilities	<u>19.4</u>	<u>17.6</u>
Total liabilities	<u>77.2</u>	<u>64.5</u>
Net assets:		
Invested in capital assets, net of related debt	45.8	56.5
Restricted	19.2	8.2
Unrestricted	<u>9.2</u>	<u>5.0</u>
Total net assets	<u>74.2</u>	<u>69.7</u>

An additional portion of the System's net assets represents resources that are subject to external restrictions on how they may be used. These restrictions include bond proceeds to be used for construction projects and reserve funds required by bond covenants.

	2010	2009
Revenues:		
Charges for services	33.8	32.1
Other revenues	<u>3.5</u>	<u>0.0</u>
Total revenues	<u>37.3</u>	<u>32.1</u>
Expenses:		
Water & sewer system	<u>32.8</u>	<u>33.7</u>
Increase (decrease) in net assets	4.5	(1.6)
Net assets – beginning of year	<u>69.7</u>	<u>71.3</u>
Net assets – end of year	<u>74.2</u>	<u>69.7</u>

CITY OF WARREN WATER & SEWER SYSTEM  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
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**Budgetary Highlights:** As noted above, the 2010 adopted budget was based on sales volume of 699 million cubic feet. The actual sales volume of 734 million cubic feet exceeded the prediction by 35 million cubic feet, resulting in an income of nearly \$4.2 million in net revenue (retail sales minus wholesale cost).

**Capital Assets and Debt Administration**

**Capital Assets:** The System's investment in capital assets amounts to \$104,529,336, net of accumulated depreciation, as of December 31, 2010, an increase of \$1,061,178 (1.0%) from the prior fiscal year. Capital assets include water mains, sewer lines, water meters, buildings, vehicles and operating equipment. Major capital acquisitions in the current year included:

Building improvements	\$3,817,184
Water main replacements	\$ 349,988
Sewer line replacements	\$ 47,403
Tools and working equipment	\$ 59,049

**Long-term Debt:** The System has outstanding long-term bonds payable of \$56.8 million {net of unamortized bond discounts and deferred loss on refunding}. All the System's operating revenue is pledged to repay these obligations.

**Current Events and Next Year's Budget**

The Water & Sewer System has taken an aggressive approach towards managing expenses. Overall expenses decreased by \$942,163 compared to the prior year. Continued efforts are in place to reduce personnel costs, in particular overtime costs, and steps have been taken to improve daily operations and help the System become more efficient. The Water & Sewer System utilizes CitiStat to review policies and procedures through measurable performance standards.

CITY OF WARREN WATER & SEWER SYSTEM  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
{continued}

Fiscal year 2010 was an exceptional year in terms of sales volume as a result of the hot and dry summer season. However, sales volumes have declined over several years and had a large impact on the financial health of the Water & Sewer System. We must continue to use the downward conservative budget approach in the future to prevent falling short of budget projections and any further impact on the System's financial health. What was first regarded as a seasonal anomaly is now a lower level of system usage. There are several potential factors affecting system usage.

Residential meters in service throughout the city are at the end of their useful lives as projected by their manufacturers. As meters age their registration accuracy declines and results in significant under-registration of consumer usage. This theory has been supported by industry and independent testing of meter populations in service throughout the country and independent testing commissioned here in the City of Warren. A major replacement program was approved during fiscal year 2010 with implementation commencing during the year 2011 and continuing over two years.

The continued depressed economic climate of Michigan results in tighter financial restraint for residential and commercial and industrial users and places great pressure on them to reduce costs wherever possible. Rising unit prices compound these effects as well as the increased number of mortgage foreclosures in this area.

The remedies for these issues are neither simple nor inexpensive. The 2011 adopted budget continues to recognize declining sales by trimming an additional 4 million cubic feet from the 2010 adopted budget projection of 699 million cubic feet. Steps have been taken to increase meter registration with the approval of the meter replacement program, which includes new billing software to improve efficiency and a new meter reading system that utilizes fixed based technology. A bond issue in the amount of \$9.29 million that includes a 45% interest rebate was issued during fiscal year to cover the funding for this program. The installation of an additional pressure reducing valve is currently underway with funding for the installation provided from the remaining 2006 capital improvement bond proceeds.

CITY OF WARREN WATER & SEWER SYSTEM  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
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Cost cutting measures continue through personnel reductions, deferment of capital equipment, and cost saving opportunities. During fiscal year 2009, the issuance of \$3,090,000 in Act 34 sewage disposal capital improvement bonds were approved with the proceeds earmarked for the ultraviolet-light disinfection system at the Waste Water Treatment Plant with a project cost of \$5,150,000. This agreement allowed for principal forgiveness at close out in an amount not to exceed \$2,060,000 (40%), expected during 2011 and proportional to the total cost. The Waste Water Treatment Plant also utilized grant funds in the amount of \$765,500 and a municipal lease to finance a waste heat to energy project. These cost saving opportunities and other energy conservation improvements must continue and are necessary to cut costs while providing the same level of service.

**Requests for Information**

This financial report is designed to provide a general overview of the System's finances for all those with an interest in its finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the City Controller, City of Warren, One City Square, Suite 400, Warren, MI, 48093.

## INDEPENDENT AUDITOR'S REPORT

To the Honorable Mayor and  
Members of the City Council of the  
City of Warren, Michigan

I have audited the accompanying financial statements of the Water & Sewer System Fund of the City of Warren, Michigan, as of December 31, 2010 as listed in the table of contents. These financial statements are the responsibility of the City of Warren, Michigan, management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with auditing standards generally accepted in the United States of America and standards applicable to financial audits contained in Government Accounting Standards, issued by the Controller General of the United States. Those standards require that I 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. I believe that my audit provides reasonable basis for my opinion.

As discussed in Note 2, the financial statements present only the Water & Sewer System Fund of the City of Warren, Michigan, and are not intended to present fairly the financial position of the City of Warren, Michigan, and the results of its operations and cash flows of its proprietary fund types and non-expendable trust funds in conformity with general accepted accounting principles.

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Water & Sewer System Fund of the City of Warren, Michigan, as of December 31, 2010, and the results of its operations and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

  
October 24, 2011

# FINANCIAL STATEMENTS

CITY OF WARREN, MICHIGAN  
WATER & SEWER SYSTEM  
COMPARATIVE BALANCE SHEET  
DECEMBER 31, 2010 and 2009

ASSETS

	2010	2009
Current Assets - unrestricted:		
Cash	\$ 255,256	\$ 219,637
Investments	2,960,877	4,416,605
Prepaid expenses	84,260	82,580
Accounts receivable	13,993,742	12,186,942
Accrued interest on investments	22	89
Due from general fund	7,540	7,540
Land contract interest receivable	6,162	8,980
Materials & supplies inventory - at cost	327,886	329,366
Total current assets - unrestricted	17,635,745	17,251,739
Restricted Assets:		
Prepaid expenses	417	-
Due from state	3,045,436	421,987
Investments	13,003,008	3,014,197
Due from unrestricted	2,244,659	3,949,359
Due from capital improvement bond proceeds	1,078,128	1,079,195
Designated for future projects	9,711,195	4,689,955
Total restricted assets	29,082,843	13,154,693
Other Assets:		
Land contract receivable - DPW Building	205,400	299,345
Property, Plant & Equipment - at cost:		
Land	605,219	605,219
Building & improvements	68,431,165	63,742,396
Utility system	116,518,462	116,134,531
Machinery & equipment	12,791,476	12,732,428
Total property plant & equipment	198,346,322	193,214,574
Less: accumulated depreciation	(93,816,986)	(89,746,416)
Net property plant & equipment	104,529,336	103,468,158
Total Assets	\$ 151,453,324	\$ 134,173,935

The accompanying notes section is an integral part of the financial statements

CITY OF WARREN, MICHIGAN  
WATER & SEWER SYSTEM  
COMPARATIVE BALANCE SHEET  
DECEMBER 31, 2010 and 2009

LIABILITIES & NET ASSETS

	2010	2009
Current Liabilities - unrestricted:		
Accounts payable	\$ 1,966,362	\$ 1,793,542
Due to restricted	2,244,659	3,949,359
Due to general fund	1,261,714	3,387,911
Current portion of revenue bonds payable	3,102,245	2,739,082
Current portion of capital equipment lease purchase	119,547	-
Accrued wages payable	87,336	88,821
Payroll taxes, deductions & benefits	82,453	83,882
Customer deposits	156,552	143,626
Total current liabilities - unrestricted	9,020,868	12,186,223
Current Liabilities - restricted:		
Accounts payable	273,669	370,212
Accrued interest payable	378,399	327,421
Construction contracts to be performed in future periods	9,711,195	4,689,955
Total current liabilities - restricted	10,363,263	5,387,588
Long-Term Liabilities - unrestricted:		
Bonds payable	57,485,694	47,433,447
Unamortized premium	80,479	-
Unamortized discount	(177,959)	(170,030)
Deferred refunding charge	(1,301,440)	(1,633,356)
Capital equipment lease purchase	752,039	-
Accumulated sick leave	886,930	1,135,915
Accumulated compensatory time	108,119	137,818
Total long-term liabilities - unrestricted	57,833,862	46,903,794
Total liabilities	77,217,993	64,477,605
Net Assets:		
Invested in capital assets, net of related debt	45,824,018	56,454,299
Restricted for debt service	7,156,512	5,188,487
Restricted for construction	11,563,068	2,578,618
Restricted for insurance claims	500,000	500,000
Unrestricted	9,191,733	4,974,926
Total net assets	74,235,331	69,696,330
Total Liabilities & Net Assets	\$ 151,453,324	\$ 134,173,935

The accompanying notes section is an integral part of the financial statements

CITY OF WARREN, MICHIGAN  
WATER & SEWER SYSTEM

COMPARATIVE STATEMENT OF NET ASSETS  
DECEMBER 31, 2010 and 2009

ASSETS

	2010	2009
Current Assets - unrestricted:		
Cash & cash equivalents	\$ 3,216,133	\$ 4,636,242
Prepaid expenses	84,260	82,580
Accounts receivable	13,993,742	12,186,942
Accrued interest on investments	22	89
Due from general fund	7,540	7,540
Land contract interest receivable	6,162	8,980
Materials & supplies inventory - at cost	327,886	329,366
Total current assets - unrestricted	17,635,745	17,251,739
Current Assets - restricted:		
Prepaid expenses	417	-
Due from state	3,045,436	421,987
Cash & cash equivalents	13,003,008	3,014,197
Due from unrestricted	2,244,659	3,949,359
Due from city - capital improvement bond proceeds	1,078,128	1,079,195
Total current assets - restricted	19,371,648	8,464,738
Total current assets	37,007,393	25,716,477
Noncurrent Assets:		
Land contract receivable - DPW Building	205,400	299,345
Capital assets - net of accumulated depreciation:		
Land	605,219	605,219
Building & improvements	44,358,070	41,262,863
Utility system	58,710,603	60,661,399
Machinery & equipment	855,444	938,677
Total capital assets - net of accumulated depreciation	104,529,336	103,468,158
Designated for future projects	9,711,195	4,689,955
Total noncurrent assets	114,445,931	108,457,458
Total Assets	\$ 151,453,324	\$ 134,173,935

The accompanying notes section is an integral part of the financial statements

CITY OF WARREN, MICHIGAN  
WATER & SEWER SYSTEM

COMPARATIVE STATEMENT OF NET ASSETS  
DECEMBER 31, 2010 and 2009

LIABILITIES & NET ASSETS

	2010	2009
Current Liabilities - unrestricted:		
Accounts payable	\$ 1,966,362	\$ 1,793,542
Due to restricted	2,244,659	3,949,359
Due to general fund	1,261,714	3,387,911
Current portion of revenue bonds payable	3,102,245	2,739,082
Current portion of capital equipment lease purchase	119,547	-
Accrued wages payable	87,336	88,821
Payroll taxes, deductions & benefits	82,453	83,882
Customer deposits	156,552	143,626
Total current liabilities - unrestricted	9,020,868	12,186,223
Current Liabilities - restricted:		
Accounts payable	273,669	370,212
Accrued interest payable	378,399	327,421
Construction contracts to be performed in future periods	9,711,195	4,689,955
Total current liabilities - restricted	10,363,263	5,387,588
Total current liabilities	19,384,131	17,573,811
Noncurrent Liabilities - unrestricted:		
Bonds payable	57,485,694	47,433,447
Unamortized premium	80,479	-
Unamortized discount	(177,959)	(170,030)
Deferred refunding charge	(1,301,440)	(1,633,356)
Capital equipment lease purchase	752,039	-
Accumulated sick leave	886,930	1,135,915
Accumulated compensatory time	108,119	137,818
Total noncurrent liabilities - unrestricted	57,833,862	46,903,794
Total liabilities	77,217,993	64,477,605
Net Assets:		
Invested in capital assets, net of related debt	45,824,018	56,454,299
Restricted for debt service	7,156,512	5,188,487
Restricted for construction	11,563,068	2,578,618
Restricted for insurance claims	500,000	500,000
Unrestricted	9,191,733	4,974,926
Total net assets	74,235,331	69,696,330
Total Liabilities & Net Assets	\$ 151,453,324	\$ 134,173,935

The accompanying notes section is an integral part of the financial statements

CITY OF WARREN, MICHIGAN  
WATER & SEWER SYSTEM  
STATEMENT OF NET ASSETS  
DECEMBER 31, 2010

	NET ASSETS			
	INVESTED IN			TOTAL
	CAPITAL ASSETS	RESTRICTED	UNRESTRICTED	
Net Assets - January 1, 2010	\$ 56,454,299	\$ 8,267,105	\$ 4,974,926	\$ 69,696,330
Net income (loss):				
Operating revenues	-	-	37,288,056	37,288,056
Interest on investments	-	18,406	7,645	26,051
Operating expenses	-	-	(26,323,229)	(26,323,229)
Non-operating expenses	-	(111,835)	-	(111,835)
Depreciation	(4,084,029)	-	-	(4,084,029)
Debt service interest	-	(1,647,226)	-	(1,647,226)
Amortization	(103,379)	-	-	(103,379)
Net income (loss)	(4,187,409)	(1,740,655)	10,972,472	5,044,408
Other changes in net assets:				
Fixed assets capitalized	5,145,209	-	-	5,145,209
Construction costs & other capital purchases	-	(4,273,624)	-	(4,273,624)
Bond principal paid	2,734,082	(2,734,082)	-	-
Long term debt assumed	(13,450,577)	12,945,171	-	(505,406)
Debt from capital equipment lease purchase	(871,586)	-	-	(871,586)
Budget transfers	-	6,755,665	(6,755,665)	-
Total other changes in net assets	(6,442,872)	12,693,130	(6,755,665)	(505,407)
Total changes to net assets	(10,630,281)	10,952,475	4,216,807	4,539,001
Net Assets - December 31, 2010	\$ 45,824,018	\$ 19,219,580	\$ 9,191,733	\$ 74,235,331

The accompanying notes section is an integral part of the financial statements

CITY OF WARREN, MICHIGAN  
WATER & SEWER SYSTEM  
COMPARATIVE STATEMENT OF REVENUES, EXPENSES AND  
CHANGES IN NET ASSETS  
YEARS ENDED DECEMBER 31, 2010 AND 2009

	2010	2009
Operating Revenues:		
Charges for services	\$ 37,288,056	\$ 32,062,895
Total operating revenues	37,288,056	32,062,895
Operating Expenses:		
Water purchases	8,264,977	7,198,830
Wages & salaries	5,474,050	6,360,774
Employee benefits	5,680,470	6,480,536
Supplies & materials	648,633	816,552
Other services & charges	6,255,099	6,701,098
Depreciation - straight line method	4,084,029	4,222,106
Total operating expenses	30,407,258	31,779,896
Operating income (loss)	6,880,798	282,999
Non-Operating Revenues (Expenses):		
Interest on investments	26,051	16,076
Interest on revenue bonds	(1,647,226)	(1,781,940)
Amortization of bond discount/premium	(103,379)	(155,433)
Other income	-	5,428
Other expense	(617,243)	-
Total non-operating revenue (expense)	(2,341,797)	(1,915,869)
Net income (loss)	4,539,001	(1,632,870)
Net assets - beginning of year	69,696,330	71,329,200
Net assets - end of year	\$ 74,235,331	\$ 69,696,330

The accompanying notes section is an integral part of the financial statements

CITY OF WARREN, MICHIGAN  
WATER & SEWER SYSTEM

COMPARATIVE STATEMENT OF INCOME  
YEARS ENDED DECEMBER 31, 2010 AND 2009

	2010	2009
Operating Revenues:	\$ 37,288,056	\$ 32,062,895
Less: Operating expenses before depreciation	26,323,229	27,557,790
Operating revenue (loss) before depreciation	10,964,827	4,505,105
Less: Depreciation - straight line method	4,084,029	4,222,106
Operating income (loss)	6,880,798	282,999
Non-Operating Income (Expense):		
Interest on investments	26,051	16,076
Interest on revenue bonds	(1,647,226)	(1,781,940)
Amortization of bond discounts & deferred refunding fees	(103,379)	(155,433)
Other income	-	5,428
Other expense	(617,243)	-
Total Non-Operating Revenue (Expense)	(2,341,797)	(1,915,869)
Net income (loss)	\$ 4,539,001	\$ (1,632,870)

The accompanying notes section is an integral part of the financial statements

CITY OF WARREN, MICHIGAN  
WATER & SEWER SYSTEM  
COMPARATIVE STATEMENT OF CASH FLOWS FOR THE YEARS ENDED  
DECEMBER 31, 2010 and 2009

**Increase (Decrease) In Cash And Cash Equivalents**

	2010	2009
<b>Cash flows from operating activities:</b>		
Cash received from customers	\$ 31,956,624	\$ 28,304,835
Cash payments to suppliers for goods and services	(17,120,606)	(12,895,445)
Cash payments to employees for services	(11,437,798)	(13,266,897)
Other operating revenues	3,540,376	2,459,866
	6,938,596	4,602,359
<b>Cash flows from capital and related financing activities:</b>		
Acquisition and construction of capital assets	(7,010,855)	(3,077,023)
Interest paid on revenue bonds	(1,647,226)	(1,781,940)
Increase (decrease) in long term liability	10,262,069	(2,282,429)
	1,603,988	(7,141,392)
<b>Cash flows from investing activities:</b>		
Interest on investments	26,118	16,279
	26,118	16,279
Net cash used in investing activities	26,118	16,279
Net increase (decrease) in cash and cash equivalents	8,568,702	(2,522,754)
Cash and cash equivalents at beginning of year	7,650,439	10,173,193
Cash and cash equivalents at end of year	\$ 16,219,141	\$ 7,650,439

The accompanying notes section is an integral part of the financial statements

CITY OF WARREN, MICHIGAN  
WATER & SEWER SYSTEM  
COMPARATIVE STATEMENT OF CASH FLOWS FOR THE YEARS ENDED  
DECEMBER 31, 2010 and 2009

**Operating Income To Net Cash Provided By Operations Reconciliation**

	2010	2009
Operating income (loss)	\$ 6,880,798	\$ 282,999
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	4,084,029	4,222,106
Other income on statement of income	-	1,283
Change in assets and liabilities:		
Decrease (increase) in accounts receivable	(1,806,800)	(1,309,875)
Decrease (increase) in land contract interest receivable	2,818	2,657
Decrease (increase) in inventory	1,480	(89,571)
Decrease (increase) in prepaid expenses	(1,680)	(53,180)
Increase (decrease) in accounts payable	172,820	(174,009)
Increase (decrease) in general fund interfund balances	(2,126,197)	2,084,615
Increase (decrease) in wages and benefits payable	(281,598)	(372,407)
Increase (decrease) in customer deposits	12,926	7,742
Total adjustments	57,798	4,319,360
Net cash provided (used) by operating activities	\$ 6,938,596	\$ 4,602,359

The accompanying notes section is an integral part of the financial statements

CITY OF WARREN, MICHIGAN  
WATER & SEWER SYSTEM

NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2010

**NOTE 1 – OVERVIEW OF THE RESULTS OF FISCAL 2010 OPERATIONS**

The Water and Sewer System generated operating income, before depreciation, of \$10,964,827 on sales of 734,851,700 cubic feet. Net income, after depreciation, interest income, debt service interest and other non-operating income and expense items was \$4,539,001. Compared to the Fiscal 2009 net loss of \$1,632,870 this was a change of \$6,171,871. There were two principal reasons for the increase in net income from last year, that being additional revenue generated from the hot, dry summer season as well as a major reduction in expenses. Operating income, before depreciation, increased in Fiscal 2010 by \$6,459,722 with an increase in sales volume of 3%.

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The City of Warren Water and Sewer System provides water delivery and treatment services for residential, commercial and industrial customers in the City of Warren and some parcels in adjacent communities. The Water Division and Waste Water Treatment Plant operate under the control of the Mayor and City Council and are divisions under the Department of Public Service. In accordance with the provisions of the National Council of Governmental Accounting Statement 3, certain other funds are not considered to be part of the Water and Sewer System for financial reporting purposes. The criteria established by NCGA for determining the various governmental organizations to be included in the reporting entity's financial statements include oversight responsibilities, scope of public service and special financing relationships. On this basis the financial statements of certain other funds listed below are not included in the financial statements of the Water and Sewer System.

The pension fund statements are included in the comprehensive annual financial report for the City. The pension fund is treated as a separate fund to which the Water and Sewer System makes a contribution each payroll period based on gross payroll.

**NOTE 3 - BASIS OF PRESENTATION - PROPRIETARY FUNDS**

Enterprise funds account for operations that are financed and operated in a manner similar to private business enterprises. The intent of the City is that costs (expenses including depreciation) of providing goods and services to the general public on a continuing basis are financed or recovered primarily through user charges. The acquisition, maintenance and improvement of physical plant facilities required to provide these goods and services are financed from cash resources, the issuance of bonds (revenue or general obligation), Federal grants or other City funds. The financial activities of the Water and Sewer System are recorded in separate funds categorized and described as follows:

CITY OF WARREN, MICHIGAN  
WATER & SEWER SYSTEM

NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2010

**NOTE 3 - BASIS OF PRESENTATION - PROPRIETARY FUNDS {continued}**

**Receiving Fund**

Revenues are initially deposited in the receiving fund in accordance with State statutes and local revenue ordinances adopted by the City of Warren. Monies are transferred, as needed, to the Operation and Maintenance Fund and Debt Service Reserve and Construction Reserve funds.

**Operation and Maintenance Fund**

The Operation and Maintenance Fund is used to account for revenues generated by user charges for the provision of goods and services to customers of the Water and Sewer System. The Operation and Maintenance Fund records the cost of providing goods and services to Water and Sewer System customers. Water purchases from the City of Detroit, payroll and related fringe benefits, routine maintenance of the Water and Sewer System infrastructure and treatment of residential, municipal and industrial waste through the Waste Water Treatment Plant are all components of that cost.

In accordance with Statement No. 9 of the Governmental Accounting Standards Board (GASB), "Reporting Cash Flows of Proprietary and Non-expendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting", a **Comparative Statement of Cash Flows** is included as an integral part of the financial statements. This statement classifies cash receipts and payments according to whether they stem from operating, capital and related financing and investing activities.

**Debt Service and Construction Reserves**

City Ordinance calls for the establishment of the various funds for the operation, debt service, infrastructure replacement and infrastructure improvement of the Water & Sewer System. Specifically, the following funds are included in this report:

**Bond & Interest Redemption Fund** {designated in the supplemental schedules as "**Debt Service Reserve**"} was established to set aside funds for the payment of bonded indebtedness on the 1999, 2000, 2005 and 2010 Revenue Bond issues, 2003, 2006 and 2010 Capital Improvement issues, and 5134-01, 5134-02, 5134-03, 5134-04 and 5401-01 issues.

**Replacement Fund** {designated in the supplemental schedules as the "**Infrastructure Replacement Reserve**"} }

**Waste Water Treatment Plant Improvement Fund** {designated in the supplemental schedules as "**Waste Water Improvement Reserve**"} }

CITY OF WARREN, MICHIGAN  
WATER & SEWER SYSTEM

NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2010

**NOTE 3 - BASIS OF PRESENTATION - PROPRIETARY FUNDS {continued}**

Also established by City Ordinance and in accordance with State statute are various reserves to set aside funds for major infrastructure and other capital improvements and replacements. Included in this category are the following reserves:

- **Meter Replacement Reserve**
- **Capital Equipment Replacement Reserve**

Activity for the fiscal year is recorded in the appropriate fund or reserve as it occurs. These various separate *recording* entities are then combined and consolidated to produce one *reporting* entity called the Water and Sewer System Fund.

**NOTE 4 - BASIS OF ACCOUNTING**

The accrual basis of accounting is used to record data in the Water and Sewer System Fund. Revenues are recognized in the accounting period in which they are earned and become measurable, and expenses are recognized in the period incurred, if measurable.

**NOTE 5 - BUDGETS AND BUDGETARY ACCOUNTING**

The budget for the Water and Sewer System of the City is fairly inflexible. An encumbrance system is in place and the City Council approves appropriations from retained earnings and all transfers between funds.

There is no informational summary in the Water and Sewer System Fund for the estimated total cost and proposed method of financing for each capital construction project. Nor is there an informational summary on the annual operating costs and proposed method of financing the operating costs for a period of three years beyond the fiscal year covered by the budget. Construction projects are budgeted on an annual basis only.

Encumbrances are utilized during the year to alert officials to possible areas of budget deficiency or over-spending. Encumbrances are not included in the final expense totals for the annual financial report. One activity exceeded budget appropriations and twenty-five line items were over-expended. Line item over expenditures ranged from \$16 to \$70,123. The largest over-expenditure related to meter replacement costs. Overall Operation and Maintenance Fund expenditures were \$1,989,173 lower than budgeted appropriations. An expenditure line item was included during fiscal year 2010 for uncollectible debt. As a result of the continued depressed economic climate in Michigan, the County of Macomb continues to auction tax forfeited properties. Section 211.78m (General Property Tax Act (Excerpt) 206 of 1893) of the Michigan Compiled Laws states that all liens for water and sewer charges are canceled for the properties sold under this section.

CITY OF WARREN, MICHIGAN  
WATER & SEWER SYSTEM

NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2010

**NOTE 5 - BUDGETS AND BUDGETARY ACCOUNTING {continued}**

Accordingly, \$16,605 in prior year water and sewer liens was canceled during fiscal year 2010. In addition, \$29,119 of unpaid prior year outside service charges was also canceled during the year. Since the depressed economic climate continues in Michigan, the allowance for bad debts was increased this year from \$1,000 to \$100,760.

Ordinance Number 80-448 stipulates the Water & Sewer System is to be operated in an efficient manner. The Water & Sewer System is expressly prohibited from providing free services or services or use of the System at less than cost to "... any person, firm, or corporation, public or private or to any public agency or instrumentality..."

Ordinance 80-448 recognized that the rates for services were estimated to be "sufficient to provide for the payment of expenses of administration and operation and such expenses for maintenance of the System as are necessary to preserve the System in good repair and working order, to provide for the payment of the principal and interest on the Bonds {City of Warren Water and Sewer System Revenue Bonds, Series 1999, 2000, 2005, and 2010} as they become due and payable, and the maintenance of the Reserve therefore and to provide for all other obligations, expenditures and funds for the System required by law and this Ordinance."

Rates are to be adjusted as required to assure that net revenues are produced in an amount equal to 110% of the principal and interest on the revenue bonds coming due in each fiscal year. The ordinance covenants that rates for services are to be maintained, at all times, at a level sufficient to provide for operating, maintenance and debt service costs.

The City of Warren Water and Sewer System operates on a calendar year fiscal period and an independent public accounting firm provides an audit of the records of the System each year.

CITY OF WARREN, MICHIGAN  
WATER & SEWER SYSTEM

NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2010

**NOTE 6 - ASSETS, LIABILITIES AND NET ASSETS**

**Assets**

**Deposits and Investments** - Cash received by the City is deposited in various bank accounts. The City Treasurer invests all temporary cash surpluses. Earnings from these investments are credited to the Operation and Maintenance Fund or the appropriate restricted use reserve.

**Cash balances**, without recognizing checks issued but not cashed at December 31, 2010, and including Certificates of Deposit in the amount of \$100,000 totaled \$490,685. The carrying amount of these deposits as recorded in the financial statements is \$255,256.

These deposits would be considered predominantly uninsured and uncollateralized since the Water and Sewer System utilizes the same depositories as other City funds. Due to the amount of cash deposits and the limits of FDIC insurance, the City has determined that it is impractical to insure all deposits. The Investment Policy Commission evaluates each financial institution used as a depository for City funds and assesses the level of risk of each institution.

**Investments** consist primarily of certificates of deposit, repurchase agreements, commercial paper, United States Treasury Bills and deposits in municipal investment pools. The City Council, by ordinance, created the Investment Policy Commission to regulate City investments in a manner more restrictive than prescribed by State statute. Investments are stated at cost, which approximates market.

Investments of the City Water and Sewer System as of December 31, 2010 are categorized below to give an indication of the level of risk assumed. Category 1 includes investments that are insured or registered, or securities held by the City or its agent in the City's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the depository's trust department in the City's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the depository's safekeeping department in the City's name. There are no investments included in Risk Categories 1, 2 or 3.

The Governmental Pool Investment Funds in the amount of \$15,963,885 are not categorized because they are not evidenced by securities that exist in physical or book entry form.

**Accounts receivable** include amounts due from Water and Sewer System customers for goods supplied and services rendered as of December 31, 2010.

**Accrued interest on investments** represents investment interest earned but not received as of December 31, 2010.

CITY OF WARREN, MICHIGAN  
WATER & SEWER SYSTEM

NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2010

**NOTE 6 - ASSETS, LIABILITIES AND NET ASSETS {continued}**

**Due from general fund** includes amounts due for services provided to the City's general operating fund as of the end of the Water and Sewer System fiscal year.

**Land contract interest receivable** is the interest receivable, through December 31, 2010, on the land contract sale of property sold to the City for use by the Department of Public Works discussed below.

**Inventories** are recorded at cost and are expensed as used utilizing the average cost method of inventory valuation.

**Restricted Assets** included in the financial report are as follows:

Prepaid expenses	\$ 417
Due from state	3,045,436
Investments	13,003,008
Due from unrestricted	2,244,659
Due from city – capital improvement bonds	1,078,128
Designated for future projects	<u>9,711,195</u>
Total Restricted Assets	<u>\$ 29,082,843</u>

**Restricted Assets** are used for:

Accounts payable	\$ 273,669
Accrued interest payable	378,399
Construction contracts to be performed in future periods	9,711,195
Reserve for debt service	7,156,512
Reserve for construction & capital equipment	<u>11,563,068</u>
Total Restricted Asset Uses	<u>\$ 29,082,843</u>

**Property, Plant and Equipment** were originally recorded in the Water and Sewer System financial records in 1968, using estimated costs of acquisition or construction provided by the Division of Engineering. Since 1968, property and equipment have been recorded at cost. Depreciation is computed using the straight-line method. Estimated useful lives of capitalized assets range from 10 years to 50 years, depending on the type of property or equipment being depreciated.

**Land contract receivable - DPW Building** is the principal balance receivable from the City for the land contract sale of the former Water Division Building for use by the Department of Public Works. The original cost was based on the undepreciated book value of the building plus the cost of improvements to the building through contracts awarded by the City of Warren Building Authority. The effective date of the transfer to the City was July 1, 1992. Principal and interest payments commenced on January 1, 1994 on a 20-year 6% interest land contract.

CITY OF WARREN, MICHIGAN  
WATER & SEWER SYSTEM

NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2010

**NOTE 6 - ASSETS, LIABILITIES AND NET ASSETS {continued}**

**Current Liabilities**

**Accounts payable** represents those goods and services supplied to the Water and Sewer System prior to December 31, 2010 but unpaid as of the end of the fiscal year.

**Due to restricted** represents the net of inter-fund payables and receivables. As of December 31, 2010, the unrestricted inter-fund payables exceeded the restricted inter-fund receivables, resulting in a current unrestricted liability.

**Due to general fund** represents transactions between the Water and Sewer System to provide services that had not been reimbursed as of December 31, 2010.

**Current portion of revenue bonds payable** is the principal portion of the revenue bonds issues in fiscal years 1999, 2000, 2005, and 2010, capital improvement bonds issued in fiscal years 2003, 2006 and 2010, capital lease purchase agreed to in fiscal year 2010, and State of Michigan SRF financing instruments issued in fiscal years 2003, 2004, and 2009 due within 12 months of the end of the fiscal year.

**Accrued wages and benefits payable** represents the amounts earned by Water & Sewer System employees prior to the end of the fiscal year but not paid until January 2011.

**Customer deposits** represent amounts received from Water & Sewer System customers for the purchase of meters to be placed in service. Once the meter is installed (at customer expense) and inspected by Water & Sewer System personnel, the amount deposited is recognized as meter sales revenue.

**Long Term Liabilities**

**Long term debt payable** is detailed as follows:

<b>1999 Revenue Bonds {non-refunded}</b>	
Bonds payable through November 1, 2011	50,000
Less – current portion (due November 1, 2011)	(50,000)
Less – unamortized bond discount	<u>(7,156)</u>
Net 1999 revenue bonds payable	<u>(7,156)</u>

CITY OF WARREN, MICHIGAN  
WATER & SEWER SYSTEM

NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2010

**NOTE 6 - ASSETS, LIABILITIES AND NET ASSETS {continued}**

<b>2000 Revenue Bonds {non-refunded}</b>	
Bonds payable through November 1, 2011	625,000
Less – current portion (due November 1, 2011)	(625,000)
Less – unamortized bond discount	<u>(13,517)</u>
Net 2000 revenue bonds payable	<u>(13,517)</u>
<b>2005 Refunding Issue</b>	
Bonds payable through November 1, 2026	20,695,000
Less – current portion (due November 1, 2011)	(135,000)
Less – unamortized bond discount	(63,279)
Less – unamortized deferred refunding charge	<u>(1,227,630)</u>
Net 2005 refunding bonds payable	<u>19,269,091</u>
<b>2010 Refunding Issue</b>	
Bonds payable through May 1, 2016	\$ 6,230,000
Less – current portion (due May 1, 2011)	(1,150,000)
Less – unamortized bond premium	80,479
Less – unamortized deferred refunding charge	<u>(73,811)</u>
Net 2010 refunding bonds payable	<u>5,086,668</u>
<b>2003 Capital Improvement Bonds</b>	
Bonds payable through June 1, 2023	935,000
Less – current portion (due June 1, 2011)	(55,000)
Less – unamortized bond discount	<u>(2,747)</u>
Net 2003 capital improvement bonds	<u>877,253</u>
<b>2006 Capital Improvement Bonds</b>	
Bonds payable through September 1, 2026	2,064,370
Less – current portion (due September 1, 2011)	(42,245)
Less – unamortized bond discount	<u>(17,846)</u>
Net 2006 capital improvement bonds	<u>2,004,279</u>
<b>2010 Capital Improvement Bonds</b>	
Bonds payable through April 1, 2031	9,290,000
Less – current portion	-
Less – unamortized bond discount	<u>(73,414)</u>
Net 2010 capital improvement bonds	<u>9,216,586</u>
<b>2010 Capital Lease Purchase</b>	
Principal payable through December 15, 2015	871,586
Less – current portion (consisting of three payments due during 2011)	<u>(119,547)</u>
Net 2010 capital lease purchase payable	<u>752,039</u>
<b>2004 State of Michigan SRF Financing 5134-01</b>	
Bonds payable through October 1, 2024	3,565,000
Less – current portion (due October 1, 2011)	<u>(215,000)</u>
Net SRF revenue bonds payable – 5134-01	<u>3,350,000</u>

CITY OF WARREN, MICHIGAN  
WATER & SEWER SYSTEM

NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2010

**NOTE 6 - ASSETS, LIABILITIES AND NET ASSETS {continued}**

<b>2004 State of Michigan SRF Financing 5134-02</b>	
Bonds payable through April 1, 2026	5,380,000
Less – current portion (due April 1, 2011)	<u>(285,000)</u>
Net SRF revenue bonds payable – 5134-02	<u>5,095,000</u>
<b>2004 State of Michigan SRF Financing 5134-03</b>	
Bonds payable through October 1, 2024	837,091
Less – current portion (due October 1, 2011)	<u>(50,000)</u>
Net SRF revenue bonds payable – 5134-03	<u>787,091</u>
<b>2004 State of Michigan SRF Financing 5134-04</b>	
Bonds payable through April 1, 2026	6,765,000
Less – current portion (due April 1, 2011)	<u>(375,000)</u>
Net SRF revenue bonds payable - 5134-04	<u>6,390,000</u>
<b>2009 State of Michigan SRF Financing 5401-01</b>	
Bonds payable through October 1, 2030	4,151,478
Less – current portion (due October 1, 2011)	<u>(120,000)</u>
Net SRF revenue bonds payable – 5401-01	<u>4,031,478</u>

Total net long term debt payable \$ 56,838,812

The \$12,000,000 City of Warren Water and Sewer System Revenue Refunding Bonds, Series 1999, were dated February 1, 1999, and sold January 26, 1999, to Merrill Lynch & Co. {See Note 16 for further discussion}

The non-refunded \$300,000 City of Warren Water and Sewer System Revenue Bonds, Series 1999, were dated March 1, 1999, and sold February 23, 1999, to Prudential Securities, Inc. with ABN Amro Securities, Inc.; Dain Rauscher, Inc.; and Griffin, Kubik, Stephens & Thompson, Inc. {See Note 17 for further discussion}

The non-refunded \$3,750,000 City of Warren Water and Sewer System Revenue Bonds, Series 2000, were dated September 1, 2000, and sold October 3, 2000, to Dain Rauscher Incorporated. {See Note 18 for further discussion}

The \$21,675,000 City of Warren Water and Sewer System Revenue Refunding Bonds, Series 2005, were dated September 1, 2005, and sold September 13, 2005, to Piper Jaffray & Company. {See Note 19 for further discussion}

The \$6,230,000 City of Warren Water and Sewer System Capital Improvement Refunding Bonds, Series 2010, were dated August 1, 2010, and sold July 21, 2010, to Robert W. Baird & Co., Inc. {See Note 20 for further discussion}

The \$3,585,000 City of Warren Capital Improvement Bonds, Series 2003, were dated July 1, 2003, and sold to Fahnestock & Co., Inc. {See Note 21 for further discussion}

CITY OF WARREN, MICHIGAN  
WATER & SEWER SYSTEM

NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2010

**NOTE 6 - ASSETS, LIABILITIES AND NET ASSETS {continued}**

The \$4,750,000 Act 34 Sewage Disposal Capital Improvement Bonds, 5134-01, were authorized by City Council on September 25, 2003. {See Note 22 for further discussion}

The \$6,465,000 Act 34 Sewage Disposal Capital Improvement Bonds, 5134-02, were authorized by City Council on September 23, 2004. {See Note 23 for further discussion}

The \$1,220,000 Act 34 Sewage Disposal Capital Improvement Bonds, 5134-03, were authorized by City Council on March 25, 2004. {See Note 24 for further discussion}

The \$8,200,000 Act 34 Sewage Disposal Capital Improvement Bonds, 5134-04, were authorized by City Council on March 31, 2005. {See Note 25 for further discussion}

The \$3,090,000 Act 34 Sewage Disposal Capital Improvement Bonds, 5401-01, were authorized by City Council on November 24, 2009. {See Note 26 for further discussion}

The \$7,530,000 City of Warren Capital Improvement Bonds, Series 2006, were dated December 1, 2006, and sold to Morgan Keegan & Co., Inc. {See Note 27 for further discussion}

The \$9,290,000 City of Warren Capital Improvement Bonds, Series 2010, were dated November 1, 2010, and sold October 21, 2010, to Robert W. Baird & Co., Inc. {See Note 28 for further discussion}

The \$871,586 Capital Lease Purchase Agreement with Cogeneration Consultants, Inc. and Grant Capital Management, Inc., approved by City Council November 23, 2010 {See Note 29 for further discussion}

**Compensated Absences** - Collective bargaining agreements provide for the compensated absences discussed in greater detail below. GASB Statement-16 {Accounting for Compensated Absences}, requires that liabilities are calculated at the pay or salary rates in effect as of the balance sheet date and include payments “*directly and incrementally associated with payments made for compensated absences...*”. Accordingly, the reserved amounts include the costs of employer social security and medicare taxes, the Voluntary Employee Benefit Association (VEBA) trust and the City’s contribution to the Employees Retirement System.

CITY OF WARREN, MICHIGAN  
WATER & SEWER SYSTEM

NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2010

**NOTE 6 - ASSETS, LIABILITIES AND NET ASSETS {continued}**

**Accumulated Sick Leave** - All full-time employees of the City earn one sick leave day for each month of service rendered, not to exceed twelve days in any calendar year. Sick leave days may be accumulated each year up to a maximum sick leave bank. The maximum number of days allowed to accumulate ranges from 27 days to 225 days depending upon their hire date, union affiliation and pension plan participation.

Upon retirement, most employees are paid eighty percent of their accumulated sick bank. If an employee dies while in the service of the City, the beneficiary is paid one hundred percent of the accumulated sick bank. An employee is paid twenty five percent of the accumulated sick bank upon severance from the City in good standing after five years of service. Payments are based on the employee's current rate of pay.

In addition, the City has adopted an incentive program based upon good attendance that permits employees to use sick days as bonus vacation days or receive cash payment, thereby reducing their sick leave banks.

Accumulated sick leave is accrued at the employee's current rate of pay and applicable retirement payout percentage, inclusive of payroll taxes on sick leave balances. The maximum liability of the Water and Sewer System at December 31, 2010 is \$886,930 and is fully funded.

**Accumulated Compensatory Time** - Based on their respective collective bargaining agreements, employees may elect to be paid for their overtime or receive compensatory time. As of December 31, 2010 the value of unpaid compensatory time was \$108,119 and is fully funded.

**Net Assets**

**Insurance** is provided for both prior and current fiscal years under a retrospective insurance plan package covering workers' compensation, general liability and vehicle related claims. Under a retrospective plan, the City, as the insured party, shares the risk of loss with the insurance company. Final insurance costs are dependent upon actual loss experience for the policy period.

When determining the City's loss experience for a given time period, the insurance company must estimate the expected financial settlement of known claims. Actual loss experience for a policy period may be substantially different if the settlement of claims exceeds the estimates and/or additional claims are filed for incidents, which occurred prior to the preparation of the estimates but were not reported. These variations can potentially result in additional liability for a previous or current policy period.

CITY OF WARREN, MICHIGAN  
WATER & SEWER SYSTEM

NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2010

**NOTE 6 - ASSETS, LIABILITIES AND NET ASSETS {continued}**

The City has elected to accept responsibility for the payment of additional claims, even those involving Water & Sewer System personnel and equipment. The City also retains any return of premium payment resulting from a favorable experience rating without reimbursing the Water and Sewer System for its portion of returned premium payments.

**Restricted for insurance claims** - Effective October 1, 1986, the City of Warren implemented a self-insured program for health benefits for City employees and retirees. Program liability covers the first \$100,000 of actual health costs per person, per year, except for deductible amounts. An insurance policy has been purchased to cover costs in excess of the \$100,000 limitation up to \$1,000,000 per person, per year, not to exceed an aggregate total of \$2,000,000. Included in the fund balance reserved in the Operation and Maintenance Fund is \$500,000 designated for future self-insurance claims.

**Restricted for debt service and construction** - Retained earnings are to be reserved for debt service and additional amounts as defined by ordinance for bonded debt and system improvements and replacements.

**NOTE 7 - CONTRACTUAL AGREEMENT**

An agreement between the City of Warren and the City of Detroit Board of Water Commissioners provides for the sale and delivery of water to the City of Warren. This agreement is for a minimum term of thirty (30) years, commencing on October 26, 2010. The consumption based rate at January 1, 2010 was \$9.47 per 1,000 cubic feet. The consumption based rate was increased to \$9.58 per 1,000 cubic feet effective July 1, 2010 along with a monthly fixed charge of \$97,809 and remains in effect until June 30, 2011.

**NOTE 8 - SUMMARY OF PROPERTY, PLANT AND EQUIPMENT**

A summary of the Water and Sewer System property, plant and equipment at December 31, 2010 is as follows:

	<u>Book Value</u>	<u>Depreciable Life</u>
Land	\$ 605,219	N/A
Building and Improvements	68,431,165	40
Water and Sewer Mains	110,341,245	50
Meters and Remote Registers	6,177,217	25
Pumping Equipment	1,709,634	25
Equipment	<u>11,081,842</u>	10
Total Cost	198,346,322	
Less Accumulated Depreciation	<u>93,816,986</u>	
Net Carrying Amount	<u>\$ 104,529,336</u>	

CITY OF WARREN, MICHIGAN  
WATER & SEWER SYSTEM

NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2010

**NOTE 9 – POST-EMPLOYMENT HEALTH BENEFITS**

The City's post-employment health and dental benefits are administered under a combination of premium based, self-insurance, and/or Medicare coverage plans. The City provides 100 percent of the cost of health insurance and either 50 percent or 100 percent of dental coverage dependent upon the coverage selected. In general, if a retiree or members of his or her immediate family are entitled to retirement benefits under the City Employees Retirement System then they are entitled to the post-retirement health and dental insurance benefits. Recent collective bargaining agreements have included Retirement Health Savings account provisions for new hires. During employment, the City will contribute 1% of the employee's wages and the employee will contribute 1% to 5% of wages into the plan. As of December 31, 2010, 13 Water & Sewer System employees participate in the Retirement Health Savings plan.

**General Retirement Health, Life and Disability Benefits Plan and Trust:**

*Plan Description.* Established by City Ordinance and collective bargaining agreements, the City of Warren General Employees' Retirement System is the administrator of a single-employer public employee' Voluntary Employee Benefit Association (VEBA) Trust. The Trust is created for the exclusive purpose of providing funding for health, life and disability benefits for those retirees and beneficiaries eligible to receive such retirement benefits under the City of Warren General Employees Retirement System. At December 31, 2008, the most recent valuation date, the plan consisted of 567 retirees and beneficiaries currently receiving benefits, 41 inactive vested participants, and 374 active employees.

*Summary of Significant Accounting Policies.* The financial statements of the Trust are prepared using the accrual basis of accounting. Employer contributions are recognized as revenues in the period in which employee services are performed. Retiree health, life and disability benefits are recognized in the period incurred.

Investments are reported at fair value. Securities traded on a national exchange are valued at the last reported sales price at current exchange rates. The assets of the Trust include no loans to any participants or officers of the Trust, City officials or any other related party.

*Funding Policy.* The contribution rate to pre-fund the Plan is computed to be 33.50% of covered payroll for the period of January 1, 2010 through June 30, 2010, in accordance with the actuarial valuation of December 31, 2006, and 36.11% of covered payroll for the period of July 1, 2010 through December 31, 2010 in accordance with actuarial valuation of December 31, 2008. Actuarial assumptions used in calculating the contribution rate include 1.) investment return of 7.5% per year, 2.) medical care inflation rate of 5.0% and 3.) salary increases of 5.0%.

Actuarial accrued liabilities of the Plan as of December 31, 2008, were computed to be \$158,665,734. The reported market value of fund assets of the Plan was \$16,522,158 as of December 31, 2008.

CITY OF WARREN, MICHIGAN  
WATER & SEWER SYSTEM

NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2010

**NOTE 10 – PENSION PLANS**

The City has a defined benefit single employer pension plan and a defined contribution pension plan covering substantially all full-time non-public safety employees.

**Employees' Retirement System Defined Benefit Plan:**

*Plan Description.* Established under General City Ordinance on January 1, 1958, the City of Warren Employees' Retirement System is the administrator of a single-employer public employees' retirement system that covers full time employees, except police and fire personnel, hired prior to the close of the plan.

The System provides retirement, disability and death benefits to plan members and their beneficiaries. The obligation to contribute to and maintain the System for these employees was established by City ordinance and negotiation with the various collective bargaining units. On December 31, 2009, membership consisted of 544 retirees and beneficiaries currently receiving benefits and terminated employees entitled to benefits but not yet receiving them, and 189 current active employees of which all are fully vested in the system.

The plan issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to the City of Warren Employees' Retirement System, One City Square, Warren, Michigan 48093.

*Summary of Significant Accounting Policies.* The financial statements of the Employees' Retirement System are prepared using the accrual basis of accounting. Employee and employer contributions are recognized as revenues in the period in which employee services are performed. Pension benefits and refund of contributions are recognized in the period such payments are made. Investments are reported at fair value. Securities traded on a national exchange are valued at the last reported sales price. The assets of the Employees' Retirement System include no loans to any participants or officers of the System, City officials or any other related party.

*Funding Policy.* The City's funding policy provides for periodic employer contributions at actuarially determined rates that, expressed as percentages of annual covered payroll, are designed to accumulate sufficient assets to pay benefits when due. The normal cost and actuarial accrued liability are determined using an Aggregate actuarial funding method. Employer contributions represented 49.17% of covered payroll for the period of January 1, 2010 through June 30, 2010 in accordance with the actuarial valuation dated December 31, 2007 and 55.99% of covered payroll for the period of July 1, 2010 through December 31, 2010 in accordance with the actuarial valuation dated December 31, 2008. Employees are not required to contribute to the System. Amounts shown as employee contributions represent purchase of prior service credit. Administrative costs are financed through investment earnings.

CITY OF WARREN, MICHIGAN  
WATER & SEWER SYSTEM

NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2010

**NOTE 10 – PENSION PLANS {continued}**

*Reserves.* A description of each legally required reserve and its funded balance at December 31, 2010 is as follows:

Reserve for Employees' Contribution: \$ 278,403

Composed of accumulated contributions by active employees plus interest thereon.

Reserve for Employer's Contribution: \$ (18,115,785)

Composed of accumulated City contributions, net of amounts transferred for the payment of pensions to the Reserve for Retirees' Benefit Payments plus interest thereon.

Reserve for Retirees' Benefit Payments: \$ 137,885,208

Actuarially determined to provide sufficient resources for annuity payments. Upon retirement of an employee, expected future benefit payments are computed and transfers are then made into this reserve from the Reserve for Employees' Contribution and Employer's Contribution. This account is credited annually with interest from the Reserve for Undistributed Income.

Reserve for Undistributed Income: \$ -

Composed of net investment income less expenditures for other services and charges, and interest transferred to the Reserves for Employees' Contribution, Employer's Contribution and Retirees' Benefit Payments.

Deposits and Investments

The Board of Trustees of the Employees' Retirement System is authorized by Act No. 314 of the Public Acts of Michigan of 1965, as amended, to make investments in stocks, bonds, or other evidences of indebtedness, that in its judgment it may deem proper to purchase as an investment. The Employees' Retirement System Board of Trustees has contracted with independent investment firms to manage the system's investment portfolio.

Securities Lending Agreement - As permitted under state statutes, the System is authorized to participate in securities lending transactions. The System entered into a securities lending authorization agreement with Comerica Bank to lend its securities to broker-dealers and banks pursuant to the agreement.

During the fiscal year, Comerica Bank at the direction of the System lent securities and received United States currency as collateral. Borrowers were required to deliver collateral for each loan equal to at least one hundred percent (100%) of the market value of the loaned securities.

CITY OF WARREN, MICHIGAN  
WATER & SEWER SYSTEM

NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2010

**NOTE 10 – PENSION PLANS {continued}**

The System did not impose any restrictions during the fiscal year on the amount of the loans that Comerica Bank made on its behalf. There were no failures by any borrowers to return loaned securities or pay distributions thereon during the fiscal year. There were no losses to the System or Comerica Bank during the fiscal year resulting from default of the borrowers.

During the fiscal year, the System and the borrower maintained the right to terminate all securities lending transactions on demand. The cash collateral received on each loan was invested, together with the cash collateral of other lenders, in a pool. The pool has shortened its duration to investment in overnight securities. Because the loans could terminate on demand, their duration did not generally match the duration of the investments made with the cash collateral. The collateral based on cost and the fair value of the underlying securities on loan for the System as of December 31, 2010 were \$8,849,463\* and \$8,605,180 respectively.

\*The cash collateral received is invested in a pool by Comerica Bank's Securities Lending Program in accordance with the Program's guidelines regarding quality and issuer concentration. In fiscal year 2008, the program purchased "Sigma Finance Medium Term Notes, due 05/19/09" which at the time of acquisition was an AAA rated security and fully compliant with the Program's investment guidelines. On September 30, 2008 as a result of a decrease in the market value of Sigma's underlying holdings, Standard & Poors and Moody's downgraded Sigma's senior debt from A/A3 to CCC-/Ca, a drop of 13 levels by each rating agency. Subsequently, Sigma Finance announced that it had ceased trading and Ernst & Young was appointed as its receiver. The System's pro rata share of this investment was \$179,912. The System has been notified of an expected recovery in the amount of \$9,174 leaving an anticipated liability to Comerica Bank in the amount of \$170,738. Comerica Bank is monitoring the progress of the receivership in order to maximize any recovery of this investment. While the Sigma outcome remains unresolved, additional recovery is anticipated to be minimal. The System's potential liability regarding this transaction is reflected on the Comparative Statement of Net Plan Assets for both the fiscal years ended December 31, 2010 and December 31, 2009.

Deposit and Investment Risk - The provisions of GASB Statement No. 40 require the following disclosures regarding the Retirement System's deposits and investments and their exposure to various risks (custodial credit, credit, interest rate, foreign currency and concentration). Custodial credit risk for deposits is the risk that in the event of the failure of a depository financial institution, the System will not be able to recover deposits or collateral securities that are in the possession of an outside party. Cash balances, without recognizing checks issued but not cashed, at December 31, 2010, excluding impress funds, were \$25,918. Of this amount, \$25,001 was covered by the Federal Deposit Insurance Corporation (FDIC) and \$917 was uninsured and uncollateralized. The System evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution.

CITY OF WARREN, MICHIGAN  
WATER & SEWER SYSTEM

NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2010

**NOTE 10 – PENSION PLANS {continued}**

Custodial credit risk for investments is the risk that, in the event of a failure of the counterparty to a transaction, the System will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. Investment securities are exposed to custodial credit risk if the securities are uninsured, are not registered in the name of the System, and are held by either the counterparty or the counterparty's trust department or agent but not in the System's name. At December 31, 2010, none of the System's investments were exposed to custodial credit risk.

The System's investments in debt securities are exposed to credit and interest rate risks. Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. To minimize exposure to these risks, the System has implemented the following policies for its fixed income investments: 1.) a maximum investment of 30 percent in bonds rated BBB, the balance in investment grade bonds rated A or better; 2.) may only invest in commercial paper maturing within 270 days of any domestic issuer provided such commercial paper be rated A1 or equivalent; and 3.) a weighted average portfolio maturity not to exceed 10 years.

A detailed discussion of the Employees' Retirement System including historical activity, investment performance and credit and interest rate risk disclosures is included in the City's Comprehensive Annual Financial Report for the fiscal year ended June 30, 2010.

**Defined Contribution Plan and Trust**

*Plan Description.* The Defined Contribution Plan and Trust was approved by the Warren City Council at their meeting of April 8, 1997. The plan is administered by the International City Management Association Retirement Corporation (ICMA). Participation in the plan is extended to all full time employees, other than police and fire personnel. Employees were allowed to transfer the actuarially determined value of prior service credit from the City Employees' Retirement System to the Defined Contribution Plan upon adoption of the plan and settlement of respective collective bargaining agreements. Employees hired after ratification of the respective collective bargaining agreements are automatically enrolled in the Defined Contribution Plan. There were 228 active participants in the plan as of June 30, 2010. As of December 31, 2010, 36 Water & Sewer System employees participate in the Defined Contribution Plan.

*Funding Policy.* For employees transferring from the Defined Benefit Pension Plan to the Defined Contribution Plan, the City contributes 15.0% of payroll and the employee contributes 3.0%. For employees hired after ratification of their respective union contracts, the City contributes 10.0% of payroll and the employee contributes 4.0%.

CITY OF WARREN, MICHIGAN  
WATER & SEWER SYSTEM

NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2010

**NOTE 11 - DEFERRED COMPENSATION PLAN**

The City offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan, available to all full time employees, permits them to defer a portion of their current salary until future years. The deferred compensation is not available to the employees until termination, retirement, death or unforeseeable emergency.

In accordance with the provision of IRC Section 457, subsection (g), plan assets are held for the exclusive benefit of employees in a trust or qualifying insurance contract in an amount equal to the fair market value of the deferred account maintained with respect to each participant.

The City's primary responsibility is to process employee payroll withholdings and remits the withheld funds to the plan administrators. The City does not perform any investing function. Accordingly, due to the absence of fiduciary responsibility with respect to these funds, deferred compensation plan assets are not reported in the accompanying financial statements.

**NOTE 12 - INTERFUND RECEIVABLES AND PAYABLES**

The amounts of interfund receivables and payables are as follows:

<u>Fund</u>	<u>Interfund Receivables</u>	<u>Interfund Payables</u>
General (including 2006 capital improvement bond proceeds receivable)	<u>\$ 1,085,668</u>	<u>\$ 1,261,714</u>

**NOTE 13 - CONTINGENT LIABILITIES**

In the opinion of the City of Warren City Attorney, there were no lawsuits pending as of December 31, 2010, which could materially affect the financial condition of the Water and Sewer System.

CITY OF WARREN, MICHIGAN  
WATER & SEWER SYSTEM

NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2010

**NOTE 14 - 1994 CITY OF WARREN WATER AND SEWER REVENUE BONDS**

On February 22, 1994, the City of Warren City Council approved the sale of the \$8.5 million Water & Sewer System Bonds, Series 1994, to the firm of Merrill Lynch, Pierce, Fenner & Smith. The bonds are dated February 1, 1994, and have various maturity dates up to May 1, 2013. Interest on bond coupons ranges from 4.80% to 5.60% annually, with the average interest rate of the total issue at 5.5025%.

On January 26, 1999, the City sold \$12,000,000 of Water and Sewer System Revenue Refunding Bonds, Series 1999. Included in this issue was the defeasance of \$7,470,000 of then outstanding balance of \$8,045,000 of the Series 1994 Bonds. All issuance costs were paid directly from bond proceeds.

Principal and interest requirements for the remaining debt from issue were paid in full as of December 31, 2004.

**NOTE 15 - 1996 CITY OF WARREN WATER AND SEWER REVENUE BONDS**

On February 23, 1996, the City of Warren City Council approved the sale of the \$4.0 million Water & Sewer System Bonds, Series 1996, to the firm of Dean Witter Reynolds, Inc. The bonds are dated April 1, 1996, and have various maturity dates up to November 1, 2016. Interest on bond coupons ranges from 5.60% to 7.60% annually.

On January 26, 1999, the City sold \$12,000,000 of Water and Sewer System Revenue Refunding Bonds, Series 1999. Included in this issue was the defeasance of \$3,635,000 of then outstanding balance of \$3,920,000 of the Series 1996 Bonds. All issuance costs were paid directly from bond proceeds.

Principal and interest requirements for the remaining debt from this issue were paid in full as of December 31, 2004.

CITY OF WARREN, MICHIGAN  
WATER & SEWER SYSTEM

NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2010

**NOTE 16 - 1999 CITY OF WARREN WATER AND SEWER REVENUE REFUNDING BONDS**

On January 26, 1999, the City of Warren City Council approved the sale of the \$12.0 million Water & Sewer System Revenue Refunding Bonds, Series 1999, to Merrill Lynch & Co. The bonds are dated February 1, 1999, and have various maturity dates up to May 1, 2016. Interest on bond coupons range from 4.35% to 4.75% annually.

The proceeds are earmarked for the defeasance of \$7,470,000 in outstanding obligations from the Water and Sewer System Revenue Bonds, Series 1994 {See Note 14} and \$3,635,000 in outstanding obligations from the Water and Sewer System Revenue Bonds, Series 1996 {See Note 15}.

On July 21, 2010, the City sold \$6,230,000 of Water and Sewer System Capital Improvement Refunding Bonds, Series 2010. Included in this issue was the defeasance of \$6,100,000 of the then outstanding balance of \$6,100,000 of Series 1999 Revenue Refunding Bonds. All issuance costs were paid directly from bond proceeds. {See Note 20}.

CITY OF WARREN, MICHIGAN  
WATER & SEWER SYSTEM

NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2010

**NOTE 17 - 1999 CITY OF WARREN WATER AND SEWER REVENUE BONDS**

On February 23, 1999, the City of Warren City Council approved the sale of the \$11.4 million Water & Sewer System Bonds, Series 1999, to Prudential Securities, Inc. with ABN Amro Securities, Inc.; Dain Rauscher, Inc.; and Griffin, Kubik, Stephens & Thompson, Inc. The bonds are dated March 1, 1999, and have various maturity dates up to November 1, 2026. Interest on bond coupons ranges from 4.00% to 5.25% annually. The proceeds are earmarked for various water and sewer infrastructure projects and capital improvements at the Waste Water Treatment Plant.

On September 13, 2005, the City sold \$21,675,000 of Water and Sewer System Revenue Refunding Bonds, Series 2005 {see Note 19}. Included in this issue was the defeasance of \$11,100,000 of then outstanding balance of \$11,400,000 of the Series 1999 Bonds. All issuance costs were paid directly from bond proceeds.

The redemption schedule outstanding as of December 31, 2010 for the defeased portion of the Series 1999 Bonds through the principle redemption on November 1, 2011, is as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2011	\$ <u>11,100,000</u>	\$ <u>563,850</u>	\$ <u>11,663,850</u>
Total	\$ <u>11,100,000</u>	\$ <u>563,850</u>	\$ <u>11,663,850</u>

Principal and interest requirements for the remaining \$300,000 debt from the Series 1999 Bonds from December 31, 2010 through final maturity of November 1, 2011, are as follows:

<u>Year</u>	<u>Coupon Rate</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2011	4.50%	\$ <u>50,000</u>	\$ <u>2,250</u>	\$ <u>52,250</u>
Total		\$ <u>50,000</u>	\$ <u>2,250</u>	\$ <u>52,250</u>

CITY OF WARREN, MICHIGAN  
WATER & SEWER SYSTEM

NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2010

**NOTE 18 - 2000 CITY OF WARREN WATER AND SEWER REVENUE BONDS**

On October 3, 2000, the City of Warren City Council approved the sale of the \$13.75 million Water & Sewer System Bonds, Series 2000, to Dain Rauscher, Inc. The bonds are dated September 1, 2000, and have various maturity dates up to November 1, 2021. Interest on bond coupons ranges from 5.00% to 5.25% annually. The proceeds are earmarked for various water and sewer infrastructure projects and capital improvements at the Waste Water Treatment Plant.

On September 13, 2005, the City sold \$21,675,000 of Water and Sewer System Revenue Refunding Bonds, Series 2005 {see Note 19}. Included in this issue was the defeasance of \$8,800,000 of then outstanding balance of \$12,550,000 of the Series 2000 Bonds. All issuance costs were paid directly from bond proceeds.

The redemption schedule outstanding as of December 31, 2010 for the defeased portion of the Series 2000 Bonds through the principal redemption on November 1, 2011, is as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2011	\$ <u>8,800,000</u>	\$ <u>459,344</u>	\$ <u>9,259,344</u>
Total	\$ <u>8,800,000</u>	\$ <u>459,344</u>	\$ <u>9,259,344</u>

Principal and interest requirements for the remaining debt from the Series 2000 Bonds from December 31, 2010 through final maturity of November 1, 2011, are as follows:

<u>Year</u>	<u>Coupon Rate</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2011	5.125%	\$ <u>625,000</u>	\$ <u>32,031</u>	\$ <u>657,031</u>
Total		\$ <u>625,000</u>	\$ <u>32,031</u>	\$ <u>657,031</u>

CITY OF WARREN, MICHIGAN  
WATER & SEWER SYSTEM

NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2010

**NOTE 19 - 2005 CITY OF WARREN WATER AND SEWER REVENUE REFUNDING BONDS**

On September 13, 2005, the City of Warren City Council approved the sale of the \$21.675 million Water & Sewer System Revenue Refunding Bonds, Series 2005, to Piper Jaffray & Company. The bonds are dated September 1, 2005, and have various maturity dates up to November 1, 2026. Interest on bond coupons ranges from 3.50% to 4.75% annually.

The proceeds are earmarked for the defeasance of \$11,100,000 in outstanding obligations from the Water and Sewer System Revenue Bonds, Series 1999 {See Note 17} and \$8,800,000 in outstanding obligations from the Water and Sewer System Revenue Bonds, Series 2000 {See Note 18}.

Principal and interest requirements for the remaining debt from the Series 2005 Revenue Refunding Bonds from December 31, 2010 through final maturity of November 1, 2026, are as follows:

<u>Date</u>	<u>Coupon Rate</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2011	3.750%	135,000	871,119	1,006,119
2012	3.750%	865,000	866,056	1,731,056
2013	3.750%	885,000	833,619	1,718,619
2014	4.000%	930,000	800,431	1,730,431
2015	4.000%	975,000	763,231	1,738,231
2016	4.000%	1,870,000	724,231	2,594,231
2017	4.125%	2,005,000	649,431	2,654,431
2018	4.125%	2,040,000	566,725	2,606,725
2019	4.250%	2,075,000	482,575	2,557,575
2020	4.250%	2,110,000	394,388	2,504,388
2021	4.250%	2,170,000	304,712	2,474,712
2022	4.500%	1,030,000	212,488	1,242,488
2023	4.500%	1,025,000	166,138	1,191,138
2024	4.500%	1,015,000	120,012	1,135,012
2025	4.750%	1,010,000	74,338	1,084,338
2026	4.750%	<u>555,000</u>	<u>26,362</u>	<u>581,362</u>
		<u>\$ 20,695,000</u>	<u>\$ 7,855,856</u>	<u>\$ 28,550,856</u>

CITY OF WARREN, MICHIGAN  
WATER & SEWER SYSTEM

NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2010

**NOTE 19 - 2005 CITY OF WARREN WATER AND SEWER REVENUE REFUNDING BONDS {continued}**

The following bond principal amounts were defeased per the 2005 Revenue Refunding Bond issue:

**1999 Water & Sewer System Revenue Bonds**

<u>Due Date</u>	<u>Interest Rate</u>	<u>Amount</u>
11-01-2012	4.600%	\$ 50,000
11-01-2013	4.700%	50,000
11-01-2014	4.800%	50,000
11-01-2015	4.900%	50,000
11-01-2016	4.900%	900,000
11-01-2017	4.900%	1,000,000
11-01-2018	5.000%	1,000,000
11-01-2019	5.000%	1,000,000
11-01-2020	5.000%	1,000,000
11-01-2021	5.125%	1,000,000
11-01-2022	5.125%	1,000,000
11-01-2023	5.125%	1,000,000
11-01-2024	5.250%	1,000,000
11-01-2025	5.250%	1,000,000
11-01-2026	5.250%	<u>1,000,000</u>
Total 1999 Series Bonds Defeased		<u>\$ 11,100,000</u>

**2000 Water & Sewer System Revenue Bonds**

<u>Due Date</u>	<u>Interest Rate</u>	<u>Amount</u>
11-01-2012	5.125%	\$ 675,000
11-01-2013	5.125%	700,000
11-01-2014	5.125%	750,000
11-01-2015	5.250%	800,000
11-01-2016	5.250%	850,000
11-01-2017	5.250%	900,000
11-01-2018	5.250%	950,000
11-01-2019	5.250%	1,000,000
11-01-2020	5.250%	1,050,000
11-01-2021	5.250%	<u>1,125,000</u>
Total 2000 Series Bonds Defeased		<u>\$ 8,800,000</u>
Grand Total		<u>\$ 19,900,000</u>

CITY OF WARREN, MICHIGAN  
WATER & SEWER SYSTEM

NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2010

**NOTE 19 - 2005 CITY OF WARREN WATER AND SEWER REVENUE REFUNDING BONDS {continued}**

On September 1, 2005, the City entered into an Escrow Agreement appointing LaSalle Bank, N.A. as escrow agent for the purpose of redeeming, prior to maturity, a portion of the callable 1999 Revenue Bonds scheduled to mature in the years 2006 through 2026 and a portion of the callable 2000 Revenue Bonds scheduled to mature in the years 2005 through 2021.

On September 13, 2005, the City irrevocably transferred to LaSalle Bank, N.A. proceeds from the 2005 Revenue Refunding Bonds {net of issuance expenses} in the amount of \$20,996,864.11 and monies on hand in the amount of \$403,703.75 for a total of \$21,400,567.86. All but \$0.86 {to be held in the Escrow Fund as beginning balance} was invested in United States Government Obligation known as "SLGS" {State and Local Government Series} as follows:

Purchase Date	Amount	Rate	Maturity
09-13-2005	\$ 395,969	3.330%	11-01-2005
09-13-2005	82,068	3.830%	05-01-2006
09-13-2005	84,049	3.880%	11-01-2006
09-13-2005	85,679	3.940%	05-01-2007
09-13-2005	87,367	4.000%	11-01-2007
09-13-2005	89,115	4.020%	05-01-2008
09-13-2005	90,906	4.040%	11-01-2008
09-13-2005	92,742	4.040%	05-01-2009
09-13-2005	94,616	4.050%	11-01-2009
09-13-2005	96,531	4.060%	05-01-2010
09-13-2005	98,491	4.070%	11-01-2010
09-13-2005	100,495	4.080%	05-01-2011
09-13-2005	<u>20,002,539</u>	4.090%	11-01-2011
 Total	 <u>\$ 21,400,567</u>		

CITY OF WARREN, MICHIGAN  
WATER & SEWER SYSTEM

NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2010

**NOTE 19 - 2005 CITY OF WARREN WATER AND SEWER REVENUE REFUNDING BONDS {continued}**

These investments and interest thereon are to be used to meet the following combined schedule of escrow payments:

Date	Interest	Principal	Total
11-01-2005	\$ 511,596.88		\$ 511,596.88
05-01-2006	511,596.88		511,596.88
11-01-2006	511,596.88		511,596.88
05-01-2007	511,596.88		511,596.88
11-01-2007	511,596.88		511,596.88
05-01-2008	511,596.88		511,596.88
11-01-2008	511,596.88		511,596.88
05-01-2009	511,596.88		511,596.88
01-01-2009	511,596.88		511,596.88
05-01-2010	511,596.88		511,596.88
11-01-2010	511,596.88		511,596.88
05-01-2011	511,596.88		511,596.88
01-01-2011	<u>511,596.88</u>	<u>\$ 19,900,000.00</u>	<u>20,411,596.88</u>
Total	<u>\$ 6,650,759.44</u>	<u>\$ 19,900,000.00</u>	<u>\$ 26,550,759.44</u>

The Escrow Fund Cash Flow is detailed as follows:

Date	Beginning Cash	Investment Principal	Investment Interest	Total	Debt Service Defeasance	Net Cash Flow	Ending Cash
09-13-2005	\$ 0.86	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 0.86
11-01-2005	0.86	395,969.00	115,628.17	511,597.17	511,596.88	\$ 0.29	\$ 1.15
05-01-2006	1.15	82,068.00	429,529.18	511,597.18	511,596.88	\$ 0.30	\$ 1.45
11-01-2006	1.45	84,049.00	427,548.53	511,597.53	511,596.88	\$ 0.65	\$ 2.10
05-01-2007	2.10	85,679.00	425,917.98	511,596.98	511,596.88	\$ 0.10	\$ 2.20
11-01-2007	2.20	87,367.00	424,230.11	511,597.11	511,596.88	\$ 0.23	\$ 2.43
05-01-2008	2.43	89,115.00	422,482.77	511,597.77	511,596.88	\$ 0.89	\$ 3.32
11-01-2008	3.32	90,906.00	420,691.56	511,597.56	511,596.88	\$ 0.68	\$ 4.00
05-01-2009	4.00	92,742.00	418,855.25	511,597.25	511,596.88	\$ 0.37	\$ 4.37
11-01-2009	4.37	94,616.00	416,981.87	511,597.87	511,596.88	\$ 0.99	\$ 5.36
05-01-2010	5.36	96,531.00	415,065.89	511,596.89	511,596.88	\$ 0.01	\$ 5.37
11-01-2010	5.37	98,491.00	413,106.31	511,597.31	511,596.88	\$ 0.43	\$ 5.80
05-01-2011	5.80	100,495.00	411,102.02	511,597.02	511,596.88	\$ 0.14	\$ 5.94
11-01-2011	5.94	<u>20,002,539.00</u>	<u>409,051.92</u>	<u>20,411,590.92</u>	<u>20,411,596.88</u>	<u>\$ (5.96)</u>	<u>\$ (0.02)</u>
		<u>\$ 21,400,567.00</u>	<u>\$ 5,150,191.56</u>	<u>\$ 26,550,758.56</u>	<u>\$ 26,550,759.44</u>		

CITY OF WARREN, MICHIGAN  
WATER & SEWER SYSTEM

NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2010

**NOTE 19 - 2005 CITY OF WARREN WATER AND SEWER REVENUE REFUNDING BONDS {continued}**

The Net Present Value Savings Analysis, prepared by Municipal Financial Consultants, Inc., indicates a Net Present Value Savings of \$518,901.20 to the Water & Sewer System as a result of the issuance of the 2005 Water and Sewer Revenue Refunding Bonds. The schedule is reproduced below:

Date	Combined Outstanding Debt Service	Combined Non-Refunded Debt Service	New Debt Service	Net Savings/(Loss)	Annual Net Savings/(Loss)	4.20452% Present Value Savings/(Loss)
11-01-2005	\$ 1,062,846.88	\$ 551,250.00	\$ 548,424.17	\$ (36,827.29)		\$ (36,433.55)
05-01-2006	601,596.88	90,000.00	442,518.75	69,078.13	\$ 32,250.84	66,932.48
11-01-2006	1,126,596.88	615,000.00	557,518.75	(45,921.87)		(43,579.34)
05-01-2007	588,721.88	77,125.00	440,707.50	70,889.38	24,967.51	65,888.08
11-01-2007	1,138,721.88	627,125.00	560,707.50	(49,110.62)		(44,706.00)
05-01-2008	575,196.88	63,600.00	438,757.50	72,839.38	23,728.76	64,941.34
11-01-2008	1,150,196.88	638,600.00	563,757.50	(52,160.62)		(45,547.28)
05-01-2009	561,021.88	49,425.00	436,726.25	74,870.63	22,710.01	64,031.81
11-01-2009	1,186,021.88	674,425.00	566,726.25	(55,129.37)		(46,177.67)
05-01-2010	545,212.50	33,615.63	434,451.25	77,145.62	22,016.25	63,288.52
11-01-2010	1,195,212.50	683,615.63	569,451.25	(57,854.38)		(46,485.18)
05-01-2011	528,737.50	17,140.63	432,088.75	79,508.12	21,653.74	62,568.31
11-01-2011	1,203,737.50	692,140.63	572,088.75	(60,491.88)		(46,623.47)
05-01-2012	511,596.88		429,428.75	82,168.13	21,676.25	62,026.26
11-01-2012	1,236,596.88		1,289,428.75	(52,831.87)		(39,060.06)
05-01-2013	493,150.00		413,088.75	80,061.25	27,229.38	57,972.75
11-01-2013	1,243,150.00		1,293,088.75	(49,938.75)		(35,416.35)
05-01-2014	474,037.50		395,928.75	78,108.75	28,170.00	54,253.85
11-01-2014	1,274,037.50		1,320,928.75	(46,891.25)		(31,899.75)
05-01-2015	453,618.75		377,891.25	75,727.50	28,836.25	50,456.11
11-01-2015	1,303,618.75		1,347,891.25	(44,272.50)		(28,890.75)
05-01-2016	431,393.75		358,491.25	72,902.50	28,630.00	46,594.20
11-01-2016	2,181,393.75		2,218,491.25	(37,097.50)		(23,221.95)
05-01-2017	387,031.25		321,291.25	65,740.00	28,642.50	40,304.03
11-01-2017	2,287,031.25		2,316,291.25	(29,260.00)		(17,569.43)
05-01-2018	338,906.25		279,895.00	59,011.25	29,751.25	34,704.27
11-01-2018	2,288,906.25		2,309,895.00	(20,988.75)		(12,089.25)
05-01-2019	288,968.75		237,772.50	51,196.25	30,207.50	28,881.22
11-01-2019	2,288,968.75		2,302,772.50	(13,803.75)		(7,626.74)
05-01-2020	237,718.75		194,407.50	43,311.25	29,507.50	23,437.29
11-01-2020	2,287,718.75		2,294,407.50	(6,688.75)		(3,545.00)
05-01-2021	185,156.25		149,782.50	35,373.75	28,685.00	18,361.88
11-01-2021	2,310,156.25		2,309,782.50	373.75		190.01
05-01-2022	130,000.00		103,342.50	26,657.50	27,031.25	13,273.48
11-01-2022	1,130,000.00		1,128,342.50	1,657.50		808.32
05-01-2023	104,375.00		81,305.00	23,070.00	24,727.50	11,019.00
11-01-2023	1,104,375.00		1,096,305.00	8,070.00		3,775.14
05-01-2024	78,750.00		58,975.00	19,775.00	27,845.00	9,060.25
11-01-2024	1,078,750.00		1,073,975.00	4,775.00		2,142.70
05-01-2025	52,500.00		36,645.00	15,855.00	20,630.00	6,968.18
11-01-2025	1,052,500.00		1,036,645.00	15,855.00		6,824.71
05-01-2026	26,250.00		14,145.00	12,105.00	27,960.00	5,103.26
11-01-2026	1,026,250.00		629,145.00	397,105.00	397,105.00	163,965.52
	<b>\$ 39,750,728.18</b>	<b>\$ 4,813,062.52</b>	<b>\$ 33,983,704.17</b>	<b>\$ 953,961.49</b>	<b>\$ 953,961.49</b>	<b>\$ 518,901.20</b>

CITY OF WARREN, MICHIGAN  
WATER & SEWER SYSTEM

NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2010

**NOTE 20 - 2010 CITY OF WARREN CAPITAL IMPROVEMENT REFUNDING BONDS**

On April 13, 2010, the City of Warren City Council approved the sale of the \$6,230,000 City of Warren Capital Improvement Refunding Bonds, Series 2010, to Robert W. Baird & Co., Inc. The bonds are dated August 1, 2010, and have various maturity dates up to May 1, 2016. Interest on bond coupons ranges from 2.00% to 3.00% annually.

The proceeds are earmarked for the defeasance of \$6,100,000 in outstanding obligations from the Water and Sewer System Revenue Refunding Bonds, Series 1999 {See Note 16}.

Principal and interest requirements for the remaining debt from the Series 2010 Capital Improvement Refunding Bonds from December 31, 2010 through final maturity of May 1, 2016, are as follows:

<u>Date</u>	<u>Coupon Rate</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2011	2.00%	1,150,000	125,125	1,275,125
2012	2.00%	1,135,000	102,275	1,237,275
2013	2.00%	1,165,000	79,275	1,244,275
2014	2.00%	1,065,000	56,975	1,121,975
2015	2.50%	1,025,000	33,513	1,058,513
2016	3.00%	<u>690,000</u>	<u>10,350</u>	<u>700,350</u>
		<u>\$ 6,230,000</u>	<u>\$ 407,513</u>	<u>\$ 6,637,513</u>

The following bond principal amounts were defeased per the 2010 Capital Improvement Refunding Bond issue:

**1999 Water & Sewer System Revenue Refunding Bonds**

<u>Due Date</u>	<u>Interest Rate</u>	<u>Amount</u>
05-01-2011	4.350%	\$ 1,035,000
05-01-2012	4.500%	1,080,000
05-01-2013	4.500%	1,135,000
05-01-2014	4.600%	1,060,000
05-01-2015	4.700%	1,050,000
05-01-2016	4.750%	<u>740,000</u>
Total 1999 Series Revenue Refunding Bonds Defeased		<u>\$ 6,100,000</u>

CITY OF WARREN, MICHIGAN  
WATER & SEWER SYSTEM

NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2010

**NOTE 20 - 2010 CITY OF WARREN CAPITAL IMPROVEMENT REFUNDING BONDS {continued}**

On August 11, 2010, the City entered into an Escrow Agreement appointing U.S. Bank National Association as escrow agent for the purpose of redeeming, prior to maturity, the 1999 Water and Sewer System Revenue Refunding Bonds scheduled to mature in the years 2011 through 2016.

On August 11, 2010, the City irrevocably transferred to U.S. Bank National Association proceeds from the 2010 Capital Improvement Refunding Bonds {net of issuance expenses} in the amount of \$6,236,877.01. All but \$0.01 {to be held in the Escrow Fund as beginning balance} was invested in United States Government Obligation known as "SLGS" {State and Local Government Series} as follows:

Purchase Date	Amount	Rate	Maturity
08-11-2010	\$6,236,877	0.150%	11-01-2010

These investments and interest thereon are to be used to meet the following combined schedule of escrow payments:

Date	Interest	Principal	Total
11-01-2010	\$138,978.75	\$6,100,000.00	\$6,238,978.75

The Escrow Fund Cash Flow is detailed as follows:

Date	Beginning Cash	Investment Principal	Investment Interest	Total	Debt Service Defeasance	Net Cash Flow	Ending Cash
08-11-2010	\$0.01						\$0.01
11-01-2010	0.01	\$6,236,877.00	\$2,101.74	\$6,238,978.74	\$6,238,978.75	-\$0.01	\$0.00
		<u>\$6,236,877.00</u>	<u>\$2,101.74</u>	<u>\$6,238,978.74</u>	<u>\$6,238,978.75</u>		

CITY OF WARREN, MICHIGAN  
WATER & SEWER SYSTEM

NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2010

**NOTE 20 - 2010 CITY OF WARREN CAPITAL IMPROVEMENT REFUNDING BONDS {continued}**

The Net Present Value Savings Analysis, prepared by Municipal Financial Consultants, Inc., indicates a Net Present Value Savings of \$359,155.58 to the Water & Sewer System as a result of the issuance of the 2010 Capital Improvement Refunding Bonds. The schedule is reproduced below:

Date	Combined	New	Net	Annual	1.65885%
	Outstanding			Net	Net
	Debt Service	Debt Service	Savings/(Loss)	Savings/(Loss)	Savings/(Loss)
11-01-2010	\$138,978.75	\$34,156.25	\$104,822.50		\$104,438.39
05-01-2011	1,173,978.75	1,218,312.50	(44,333.75)	\$60,488.75	(43,807.94)
11-01-2011	116,467.50	56,812.50	59,655.00		58,462.57
05-01-2012	1,196,467.50	1,191,812.50	4,655.00	64,310.00	4,524.43
11-01-2012	92,167.50	45,462.50	46,705.00		45,021.49
05-01-2013	1,227,167.50	1,210,462.50	16,705.00	63,410.00	15,970.40
11-01-2013	66,630.00	33,812.50	32,817.50		31,116.26
05-01-2014	1,126,630.00	1,098,812.50	27,817.50	60,635.00	26,158.50
11-01-2014	42,250.00	23,162.50	19,087.50		17,801.49
05-01-2015	1,092,250.00	1,048,162.50	44,087.50	63,175.00	40,778.91
11-01-2015	17,575.00	10,350.00	7,225.00		6,627.82
05-01-2016	757,575.00	700,350.00	57,225.00	64,450.00	52,063.26
	<u>\$7,048,137.50</u>	<u>\$6,671,668.75</u>	<u>\$376,468.75</u>	<u>\$376,468.75</u>	<u>\$359,155.58</u>

CITY OF WARREN, MICHIGAN  
WATER & SEWER SYSTEM

NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2010

**NOTE 21 - CITY OF WARREN CAPITAL IMPROVEMENT BONDS, SERIES 2003**

On April 8, 2003, the City of Warren City Council approved the sale of the \$3.585 million City of Warren Capital Improvement Bonds, Series 2003, to Fahnstock & Co., Inc. The bonds are dated July 1, 2003, and have various maturity dates up to June 1, 2023. Interest on bond coupons ranges from 2.25% to 5.25% annually. Of this bond issue, \$1,280,542.69 was earmarked for capital improvements at the Waste Water Treatment Plant.

Principal and interest requirements for the remaining debt from the Series 2003 Bonds from December 31, 2010 through final maturity of June 1, 2023, are as follows:

<u>Year</u>	<u>Coupon Rate</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2011	5.125%	\$ 55,000	\$ 32,670	\$ 87,670
2012	5.125%	60,000	31,059	91,059
2013	5.125%	60,000	29,304	89,304
2014	5.125%	65,000	27,388	92,388
2015	5.250%	65,000	25,300	90,300
2016	5.250%	70,000	23,003	93,003
2017	5.250%	70,000	20,518	90,518
2018	5.250%	75,000	17,870	92,870
2019	5.250%	75,000	15,058	90,058
2020	5.250%	80,000	12,073	92,073
2021	4.000%	85,000	8,813	93,813
2022	4.000%	85,000	5,413	90,413
2023	4.125%	<u>90,000</u>	<u>1,856</u>	<u>91,856</u>
Total		<u>\$ 935,000</u>	<u>\$ 250,325</u>	<u>\$ 1,185,325</u>

CITY OF WARREN, MICHIGAN  
WATER & SEWER SYSTEM

NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2010

**NOTE 22 - 2004 STATE OF MICHIGAN SRF FINANCING 5134-01**

On September 25, 2003, the City of Warren City Council approved the issuance of \$4,750,000 in Act 34 Sewage Disposal Capital Improvement Bonds for CWRP Project # 5134-01, financed through the State of Michigan. Bond interest is set at 2.50% and the estimated final maturity date is October 1, 2024. The proceeds are earmarked for capital improvements at the Waste Water Treatment Plant.

These bonds differ from traditional financing instruments in that the City does not receive the proceeds of a bond sale on closing but rather requests reimbursements from the State of Michigan for progress payments made on construction activity. All funds under this project have been disbursed by the State.

The remaining principal and interest requirements are as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2011	\$ 215,000	\$ 89,125	\$ 304,125
2012	220,000	83,750	303,750
2013	225,000	78,250	303,250
2014	230,000	72,625	302,625
2015	240,000	66,875	306,875
2016	245,000	60,875	305,875
2017	250,000	54,750	304,750
2018	255,000	48,500	303,500
2019	265,000	42,125	307,125
2020	270,000	35,500	305,500
2021	275,000	28,750	303,750
2022	285,000	21,875	306,875
2023	290,000	14,750	304,750
2024	<u>300,000</u>	<u>7,500</u>	<u>307,500</u>
Total	<u>\$ 3,565,000</u>	<u>\$ 705,250</u>	<u>\$ 4,270,250</u>

CITY OF WARREN, MICHIGAN  
WATER & SEWER SYSTEM

NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2010

**NOTE 23 - 2004 STATE OF MICHIGAN SRF FINANCING 5134-02**

On September 23, 2004, the City of Warren City Council approved the issuance of \$6,465,000 in Act 34 Sewage Disposal Capital Improvement Bonds for CWRP Project # 5134-02, financed through the State of Michigan. Bond interest is set at 2.125% and the estimated final maturity date is April 1, 2026. The proceeds are earmarked for capital improvements at the Waste Water Treatment Plant.

These bonds differ from traditional financing instruments in that the City does not receive the proceeds of a bond sale on closing but rather requests reimbursements from the State of Michigan for progress payments made on construction activity. All funds under this project have been disbursed by the State.

The remaining principal and interest requirements are as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2011	\$ 285,000	\$ 111,297	\$ 396,297
2012	290,000	105,187	395,187
2013	300,000	98,919	398,919
2014	305,000	92,491	397,491
2015	310,000	85,956	395,956
2016	315,000	79,316	394,316
2017	325,000	72,516	397,516
2018	330,000	65,556	395,556
2019	340,000	58,437	398,437
2020	345,000	51,159	396,159
2021	355,000	43,722	398,722
2022	360,000	36,125	396,125
2023	370,000	28,369	398,369
2024	375,000	20,453	395,453
2025	385,000	12,378	397,378
2026	<u>390,000</u>	<u>4,144</u>	<u>394,144</u>
Total	<u>\$ 5,380,000</u>	<u>\$ 966,025</u>	<u>\$ 6,346,025</u>

CITY OF WARREN, MICHIGAN  
WATER & SEWER SYSTEM

NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2010

**NOTE 24 - 2004 STATE OF MICHIGAN SRF FINANCING 5134-03**

On March 25, 2004, the City of Warren City Council approved the issuance of \$1,220,000 in Act 34 Sewage Disposal Capital Improvement Bonds for CWRP Project # 5134-03, financed through the State of Michigan. Bond interest is set at 2.125% and the estimated final maturity date is October 1, 2024. The proceeds are earmarked for capital improvements at the Waste Water Treatment Plant.

These bonds differ from traditional financing instruments in that the City does not receive the proceeds of a bond sale on closing but rather requests reimbursements from the State of Michigan for progress payments made on construction activity. All funds under this project have been disbursed by the State. The difference between the approved funding and actual expenditures (\$72,909.00) will not be used.

The remaining principal and interest requirements are as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2011	\$ 50,000	\$ 17,788	\$ 67,788
2012	50,000	16,726	66,726
2013	55,000	15,663	70,663
2014	55,000	14,494	69,494
2015	55,000	13,326	68,326
2016	60,000	12,157	72,157
2017	60,000	10,882	70,882
2018	60,000	9,607	69,607
2019	60,000	8,332	68,332
2020	65,000	7,057	72,057
2021	65,000	5,676	70,676
2022	65,000	4,294	69,294
2023	65,000	2,913	67,913
2024	<u>72,091</u>	<u>1,532</u>	<u>73,623</u>
Total	<u>\$ 837,091</u>	<u>\$ 140,447</u>	<u>\$ 977,538</u>

CITY OF WARREN, MICHIGAN  
WATER & SEWER SYSTEM

NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2010

**NOTE 25 - 2004 STATE OF MICHIGAN SRF FINANCING 5134-04**

On March 31, 2005, the City of Warren City Council approved the issuance of \$8,200,000 in Act 34 Sewage Disposal Capital Improvement Bonds for CWRP Project # 5134-04, financed through the State of Michigan. Bond interest is set at 1.625% and the estimated final maturity date is April 1, 2026. The proceeds are earmarked for capital improvements at the Waste Water Treatment Plant.

These bonds differ from traditional financing instruments in that the City does not receive the proceeds of a bond sale on closing but rather requests reimbursements from the State of Michigan for progress payments made on construction activity. All funds under this project have been disbursed by the State.

The remaining principal and interest requirements are as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2011	\$ 375,000	\$ 106,884	\$ 481,884
2012	380,000	100,750	480,750
2013	385,000	94,534	479,534
2014	390,000	88,237	478,237
2015	400,000	81,819	481,819
2016	405,000	75,278	480,278
2017	410,000	68,656	478,656
2018	420,000	61,913	481,913
2019	425,000	55,047	480,047
2020	430,000	48,100	478,100
2021	440,000	41,031	481,031
2022	445,000	33,841	478,841
2023	455,000	26,528	481,528
2024	460,000	19,094	479,094
2025	470,000	11,538	481,538
2026	<u>475,000</u>	<u>3,859</u>	<u>478,859</u>
Total	<u>\$ 6,765,000</u>	<u>\$ 917,109</u>	<u>\$ 7,682,109</u>

CITY OF WARREN, MICHIGAN  
WATER & SEWER SYSTEM

NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2010

**NOTE 26- 2009 STATE OF MICHIGAN SRF FINANCING 5401-01**

On November 24, 2009, the City of Warren City Council approved the issuance of \$3,090,000 in Act 34 Sewage Disposal Capital Improvement Bonds for CWRP Project # 5401-01, financed through the State of Michigan. Bond interest is set at 2.50% and the estimated final maturity date is October 1, 2030. The proceeds are earmarked for an ultraviolet-light disinfection system at the Waste Water Treatment Plant. This agreement also allowed for a loan forgiveness in the amount of \$2,060,000 (40%), bringing the approved project cost to \$5,150,000. The financial assistance is in part supported by funding from the American Recovery and Reinvestment Act of 2009.

These bonds differ from traditional financing instruments in that the City does not receive the proceeds of a bond sale on closing but rather requests reimbursements from the State of Michigan for progress payments made on construction activity. The actual debt service will be adjusted in accordance with reimbursement history.

For purposes of financial statement presentation, the receivable from the State and corresponding long-term debt service is limited to reimbursable expenses incurred prior to the end of the current fiscal year. At December 31, 2010, \$4,151,478 in project related expenditures had been committed. This represents 80.6% of the total authorized costs of \$5,150,000.

The schedule on the following page represents the anticipated total debt service cost for this financing instrument when all funds under this project have been disbursed.

CITY OF WARREN, MICHIGAN  
WATER & SEWER SYSTEM

NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2010

**NOTE 26 - 2009 STATE OF MICHIGAN SRF FINANCING 5401-01 {continued}**

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2011	\$ 120,000	\$ 38,625	\$ 158,625
2012	125,000	74,250	199,250
2013	125,000	71,126	196,126
2014	130,000	68,000	198,000
2015	135,000	64,750	199,750
2016	135,000	61,376	196,376
2017	140,000	58,000	198,000
2018	145,000	54,500	199,500
2019	145,000	50,876	195,876
2020	150,000	47,250	197,250
2021	155,000	43,500	198,500
2022	160,000	39,626	199,626
2023	165,000	35,626	200,626
2024	165,000	31,500	196,500
2025	170,000	27,376	197,376
2026	175,000	23,126	198,126
2027	180,000	18,750	198,750
2028	185,000	14,250	199,250
2029	190,000	9,626	199,626
2030	<u>195,000</u>	<u>4,876</u>	<u>199,876</u>
Total	<u>\$ 3,090,000</u>	<u>\$ 837,009</u>	<u>\$ 3,927,009</u>

CITY OF WARREN, MICHIGAN  
WATER & SEWER SYSTEM

NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2010

**NOTE 27 - CITY OF WARREN CAPITAL IMPROVEMENT BONDS, SERIES 2006**

On November 14, 2006, the City of Warren City Council approved the sale of the \$7.53 million City of Warren Capital Improvement Bonds, Series 2006, to Morgan Keegan & Co., Inc. The bonds are dated December 1, 2006, and have various maturity dates up to September 1, 2026. Interest on bond coupons ranges from 3.75% to 4.00% annually. Of this bond issue, \$2,120,696.49 was earmarked for various water main replacement projects.

The Water & Sewer interests in the bond issue is summarized as follows:

Bond settlement:	
Principal	\$2,120,696.49
Accrued interest	1,359.76
Bond discount	(22,307.90)
Issuance costs	<u>(27,082.25)</u>
Water & Sewer share of bond proceeds	<u>\$2,072,666.10</u>

Physical proceeds from the 2006 Capital Improvement Bonds are retained by the City's General Fund. In Fiscal 2010, funds in the amount of \$1,066.85 were paid on behalf of the Water & Sewer System to contractors involved in the various capital projects, leaving a balance of \$1,078,127.87 earmarked for future capital improvement payments. Principal and interest requirements for the remaining debt from the Series 2006 Bonds from December 31, 2010 through final maturity of September 1, 2026, are as follows:

<u>Year</u>	<u>Coupon Rate</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2011	3.750%	42,245	79,473	121,718
2012	3.750%	42,245	77,889	120,134
2013	3.750%	87,306	76,305	163,611
2014	3.750%	133,776	73,031	206,807
2015	3.750%	140,816	68,014	208,830
2016	3.750%	147,857	62,734	210,591
2017	3.750%	154,898	57,190	212,088
2018	3.750%	161,939	51,380	213,319
2019	3.800%	176,021	45,307	221,328
2020	3.850%	183,061	38,620	221,681
2021	3.900%	197,143	31,571	228,714
2022	4.000%	118,286	23,882	142,168
2023	4.000%	118,286	19,151	137,437
2024	4.000%	119,694	14,420	134,114
2025	4.000%	119,694	9,632	129,326
2026	4.000%	<u>121,102</u>	<u>4,844</u>	<u>125,946</u>
Total		<u>\$ 2,064,369</u>	<u>\$ 733,443</u>	<u>\$ 2,797,812</u>

CITY OF WARREN, MICHIGAN  
WATER & SEWER SYSTEM

NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2010

**NOTE 28 - CITY OF WARREN CAPITAL IMPROVEMENT BONDS, SERIES 2010**

On September 28, 2010, the City of Warren City Council approved the sale of the \$9.29 million City of Warren Capital Improvement Bonds, Series 2010, to Robert W. Baird & Co., Inc. The bonds are dated November 1, 2010, and have various maturity dates up to April 1, 2031. Interest on bond coupons ranges from 1.45% to 6.00% annually. These bonds are Federally Taxable Recovery Zone Economic Development Bonds and qualified for 45% Federal Tax interest reimbursement. Of this bond issue, \$9,105,143.15 was earmarked for water meter replacements and an automatic meter reading system, including bill software and software installation.

The Water & Sewer interests in the bond issue is summarized as follows:

Bond settlement:	
Principal	\$9,290,000.00
Accrued interest	11,119.06
Bond discount	<u>(74,320.00)</u>
Water & Sewer share of bond proceeds	<u>\$9,226,799.06</u>

Principal and interest requirements for the remaining debt from the Series 2010 Bonds from December 31, 2010 through final maturity of April 1, 2031, are as follows:

<u>Year</u>	<u>Coupon Rate</u>	<u>Principal</u>	<u>Interest</u>	<u>Interest Rebate</u>	<u>Total</u>
2011		\$ -	\$ 407,699	\$ 183,465	\$ 224,234
2012	1.45%	300,000	442,588	199,164	543,424
2013	1.95%	300,000	437,488	196,869	540,619
2014	2.35%	325,000	430,744	193,835	561,909
2015	2.55%	325,000	422,781	190,252	557,529
2016	2.90%	350,000	413,563	186,103	577,460
2017	3.30%	350,000	402,713	181,221	571,492
2018	3.55%	375,000	390,281	175,627	589,654
2019	4.25%	375,000	375,656	169,045	581,611
2020	4.45%	400,000	358,787	161,454	597,333
2021	4.95%	425,000	339,368	152,716	611,652
2022	4.95%	450,000	317,713	142,971	624,742
2023	5.30%	475,000	293,988	132,294	636,694
2024	5.30%	500,000	268,150	120,668	647,482
2025	5.60%	525,000	240,200	108,090	657,110
2026	5.60%	550,000	210,100	94,545	665,555
2027	5.90%	575,000	177,737	79,981	672,756
2028	5.90%	625,000	142,337	64,051	703,286
2029	6.00%	650,000	104,400	46,980	707,420
2030	6.00%	700,000	63,900	28,755	735,145
2031	6.00%	<u>715,000</u>	<u>21,450</u>	<u>9,653</u>	<u>726,797</u>
Total		<u>\$ 9,290,000</u>	<u>\$ 6,261,643</u>	<u>\$ 2,817,739</u>	<u>\$12,733,904</u>

CITY OF WARREN, MICHIGAN  
WATER & SEWER SYSTEM

NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2010

**NOTE 29 - 2010 CAPITAL EQUIPMENT LEASE PURCHASE**

On November 23, 2010, the City of Warren City Council approved a contract with Cogeneration Consultants, Inc. and Grant Capital Management for the installation and financing of the WWTP Waste Heat to Energy Project at a cost of \$1,637,086, to be paid with grant funds in the amount of \$765,500 and a municipal lease to finance the remaining amount of \$871,586 with an annual interest rate of 3.98%.

During fiscal year 2010, \$871,586 of the project cost was capitalized to reflect the equipment purchase.

Principal and interest requirements for the debt from the 2010 Capital Equipment Lease Purchase from December 31, 2010 through final maturity of December 15, 2015, are as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2011	\$ 119,547	\$ 33,681	\$ 153,228
2012	176,992	27,312	204,304
2013	184,143	20,161	204,304
2014	191,582	12,722	204,304
2015	<u>199,322</u>	<u>4,982</u>	<u>204,304</u>
Total	<u>\$ 871,586</u>	<u>\$ 98,858</u>	<u>\$ 970,444</u>

SUPPLEMENTARY  
INFORMATION

CITY OF WARREN, MICHIGAN  
WATER & SEWER SYSTEM

COMBINED STATEMENT OF REVENUES, EXPENSES  
& CHANGES IN NET ASSETS  
YEAR ENDED DECEMBER 31, 2010

	TOTAL	OPERATION & MAINTENANCE	SELF- INSURANCE RESERVE	WASTE WATER IMPROVEMENT RESERVE
<b>OPERATING REVENUES:</b>				
Water & sewer charges	\$ 33,750,498	\$ 33,750,498	\$ -	-
Other operating revenue	3,537,558	3,537,558	-	-
<b>NON-OPERATING REVENUES:</b>				
Interest on investments	26,051	7,645	-	-
<b>TRANSFERS FROM:</b>				
Operation & Maintenance - budget transfers	6,755,665	-	-	-
Operation & Maintenance - use of bond proceeds	3,729,491	-	-	3,729,491
Operation & Maintenance - long-term debt	9,215,680	-	-	-
<b>TOTAL FINANCIAL RESOURCES</b>	<b>57,014,943</b>	<b>37,295,701</b>	<b>-</b>	<b>3,729,491</b>
<b>OPERATING EXPENSES:</b>				
Water purchases	8,264,977	8,264,977	-	-
Water & sewer maintenance	5,457,029	5,457,029	-	-
Shared services	4,723,229	4,723,229	-	-
Waste water treatment plant	7,832,270	7,832,270	-	-
Uncollectible debt	45,724	45,724	-	-
<b>NON-OPERATING EXPENSES:</b>				
Construction contracts & related project costs	4,273,624	-	-	3,729,290
Other non-operating expenses	1,862,440	103,379	-	1,055
<b>TRANSFERS TO:</b>				
Operation & Maintenance	2,734,082	-	-	-
Reserves	6,755,665	6,755,665	-	-
<b>TOTAL EXPENSES</b>	<b>41,949,040</b>	<b>33,182,273</b>	<b>-</b>	<b>3,730,345</b>
<b>NET FISCAL YEAR INCREASE (DECREASE)</b>	<b>15,065,903</b>	<b>4,113,428</b>	<b>-</b>	<b>(854)</b>
<b>OTHER ADJUSTMENTS:</b>				
Long term liability assumed/retired	(11,588,082)	(11,588,082)	-	-
Fixed assets capitalized	5,145,209	5,145,209	-	-
Depreciation	(4,084,029)	(4,084,029)	-	-
Net Assets - January 1, 2010	69,696,330	61,429,225	500,000	113,983
Net Assets - December 31, 2010	<b>\$ 74,235,331</b>	<b>\$ 55,015,751</b>	<b>\$ 500,000</b>	<b>\$ 113,129</b>

CITY OF WARREN, MICHIGAN  
WATER & SEWER SYSTEM

COMBINED STATEMENT OF REVENUES, EXPENSES  
& CHANGES IN NET ASSETS  
YEAR ENDED DECEMBER 31, 2010

INFRASTRUCTURE REPLACEMENT RESERVE	METER REPLACEMENT RESERVE	EQUIPMENT REPLACEMENT RESERVE	DEBT SERVICE RESERVE
\$ -	\$ -	\$ -	\$ -
-	-	-	-
10	13,723	223	4,450
-	110,780	300,000	6,344,885
-	-	-	-
-	9,215,680	-	-
<u>10</u>	<u>9,340,183</u>	<u>300,223</u>	<u>6,349,335</u>
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
397,391	-	146,943	-
-	110,780	-	1,647,226
-	-	-	2,734,082
-	-	-	-
<u>397,391</u>	<u>110,780</u>	<u>146,943</u>	<u>4,381,308</u>
(397,381)	9,229,403	153,280	1,968,027
-	-	-	-
-	-	-	-
-	-	-	-
<u>2,252,107</u>	<u>-</u>	<u>212,530</u>	<u>5,188,485</u>
<u>\$ 1,854,726</u>	<u>\$ 9,229,403</u>	<u>\$ 365,810</u>	<u>\$ 7,156,512</u>

CITY OF WARREN, MICHIGAN  
WATER & SEWER SYSTEM  
BUDGETARY COMPARISON SCHEDULE  
REVENUES & OTHER FINANCING SOURCES  
YEAR ENDED DECEMBER 31, 2010

	ORIGINAL BUDGET	AMENDED BUDGET	REVENUES	VARIANCE FAVORABLE (UNFAVORABLE)
OPERATING REVENUES:				
Industrial Water Sales	\$ 5,980,000	\$ 5,980,000	\$ 6,005,935	\$ 25,935
Domestic Water Sales	8,968,000	8,968,000	10,866,239	1,898,239
Unmetered Water Sales	10,000	10,000	18,018	8,018
Water Service Charge	1,074,100	1,074,100	1,088,426	14,326
Public Fire Protection	90,000	90,000	90,000	-
Penalties	625,000	625,000	1,796,684	1,171,684
Miscellaneous	25,000	25,000	37,088	12,088
Garage Rental	13,700	13,700	13,754	54
Meter Repairs	40,000	40,000	56,249	16,249
Outside Service	40,000	40,000	23,986	(16,014)
Meter Sales	40,000	40,000	41,453	1,453
Centerline Transmission	10,000	10,000	14,431	4,431
Cross Connection Charges	280,000	280,000	279,677	(323)
<b>Total Water Division Revenue</b>	<b>17,195,800</b>	<b>17,195,800</b>	<b>20,331,940</b>	<b>3,136,140</b>
Sewer Treatment Charge	12,870,000	12,870,000	13,257,423	387,423
Sewer Service Charge	2,513,300	2,513,300	2,532,475	19,175
Sewer Treatment Other Income	180,000	180,000	364,185	184,185
Pretreatment Surcharges	978,800	978,800	802,033	(176,767)
<b>Total Waste Water Treatment Revenue</b>	<b>16,542,100</b>	<b>16,542,100</b>	<b>16,956,116</b>	<b>414,016</b>
<b>Total Operating Revenues</b>	<b>33,737,900</b>	<b>33,737,900</b>	<b>37,288,056</b>	<b>3,550,156</b>
NON-OPERATING REVENUES:				
Interest on Investments	10,000	10,000	7,645	(2,355)
Gain on Sale of Fixed Assets	10,000	10,000	-	(10,000)
<b>Total Non-Operating Revenues</b>	<b>20,000</b>	<b>20,000</b>	<b>7,645</b>	<b>(12,355)</b>
<b>TOTAL REVENUES</b>	<b>\$ 33,757,900</b>	<b>\$ 33,757,900</b>	<b>\$ 37,295,701</b>	<b>\$ 3,537,801</b>

CITY OF WARREN, MICHIGAN  
WATER & SEWER SYSTEM  
BUDGETARY COMPARISON SCHEDULE  
EXPENDITURES & OTHER FINANCING USES  
OPERATION & MAINTENANCE FUND  
YEAR ENDED DECEMBER 31, 2010

	ORIGINAL BUDGET	AMENDED BUDGET	ACTUAL	VARIANCE FAVORABLE (UNFAVORABLE)
<b>OPERATION &amp; MAINTENANCE FUND SUMMARY BY CATEGORY &amp; FUNCTION</b>				
<b>Personnel Services:</b>				
Water & sewer maintenance	\$ 2,171,978	\$ 2,171,978	\$ 2,001,580	\$ 170,398
Shared services	950,337	950,337	965,767	(15,430)
Waste water treatment	2,938,307	2,938,307	2,506,703	431,604
<i>Total personnel services</i>	<u>6,060,622</u>	<u>6,060,622</u>	<u>5,474,050</u>	<u>586,572</u>
<b>Employee benefits:</b>				
Water & sewer maintenance	2,611,494	2,611,494	2,170,208	441,286
Shared services	972,930	972,930	951,427	21,503
Waste water treatment	3,268,456	3,268,456	2,558,835	709,621
<i>Total employee benefits</i>	<u>6,852,880</u>	<u>6,852,880</u>	<u>5,680,470</u>	<u>1,172,410</u>
<b>Supplies &amp; materials:</b>				
Water & sewer maintenance	420,000	420,000	302,388	117,612
Shared services	12,000	12,000	4,227	7,773
Waste water treatment	455,000	455,000	342,018	112,982
<i>Total supplies &amp; materials</i>	<u>887,000</u>	<u>887,000</u>	<u>648,633</u>	<u>238,367</u>
<b>Other services &amp; charges</b>				
Water purchases	7,440,000	7,440,000	8,264,977	(824,977)
Uncollectible debt	-	-	45,724	(45,724)
Water & sewer maintenance	1,169,000	1,169,000	982,853	186,147
Shared services	2,855,900	2,855,900	2,801,808	54,092
Waste water treatment	3,047,000	3,047,000	2,424,714	622,286
<i>Total other services &amp; charges</i>	<u>14,511,900</u>	<u>14,511,900</u>	<u>14,520,076</u>	<u>(8,176)</u>
<b>GRAND TOTAL</b>	<u>\$ 28,312,402</u>	<u>\$ 28,312,402</u>	<u>\$ 26,323,229</u>	<u>\$ 1,989,173</u>

CITY OF WARREN, MICHIGAN  
WATER & SEWER SYSTEM  
BUDGETARY COMPARISON SCHEDULE  
EXPENDITURES & OTHER FINANCING USES  
OPERATION & MAINTENANCE FUND  
YEAR ENDED DECEMBER 31, 2010

	ORIGINAL BUDGET	AMENDED BUDGET	ACTUAL	VARIANCE FAVORABLE (UNFAVORABLE)
<b>WATER &amp; SEWER MAINTENANCE</b>				
<b>Personnel Services:</b>				
Permanent employees	\$ 1,911,978	\$ 1,911,978	\$ 1,816,673	\$ 95,305
Temporary employees	60,000	60,000	107,961	(47,961)
Overtime	200,000	200,000	76,946	123,054
<i>Total Personnel Services</i>	<u>2,171,978</u>	<u>2,171,978</u>	<u>2,001,580</u>	<u>170,398</u>
<b>Employee Benefits:</b>				
Education & training	7,800	7,800	12,885	(5,085)
Auto Allowance	3,000	3,000	-	3,000
Social security	175,347	175,347	158,981	16,366
Employee insurances	572,439	572,439	476,535	95,904
Employees' VEBA trust	720,777	720,777	595,585	125,192
Health savings expense	2,006	2,006	2,559	(553)
Supplemental life insurance	552	552	983	(431)
Longevity	80,347	80,347	82,524	(2,177)
Retirement fund	987,124	987,124	774,951	212,173
Defined contribution expense	43,772	43,772	52,695	(8,923)
Cost of living	7,515	7,515	2,254	5,261
Uniforms	5,700	5,700	5,866	(166)
My lawyer expense	5,115	5,115	4,390	725
<i>Total Employee Benefits</i>	<u>2,611,494</u>	<u>2,611,494</u>	<u>2,170,208</u>	<u>441,286</u>
<i>Total Personnel &amp; Benefits</i>	<u>4,783,472</u>	<u>4,783,472</u>	<u>4,171,788</u>	<u>611,684</u>
<b>Supplies &amp; materials:</b>				
Operating supplies	320,000	320,000	156,323	163,677
Materials	75,000	75,000	50,942	24,058
Meter replacement	25,000	25,000	95,123	(70,123)
<i>Total Supplies &amp; Materials</i>	<u>420,000</u>	<u>420,000</u>	<u>302,388</u>	<u>117,612</u>
<b>Other Services &amp; Charges:</b>				
Professional services	150,000	150,000	174,081	(24,081)
Dirt removal	120,000	120,000	89,818	30,182
Pavement & lawn repairs	600,000	600,000	500,468	99,532
Telephone	9,000	9,000	7,625	1,375
Auto expense	140,000	140,000	101,693	38,307
Utilities	110,000	110,000	99,609	10,391
Building improvements	40,000	40,000	9,559	30,441
<i>Total Other Services &amp; Charges</i>	<u>1,169,000</u>	<u>1,169,000</u>	<u>982,853</u>	<u>186,147</u>
<b>GRAND TOTAL</b>	<u>\$ 6,372,472</u>	<u>\$ 6,372,472</u>	<u>\$ 5,457,029</u>	<u>\$ 915,443</u>

CITY OF WARREN, MICHIGAN  
WATER & SEWER SYSTEM  
BUDGETARY COMPARISON SCHEDULE  
EXPENDITURES & OTHER FINANCING USES  
OPERATION & MAINTENANCE FUND  
YEAR ENDED DECEMBER 31, 2010

	ORIGINAL BUDGET	AMENDED BUDGET	ACTUAL	VARIANCE FAVORABLE (UNFAVORABLE)
SHARED SERVICES				
<b>Personnel Services:</b>				
Permanent employees	\$ 815,337	\$ 815,337	\$ 817,737	\$ (2,400)
Temporary employees	35,000	35,000	35,718	(718)
Overtime	100,000	100,000	112,312	(12,312)
<i>Total Personnel Services</i>	<u>950,337</u>	<u>950,337</u>	<u>965,767</u>	<u>(15,430)</u>
<b>Employee Benefits:</b>				
Education & training	3,400	3,400	5,699	(2,299)
Auto allowance	3,000	3,000	917	2,083
Social security	76,210	76,210	76,541	(331)
Employee insurances	204,921	204,921	245,570	(40,649)
Employees' VEBA trust	299,913	299,913	268,881	31,032
Health savings expense	1,256	1,256	1,979	(723)
Supplemental life insurance	649	649	800	(151)
Longevity	33,862	33,862	32,368	1,494
Retirement fund	284,375	284,375	251,910	32,465
Defined contribution expense	59,960	59,960	63,264	(3,304)
Cost of living	3,024	3,024	1,146	1,878
Uniforms	190	190	214	(24)
My lawyer expense	2,170	2,170	2,138	32
<i>Total Employee Benefits</i>	<u>972,930</u>	<u>972,930</u>	<u>951,427</u>	<u>21,503</u>
<i>Total Personnel &amp; Benefits</i>	<u>1,923,267</u>	<u>1,923,267</u>	<u>1,917,194</u>	<u>6,073</u>
<b>Supplies &amp; Materials:</b>				
Operating supplies	12,000	12,000	4,227	7,773
<i>Total Supplies &amp; Materials</i>	<u>12,000</u>	<u>12,000</u>	<u>4,227</u>	<u>7,773</u>
<b>Other Services &amp; Charges:</b>				
Professional services	500,000	500,000	456,210	43,790
Auditing	16,500	16,500	15,500	1,000
Postage	209,600	209,600	206,127	3,473
Unemployment benefits	3,000	3,000	635	2,365
Auto expense	1,000	1,000	2,262	(1,262)
General insurance	400,000	400,000	400,000	-
Utilities	1,000	1,000	1,022	(22)
Administrative expense	1,698,800	1,698,800	1,698,800	-
MSDWA annual fee	25,000	25,000	21,252	3,748
Debt issuance costs	1,000	1,000	-	1,000
<i>Total Other Services &amp; Charges</i>	<u>2,855,900</u>	<u>2,855,900</u>	<u>2,801,808</u>	<u>54,092</u>
<b>GRAND TOTAL</b>	<u>\$ 4,791,167</u>	<u>\$ 4,791,167</u>	<u>\$ 4,723,229</u>	<u>\$ 67,938</u>

CITY OF WARREN, MICHIGAN  
WATER & SEWER SYSTEM  
BUDGETARY COMPARISON SCHEDULE  
EXPENDITURES & OTHER FINANCING USES  
OPERATION & MAINTENANCE FUND  
YEAR ENDED DECEMBER 31, 2010

	ORIGINAL BUDGET	AMENDED BUDGET	ACTUAL	VARIANCE FAVORABLE (UNFAVORABLE)
<b>WASTE WATER TREATMENT PLANT</b>				
<b>Personnel Services:</b>				
Permanent employees	\$ 2,663,307	\$ 2,663,307	\$ 2,277,202	\$ 386,105
Temporary employees	50,000	50,000	19,874	30,126
Overtime	225,000	225,000	209,627	15,373
<i>Total Personnel Services</i>	<u>2,938,307</u>	<u>2,938,307</u>	<u>2,506,703</u>	<u>431,604</u>
<b>Employee Benefits:</b>				
Education & training	49,250	49,250	28,698	20,552
Certification bonuses	35,000	35,000	26,687	8,313
Social security	244,523	244,523	207,888	36,635
Holiday pay	67,309	67,309	53,405	13,904
Employee insurances	644,244	644,244	597,494	46,750
Employees' VEBA trust	1,016,957	1,016,957	819,920	197,037
Health savings expense	2,803	2,803	2,819	(16)
Supplemental life insurance	2,237	2,237	2,099	138
Longevity	94,897	94,897	87,055	7,842
Retirement fund	901,077	901,077	505,339	395,738
Defined contribution expense	189,597	189,597	214,915	(25,318)
Cost of living	8,852	8,852	2,612	6,240
Uniforms	5,510	5,510	4,950	560
My lawyer expense	6,200	6,200	4,954	1,246
<i>Total Employee Benefits</i>	<u>3,268,456</u>	<u>3,268,456</u>	<u>2,558,835</u>	<u>709,621</u>
<i>Total Personnel &amp; Benefits</i>	<u>6,206,763</u>	<u>6,206,763</u>	<u>5,065,538</u>	<u>1,141,225</u>
<b>Supplies &amp; Materials:</b>				
Operating supplies	80,000	80,000	44,467	35,533
Chemicals	375,000	375,000	297,551	77,449
<i>Total Supplies &amp; Materials</i>	<u>455,000</u>	<u>455,000</u>	<u>342,018</u>	<u>112,982</u>
<b>Other Services &amp; Charges:</b>				
Professional services	150,000	150,000	16,035	133,965
Building lease	54,000	54,000	54,000	-
Odor control	10,000	10,000	6,790	3,210
Ash removal	70,000	70,000	80,076	(10,076)
Telephone & radio	13,000	13,000	14,300	(1,300)
Auto expense	15,000	15,000	9,773	5,227
Utilities	875,000	875,000	650,532	224,468
Electric power	1,175,000	1,175,000	1,106,981	68,019
Repairs & maintenance	650,000	650,000	454,567	195,433
Management agency fees	35,000	35,000	31,660	3,340
<i>Total Other Services &amp; Charges</i>	<u>3,047,000</u>	<u>3,047,000</u>	<u>2,424,714</u>	<u>622,286</u>
<b>GRAND TOTAL</b>	<u>\$ 9,708,763</u>	<u>\$ 9,708,763</u>	<u>\$ 7,832,270</u>	<u>\$ 1,876,493</u>

CITY OF WARREN, MICHIGAN  
WATER & SEWER SYSTEM

STATEMENT OF RESTRICTED RESERVES  
YEAR ENDED DECEMBER 31, 2010

	TOTAL	SELF INSURANCE RESERVE
<b>SOURCES OF FINANCIAL RESOURCES</b>		
Interest on investments	\$ 18,406	\$ -
Transfer from operating cash - budget transfers	6,755,665	-
Transfer from operating cash - use of bond proceeds	3,729,491	-
Operation & Maintenance - long-term debt	9,215,680	-
<b>TOTAL SOURCES OF FINANCIAL RESOURCES</b>	<b>19,719,242</b>	<b>-</b>
<b>USES OF FINANCIAL RESOURCES:</b>		
Construction contracts & related project costs	4,273,624	-
Other non-operating expenses	1,759,061	-
Transfer to operating cash	2,734,082	-
<b>TOTAL USES OF FINANCIAL RESOURCES</b>	<b>8,766,767</b>	<b>-</b>
<b>NET FISCAL YEAR INCREASE (DECREASE)</b>	<b>10,952,475</b>	<b>-</b>
<b>OTHER ADJUSTMENTS:</b>		
Net Assets - January 1, 2010	8,267,105	500,000
<b>Net Assets - December 31, 2010</b>	<b>\$ 19,219,580</b>	<b>\$ 500,000</b>

CITY OF WARREN, MICHIGAN  
WATER & SEWER SYSTEM

STATEMENT OF RESTRICTED RESERVES  
YEAR ENDED DECEMBER 31, 2010

DEBT SERVICE RESERVE	CONSTRUCTION PROGRAM RESERVES
\$ 4,450	\$ 13,956
6,344,885	410,780
-	3,729,491
-	9,215,680
<hr/> 6,349,335	<hr/> 13,369,907
-	4,273,624
1,647,226	111,835
2,734,082	-
<hr/> 4,381,308	<hr/> 4,385,459
1,968,027	8,984,448
5,188,485	2,578,620
<hr/> <hr/> \$ 7,156,512	<hr/> <hr/> \$ 11,563,068

CITY OF WARREN, MICHIGAN  
WATER & SEWER SYSTEM

STATEMENT OF CONSTRUCTION PROGRAM RESERVES  
YEAR ENDED DECEMBER 31, 2010

	TOTAL	WASTE WATER IMPROVEMENT RESERVE
 SOURCES OF FINANCIAL RESOURCES		
Interest on investments	\$ 13,956	\$ -
Transfer from operating cash - budget transfers	410,780	-
Transfer from operating cash - use of bond proceeds	3,729,491	3,729,491
Operation & Maintenance - long-term debt	9,215,680	-
<b>TOTAL SOURCES OF FINANCIAL RESOURCES</b>	<b>13,369,907</b>	<b>3,729,491</b>
 USES OF FINANCIAL RESOURCES:		
Construction contracts & related project costs	4,273,624	3,729,290
Other non-operating expenses	111,835	1,055
<b>TOTAL USES OF FINANCIAL RESOURCES</b>	<b>4,385,459</b>	<b>3,730,345</b>
 NET FISCAL YEAR INCREASE (DECREASE)	 8,984,448	 (854)
 OTHER ADJUSTMENTS:		
Net Assets - January 1, 2010	2,578,620	113,983
 Net Assets - December 31, 2010	 \$ 11,563,068	 \$ 113,129

CITY OF WARREN, MICHIGAN  
WATER & SEWER SYSTEM

STATEMENT OF CONSTRUCTION PROGRAM RESERVES  
YEAR ENDED DECEMBER 31, 2010

INFRASTRUCTURE REPLACEMENT RESERVE	METER REPLACEMENT RESERVE	CAPITAL EQUIPMENT REPLACEMENT RESERVE
\$ 10	\$ 13,723	\$ 223
-	110,780	300,000
-	-	-
-	9,215,680	-
10	9,340,183	300,223
397,391	-	146,943
-	110,780	-
397,391	110,780	146,943
(397,381)	9,229,403	153,280
2,252,107	-	212,530
\$ 1,854,726	\$ 9,229,403	\$ 365,810

CITY OF WARREN, MICHIGAN  
WATER & SEWER SYSTEM

INVESTMENTS IN OPERATING & RESTRICTED FUNDS  
AS OF DECEMBER 31, 2010

			COST	MATURITY VALUE	MARKET VALUE	INTEREST ACCRUED @ 12/31/2010
<b>Operating Fund:</b>						
<i>Comerica:</i>						
Municipal Pooled Funds		Variable	2,783,648	2,783,648	2,783,648	-
<i>National City:</i>						
Certificates of Deposit:						
	Purchase	Maturity	Rate			
	10-14-2010	01-13-2010	0.10%	100,000	100,000	100,000
Municipal Pooled Funds			Variable	77,229	77,229	77,229
<b>Total Operating Fund</b>			<b>\$ 2,960,877</b>	<b>\$ 2,960,877</b>	<b>\$ 2,960,877</b>	<b>\$ 22</b>
<b>Waste Water Treatment Improvement Reserve:</b>						
<i>Comerica:</i>						
Municipal Pooled Funds		Variable	67,007	67,007	67,007	-
<b>Total Waste Water Treatment Improvement Reserve</b>			<b>\$ 67,007</b>	<b>\$ 67,007</b>	<b>\$ 67,007</b>	<b>\$ -</b>
<b>Infrastructure Replacement Reserve:</b>						
<i>Comerica:</i>						
Municipal Pooled Funds		Variable	561,862	561,862	561,862	-
<b>Total Infrastructure Replacement Reserve</b>			<b>\$ 561,862</b>	<b>\$ 561,862</b>	<b>\$ 561,862</b>	<b>\$ -</b>
<b>Meter Replacement Reserve</b>						
<i>Comerica:</i>						
Public Fund Interest Checking		Variable	9,229,403	9,229,403	9,229,403	-
<b>Total Infrastructure Replacement Reserve</b>			<b>\$ 9,229,403</b>	<b>\$ 9,229,403</b>	<b>\$ 9,229,403</b>	<b>\$ -</b>
<b>Equipment Replacement Reserve:</b>						
<i>Comerica:</i>						
Municipal Pooled Funds		Variable	421,851	421,851	421,851	-
<b>Total Equipment Replacement Reserve</b>			<b>\$ 421,851</b>	<b>\$ 421,851</b>	<b>\$ 421,851</b>	<b>\$ -</b>
<b>Debt Retirement Reserve:</b>						
<i>Comerica:</i>						
Municipal Pooled Funds		Variable	2,722,885	2,722,885	2,722,885	-
<b>Total Debt Retirement Reserve</b>			<b>\$ 2,722,885</b>	<b>\$ 2,722,885</b>	<b>\$ 2,722,885</b>	<b>\$ -</b>
<b>GRAND TOTAL - ALL FUNDS</b>			<b>\$ 15,963,885</b>	<b>\$ 15,963,885</b>	<b>\$ 15,963,885</b>	<b>\$ 22</b>

CITY OF WARREN, MICHIGAN  
WATER & SEWER SYSTEM  
SCHEDULE OF FIXED ASSETS & DEPRECIATION  
FOR THE YEAR ENDED DECEMBER 31, 2010

<b>ASSETS</b>				
<u>Asset</u>	Beginning <u>Balance</u>	2010 <u>Additions</u>	2010 <u>Deletions</u>	Ending <u>Balance</u>
Land	\$ 605,219	\$ -	\$ -	\$ 605,219
<b>Buildings &amp; Improvements</b>				
Aeration Tanks	1,276,300	-	-	1,276,300
Ash Lagoon	113,490	-	-	113,490
Blower Building	1,239,400	-	-	1,239,400
Chlorine Building	28,530	-	-	28,530
Incinerator Building	1,406,990	-	-	1,406,990
Nine Mile Pumping Station	171,578	9,065	-	180,643
Retention Basin	6,099,488	-	-	6,099,488
WWTP Service Building	654,150	-	-	654,150
Water Division Headquarters	6,544,277	-	-	6,544,277
Settling Tank	511,300	-	-	511,300
Sludge Handling Building	261,100	-	-	261,100
Switchgear Building	145,200	-	-	145,200
Tertiary Filter Building	3,498,708	-	-	3,498,708
Waste Water Storage Facilities	2,397,933	-	-	2,397,933
Waste Water Treatment Plant	39,393,952	4,679,704	-	44,073,656
<b>Total Buildings &amp; Improvements</b>	<b>63,742,396</b>	<b>4,688,769</b>	<b>-</b>	<b>68,431,165</b>
<b>Utility Systems</b>				
Water Mains	51,490,992	349,988	11,231	51,829,749
Water Service Connections	8,204,969	-	-	8,204,969
Sewer Lines	50,261,353	47,403	2,229	50,306,527
Water Meters	4,461,698	-	-	4,461,698
Outside Reading Devices	1,715,519	-	-	1,715,519
<b>Total Utility Systems</b>	<b>116,134,531</b>	<b>397,391</b>	<b>13,460</b>	<b>116,518,462</b>
<b>Machinery &amp; Equipment</b>				
Pumping Equipment	1,709,634	-	-	1,709,634
Tools & Working Equipment	3,817,212	44,249	-	3,861,461
Automobiles & Trucks	5,586,415	-	-	5,586,415
Office Furniture & Equipment	1,619,166	14,800	-	1,633,966
<b>Total Machinery &amp; Equipment</b>	<b>12,732,427</b>	<b>59,049</b>	<b>-</b>	<b>12,791,476</b>
<b>GRAND TOTAL</b>	<b>\$ 193,214,573</b>	<b>\$ 5,145,209</b>	<b>\$ 13,460</b>	<b>\$ 198,346,322</b>

CITY OF WARREN, MICHIGAN  
WATER & SEWER SYSTEM  
SCHEDULE OF FIXED ASSETS & DEPRECIATION  
FOR THE YEAR ENDED DECEMBER 31, 2010

**ALLOWANCE FOR DEPRECIATION**

Beginning <u>Balance</u>	2010 <u>Additions</u>	2010 <u>Deletions</u>	Ending <u>Balance</u>	Book <u>Value</u>
\$ -	\$ -	\$ -	\$ -	\$ 605,219
753,026	31,908	-	784,934	491,366
66,943	2,837	-	69,780	43,710
695,828	30,985	-	726,813	512,587
17,252	713	-	17,965	10,565
850,780	35,175	-	885,955	521,035
103,799	4,289	-	108,088	72,555
3,903,671	152,487	-	4,056,158	2,043,330
395,772	16,354	-	412,126	242,024
2,934,332	163,607	-	3,097,939	3,446,338
301,676	12,783	-	314,459	196,841
157,975	6,528	-	164,503	96,597
87,846	3,630	-	91,476	53,724
2,116,611	87,468	-	2,204,079	1,294,629
1,649,407	59,948	-	1,709,355	688,578
8,444,615	984,849	-	9,429,464	34,644,192
22,479,533	1,593,561	-	24,073,094	44,358,070
19,648,071	1,040,826	11,231	20,677,666	31,152,083
6,616,585	164,099	-	6,780,684	1,424,285
23,423,438	1,007,411	2,229	24,428,620	25,877,907
4,069,519	135,851	-	4,205,370	256,328
1,715,519	-	-	1,715,519	-
55,473,132	2,348,187	13,460	57,807,859	58,710,603
1,659,181	2,194	-	1,661,375	48,259
3,748,287	34,247	-	3,782,533	78,928
5,394,599	27,122	-	5,421,721	164,694
991,685	78,718	-	1,070,403	563,563
11,793,752	142,281	-	11,936,032	855,444
\$ 89,746,417	\$ 4,084,029	\$ 13,460	\$ 93,816,986	\$ 104,529,336

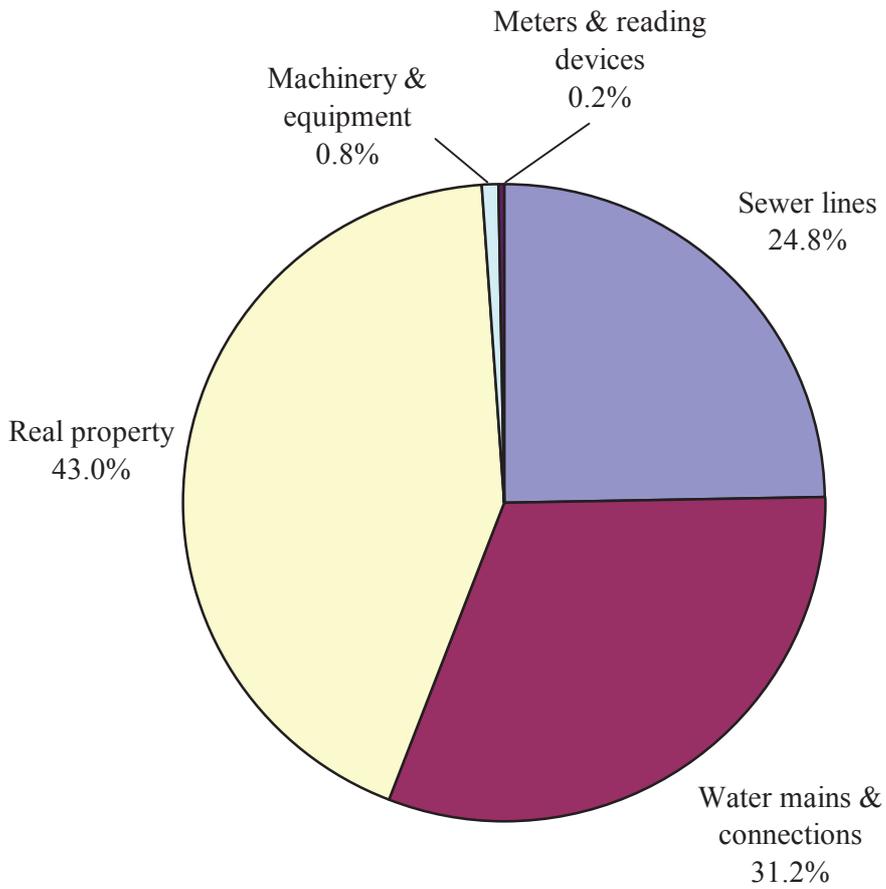
CITY OF WARREN, MICHIGAN  
WATER & SEWER SYSTEM  
CAPITAL ASSETS  
DECEMBER 31, 2010

This chart depicts capital assets acquired since the inception of the City of Warren's  
Water & Sewer System.

Amounts indicated in the chart reflect net asset values after the provision for depreciation  
as summarized below.

	Cost	Accumulated Depreciation	Book Value
Sewer lines	\$ 50,306,527	\$ 24,428,620	\$ 25,877,907
Water mains & connections	60,034,718	27,458,350	32,576,368
Real property	69,036,384	24,073,094	44,963,290
Machinery & equipment	12,791,476	11,936,032	855,444
Meters & reading devices	6,177,217	5,920,890	256,327
	<hr/>		
Total	<u>\$ 198,346,322</u>	<u>\$ 93,816,986</u>	<u>\$ 104,529,336</u>

CITY OF WARREN, MICHIGAN  
WATER & SEWER SYSTEM  
CAPITAL ASSETS  
DECEMBER 31, 2010



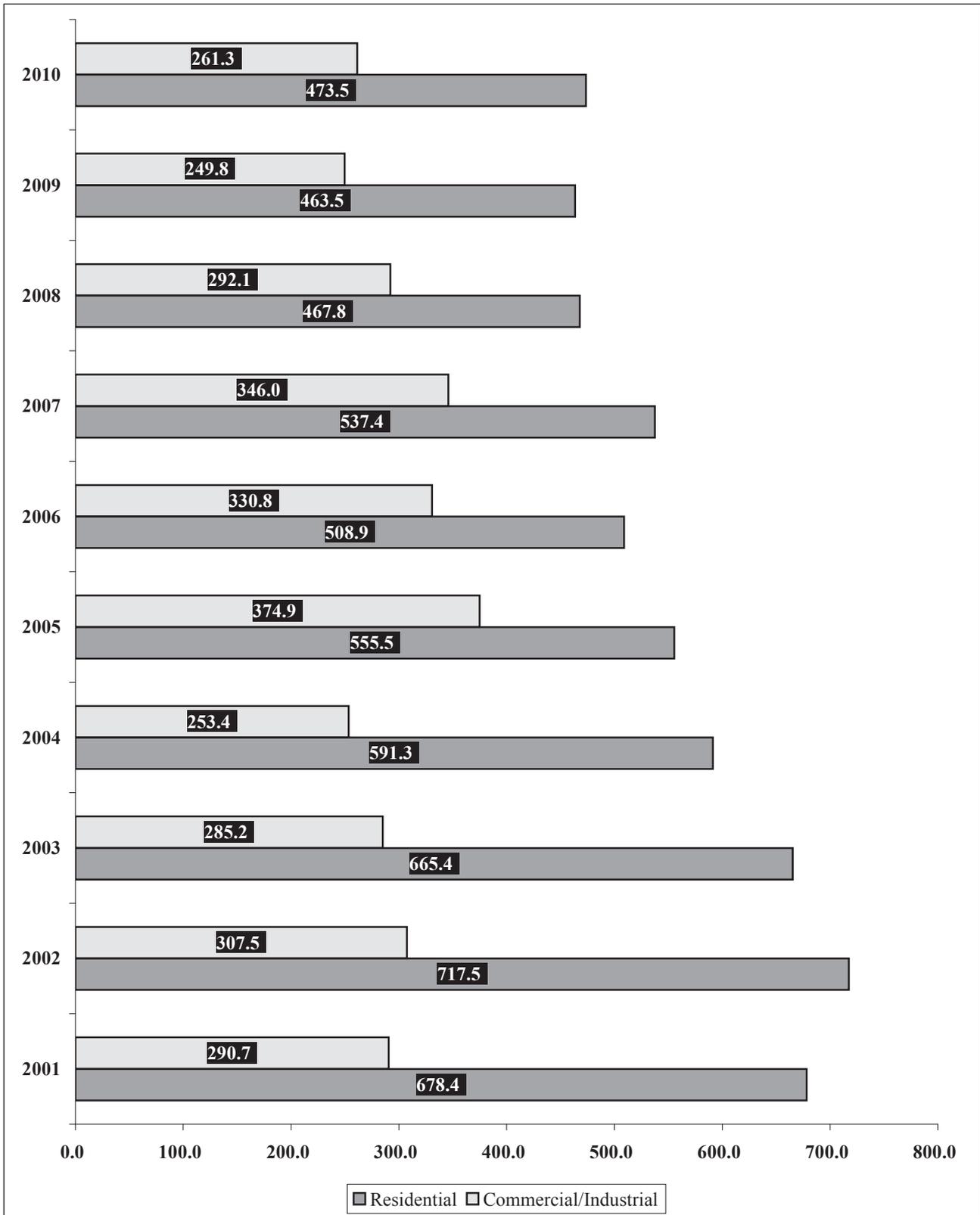
NET FIXED ASSETS \$104,529,336

CITY OF WARREN, MICHIGAN  
WATER & SEWER SYSTEM  
  
OPERATING STATISTICS  
FOR THE YEAR ENDING DECEMBER 31, 2010

	Residential & Small Commercial Industrial <u>Accounts</u>	Large Commercial Industrial <u>Accounts</u>	<u>Total</u>
Population Served (2010 Census)			134,056
Number of Meters in Service	49,478	659	50,137
Cubic Feet Purchased (in thousands)			805,597.8
Cubic Feet Sold (in thousands)	473,268.8	261,582.9	734,851.7
Water Gain {Loss} (percentage)*			{8.8%}
Revenue from Water Sales	\$ 10,866,239	\$ 6,005,935	\$ 16,872,174

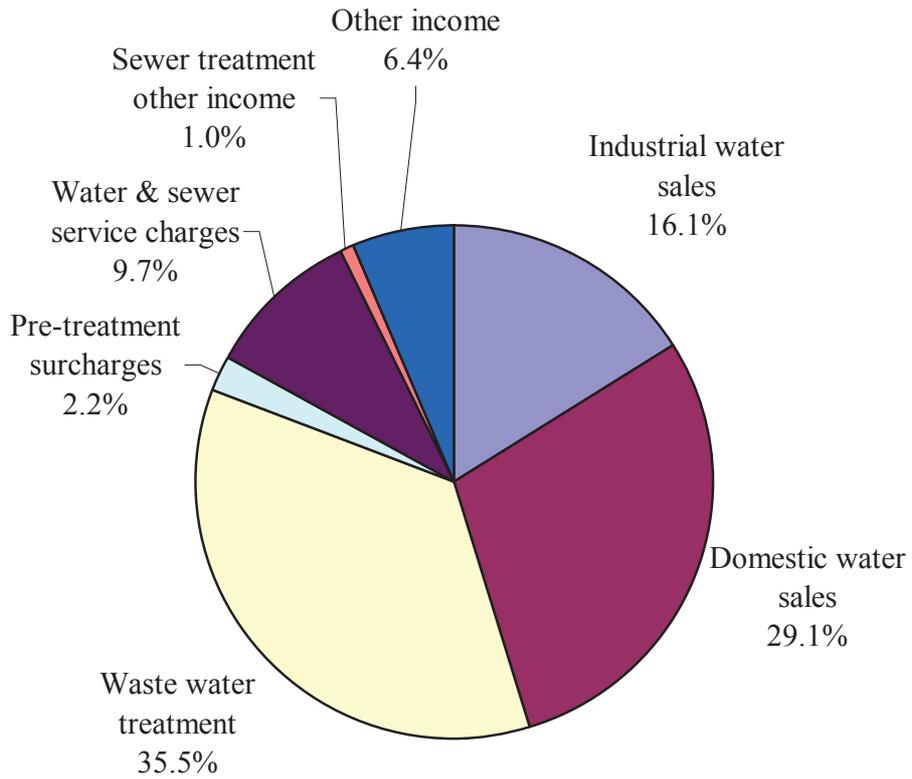
\*Water gain or loss represents the difference between cubic feet purchased from the City of Detroit and cubic feet sold to residential, commercial and industrial customers. Factors affecting water loss include seepage from breaks {both detected and undetected}, unmetered usage for fire protection and preventative maintenance within the system and the relative accuracy of City of Detroit meters registering purchases and City of Warren meters registering sales.

CITY OF WARREN, MICHIGAN  
 WATER & SEWER SYSTEM  
 WATER SALES  
 FISCAL 2001 THROUGH FISCAL 2010  
 {WATER SALES IN MILLION CUBIC FEET}



CITY OF WARREN, MICHIGAN  
WATER & SEWER SYSTEM  
OPERATION & MAINTENANCE FUND  
**SOURCE OF REVENUES**

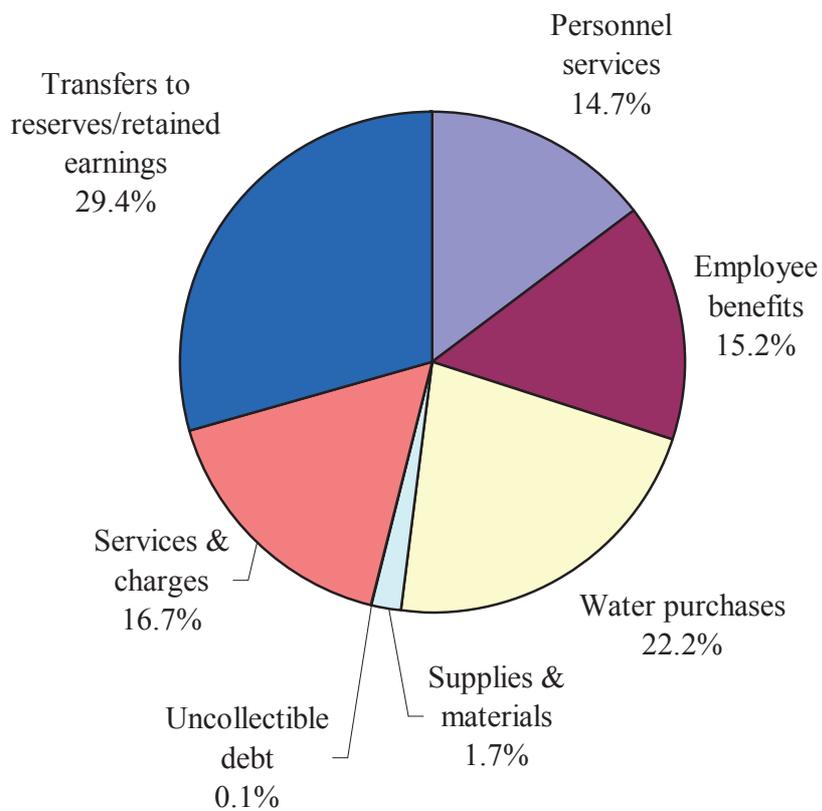
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2010



TOTAL REVENUES

\$37,295,701

CITY OF WARREN, MICHIGAN  
WATER & SEWER SYSTEM  
OPERATION & MAINTENANCE FUND  
**MAJOR COMPONENTS DISTRIBUTION**  
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2010

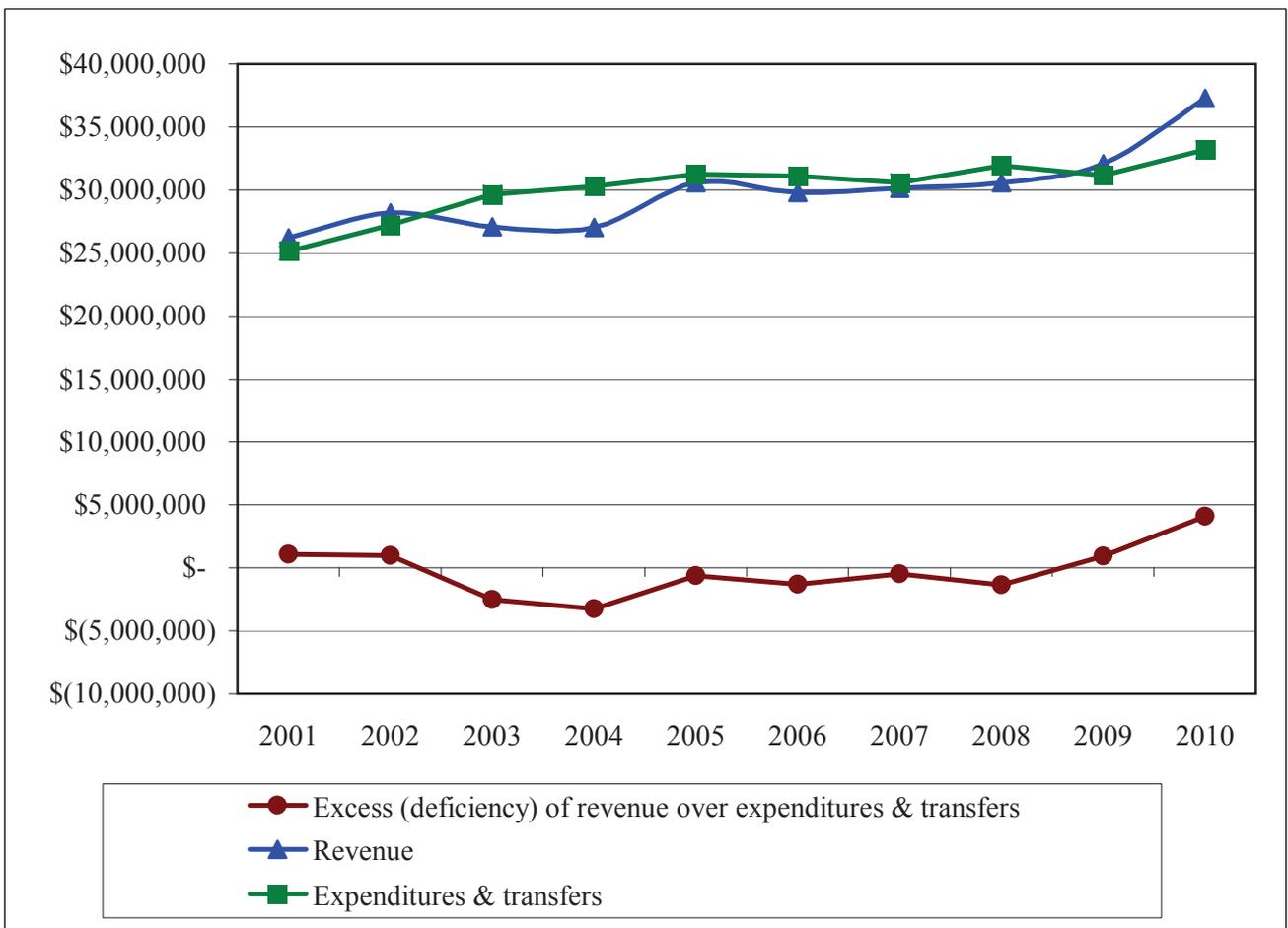


TOTAL DISTRIBUTION  
\$37,295,701

CITY OF WARREN, MICHIGAN  
 WATER & SEWER SYSTEM  
 OPERATION & MAINTENANCE FUND  
**REVENUES/EXPENDITURES & TRANSFERS COMPARISON**  
 FISCAL YEARS 2001 THROUGH 2010

The line chart below compares total revenue with total expenditures & transfers for fiscal years 2001 through 2010. The "Excess (deficiency) of revenues over expenditures & transfers" line displays the amount by which total revenues sources exceed or fall short of expenditures & transfers for each year. The transfer of working capital to restricted use reserves is included in the expenditures & transfers amount. Depreciation is not included as it does not involve a cash outlay.

In fiscal periods where revenues exceed expenditures & transfers, reserves are being increased to provide for long term capital needs. In fiscal periods where expenditures & transfers exceed revenues, reserves are being used to subsidize operating costs.



CITY OF WARREN, MICHIGAN  
 WATER & SEWER SYSTEM  
 OPERATION & MAINTENANCE FUND  
**OPERATING REVENUE/EXPENSE COMPARISON {before Depreciation}**  
 FISCAL YEARS 2001 THROUGH 2010

The line chart below compares total operating revenue with total operating expense for fiscal years 2001 through 2010. The "Net operating revenue" line displays the amount by which total operating revenues exceed or fall short of operating expenses for each year.

Operating revenues include water sales, waste water treatment charges and other charges generated through Sections 41-161 and 41-162 of the City of Warren Code of Ordinances.

Operating expenses include water purchases, wages & fringe benefit payments, supplies & materials and other services and charges. Depreciation is excluded, as it does not involve a cash outlay.

