

**Genesee County Drain Commissioner
Division of Water and Waste Services**

**Financial Report
with Supplemental Information
December 31, 2012**

Genesee County Drain Commissioner Division of Water and Waste Services

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Independent Auditor's Report

To the Board of Directors
Genesee County Drain Commissioner
Division of Water and Waste Services

Report on the Financial Statements

We have audited the accompanying financial statements of the Enterprise Fund, Internal Service Funds, and business-type activities of the Genesee County Drain Commissioner Division of Water and Waste Services (the "Division") as of and for the year ended December 31, 2012 and the related notes to the financial statements, which collectively comprise the Genesee County Drain Commissioner Division of Water and Waste Services' basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Enterprise Fund, Internal Service Funds, and business-type activities of the Genesee County Drain Commissioner Division of Water and Waste Services as of December 31, 2012 and the respective changes in its financial position and, where applicable, cash flows for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

To the Board of Directors
Genesee County Drain Commissioner
Division of Water and Waste Services

Other Matters

Required Supplemental Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3-11 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, which considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplemental information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplemental Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Genesee County Drain Commissioner Division of Water and Waste Services' basic financial statements. The supplemental information, as identified in the table of contents, is presented for the purpose of additional analysis and is not a required part of the basic financial statements.

The supplemental information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the other supplemental information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Report on Summarized Comparative Information

We have previously audited the Genesee County Drain Commissioner Division of Water and Waste Services' December 31, 2011 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated June 25, 2012. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2011 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Plante & Moran, PLLC

May 14, 2013

Genesee County Drain Commissioner Division of Water and Waste Services

Management's Discussion and Analysis

The County established a County Agency through the County Improvement Act (Public Act 342). The County designated the Drain Commissioner as the County Agency. The County Agency created the Division of Water and Waste Services (the "Division") as its vehicle to perform required duties. The Division provides public utility services of water and wastewater treatment in parts of Genesee, Saginaw, Shiawassee, Oakland, Lapeer, and Livingston counties. The Division's mission is to distribute water and collect and treat wastewater in such a manner that is in compliance with all state and federal regulations and to maintain the lowest cost to customers. Additionally, the Genesee County Board of Commissioners designated the Division as the county enforcing agency for soil erosion in Genesee County.

The Division is responsible for the administration, operation, maintenance, and construction of infrastructure and treatment facilities for the communities located in Genesee County for the sanitary system and water supply. The Division is divided into four distinct cost centers. These cost centers, which include Interceptor and Treatment, Water, District No. 3, and District No. 7, have been developed based upon revenue, responsibility, and definable core functions. In addition, the Division offers construction management and system operation and maintenance services to local communities.

Some of the key administrative and engineering duties of both the sanitary sewer operation and the water department operation include comprehensive system planning, interaction and regulation of development, implementing capital improvement projects, and system budget management. The administration team is responsible for the overall operation of the utility's services, engineering, and soil erosion in Genesee County. It is this department's responsibility to secure, allocate, and monitor funding, personnel, and equipment resources for the Division to ensure safe, reliable, and efficient operation of the utility.

The primary functions of the support services area are to efficiently and uniformly provide support to the various operations departments. These services are grouped into categories as follows: safety, human resources, finance, permits, soil erosion, construction, inspection, and information technology.

The Operation and Maintenance Department - The Operation and Maintenance (O&M) department has two primary functions: sanitary sewer interception and transportation and water transmission. It also performs contracted O&M for the local communities. To ensure that these primary functions are met, O&M performs the following tasks:

- Preventive maintenance of the water and sewer infrastructure and appurtenances
- Staking of water and sewer infrastructure (Miss Dig)
- Jetting/Televising of sanitary sewers
- Inspection of water and sewer infrastructure
- Responds to customer complaints (i.e., plugged sewers, high bills, etc.)
- Installs, reads, and repairs water meters, repairs broken water mains, and coordinates the repair of sanitary sewers, sewer main taps, and cut and cap water and sewer services
- Provides after-hours emergency response as needed

Genesee County Drain Commissioner

Division of Water and Waste Services

Management's Discussion and Analysis (Continued)

Sewage Treatment Facilities - The core function of all treatment facilities is to effectively and efficiently treat sewage in compliance with regulations established by their NPDES (National Pollutant Discharge Elimination System) permit. The facilities maintain good working relationships with customers and elected officials of the districts to achieve the goals of accountability, transparency, and credibility. These activities include the following:

- Facility operation and maintenance
- Analytical support to ensure compliance with discharge limits and industrial pretreatment
- Providing training in plant operation, maintenance, safety, and regulatory compliance
- Residuals management
- Addition of various treatment chemicals and/or use of other treatment alternatives
- Planning for plant improvements, equipment replacement, and upgrades
- Emergency response planning
- Storage lagoon operation and maintenance
- Discharge limitations and monitoring
- Pollutant minimization
- Operation of an Industrial Pretreatment Program (IPP)

The sanitary sewer treatment operations are responsible for the collection and transmission of effluent through the sewer interceptor lines to the three disposal plants under the Division's jurisdiction. These plants are the Linden Facility (District No. 3), the Bird Road Lagoons (District No. 7), and the Anthony Ragnone Treatment Plant (ARTP) (Districts No. 1, 2, 5, and 6). In addition to serving large portions of Genesee County, the Division has contracts for sewer treatment outside of its jurisdiction with Shiawassee, Lapeer, Saginaw, Oakland, and Livingston counties.

ARTP provides sewage treatment for the majority of the Division's service area, with Districts No. 3 and No. 7 providing service for several outlying areas. And while the District No. 3 and No. 7 facilities are two distinctly separate operations, they are combined administratively due to their proximity to one another.

The Division also manages two programs that impact its treatment facilities:

- **Biosolids Disposal** - Each treatment plant is responsible for disposing wastewater treatment plant biosolids in a manner that is considered beneficial reuse, in particular, biosolids application on farmland. The ARTP accomplished this goal in 2012 by applying 6,473 dry tons of stabilized biosolids on approximately 2,500 acres of approved fields. In 2012, District No. 3 applied 1,145 dry tons of stabilized biosolids on approximately 900 acres of approved fields.

Genesee County Drain Commissioner Division of Water and Waste Services

Management's Discussion and Analysis (Continued)

- **Industrial Pretreatment Program** - The Division regulates and monitors industrial and nondomestic dischargers to the wastewater system. The Division reviews applications, issues discharge permits, verifies compliance, calculates fees and surcharge bills for the customers, as well as enforces regulations through discharge permits, which protect the wastewater treatment facilities and the environment. An arsenic program for drinking water systems was implemented to ensure compliance with MDEQ regulations. The ordinance also allows for best management practices (BMP) in regulating silver and mercury from over 750 physician and dental offices and grease and oil from approximately 1,400 restaurants. Inter-jurisdictional agreements and the sewer use ordinance have been distributed to the municipalities, and the local unit of government approval process is ongoing. At this time, there are approximately 15 significant industrial facilities and one categorical user that pay surcharges for the cost of treating various substances they discharge to the Division.

Water Supply - The water supply department is responsible for acquisition of water from the Detroit Water and Sewerage Department via the City of Flint. The Division transmits potable water to local communities, which in turn supply their residential, commercial, and industrial customers. The Division also contracts with certain local municipalities to operate and maintain their water systems, as well as provide billing services.

The Division maintains a distribution system consisting of over 600 miles of water mains. It also installs water connections and performs turn-ons/offers at the request of its communities, services and changes water meters, and oversees the backflow prevention program. In order to provide an uninterrupted supply of safe drinking water, this department provides forward thought to:

- Identify and evaluate water supply alternatives to meet normal and emergency needs
- Prepare cost estimates to construct, operate, and maintain selected alternatives
- Determine water treatment and pumping requirements

Objectives and Achievements

The main objectives of the Division are to maintain high quality services along with residential and commercial water and sewer rates that are fair and cost effective to all concerned. Although not required by law, the Division maintains a yearly budget of income and expenses for all cost centers. The budget is reviewed and approved by an advisory board. Each community that is a customer of the Division has a seat on the advisory board, which meets monthly to provide guidance to the Division.

The rising cost of water from the Detroit Water and Sewerage Department (DWSD) to the City of Flint, and there in turn to the Division and its community customers, continues to be of great concern. From 2002 to 2013, the average yearly DWSD cost of water increased 9.06 percent. This cost from Detroit is passed through to the Division with no markup from the City of Flint. Instead, a monthly flat rate of \$114,000 is paid to the City of Flint which also provides for up to 5.2 million gallons per day in emergency backup water supply.

Genesee County Drain Commissioner Division of Water and Waste Services

Management's Discussion and Analysis (Continued)

Due to concern over reliability and this rising cost of water from DWSD, the Division has been coordinating an interjurisdictional initiative for developing an alternative water supply system from Lake Huron. Communities currently supplied by DWSD that are participating in this initiative include the City of Flint, Genesee County, Sanilac County, and the Greater Lapeer County Utilities Authority (GLCUA).

As such, a new governmental entity, the Karegnondi Water Authority (KWA), was incorporated on October 1, 2010, with the purpose of developing this new water supply. At formation, it was comprised of the following five governmental units: Genesee County Drain Commissioner, Lapeer County, the City of Lapeer, Sanilac County, and the City of Flint. After construction of a new pipeline, it will then be KWA's responsibility to provide a supply of untreated Lake Huron water to all contracting municipalities.

As of December 31, 2012, KWA has not incurred any transactions that would have a financial impact on the Division. At the time of this report, both the City of Flint and the Advisory Board of the Genesee County Drain Commissioner Division of Water and Waste Services have voted to sign capacity contracts with KWA.

Rate Structure

During 2012, the Division continued a review of its rate structure, with the goal of adjusting rates beginning in 2013. A Division goal is to review and set water and sewer rates on a five-year basis in order to maintain stable and fiscally responsible utility rates. The Division has been able to keep its portion of water and sewer rates constant since its last rate increases in 2008 and 2009. Part of the rate structure requires automatic adjustments based upon DWSD's rate increases to the City of Flint, which are typically passed on to the Division's customers in September of each year.

Grant Acquisitions

- The Division was allocated funds of \$863,500 for the Vortex Grit Tank No. 2 Project at District No. 3 in September 2011. The funds were allocated from the Department of the Army under Section 219 of the Water Resources Development Act of 1992. Public Law 102-580, as amended, specifies the cost-sharing requirements applicable. During 2012, the Division received \$289,991 of contributed capital toward the project.

Genesee County Drain Commissioner Division of Water and Waste Services

Management's Discussion and Analysis (Continued)

- The Division was allocated funds as part of the Kearsley Creek Interceptor Project in 2006 and in 2008. The Department of the Army and the Division entered into a project cooperation agreement for the design of approximately 22 miles of interceptor sanitary sewer lines, associated to pump stations and associated appurtenances pursuant to Section 219(f)(59) of the Water Resources Development Act of 1992, Public Law 102-580 as amended, which authorized the Secretary of the Army to provide design and construction assistance for environmental infrastructure improvements to Genesee County, Michigan. During 2012, the Division made the decision not to move forward with the construction of this project, expensed the project to date, and made a final recording of \$218,434 for contributed capital.
- State of Michigan Revolving Fund Program loans were approved in prior years for \$1,445,000 to fund the ARTP Switchgear project, \$14,544,000 to fund the Pump Station #1 and ARTP Blowers and Clarifiers projects, and \$933,515 to fund the Fenton Road Water Main Project. A total of \$345,440, \$2,382,209, and \$29,111 was collected, respectively, for these projects during 2012.

Using this Annual Report

This annual report consists of a series of financial statements. The statement of net position, the statement of revenue, expenses, and changes in net position, and the statement of cash flows provide information about the activities of the Division as a whole and assist in presenting a longer-term view of its finances.

Genesee County Drain Commissioner

Division of Water and Waste Services

Management's Discussion and Analysis (Continued)

Condensed Financial Information

The following tables present condensed information about the Division's financial position compared to the prior year:

	December 31		Increase (Decrease)	Percent Change
	2012	2011		
Assets				
Current assets	\$ 26,350,746	\$ 24,633,437	\$ 1,717,309	7.0 %
Restricted assets	543,333	5,459,054	(4,915,721)	(90.0)
Noncurrent lease receivable	25,759,265	28,668,516	(2,909,251)	(10.1)
Capital assets	322,899,623	321,952,707	946,916	0.3
Other noncurrent assets	835,548	2,169,783	(1,334,235)	(61.5)
Total assets	376,388,515	382,883,497	(6,494,982)	(1.7)
Liabilities				
Current liabilities	16,269,157	15,420,478	848,679	5.5
Liabilities payable from restricted assets	243,008	3,509,475	(3,266,467)	(93.1)
Other noncurrent liabilities	5,832,566	7,276,880	(1,444,314)	(19.8)
Long-term debt	159,837,896	167,452,099	(7,614,203)	(4.5)
Total liabilities	182,182,627	193,658,932	(11,476,305)	(5.9)
Net Position				
Net investment in capital assets	181,595,040	178,661,325	2,933,715	1.6
Restricted	3,098,940	3,098,052	888	-
Unrestricted	9,511,908	7,465,188	2,046,720	27.4
Total net position	<u>\$ 194,205,888</u>	<u>\$ 189,224,565</u>	<u>\$ 4,981,323</u>	2.6

	December 31		Increase (Decrease)	Percent Change
	2012	2011		
Revenue from operations	\$ 52,560,768	\$ 50,021,535	\$ 2,539,233	5.1 %
Interest on operating cash and receivables	43,217	35,427	7,790	22.0
Total revenue	52,603,985	50,056,962	2,547,023	5.1
Sludge disposal charges	1,228,262	1,098,897	129,365	11.8
Cost of water	11,779,406	12,947,738	(1,168,332)	(9.0)
Operating and maintenance	21,825,607	18,853,461	2,972,146	15.8
Administrative and depreciation	12,208,067	12,283,110	(75,043)	(0.6)
Total operating expenses	47,041,342	45,183,206	1,858,136	4.1
Other nonoperating expense	2,201,438	2,432,996	(231,558)	(9.5)
Change in net position - Before capital contributions	3,361,205	2,440,760	920,445	37.7
Capital contributions	1,620,118	268,228	1,351,890	504.0
Change in net position	<u>\$ 4,981,323</u>	<u>\$ 2,708,988</u>	<u>\$ 2,272,335</u>	83.9

Genesee County Drain Commissioner Division of Water and Waste Services

Management's Discussion and Analysis (Continued)

Major Capital Assets and Debt Activity

Construction projects completed by the Division totaled \$36,835,568 during 2012. This resulted in a reclassification of the construction costs of this amount from a nondepreciable to depreciable asset. The ARTP Clarifiers Project was the largest completed during 2012, valued at \$11,924,394.

The Division also increased its capital assets by \$1,111,693 due to the completion of the Fenton Road Water Main project, which was funded by two local community customers.

Use of restricted County Capital Improvement Fees (CCIF) to pay debt service and the reduction of restricted receivables from other governmental entities has been the past practice of the Division. Underfunding has occurred and was considered in the initial planning of the CCIF program. CCIF will continue to be collected after retirement of the bond to reconstitute the fund in full.

Financial Review

In analyzing the Genesee County Drain Commissioner Division of Water and Waste Services' financial position, it is important to recognize the mission of the agency, which has been previously stated. A discussion of the significant financial activity during the current year is as follows:

Statement of Net Position

- Current assets increased by \$1.7 million in the current year due to an increase in cash and equivalents, current accounts receivable, and prepaid expenses.
- Current liabilities increased by approximately \$850,000 from the prior year. The main portion of this increase is due to a rise in the current portion of long-term debt, while a smaller amount is due to the timing of accounts payable transactions.
- Liabilities payable from restricted assets decreased significantly again in 2012, from \$3.5 million in 2011 to \$243,000 at the end of 2012. This continued decrease once again is due to several projects being completed during the year.
- Other noncurrent liabilities decreased by approximately \$9.0 million. This was primarily due to a reduction in long-term debt of approximately \$7.6 million.
- Combined unrestricted net position increased by approximately \$2.0 million, with increases occurring in each of the four divisions. Of significant note, District No. 3 moved from an unrestricted deficit position in 2011 of (\$252,524) to a positive ending 2012 position of \$130,124.

Genesee County Drain Commissioner Division of Water and Waste Services

Management's Discussion and Analysis (Continued)

Statement of Revenue, Expenses, and Changes in Net Assets

- Operating revenue increased by 5.1 percent during 2012, with water sales accounting for the majority of this increase. The increase in water sales is largely due to the increase in the pass-through rate from DWSD, while a warm and dry summer did produce an increase in water demand. Operating expenses increased slightly less, at a 4.1 percent rate.
- Two of the Division's largest expenses, water costs and utilities, were reduced on a fiscal basis in 2012. However, this calendar year reduction in costs does not fully represent the true yearly ongoing cost of these two expenses. As noted in last year's audit report letter dated June 25, 2012, the Division made a change to accounts payable invoice timing which resulted in an overstatement of expenses for 2011. After review by the Division's new finance officer, the Division concurred with the auditors and moved to correct the situation in 2012. To do so required a subsequent understatement in expenses for both the cost of water and for utilities in 2012. Going forward, a policy has been put in place which will ensure that 12 months of expenses are properly incurred in each calendar year.
- Contractual services increased by approximately \$4.0 million in 2012, primarily due to increased engineering and legal work performed for the interceptor and treatment, and water supply divisions. In particular, the Division decided not to move forward with a construction project for interceptor and treatment which resulted in a reclassification of CIP to contractual services, accounting for \$2.5 million of the overall increase.
- Depreciation increased by approximately \$770,000 due to project completion in 2012 and the associated CIP having been converted to depreciable assets.

The following table shows the trend in interceptor and treatment sewage disposal revenue compared to total flow volumes for the Division's main ARTP treatment facility:

	Year Ended December 31			
	2009	2010	2011	2012
I&T sewage disposal revenue	\$ 22,579,898	\$ 22,596,773	\$ 22,014,199	\$ 22,785,153
Total flow (thousands of gallons)	11,979,000	9,518,000	11,726,740	9,540,064
Average revenue per thousands of gallons treated	\$ 1.88	\$ 2.37	\$ 1.88	\$ 2.39

Genesee County Drain Commissioner Division of Water and Waste Services

Management's Discussion and Analysis (Continued)

The following table shows the trend in water sales compared to volume of water purchased and volume of water sold, with the resulting water efficiency rate:

	Year Ended December 31			
	2009	2010	2011	2012
Water sales revenue (wholesale and retail)	\$ 19,809,718	\$ 21,202,820	\$ 21,697,903	\$ 23,012,087
Volume of water purchased (cu. ft.)	616,325,400	616,632,200	621,182,300	630,152,800
Volume of water sold (cu. ft.)	594,736,958	585,092,058	581,675,986	551,198,996
Water efficiency rate	96%	95%	94%	87%

Contacting the Division's Management

This financial report is intended to provide our constituents, sewer/water users, and bondholders with a general overview of the Genesee County Drain Commissioner Division of Water and Waste Services' accountability for the money it receives. These financial statements are included as a component unit of Genesee County and should be viewed as part of the government-wide financial statements. If there are questions about this report or if additional information is needed, we welcome anyone to contact the Drain Commissioner or the director of the Division.

Genesee County Drain Commissioner

Division of Water and Waste Services

Statement of Net Position - Proprietary Fund Types

	December 31, 2012			December 31,
	Enterprise	Internal	Total	2011
	Fund	Service Fund		Total
Assets				
Current assets:				
Cash and cash equivalents (Note 2)	\$ 12,796,815	\$ 1,139,582	\$ 13,936,397	\$ 13,380,794
Accounts receivable	8,812,458	-	8,812,458	8,255,907
Current portion of leases receivable	2,940,000	-	2,940,000	2,825,000
Due from other governmental units	-	-	-	2,000
Inventory	75,625	-	75,625	52,658
Prepaid expenses and other assets	493,266	-	493,266	87,078
Other assets	93,000	-	93,000	30,000
Total current assets	25,211,164	1,139,582	26,350,746	24,633,437
Noncurrent assets:				
Restricted cash and cash equivalents	-	-	-	4,592,588
Restricted accounts receivable	243,008	-	243,008	532,653
Restricted - Due from other governmental units	300,325	-	300,325	333,813
Leases receivable - Net of current portion	25,759,265	-	25,759,265	28,668,516
Local unit construction in progress	156,500	-	156,500	1,413,161
Capital assets (Note 3):				
Assets not subject to depreciation	55,779,523	-	55,779,523	86,934,064
Assets subject to depreciation - Net of depreciation	264,520,174	2,599,926	267,120,100	235,018,643
Unamortized bond issuance costs	679,048	-	679,048	756,622
Total noncurrent assets	347,437,843	2,599,926	350,037,769	358,250,060
Total assets	372,649,007	3,739,508	376,388,515	382,883,497
Liabilities				
Current liabilities:				
Accounts payable and accrued expenses	5,031,387	1,472	5,032,859	4,823,168
Due to other governmental units	241,300	-	241,300	237,310
Due to State of Michigan	149,998	-	149,998	-
Current portion of long-term debt (Note 4)	10,845,000	-	10,845,000	10,360,000
Total current liabilities	16,267,685	1,472	16,269,157	15,420,478
Noncurrent liabilities:				
Liabilities related to restricted assets	243,008	-	243,008	3,509,475
Unearned leases	156,500	-	156,500	1,524,185
Other postemployment benefit obligation (Note 6)	5,676,066	-	5,676,066	5,752,695
Long-term debt - Net of current portion (Note 4)	159,837,896	-	159,837,896	167,452,099
Total noncurrent liabilities	165,913,470	-	165,913,470	178,238,454
Total liabilities	182,181,155	1,472	182,182,627	193,658,932
Equity - Net position				
Net investment in capital assets	178,995,114	2,599,926	181,595,040	178,661,325
Restricted	3,098,052	-	3,098,052	3,098,052
Unrestricted	8,374,686	1,138,110	9,512,796	7,465,188
Total net position	\$ 190,467,852	\$ 3,738,036	\$ 194,205,888	\$ 189,224,565

Genesee County Drain Commissioner

Division of Water and Waste Services

Statement of Revenue, Expenses, and Changes in Net Position Proprietary Fund Types

	December 31, 2012			December 31,
	Enterprise	Internal	Total	2011
	Fund	Service Fund		Total
Operating Revenue				
Charges for sales and service:				
Sale of water	\$ 23,104,124	\$ -	\$ 23,104,124	\$ 21,697,903
Sewage disposal charges	26,708,222	-	26,708,222	26,028,846
Billing services	146,171	-	146,171	-
Water meter sales	46,694	-	46,694	64,662
Sewer and pumping station - Operation and maintenance	1,197,219	-	1,197,219	1,197,219
Other operating revenue	1,358,338	-	1,358,338	1,032,905
Total operating revenue	52,560,768	-	52,560,768	50,021,535
Operating Expenses				
Cost of water	11,779,406	-	11,779,406	12,947,738
Sludge disposal service	1,228,262	-	1,228,262	1,098,897
Cost of insurance claims and expenses	277,414	-	277,414	388,005
Repairs and maintenance	2,314,611	65,905	2,380,516	1,584,188
Personnel services	15,207,816	-	15,207,816	16,672,169
Other supplies and expenses	995,794	-	995,794	1,044,117
Contractual services	4,620,263	-	4,620,263	622,620
Utilities	3,241,481	-	3,241,481	4,288,957
Depreciation	6,849,102	461,288	7,310,390	6,536,515
Total operating expenses	46,514,149	527,193	47,041,342	45,183,206
Operating Income (Loss)	6,046,619	(527,193)	5,519,426	4,838,329
Nonoperating Revenue (Expenses)				
Community bond interest income	1,263,136	-	1,263,136	1,356,456
Community bond interest expense	(1,263,136)	-	(1,263,136)	(1,356,456)
Miscellaneous income	930,054	-	930,054	635,689
Miscellaneous expense	(45,582)	(1,756)	(47,338)	(158,115)
Capital interest and fee expense	(3,103,857)	-	(3,103,857)	(2,910,570)
Investment income	43,217	-	43,217	35,427
Gain on sale of assets	-	19,703	19,703	-
Total nonoperating (expense) revenue	(2,176,168)	17,947	(2,158,221)	(2,397,569)
Income (Loss) - Before capital contributions and operating transfers	3,870,451	(509,246)	3,361,205	2,440,760
Capital Contributions	1,620,118	-	1,620,118	268,228
Transfers In	45,632,133	-	45,632,133	37,662,791
Transfers Out	(45,518,311)	(113,822)	(45,632,133)	(37,662,791)
Increase (Decrease) in Net Position	5,604,391	(623,068)	4,981,323	2,708,988
Net Position - Beginning of year	184,863,461	4,361,104	189,224,565	186,515,577
Net Position - End of year	\$ 190,467,852	\$ 3,738,036	\$ 194,205,888	\$ 189,224,565

Genesee County Drain Commissioner

Division of Water and Waste Services

Statement of Cash Flows - Proprietary Fund Types

	December 31, 2012			December 31,
	Enterprise Fund	Internal Service Fund	Total	2011
Cash Flows from Operating Activities				
Receipts from customers	\$ 52,079,220	\$ 28,183	\$ 52,107,403	\$ 56,647,903
Payments to suppliers and others for goods and services	(25,544,057)	(295,873)	(25,839,930)	(32,126,627)
Payments for salaries and employee benefits	(14,771,454)	-	(14,771,454)	(9,449,173)
Net cash provided by (used in) operating activities	11,763,709	(267,690)	11,496,019	15,072,103
Cash Flows from Capital and Related Financing Activities				
Purchases of capital assets	(8,722,477)	(476,857)	(9,199,334)	(17,995,616)
Contribution from local units for construction	-	-	-	1,219,720
County capital improvements fee	968,219	-	968,219	630,783
Collections of leases receivable from municipalities	4,030,844	-	4,030,844	4,014,604
Proceeds from issuance of bonded debt	3,418,569	-	3,418,569	24,872,946
Principal paid on bond maturities	(10,534,250)	-	(10,534,250)	(17,708,000)
Interest paid on bonds and other long-term liabilities	(4,371,165)	-	(4,371,165)	(4,277,392)
Operating transfer	113,822	(113,822)	-	-
Net cash used in capital and related financing activities	(15,096,438)	(590,679)	(15,687,117)	(9,242,955)
Cash Flows from Investing Activities - Investment income	154,113	-	154,113	56,557
Net (Decrease) Increase in Cash and Cash Equivalents	(3,178,616)	(858,369)	(4,036,985)	5,885,705
Cash and Cash Equivalents - Beginning of year	15,975,431	1,997,951	17,973,382	12,087,677
Cash and Cash Equivalents - End of year	<u>\$ 12,796,815</u>	<u>\$ 1,139,582</u>	<u>\$ 13,936,397</u>	<u>\$ 17,973,382</u>
Balance Sheet Classification of Cash and Cash Equivalents				
Cash and cash equivalents	\$ 12,796,815	\$ 1,139,582	\$ 13,936,397	\$ 13,380,794
Restricted cash and cash equivalents	-	-	-	4,592,588
Total cash and cash equivalents	<u>\$ 12,796,815</u>	<u>\$ 1,139,582</u>	<u>\$ 13,936,397</u>	<u>\$ 17,973,382</u>
Reconciliation of Operating Income (Loss) to Net Cash from Operating Activities				
Operating income (loss)	\$ 6,046,619	\$ (527,193)	\$ 5,519,426	\$ 4,838,329
Depreciation	6,849,102	461,288	7,310,390	6,536,515
Write-off of construction in progress	2,369,806	-	2,369,806	-
Changes in assets and liabilities:				
Receivables	(457,645)	1,998	(455,647)	2,154,890
Other	-	(1,756)	(1,756)	-
Inventories	(22,967)	-	(22,967)	(9,359)
Prepaid and other assets	(550,877)	81,689	(469,188)	106,151
Accounts payable	(2,874,252)	(309,901)	(3,184,153)	1,374,259
Internal balances	(26,185)	26,185	-	-
Due from other governmental units - Net	(30,292)	-	(30,292)	71,318
Accrued and other liabilities	460,400	-	460,400	-
Net cash provided by (used in) operating activities	<u>\$ 11,763,709</u>	<u>\$ (267,690)</u>	<u>\$ 11,496,019</u>	<u>\$ 15,072,103</u>

Noncash Investing, Capital, and Financing Activities - During the year ended December 31, 2012, the Enterprise Fund had \$1,111,693 and \$508,425 contributed to the water and sewer systems by local communities and a grant, respectively.

Genesee County Drain Commissioner Division of Water and Waste Services

Notes to Financial Statements December 31, 2012

Note 1 - Summary of Significant Accounting Policies

The Genesee County Drain Commissioner Division of Water and Waste Services (the "Division") was organized in September 1965 under Public Act No. 342 of 1939 of the State of Michigan (amended in 1967). The Division's major operations are the construction and operation of water and waste systems in Genesee County, Michigan (the "County") and certain areas in surrounding counties. Construction is financed with proceeds from the sale of bonds and federal and state grants. The operating activities are financed primarily through user charges to municipalities in the systems.

The financial statements of the Division have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the Division's accounting policies are described below:

Reporting Entity - Included within the reporting entity are the following:

- Genesee County Sewage Disposal Systems Nos. 1, 2, 5, and 6 (interceptors and treatment facilities)
- Genesee County Sanitary Sewage Disposal Systems Nos. 3 and 7
- Genesee County water supply systems
- Genesee County Division of Water and Waste Services - Vehicle and Equipment Fund (Internal Service Fund)
- Genesee County Division of Water and Waste Services - Insurance Fund (Internal Service Fund)

Genesee County Drain Commissioner

Division of Water and Waste Services

Notes to Financial Statements December 31, 2012

Note 1 - Summary of Significant Accounting Policies (Continued)

In evaluating how to define the Division for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria set forth in GAAP. The basic, but not the only, criterion for including a potential component unit within the reporting entity is the governmental body's ability to exercise oversight responsibility. The most significant manifestation of this ability is financial interdependency. Other manifestations of the ability to exercise oversight responsibility include, but are not limited to, the selection of governing authority, the designation of management, the ability to significantly influence operations, and accountability for fiscal matters. The other criterion used to evaluate potential component units for inclusion or exclusion from the reporting entity is the existence of special financing relationships, regardless of whether the Division is able to exercise oversight responsibilities. Based on the application of these criteria, there are no component units to be included in these basic financial statements.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation - The basic financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

The Division reports the following major proprietary fund:

- The Enterprise Fund is used to account for operations that are financed and operated in a manner similar to private business enterprises, where the costs (expenses, including depreciation) of providing water and sewer services to the general public on a continuing basis are financed through user charges.

Additionally, the Division reports the following Internal Service Fund:

- The Internal Service Fund accounts for financing of goods and services provided by one department to other departments of the Division on a cost-plus basis as well as risk management services provided to other departments on a cost-reimbursement basis.

As a general rule, the effect of interfund activity has been eliminated from the basic financial statements. Exceptions to this general rule are charges between the Division's water and sewer function and various other functions of the Division. Eliminations of these charges would distort the direct costs and program revenue reported for the various functions concerned.

Genesee County Drain Commissioner

Division of Water and Waste Services

Notes to Financial Statements
December 31, 2012

Note 1 - Summary of Significant Accounting Policies (Continued)

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

Bank Deposits and Investments - Cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value, based on quoted market prices.

Short-term Financial Instruments - The fair value of short-term financial instruments, including cash and cash equivalents, trade accounts receivable and payable, accrued receivables, and accrued liabilities, is equal to the carrying amounts in the accompanying basic financial statements due to the short maturity of such instruments.

Receivables and Payables - Outstanding balances between funds are reported in the basic financial statements as "internal balances." All trade receivables are shown as net of an allowance for uncollectible amounts.

Inventories - Inventories consist primarily of water meters and grinder pumps, valued at cost, using the first-in, first-out method. The cost of supply inventory is recorded as an expense when consumed rather than when purchased.

Leases Receivable - Leases receivable consist of amounts due to the Division from various municipalities for construction activity. The Division constructs assets for various municipalities under Act 342. Under this act, the County issues bonds and constructs assets on behalf of municipalities. These assets are then leased by the municipalities over the life of the bonds. Lease payments approximate the debt service requirements of the associated bonds.

Local Unit Construction in Progress - Local unit construction in progress represents construction of water and sewer distribution and collection systems performed by the Division for local communities. The projects are recorded as an asset during the construction phase and are offset by an unearned lease. When the projects are substantially complete, the asset and unearned lease are removed from the basic financial statements and an asset is recorded by the local community.

Genesee County Drain Commissioner

Division of Water and Waste Services

Notes to Financial Statements December 31, 2012

Note 1 - Summary of Significant Accounting Policies (Continued)

Restricted Assets - Certain assets are restricted by the Division's bond ordinances for capital outlay. In addition, unspent bond proceeds and County capital improvement fees are restricted for the construction of water collection and sewage disposal systems projects. When an expense is incurred that allows the use of restricted assets (such as bond debt principal and interest), those assets are applied before utilizing any unrestricted assets.

In 2011, of the total restricted cash and cash equivalents of \$4,592,588, \$3,384,138 was restricted for construction and \$1,208,450 was restricted for debt service. Of the total restricted accounts receivable of \$532,653, \$264,688 was county capital improvement fees restricted for construction and \$267,965 was interest receivable from communities restricted for debt service. The total amount restricted due from other governmental units of \$333,813 was restricted for construction.

In 2012, there are no restrictions on cash.

Postemployment Benefits - In addition to the pension benefits described in Note 5, the Division provides postemployment health care, dental, and life insurance benefits after retirement through a contractual agreement. The Division is responsible for 100 percent of the cost of postemployment benefits and funds these costs as they are incurred. Postemployment benefits for retired employees were \$1,514,865 and \$1,426,481 for the years ended December 31, 2012 and 2011, respectively. The total number of eligible retirees amounted to 82 and 83 individuals during December 31, 2012 and 2011, respectively.

Compensated Absences - The Division's employees are granted vacation leave bi-annually based on length of service and 80 hours of personal leave each January 1. Upon termination or resignation, employees are paid accumulated vacation at current salary rates. Upon retirement, employees are paid accumulated vacation and up to 112 hours of personal leave at current salary rates. At December 31, 2012 and 2011, the Division has recorded a liability of approximately \$431,000 and \$426,000, respectively, for accumulated vacation leave.

Unearned Leases - Unearned leases represent cash and investments and construction in progress recorded on the Division's books belonging to the municipalities participating in the water collection and sewage disposal system.

Use of Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Genesee County Drain Commissioner

Division of Water and Waste Services

Notes to Financial Statements December 31, 2012

Note 1 - Summary of Significant Accounting Policies (Continued)

Property, Plant, and Equipment - Additions to property, plant, and equipment are recorded at cost or, if donated, at their estimated fair value at the time of donation. Repairs and maintenance are recorded as expenses; renewals and betterments are capitalized. The sale or disposal of fixed assets is recorded by removing cost and accumulated depreciation from the accounts and charging the resulting gain or loss to income. Depreciation has been calculated on each class of property using the straight-line method based on the estimated useful lives of the assets, as follows:

Land improvements and underground networks	25-100 years
Buildings	10-50 years
Machinery and equipment	3-25 years

Comparative Data/Reclassifications - Comparative total data for the prior year has been presented in the financial statements in order to provide an understanding of the changes in the financial position and operations. Certain amounts presented in the prior year data have been reclassified in order to be consistent with the current year's presentation.

Reporting Change - During the year, the Division adopted GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. The statement incorporates deferred outflows of resources and deferred inflows of resources, as defined by GASB Concepts Statement No. 4, into the definitions of the required components of the residual measure of net position, formerly net assets. The statement also provides a new statement of net position format to report all assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position. The statement impacts the format and reporting of the balance sheet.

Note 2 - Deposits and Investments

Michigan Compiled Laws Section 129.91 (Public Act 20 of 1943, as amended) authorizes local governmental units to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The law also allows investments outside the state of Michigan when fully insured. The local unit is allowed to invest in bonds, securities, and other direct obligations of the United States or any agency or instrumentality of the United States; repurchase agreements; bankers' acceptances of United States banks; commercial paper rated within the two highest classifications, which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

Genesee County Drain Commissioner Division of Water and Waste Services

Notes to Financial Statements December 31, 2012

Note 2 - Deposits and Investments (Continued)

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

The Division's cash and investments are subject to custodial credit risk, which are examined in more detail below:

Custodial Credit Risk of Bank Deposits - Custodial credit risk is the risk that in the event of a bank failure, the Division's deposits may not be returned to it. The Division does not have a deposit policy for custodial credit risk. At year end, the Division had \$1,092,031 of bank deposits (certificates of deposit, checking, and savings accounts) that were uninsured and uncollateralized. The Division believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the Division evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

The unlimited FDIC insurance program expired on December 31, 2012. Starting January 1, 2013, the Division's uninsured deposits increased significantly.

Genesee County Drain Commissioner

Division of Water and Waste Services

Notes to Financial Statements

December 31, 2012

Note 3 - Capital Assets

Capital asset activity of the Division's proprietary fund type at December 31, 2012 was as follows:

	Balance January 1, 2012	Reclassifications*	Additions	Disposals	Balance December 31, 2012
Enterprise Fund:					
Capital assets not being depreciated:					
Land	\$ 871,021	\$ -	\$ -	\$ -	\$ 871,021
Construction in progress	86,046,793	(36,835,568)	8,097,276	(2,399,999)	54,908,502
Subtotal	86,917,814	(36,835,568)	8,097,276	(2,399,999)	55,779,523
Capital assets being depreciated:					
Distribution and collections system	278,985,859	29,806,472	1,895,257	-	310,687,588
Buildings and equipment	5,419,064	7,045,346	435,029	-	12,899,439
Vehicles	382,261	-	-	-	382,261
Subtotal	284,787,184	36,851,818	2,330,286	-	323,969,288
Accumulated depreciation:					
Distribution and collections system	(48,921,258)	-	(6,327,670)	-	(55,248,928)
Buildings and equipment	(3,423,902)	-	(406,918)	-	(3,830,820)
Vehicles	(254,852)	-	(114,514)	-	(369,366)
Subtotal	(52,600,012)	-	(6,849,102)	-	(59,449,114)
Net capital assets being depreciated	232,187,172	36,851,818	(4,518,816)	-	264,520,174
Net capital assets	\$ 319,104,986	\$ 16,250	\$ 3,578,460	\$ (2,399,999)	\$ 320,299,697
Internal Service Funds:					
Capital assets not being depreciated -					
Construction in progress	\$ 16,250	\$ (16,250)	\$ -	\$ -	\$ -
Capital assets being depreciated -					
Buildings and equipment	8,628,852	-	229,743	(352,730)	8,505,865
Accumulated depreciation - Buildings and improvements					
	(5,797,381)	-	(461,288)	352,730	(5,905,939)
Net capital assets being depreciated	2,831,471	-	(231,545)	-	2,599,926
Net capital assets	2,847,721	(16,250)	(231,545)	-	2,599,926
Total proprietary funds capital assets	\$ 321,952,707	\$ -	\$ 3,346,915	\$ (2,399,999)	\$ 322,899,623

* \$16,250 in renovations on an office building were originally recorded as construction in progress in the Internal Service Fund. Subsequent to completion, the amount was reclassified from the Internal Service Fund to the Enterprise Fund.

Genesee County Drain Commissioner

Division of Water and Waste Services

Notes to Financial Statements December 31, 2012

Note 3 - Capital Assets (Continued)

Construction Commitments - The Division has active construction projects at year end. The projects include improvements and extensions to the water and sewage disposal systems. At year end, the Division's commitments with contractors are as follows:

	<u>Spent to Date</u>	<u>Remaining Commitment</u>
Interceptor and treatment facilities	\$ 35,147,898	\$ 544,915
Sewage disposal system - District No. 3	1,835,728	10,541
Sewage disposal system - District No. 7	24,394	20,075
Water supply system	<u>4,001,252</u>	<u>2,193,395</u>
Total	<u>\$ 41,009,272</u>	<u>\$ 2,768,926</u>

Note 4 - Long-term Debt

The Division issues bonds to provide for the construction of water and waste systems in Genesee County and certain areas in surrounding counties. General obligation bonds are direct obligations and pledge the full faith and credit of the Division. Revenue bonds involve a pledge of specific income derived from the acquired or constructed assets to pay debt service and require certain financial covenants to be met.

Long-term debt activity for the year ended December 31, 2012 can be summarized as follows:

	<u>Number of Issues</u>	<u>Interest Rate Ranges</u>	<u>Principal Maturity Ranges</u>	<u>Beginning Balance *</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance *</u>	<u>Due Within One Year</u>
Genesee County Drain Commissioner								
bonds payable:								
Interceptor and treatment								
facilities	13	1.625%-5.00%	2031	\$ 99,311,556	\$ 3,388,570	\$ (6,180,000)	\$ 96,520,126	\$ 6,310,000
District No. 3	2	2.50%-4.50%	2030	6,430,000	-	(270,000)	6,160,000	285,000
Water supply system	4	2.50%-5.125%	2033	40,245,000	-	(1,260,000)	38,985,000	1,310,000
Subtotal				<u>145,986,556</u>	<u>3,388,570</u>	<u>(7,710,000)</u>	<u>141,665,126</u>	<u>7,905,000</u>
Community-related bonds payable:								
Interceptor and treatment facilities	2	4.00%-4.35%	2026	5,235,000	-	(375,000)	4,860,000	390,000
District No. 3	6	2.50%-7.375%	2024	25,355,000	-	(2,415,000)	22,940,000	2,510,000
Water supply system	1	2.50	2031	903,516	29,999	(34,250)	899,265	40,000
Subtotal				<u>31,493,516</u>	<u>29,999</u>	<u>(2,824,250)</u>	<u>28,699,265</u>	<u>2,940,000</u>
Total bonds payable				<u>\$ 177,480,072</u>	<u>\$ 3,418,569</u>	<u>\$ (10,534,250)</u>	<u>\$ 170,364,391</u>	<u>\$ 10,845,000</u>

* Long-term debt balance excludes bond discount/premium of \$318,505 and \$332,027 at December 31, 2012 and 2011, respectively.

Genesee County Drain Commissioner

Division of Water and Waste Services

Notes to Financial Statements December 31, 2012

Note 4 - Long-term Debt (Continued)

Total interest expense for the year was approximately \$5.8 million, of which approximately \$1.5 million was capitalized as part of construction in progress. Annual debt service requirements to maturity for the above obligations are as follows:

Years Ending December 31	Business-type Activities		
	Principal	Interest	Total
2013	\$ 10,845,000	\$ 5,654,333	\$ 16,499,333
2014	11,180,000	5,317,264	16,497,264
2015	11,540,000	4,966,431	16,506,431
2016	11,645,000	4,604,434	16,249,434
2017	10,830,000	4,250,159	15,080,159
2018-2022	48,350,000	16,663,484	65,013,484
2023-2027	46,570,000	8,859,989	55,429,989
2028-2032	17,869,391	2,250,274	20,119,665
2033	1,535,000	75,406	1,610,406
Total	<u>\$ 170,364,391</u>	<u>\$ 52,641,774</u>	<u>\$ 223,006,165</u>

Future Revenue Pledged for Debt Payment

Revenue Bond - The Division has pledged substantially all revenue, net of operating expenses, to repay the above Genesee County Drain Commissioner water and sewer revenue bonds. Proceeds from the bonds provided financing for the construction of the water and waste systems described above. The bonds are payable solely from the net revenue of the water and sewer system. The remaining principal and interest to be paid on the bonds total \$115,370,449. During the current year, net revenue of the system was \$12,895,721 compared to the annual debt requirements of \$7,623,037.

Note 5 - Defined Benefit Pension Plan

Plan Description - The Division participates in the Genesee County Employees' Retirement System (GCERS), which is a contributory agent multiple-employer defined benefit plan for pension and disability benefits that covers substantially all employees of Genesee County. Each employer has the ability to negotiate and/or establish benefits through personal policies. The authority to establish and amend the benefit provisions of the plan is governed by Act No. 156, Public Acts of 1851, as amended by the State of Michigan. GCERS issues a publicly available financial report that includes financial statements and required supplemental information for the Division. That report may be obtained by writing to Genesee County Employees' Retirement System, 1101 Beach, Flint, MI 48502 or by calling 1-800-949-2627.

Genesee County Drain Commissioner

Division of Water and Waste Services

Notes to Financial Statements December 31, 2012

Note 5 - Defined Benefit Pension Plan (Continued)

Funding Policy - The County'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 is determined using an attained age actuarial funding method.

Annual Pension Cost - For the years ended December 31, 2012 and 2011, the Division's annual pension cost of \$1,531,645 and \$1,763,782, respectively, was equal to the Division's required and actual contribution. The annual required contributions were determined as part of the actuarial valuations at December 31, 2010 and December 31, 2009 using the individual entry age actuarial cost method.

Actuarial Methods and Assumptions - In the December 31, 2011 actuarial valuation, the individual entry age actuarial cost method was used. Significant actuarial assumptions used include (a) a rate of return on the investment of present and future assets of 8.00 percent per year compounded annually and (b) projected salary increases of 3.00 percent to 7.03 percent per year compounded annually. Both (a) and (b) included an inflation component of 3.00 percent. The actuarial value of the Division's assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a four-year period. The Division's unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on an open basis, with the remaining amortization period of 25 years at December 31, 2011.

Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (Percent) (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll
12/31/06	\$ 37,578,528	\$ 42,770,145	\$ 5,191,617	87.9 %	\$ 8,245,848	63.0 %
12/31/07	38,979,791	44,748,462	5,768,671	87.1	7,823,724	73.7
12/31/08	37,329,643	46,855,482	9,525,839	79.7	8,420,060	113.1
12/31/09	36,627,952	49,055,966	12,428,014	74.7	8,130,143	152.9
12/31/10	35,600,950	50,285,901	14,684,951	70.8	7,610,890	192.9
12/31/11	32,632,128	48,896,200	16,264,072	66.7	7,312,770	222.4

**Genesee County Drain Commissioner
Division of Water and Waste Services**

**Notes to Financial Statements
December 31, 2012**

Note 5 - Defined Benefit Pension Plan (Continued)

Schedule of Employer Contributions

<u>Fiscal Year Ended</u>	<u>Actuarial Valuation Date</u>	<u>Contribution Rate as Percentage of Valuation Payroll</u>	<u>Annual Pension Cost (APC)</u>	<u>Actual Reported Contribution</u>	<u>Percentage of ARC Contributed</u>
12/31/10	12/31/08	17.76 %	\$ 1,744,861	\$ 1,744,861	100 %
12/31/11	12/31/09	18.81	1,763,782	1,763,782	100
12/31/12	12/31/10	16.62	1,531,645	1,531,645	100

Note 6 - Other Postemployment Benefits

Plan Description - The Division provides retiree health care, dental, life, and vision benefits to eligible employees and their spouses and dependents through the Municipal Employees' Retirement System. This is an agent multiple-employer defined benefit plan administered by the Division. The benefits are provided under collective bargaining agreements.

Funding Policy - The collective bargaining agreements do not require employee contributions. The Division has no obligation to make contributions in advance of when the insurance premiums are due for payment (in other words, this may be financed on a "pay-as-you-go" basis). However, as shown below, the Division has made contributions to advance-fund these benefits, as determined by the Division.

Genesee County Drain Commissioner

Division of Water and Waste Services

Notes to Financial Statements December 31, 2012

Note 6 - Other Postemployment Benefits (Continued)

Funding Progress - For the year ended December 31, 2012, the Division has estimated the cost of providing retiree healthcare benefits through an actuarial valuation as of December 31, 2010. The valuation computes an annual required contribution, which represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed 30 years. This valuation's computed contribution and actual funding are summarized as follows:

	<u>2012</u>	<u>2011</u>
Annual required contribution (recommended)	\$ 3,818,480	\$ 3,933,831
Interest on the prior year's net OPEB obligation	230,108	127,528
Less adjustment to the annual required contribution	<u>(101,338)</u>	<u>(78,511)</u>
Annual OPEB cost	3,947,250	3,982,848
Amounts contributed:		
Payments of current premiums	(1,523,879)	(1,337,004)
Advance funding	<u>(2,500,000)</u>	<u>(81,360)</u>
Total contributions	<u>(4,023,879)</u>	<u>(1,418,364)</u>
(Decrease) increase in net OPEB obligation	(77,629)	2,564,484
OPEB obligation - Beginning of year	<u>5,752,695</u>	<u>3,188,211</u>
OPEB obligation - End of year	<u>\$ 5,675,066</u>	<u>\$ 5,752,695</u>

The net OPEB obligation is recorded in the basic financial statements as part of noncurrent liabilities.

The annual OPEB costs, the percentage contributed to the plan, and the net OPEB obligation for the current and preceding year were as follows:

<u>Fiscal Year Ended</u>	<u>Annual OPEB Costs</u>	<u>Percentage Contributed</u>	<u>Net OPEB Obligation</u>
12/31/10	\$ 2,641,753	55.87 %	\$ 3,188,211
12/31/11	3,982,848	35.61	5,752,695
12/31/12	3,947,250	101.94	5,676,066

The Division approved a prefunding plan in 2012 and remitted \$2.5 million to the trust during the year. Going forward, \$1.2 million will be remitted to the trust per year until the liability is funded.

Genesee County Drain Commissioner

Division of Water and Waste Services

Notes to Financial Statements December 31, 2012

Note 6 - Other Postemployment Benefits (Continued)

The funding progress of the plan is as follows:

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (Percent) (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll
12/31/08	\$ -	\$ 35,394,879	\$ 35,394,879	-	\$ 8,420,060	420.36 %
12/31/10	-	51,474,408	51,474,408	-	7,610,890	676.33
9/30/12	2,333,369	37,819,976	35,486,607	6.17 %	7,312,770	485.27

The schedule of employer contributions is as follows:

Fiscal Year Ended	Actuarial Valuation Date	Annual Required Contribution (ARC)	Percentage of ARC Contributed	Contribution Rate as Percentage of Valuation Payroll
12/31/10	12/31/08	\$ 2,641,753	55.87 %	32.43 %
12/31/11	12/31/10	3,982,848	35.61	50.59
12/31/12	12/31/10	3,947,250	101.94	50.59

Actuarial Methods and Assumptions - Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the December 31, 2010 actuarial valuation, the individual entry age actuarial cost method was used. The actuarial assumptions included a 4.0 percent investment rate of return (net of administrative expenses) and an annual healthcare cost trend rate of 5.0 percent. The UAAL is being amortized as a level percentage of projected payroll over 30 years.

Genesee County Drain Commissioner

Division of Water and Waste Services

Notes to Financial Statements December 31, 2012

Note 7 - Risk Management

The Division is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The Division is partially self-insured for medical benefits and has purchased commercial insurance for the remaining medical benefits and other risks of loss. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

The Division estimates the liability for medical claims that have been incurred through the end of the fiscal year, including claims that have been reported as well as those that have not yet been reported. The liability is included with accounts payable and other accrued expenses in the statement of net position. Changes in the estimated liability for the past two fiscal years were as follows:

	<u>2012</u>	<u>2011</u>
Unpaid claims - Beginning of year	\$ 290,676	\$ 261,162
Incurred claims, including claims incurred but not reported	2,208,189	2,559,231
Claim payments	<u>(2,038,825)</u>	<u>(2,529,717)</u>
Unpaid claims - End of year	<u>\$ 460,040</u>	<u>\$ 290,676</u>

Note 8 - Upcoming Accounting Pronouncements

In March 2012, the GASB issued Statement No. 65, *Items Previously Reported as Assets and Liabilities*, which is required to be implemented for financial statements for periods beginning after December 15, 2012. Statement No. 65 establishes accounting and financial reporting standards that reclassify, as deferred outflows and inflows of resources, certain items that were previously reported as assets and liabilities. This statement also provides other financial reporting guidance related to the impact of the financial statement elements deferred outflows of resources and deferred inflows of resources. Statement No. 65 will be implemented for the Division as of December 31, 2013.

Genesee County Drain Commissioner Division of Water and Waste Services

Notes to Financial Statements December 31, 2012

Note 8 - Upcoming Accounting Pronouncements (Continued)

In June 2012, the GASB issued two new pension standards, GASB Statement No. 67, *Financial Reporting for Pension Plans*, and No. 68, *Accounting and Financial Reporting for Pensions*. These new standards significantly revise the current accounting and reporting for pensions, both from an employer perspective as well as from a plan perspective. Employers providing defined benefit pensions to its employees must now, under these new standards, recognize their unfunded pension benefit obligation as a liability for the first time, and to more comprehensively and comparably measure the annual costs of pension benefits. This net pension liability that will be recorded on the government-wide, proprietary, and discretely presented component units statements will be computed differently than the current unfunded actuarial accrued liability, using specific parameters set forth by the GASB. The statement also enhances accountability and transparency through revised and expanded note disclosures and required supplemental information (RSI). Statement No. 67 is required to be adopted for December 31, 2013 and Statement No. 68 one year later.

Supplemental Information

Genesee County Drain Commissioner

Division of Water and Waste Services

Statement of Net Position - Proprietary Fund Types

	December 31, 2012					December 31,
	Sewage Disposal Systems					2011
	Interceptor and Treatment Facilities	District No. 3	District No. 7	Water Supply Systems	Total	Total
Assets						
Current assets:						
Cash and cash equivalents	\$ 3,364,946	\$ 269,995	\$ 80,105	\$ 9,081,769	\$ 12,796,815	\$ 11,382,843
Accounts receivable	5,062,899	314,269	154,197	3,281,093	8,812,458	8,253,909
Current portion of leases receivable	390,000	2,510,000	-	40,000	2,940,000	2,825,000
Due from other governmental units	-	-	-	-	-	2,000
Inventory	-	-	-	75,625	75,625	52,658
Prepaid expenses	236,811	39,375	5,419	211,661	493,266	5,389
Other assets	-	-	-	93,000	93,000	30,000
Total current assets	9,054,656	3,133,639	239,721	12,783,148	25,211,164	22,551,799
Noncurrent assets:						
Restricted cash and cash equivalents	-	-	-	-	-	4,592,588
Restricted accounts receivable	33,615	203,770	-	5,623	243,008	532,653
Restricted - Due from other governmental units	-	300,325	-	-	300,325	333,813
Leases receivable - Net of current portion	4,470,000	20,430,000	-	859,265	25,759,265	28,668,516
Local unit construction in progress	-	-	-	156,500	156,500	1,413,161
Capital assets:						
Assets not subject to depreciation	52,813,000	604,823	1,415	2,360,285	55,779,523	86,917,814
Assets subject to depreciation - Net of depreciation	172,348,963	28,322,095	414,484	63,434,632	264,520,174	232,187,172
Unamortized bond issuance costs	657,879	21,169	-	-	679,048	756,622
Total noncurrent assets	230,323,457	49,882,182	415,899	66,816,305	347,437,843	355,402,339
Total assets	239,378,113	53,015,821	655,620	79,599,453	372,649,007	377,954,138
Liabilities						
Current liabilities:						
Accounts payable and accrued expenses	2,017,833	240,188	22,066	2,751,300	5,031,387	4,228,728
Due to other governmental units	241,300	-	-	-	241,300	237,310
Internal balances	-	-	-	-	-	26,185
Due to State of Michigan	149,998	-	-	-	149,998	-
Current portion of long-term debt	6,700,000	2,795,000	-	1,350,000	10,845,000	10,360,000
Total current liabilities	9,109,131	3,035,188	22,066	4,101,300	16,267,685	14,852,223
Noncurrent liabilities:						
Liabilities related to restricted assets	33,615	203,770	-	5,623	243,008	3,509,475
Unearned leases	-	-	-	156,500	156,500	1,524,185
Other postemployment benefit obligation	3,483,846	553,652	94,518	1,544,050	5,676,066	5,752,695
Long-term debt - Net of current portion	94,808,826	26,328,956	-	38,700,114	159,837,896	167,452,099
Total noncurrent liabilities	98,326,287	27,086,378	94,518	40,406,287	165,913,470	178,238,454
Total liabilities	107,435,418	30,121,566	116,584	44,507,587	182,181,155	193,090,677
Equity - Net position						
Invested in capital assets - Net of related debt	129,171,016	22,764,131	415,899	26,644,068	178,995,114	175,813,604
Restricted	-	-	-	3,098,052	3,098,052	3,098,052
Unrestricted	2,771,679	130,124	123,137	5,349,746	8,374,686	5,951,805
Total net position	\$ 131,942,695	\$ 22,894,255	\$ 539,036	\$ 35,091,866	\$ 190,467,852	\$ 184,863,461

Genesee County Drain Commissioner Division of Water and Waste Services

Statement of Revenue, Expenses, and Changes in Net Position (Divisional Detail) - Enterprise Fund

	December 31, 2012				December 31, 2011	
	Sewage Disposal Systems					
Interceptor and Treatment Facilities	District No. 3	District No. 7	Water Supply Systems	Total	Total	
Operating Revenue						
Charges for sales and service:						
Sale of water	\$ -	\$ -	\$ -	\$ 23,104,124	\$ 23,104,124	\$ 21,697,903
Sewage disposal charges	22,785,153	3,201,467	721,602	-	26,708,222	26,028,846
Billing services	146,171	-	-	-	146,171	-
Water meter sales	-	-	-	46,694	46,694	64,662
Sewer and pumping station - Operation and maintenance	1,197,219	-	-	-	1,197,219	1,197,219
Other operating revenue	484,869	162,795	1,447	709,227	1,358,338	880,452
Total operating revenue	24,613,412	3,364,262	723,049	23,860,045	52,560,768	49,869,082
Operating Expenses						
Cost of water	-	-	-	11,779,406	11,779,406	12,947,738
Sludge disposal service	986,087	242,175	-	-	1,228,262	1,098,897
Cost of insurance claims and expenses	125,273	29,052	4,608	118,481	277,414	237,060
Repairs and maintenance	1,383,070	299,042	172,738	459,761	2,314,611	2,367,433
Personnel services	8,915,314	1,590,428	227,729	4,474,345	15,207,816	16,672,169
Other supplies and expenses	665,619	44,321	30,610	255,244	995,794	1,033,489
Contractual services	3,437,616	129,178	26,770	1,026,699	4,620,263	622,620
Utilities	2,196,573	389,106	145,146	510,656	3,241,481	4,288,957
Depreciation	4,258,784	717,785	22,722	1,849,811	6,849,102	6,142,303
Total operating expenses	21,968,336	3,441,087	630,323	20,474,403	46,514,149	45,410,666
Operating Income (Loss)	2,645,076	(76,825)	92,726	3,385,642	6,046,619	4,458,416
Nonoperating Revenue (Expenses)						
Community bond interest income	207,194	1,031,715	-	24,227	1,263,136	1,356,456
Community bond interest expense	(207,194)	(1,031,715)	-	(24,227)	(1,263,136)	(1,356,456)
Miscellaneous income	250,899	-	-	679,155	930,054	635,689
Miscellaneous expense	(45,582)	-	-	-	(45,582)	(158,115)
Capital interest and fee expense	(1,060,572)	(222,242)	-	(1,821,043)	(3,103,857)	(2,910,570)
Investment income	13,622	1,102	145	28,348	43,217	33,575
Total nonoperating (expense) revenue	(841,633)	(221,140)	145	(1,113,540)	(2,176,168)	(2,399,421)
Income (Loss) - Before capital contributions and operating transfers	1,803,443	(297,965)	92,871	2,272,102	3,870,451	2,058,995
Capital Contributions	218,434	289,991	-	1,111,693	1,620,118	268,228
Transfers In	41,889,990	1,759,884	1,138	1,981,121	45,632,133	37,559,040
Transfers Out	(41,835,356)	(1,751,915)	-	(1,931,040)	(45,518,311)	(37,662,791)
Increase (Decrease) in Net Position	2,076,511	(5)	94,009	3,433,876	5,604,391	2,223,472
Net Position - Beginning of year	129,866,184	22,894,260	445,027	31,657,990	184,863,461	182,639,989
Net Position - End of year	\$ 131,942,695	\$ 22,894,255	\$ 539,036	\$ 35,091,866	\$ 190,467,852	\$ 184,863,461

Genesee County Drain Commissioner Division of Water and Waste Services

Statement of Cash Flows (Divisional Detail) - Enterprise Fund

	December 31, 2012					December 31, 2011
	Interceptor and Treatment Facilities	Sewage Disposal Systems		Water Supply Systems	Total	Total
		District No. 3	District No. 7			
Cash Flows from Operating Activities						
Receipts from customers	\$ 24,357,589	\$ 3,349,295	\$ 689,402	\$ 23,682,934	\$ 52,079,220	\$ 52,060,797
Payments to suppliers and others for goods and services	(9,209,198)	(1,281,626)	(393,676)	(14,659,557)	(25,544,057)	(28,444,732)
Payments for salaries and employee benefits	(8,551,259)	(1,590,520)	(251,767)	(4,377,908)	(14,771,454)	(9,449,173)
Net cash provided by operating activities	6,597,132	477,149	43,959	4,645,469	11,763,709	14,166,892
Cash Flows from Capital and Related Financing Activities						
Purchases of capital assets	(5,813,739)	(132,755)	(5,660)	(2,770,323)	(8,722,477)	(17,461,991)
Contribution from local units for construction	-	-	-	-	-	1,219,720
County capital improvement fees	250,899	-	-	717,320	968,219	630,783
Collections of leases receivable from municipalities	581,769	3,444,824	-	4,251	4,030,844	4,014,604
Proceeds from issuance of bonded debt	3,388,570	-	-	29,999	3,418,569	24,872,946
Principal paid on bond maturities	(6,555,000)	(2,685,000)	-	(1,294,250)	(10,534,250)	(17,708,000)
Interest paid on bonds	(1,282,408)	(1,254,377)	-	(1,834,380)	(4,371,165)	(4,277,392)
Operating transfer	54,634	7,969	1,138	50,081	113,822	(103,751)
Net cash used in capital and related financing activities	(9,375,275)	(619,339)	(4,522)	(5,097,302)	(15,096,438)	(8,813,081)
Cash Flows from Investing Activities - Investment income	16,161	1,102	145	136,705	154,113	54,705
Net (Decrease) Increase in Cash and Cash Equivalents	(2,761,982)	(141,088)	39,582	(315,128)	(3,178,616)	5,408,516
Cash and Cash Equivalents - Beginning of year	6,126,928	411,083	40,523	9,396,897	15,975,431	10,566,915
Cash and Cash Equivalents - End of year	<u>\$ 3,364,946</u>	<u>\$ 269,995</u>	<u>\$ 80,105</u>	<u>\$ 9,081,769</u>	<u>\$ 12,796,815</u>	<u>\$ 15,975,431</u>
Balance Sheet Classification of Cash and Cash Equivalents						
Cash and investments	\$ 3,364,946	\$ 269,995	\$ 80,105	\$ 9,081,769	\$ 12,796,815	\$ 11,382,843
Restricted cash and cash equivalents	-	-	-	-	-	4,592,588
Total cash and cash equivalents	<u>\$ 3,364,946</u>	<u>\$ 269,995</u>	<u>\$ 80,105</u>	<u>\$ 9,081,769</u>	<u>\$ 12,796,815</u>	<u>\$ 15,975,431</u>
Reconciliation of Operating Income (Loss) to Net Cash from Operating Activities						
Operating income (loss)	\$ 2,645,076	\$ (76,825)	\$ 92,726	\$ 3,385,642	\$ 6,046,619	\$ 4,458,416
Depreciation	4,258,784	717,785	22,722	1,849,811	6,849,102	6,142,303
Write-off of construction in progress	2,369,806	-	-	-	2,369,806	-
Changes in assets and liabilities:						
Receivables	(398,295)	289,034	(33,269)	(315,115)	(457,645)	2,122,207
Inventories	-	-	-	(22,967)	(22,967)	(9,359)
Prepaid and other assets	(235,536)	(39,200)	(5,268)	(270,873)	(550,877)	(34,320)
Accounts payable	(2,549,230)	(109,552)	-	(215,470)	(2,874,252)	1,418,138
Due to (from) other governmental units - Units	155,998	(41,794)	(32,574)	(111,922)	(30,292)	71,318
Accrued and other liabilities	364,055	(92)	-	96,437	460,400	-
Internal balances	(13,526)	(262,207)	(378)	249,926	(26,185)	(1,811)
Net cash provided by operating activities	<u>\$ 6,597,132</u>	<u>\$ 477,149</u>	<u>\$ 43,959</u>	<u>\$ 4,645,469</u>	<u>\$ 11,763,709</u>	<u>\$ 14,166,892</u>

Noncash Investing, Capital, and Financing Activities - During the year ended December 31, 2012, the Enterprise Fund had \$1,111,693 and \$508,425 contributed to the water and sewer systems by local communities and a grant, respectively.

Genesee County Drain Commissioner

Division of Water and Waste Services

Statement of Net Position - Internal Service Funds

	December 31, 2012			December 31,
	Equipment Fund	Insurance Fund	Total	2011
				Total
Assets				
Current assets:				
Cash and cash equivalents	\$ 1,138,432	\$ 1,150	\$ 1,139,582	\$ 1,997,951
Accounts receivable	-	-	-	1,998
Prepaid expenses	-	-	-	81,689
Total current assets	1,138,432	1,150	1,139,582	2,081,638
Noncurrent assets - Capital assets - Assets subject to depreciation - Net of depreciation	2,599,926	-	2,599,926	2,847,721
Total assets	3,738,358	1,150	3,739,508	4,929,359
Liabilities - Current liabilities				
Accounts payable and accrued expenses	322	1,150	1,472	594,440
Internal balances	-	-	-	(26,185)
Total liabilities	322	1,150	1,472	568,255
Equity - Net position				
Invested in capital assets - Net of related debt	2,599,926	-	2,599,926	2,847,721
Unrestricted	1,138,110	-	1,138,110	1,513,383
Total net position	\$ 3,738,036	\$ -	\$ 3,738,036	\$ 4,361,104

Genesee County Drain Commissioner Division of Water and Waste Services

Statement of Revenue, Expenses, and Changes in Net Position Internal Service Funds

	December 31, 2012			December 31,
	Equipment Fund	Insurance Fund	Total	2011
	Combined	Combined		Total
Operating Revenue				
Other operating revenue	\$ -	\$ -	\$ -	\$ 152,453
Billing to Enterprise Fund	-	-	-	4,400,159
Total operating revenue	-	-	-	4,552,612
Operating Expenses				
Cost of insurance claims and expenses	-	-	-	3,767,859
Repairs and maintenance	65,905	-	65,905	-
Other supplies and expenses	-	-	-	10,628
Depreciation	461,288	-	461,288	394,212
Total operating expenses	527,193	-	527,193	4,172,699
Operating (Loss) Income	(527,193)	-	(527,193)	379,913
Nonoperating Revenue				
Miscellaneous expense	(1,756)	-	(1,756)	-
Investment income	-	-	-	1,852
Gain on sale of assets	19,703	-	19,703	-
Total nonoperating revenue	17,947	-	17,947	1,852
(Loss) Income - Before operating transfers	(509,246)	-	(509,246)	381,765
Transfers In	-	-	-	103,751
Transfers Out	(16,250)	(97,572)	(113,822)	-
(Decrease) Increase in Net Position	(525,496)	(97,572)	(623,068)	485,516
Net Position - Beginning of year	4,263,532	97,572	4,361,104	3,875,588
Net Position - End of year	\$ 3,738,036	\$ -	\$ 3,738,036	\$ 4,361,104

Genesee County Drain Commissioner

Division of Water and Waste Services

Statement of Cash Flows - Internal Service Funds

	December 31, 2012			December 31,
	Equipment Fund	Insurance Fund	Total	2011
Cash Flows from Operating Activities				Total
Receipts from customers	\$ 26,185	\$ 1,998	\$ 28,183	\$ 4,587,106
Payments to suppliers and others for goods and services	(67,339)	(228,534)	(295,873)	(3,681,895)
Net cash (used in) provided by operating activities	(41,154)	(226,536)	(267,690)	905,211
Cash Flows from Capital and Related Financing Activities				
Purchase of capital assets	(476,857)	-	(476,857)	(533,625)
Operating transfer	(16,250)	(97,572)	(113,822)	103,751
Net cash used in capital and related financing activities	(493,107)	(97,572)	(590,679)	(429,874)
Cash Flows from Investing Activities - Investment income	-	-	-	1,852
Net (Decrease) Increase in Cash and Cash Equivalents	(534,261)	(324,108)	(858,369)	477,189
Cash and Cash Equivalents - Beginning of year	1,672,693	325,258	1,997,951	1,520,762
Cash and Cash Equivalents - End of year	\$ 1,138,432	\$ 1,150	\$ 1,139,582	\$ 1,997,951
Balance Sheet Classification of Cash and Cash Equivalents	\$ 1,138,432	\$ 1,150	\$ 1,139,582	\$ -
Reconciliation of Operating (Loss) Income to Net Cash from Operating Activities				
Operating (loss) income	\$ (527,193)	\$ -	\$ (527,193)	\$ 379,913
Depreciation	461,288	-	461,288	394,212
Changes in assets and liabilities:				
Receivables	-	1,998	1,998	32,683
Other	(1,756)	-	(1,756)	-
Prepaid and other assets	-	81,689	81,689	140,471
Accounts payable, accrued expenses, and deferred revenue	322	(310,223)	(309,901)	(43,879)
Internal balances	26,185	-	26,185	1,811
Net cash (used in) provided by operating activities	\$ (41,154)	\$ (226,536)	\$ (267,690)	\$ 905,211

Genesee County Drain Commissioner Division of Water and Waste Services

Description of Issue	Principal Outstanding	Issued During the	Retired During the	Principal Outstanding	2013		2014	
	January 1, 2012	Year	Year	December 31, 2012	Principal	Interest	Principal	Interest
Interceptor and Treatment Facilities								
<u>Genesee County Drain Commissioner Bonds Payable:</u>								
Series 2003 \$9,000,000 Revenue Bonds backed by the full faith and credit of the County of Genesee. Bond proceeds used for Division Western Trunk Relief project. Due serially in various amounts ranging from \$350,000 to \$2,350,000 through 2018 with interest rates from 2.00% to 4.50%	\$ 3,485,000	\$ -	\$ (440,000)	\$ 3,045,000	\$ 460,000	\$ 132,288	\$ 480,000	\$ 113,888
Series 2005A \$22,180,000 State Revolving Fund Program Revenue Bonds backed by the full faith and credit of the County of Genesee. Bond proceeds used for Northeast Extension Sewer project. Fully drawn May 2007. Due in amounts ranging from \$950,000 to \$1,285,000 through 2026 with interest rate of 1.625%	17,280,000	-	(1,025,000)	16,255,000	1,045,000	264,144	1,060,000	247,163
Series 2005B \$15,505,000 State Revolving Fund Program Revenue Bonds backed by the full faith and credit of the County of Genesee for Division project. Fully drawn May 2007. Due in amounts ranging from \$660,000 to \$900,000 through 2026 with interest rate of 1.625%	12,090,000	-	(720,000)	11,370,000	730,000	178,831	740,000	166,888
Series 2006A \$2,815,000 State Revolving Fund Program Revenue Bonds backed by the full faith and credit of the County of Genesee. Bond proceeds used for Division Northeast Extension Sewer project. Fully drawn October 2007. Due in amounts ranging from \$120,000 to \$165,000 through 2027 with interest rate of 1.625%	2,325,000	-	(130,000)	2,195,000	130,000	35,669	130,000	33,556
Series 2006B \$7,705,000 State Revolving Fund Program Revenue Bonds backed by the full faith and credit of the County of Genesee. Bond proceeds used for Division Northeast Extension Sewer project. Fully drawn July 2008. Due in amounts ranging from \$330,000 to \$445,000 through 2027 with interest rate of 1.625%	6,355,000	-	(350,000)	6,005,000	355,000	97,581	365,000	91,813

Summary of Bonds Payable Year Ended December 31, 2012

2015		2016		2017		Later		Total	
Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
\$ 495,000	\$ 93,488	\$ 515,000	\$ 72,450	\$ 535,000	\$ 49,275	\$ 560,000	\$ 25,200	\$ 3,045,000	\$ 486,589
1,080,000	229,938	1,095,000	212,388	1,115,000	194,594	10,860,000	901,145	16,255,000	2,049,372
755,000	154,741	765,000	142,391	780,000	129,838	7,600,000	569,075	11,370,000	1,341,764
135,000	31,444	135,000	29,250	140,000	27,056	1,525,000	139,749	2,195,000	296,724
370,000	85,881	375,000	79,869	380,000	73,775	4,160,000	380,737	6,005,000	809,656

Genesee County Drain Commissioner Division of Water and Waste Services

Description of Issue	Principal Outstanding	Issued During the	Retired During the	Principal Outstanding	2013		2014	
	January 1, 2012	Year	Year	December 31, 2012	Principal	Interest	Principal	Interest
Series 2006C \$4,335,000 State Revolving Fund Program Revenue Bonds backed by the full faith and credit of the County of Genesee. Bond proceeds used for Division Northeast Extension Sewer project. Fully drawn January 2008. Due in amounts ranging from \$185,000 to \$250,000 through 2027 with interest rate of 1.625%	\$ 3,575,000	\$ -	\$ (200,000)	\$ 3,375,000	\$ 200,000	\$ 54,844	\$ 205,000	\$ 51,594
Series 2007 \$10,500,000 State Revolving Fund Program Revenue Bonds backed by the full faith and credit of the County of Genesee. Bond proceeds used for Division Northeast Extension Sewer project. Fully drawn in December 2010. Due in amounts ranging from \$450,000 to \$610,000 through 2028 with interest rate of 1.625%	9,130,000	-	(470,000)	8,660,000	480,000	136,825	485,000	128,984
Series 2007B \$8,000,000 Revenue Bonds backed by the full faith and credit of the County of Genesee. Bond proceeds used for Division Northeast Extension Sewer project. Due serially and term in amounts ranging from \$240,000 to \$605,000 through 2028 with interest rates from 4.00% to 4.40%	7,240,000	-	(280,000)	6,960,000	295,000	289,578	310,000	277,778
Series 2009A \$15,000,000 Revenue Bonds backed by the full faith and credit of the County of Genesee. Bond proceeds used for Division Northeast Extension Sewer project. Due serially and term in amounts ranging from \$475,000 to \$1,150,000 through 2029 with interest rates from 2.75% to 5.00%	14,050,000	-	(475,000)	13,575,000	500,000	607,188	525,000	593,438
Series 2010A \$14,544,000 State Revolving Fund Program Revenue Bonds backed by the full faith and credit of the County of Genesee. Bond proceeds used for Pump Station #1, ARTP Blower Revamp, and ARTP Clarifiers. \$794,876 remaining to be drawn. Due in amounts ranging from \$569,000 to \$910,000 through 2030 with interest rate of 2.50%	10,508,950	2,521,176	(585,000)	12,445,126	600,000	316,223	615,000	299,878
Series 2011A \$1,445,000 State Revolving Fund Program Revenue Bonds backed by the full faith and credit of the County of Genesee. Bond proceeds used for ARTP Switchgears. Fully drawn in October 2012. Due in amounts ranging from \$55,000 to \$90,000 through 2031 with interest rate of 2.50%	577,606	867,394	(55,000)	1,390,000	60,000	34,685	60,000	33,250
Series 2011B \$4,825,000 Revenue Bonds backed by the full faith and credit of the County of Genesee. Bond proceeds used for NEES 3E. Due serially and term in amounts ranging from \$180,000 to \$405,000 through 2031 with interest rates from 3.00% to 5.00%	4,825,000	-	-	4,825,000	-	201,500	-	201,500
Refunding Series 2011C \$7,870,000 Revenue Bonds backed by the full faith and credit of the County of Genesee. Refunded Series 2000, \$6,000,000 ARTP Grit Removal bond and Series 2002A, \$1,000,000 ARTP Enhancement bond. Due in amounts ranging from \$1,000,000 to \$1,500,000 through 2017 with interest rates from 2.00% to 2.25%	7,870,000	-	(1,450,000)	6,420,000	1,455,000	116,350	1,465,000	87,150
Total Genesee County Drain Commission bonds payable	99,311,556	3,388,570	(6,180,000)	96,520,126	6,310,000	2,465,706	6,440,000	2,326,880

Summary of Bonds Payable (Continued) Year Ended December 31, 2012

2015		2016		2017		Later		Total	
Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
\$ 205,000	\$ 48,263	\$ 210,000	\$ 44,931	\$ 215,000	\$ 41,519	\$ 2,340,000	\$ 214,500	\$ 3,375,000	\$ 455,651
495,000	121,022	500,000	112,938	510,000	104,731	6,190,000	569,482	8,660,000	1,173,982
325,000	265,378	340,000	252,378	360,000	238,778	5,330,000	1,479,235	6,960,000	2,803,125
525,000	577,688	600,000	561,281	625,000	541,031	10,800,000	3,768,282	13,575,000	6,648,908
630,000	284,503	645,000	268,753	660,000	252,628	9,295,126	1,618,911	12,445,126	3,040,896
60,000	31,750	60,000	30,250	65,000	28,750	1,085,000	214,500	1,390,000	373,185
-	201,500	180,000	198,800	185,000	193,325	4,460,000	1,550,820	4,825,000	2,547,445
1,500,000	57,500	1,000,000	32,500	1,000,000	11,250	-	-	6,420,000	304,750
6,575,000	2,183,096	6,420,000	2,038,179	6,570,000	1,886,550	64,205,126	11,431,636	96,520,126	22,332,047

Genesee County Drain Commissioner Division of Water and Waste Services

Description of Issue	Principal	Issued During the Year	Retired During the Year	Principal	2013		2014	
	Outstanding January 1, 2012			Outstanding December 31, 2012	Principal	Interest	Principal	Interest
Interceptor and Treatment Facilities								
<u>Community-related Bonds Payable:</u>								
Refunding Series 2005 \$2,900,000 County of Genesee Limited Tax General Obligation Bonds. Refunded Series 1999, \$3,800,000 Bonds for Mt. Morris Township Sanitary Sewer System project. Due serially in amounts ranging from \$15,000 to \$315,000 through 2019 with interest rates from 4.00% to 4.25%	\$ 2,175,000	\$ -	\$ (235,000)	\$ 1,940,000	\$ 245,000	\$ 75,433	\$ 255,000	\$ 65,183
Series 2006 \$3,665,000 County of Genesee Limited Tax General Obligation Bonds for Community Western Trunk Extension Sewer Phase II project. Due serially in amounts ranging from \$110,000 to \$285,000 through 2026 with interest rates from 4.00% to 4.35%	3,060,000	-	(140,000)	2,920,000	145,000	118,335	155,000	112,335
Total community-related bonds payable	5,235,000	-	(375,000)	4,860,000	390,000	193,768	410,000	177,518
Total interceptor and treatment facilities bonds payable	\$ 104,546,556	\$ 3,388,570	\$ (6,555,000)	\$ 101,380,126	\$ 6,700,000	\$ 2,659,474	\$ 6,850,000	\$ 2,504,398
District No. 3								
<u>Genesee County Drain Commissioner Bonds Payable:</u>								
Series 2007 \$6,000,000 Revenue Bonds backed by the full faith and credit of the County of Genesee. Bond proceeds used for Treatment Plant Improvement project. Due serially in various amounts ranging from \$195,000 to \$470,000 through 2027 with interest rates from 4.00% to 4.50%	\$ 5,385,000	\$ -	\$ (225,000)	\$ 5,160,000	\$ 240,000	\$ 214,538	\$ 250,000	\$ 204,738
Series 2010A \$1,089,000 State Revolving Fund Program Revenue Bonds backed by the full faith and credit of the County of Genesee. Bond proceeds used for District #3 Digester Phase I. Fully drawn in September 2011. Due in amounts ranging from \$44,000 to \$70,000 through 2030 with interest rate of 2.50%	1,045,000	-	(45,000)	1,000,000	45,000	25,000	45,000	23,875
Total Genesee County Drain Commission bonds payable	6,430,000	-	(270,000)	6,160,000	285,000	239,538	295,000	228,613

Summary of Bonds Payable (Continued) Year Ended December 31, 2012

2015		2016		2017		Later		Total	
Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
\$ 265,000	\$ 54,523	\$ 275,000	\$ 43,453	\$ 285,000	\$ 31,901	\$ 615,000	\$ 26,382	\$ 1,940,000	\$ 296,875
165,000	105,935	170,000	99,235	180,000	92,235	2,105,000	435,276	2,920,000	963,351
430,000	160,458	445,000	142,688	465,000	124,136	2,720,000	461,658	4,860,000	1,260,226
\$ 7,005,000	\$ 2,343,554	\$ 6,865,000	\$ 2,180,867	\$ 7,035,000	\$ 2,010,686	\$ 66,925,126	\$ 11,893,294	\$ 101,380,126	\$ 23,592,273

\$ 265,000	\$ 194,438	\$ 275,000	\$ 183,638	\$ 290,000	\$ 172,338	\$ 3,840,000	\$ 918,095	\$ 5,160,000	\$ 1,887,785
45,000	22,750	50,000	21,625	50,000	20,375	765,000	140,875	1,000,000	254,500
310,000	217,188	325,000	205,263	340,000	192,713	4,605,000	1,058,970	6,160,000	2,142,285

Genesee County Drain Commissioner Division of Water and Waste Services

Description of Issue	Principal Outstanding	Issued During the	Retired During the	Principal Outstanding	2013		2014	
	January 1, 2012	Year	Year	December 31, 2012	Principal	Interest	Principal	Interest
District No. 3								
<u>Community-related Bonds Payable:</u>								
Series 1996 \$1,240,000 County of Genesee Limited Tax General Obligation Bonds for Fenton Township Rolston and Ripley Road Arms project. Due serially in amounts ranging from \$25,000 to \$100,000 through 2017 with interest rates from 5.00% to 7.375%	\$ 575,000	\$ -	\$ (75,000)	\$ 500,000	\$ 100,000	\$ 24,750	\$ 100,000	\$ 19,250
Refunding Series 1996A \$12,940,000 Revenue Bonds backed by the full faith and credit of the County of Genesee. Refunded Series 2005, \$6,000,000 District No. 3 Treatment Plant Improvement bond. Due serially in various amounts ranging from \$75,000 to \$1,355,000 through 2016 with interest rates from 2.50% to 5.00%	6,705,000	-	(1,350,000)	5,355,000	1,355,000	228,819	1,345,000	164,694
Series 2003 \$4,000,000 County of Genesee Limited Tax General Obligation Bonds for Fenton Township Sewage Disposal System project. Due serially in amounts ranging from \$125,000 to \$250,000 through 2024 with interest rates from 2.50% to 4.50%	2,925,000	-	(200,000)	2,725,000	200,000	109,775	200,000	102,775
Series 2004A \$8,000,000 County of Genesee Limited Tax General Obligation Bonds for Fenton Township Sewage Disposal System project. Due serially in amounts ranging from \$250,000 to \$700,000 through 2024 with interest rates from 4.00% to 5.00%	6,250,000	-	(350,000)	5,900,000	350,000	244,500	400,000	225,750
Series 2004B \$4,600,000 County of Genesee Limited Tax General Obligation Bonds for Fenton Township Sewage Disposal System project. Due serially in amounts ranging from \$100,000 to \$400,000 through 2024 with interest rates from 4.00% to 5.00%	3,950,000	-	(150,000)	3,800,000	150,000	157,250	150,000	149,750
Refunding Series 2007 \$5,615,000 County of Genesee Limited Tax General Obligation Bonds. Partially refunded Series 1998, \$7,140,000 Bonds for City of Fenton, Fenton Township, and City of Linden Sewage Disposal System project. Due serially in amounts ranging from \$20,000 to \$915,000 through 2019 with interest rate of 4.00%	4,950,000	-	(290,000)	4,660,000	355,000	179,300	440,000	163,400
Total community-related bonds payable	25,355,000	-	(2,415,000)	22,940,000	2,510,000	944,394	2,635,000	825,619
Total District No. 3 bonds payable	\$ 31,785,000	\$ -	\$ (2,685,000)	\$ 29,100,000	\$ 2,795,000	\$ 1,183,932	\$ 2,930,000	\$ 1,054,232

Summary of Bonds Payable (Continued) Year Ended December 31, 2012

2015		2016		2017		Later		Total	
Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
\$ 100,000	\$ 13,750	\$ 100,000	\$ 8,250	\$ -	\$ -	\$ 100,000	\$ 2,750	\$ 500,000	\$ 68,750
1,330,000	99,500	1,325,000	33,125	-	-	-	-	5,355,000	526,138
200,000	95,775	225,000	88,525	225,000	80,088	1,675,000	297,425	2,725,000	774,363
400,000	207,750	400,000	191,750	450,000	174,750	3,900,000	650,125	5,900,000	1,694,625
200,000	142,000	300,000	132,000	300,000	120,000	2,700,000	421,000	3,800,000	1,122,000
540,000	143,800	595,000	121,100	910,000	91,000	1,820,000	72,600	4,660,000	771,200
2,770,000	702,575	2,945,000	574,750	1,885,000	465,838	10,195,000	1,443,900	22,940,000	4,957,076
\$ 3,080,000	\$ 919,763	\$ 3,270,000	\$ 780,013	\$ 2,225,000	\$ 658,551	\$ 14,800,000	\$ 2,502,870	\$ 29,100,000	\$ 7,099,361

Genesee County Drain Commissioner Division of Water and Waste Services

Description of Issue	Principal	Issued During the	Retired During the	Principal	2013		2014	
	Outstanding January 1, 2012	Year	Year	Outstanding December 31, 2012	Principal	Interest	Principal	Interest
Water Supply Systems								
Genesee County Drain Commissioner Bonds Payable:								
Series 2003 \$9,000,000 Revenue Bonds backed by the full faith and credit of the County of Genesee. Bond proceeds used for Water Tower project. Due serially in various amounts ranging from \$455,000 to \$775,000 through 2018 with interest rates from 2.50% to 4.375%	\$ 4,835,000	\$ -	\$ (615,000)	\$ 4,220,000	\$ 635,000	\$ 163,361	\$ 660,000	\$ 137,461
Series 2003B \$18,000,000 Revenue Bonds backed by the full faith and credit of the County of Genesee. Bond proceeds used for North Water Loop III project. Due serially and term in various amounts ranging from \$175,000 to \$10,085,000 through 2033 with interest rates from 4.00% to 5.125%	16,290,000	-	(270,000)	16,020,000	290,000	783,763	310,000	772,163
Series 2004 \$14,960,000 Revenue Bonds backed by the full faith and credit of the County of Genesee. Bond proceeds used for North Water Loop III project. Due serially in various amounts ranging from \$200,000 to \$1,000,000 through 2030 with interest rates from 3.00% to 5.00%	13,720,000	-	(225,000)	13,495,000	235,000	614,338	240,000	606,700
Series 2007 \$6,000,000 Revenue Bonds backed by the full faith and credit of the County of Genesee. Bond proceeds used for North Water Loop III project. Due serially and term in various amounts ranging from \$150,000 to \$450,000 through 2033 with interest rates from 4.00% to 4.40%	5,400,000	-	(150,000)	5,250,000	150,000	227,478	150,000	221,328
Total Genesee County Drain Commission bonds payable	40,245,000	-	(1,260,000)	38,985,000	1,310,000	1,788,940	1,360,000	1,737,652
Community-related Bonds Payable:								
Series 2011 \$933,515 Drinking Water Revolving Fund Program Revenue Bonds backed by the full faith and credit of the County of Genesee. Bond proceeds used for Fenton Road Watermain - Bristol to Maple. Fully drawn in July 2012. Due in amounts ranging from \$34,250 to \$59,265 through 2031 with interest rate of 2.50%	903,516	29,999	(34,250)	899,265	40,000	21,987	40,000	20,982
Total water supply systems bonds payable	\$ 41,148,516	\$ 29,999	\$ (1,294,250)	\$ 39,884,265	\$ 1,350,000	\$ 1,810,927	\$ 1,400,000	\$ 1,758,634
Total Genesee County Drain Commission bonds payable	\$ 145,986,556	\$ 3,388,570	\$ (7,710,000)	\$ 141,665,126	\$ 7,905,000	\$ 4,494,184	\$ 8,095,000	\$ 4,293,145
Total community-related bonds payable	31,493,516	29,999	(2,824,250)	28,699,265	2,940,000	1,160,149	3,085,000	1,024,119
Total - All bonds payable	\$ 177,480,072	\$ 3,418,569	\$ (10,534,250)	\$ 170,364,391	\$ 10,845,000	\$ 5,654,333	\$ 11,180,000	\$ 5,317,264

Summary of Bonds Payable (Continued) Year Ended December 31, 2012

2015		2016		2017		Later		Total	
Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
\$ 690,000	\$ 110,116	\$ 715,000	\$ 80,956	\$ 745,000	\$ 49,924	\$ 775,000	\$ 16,953	\$ 4,220,000	\$ 558,771
325,000	759,763	345,000	746,763	365,000	732,963	14,385,000	6,964,662	16,020,000	10,760,077
240,000	598,300	250,000	588,700	260,000	578,700	12,270,000	4,348,300	13,495,000	7,335,038
160,000	214,953	160,000	208,153	160,000	201,353	4,470,000	1,994,696	5,250,000	3,067,961
1,415,000	1,683,132	1,470,000	1,624,572	1,530,000	1,562,940	31,900,000	13,324,611	38,985,000	21,721,847
40,000	19,982	40,000	18,982	40,000	17,982	699,265	128,378	899,265	228,293
\$ 1,455,000	\$ 1,703,114	\$ 1,510,000	\$ 1,643,554	\$ 1,570,000	\$ 1,580,922	\$ 32,599,265	\$ 13,452,989	\$ 39,884,265	\$ 21,950,140
\$ 8,300,000	\$ 4,083,416	\$ 8,215,000	\$ 3,868,014	\$ 8,440,000	\$ 3,642,203	\$ 100,710,126	\$ 25,815,217	\$ 141,665,126	\$ 46,196,179
3,240,000	883,015	3,430,000	736,420	2,390,000	607,956	13,614,265	2,033,936	28,699,265	6,445,594
\$ 11,540,000	\$ 4,966,431	\$ 11,645,000	\$ 4,604,434	\$ 10,830,000	\$ 4,250,159	\$ 114,324,391	\$ 27,849,153	\$ 170,364,391	\$ 52,641,773

May 14, 2013

Mr. Jeff Wright
Genesee County Drain Commissioner
Division of Water and Waste Services
G-4608 Beecher Road
Flint, Michigan 48532

We have audited the financial statements of the Enterprise Fund and Internal Service Fund of the Genesee County Drain Commissioner Division of Water and Waste Services (a component unit of Genesee County, Michigan) (the "Division") as of and for the year ended December 31, 2012 and have issued our report thereon dated May 14, 2013. We have also audited the federal awards of the Division for the year ended December 31, 2011 and issued our report dated May 14, 2013. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility Under U.S. Generally Accepted Auditing Standards

As stated in our engagement letter dated November 12, 2012, our responsibility, as described by professional standards, is to express an opinion about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities. Our responsibility is to plan and perform the audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement.

As part of our audit, we considered the internal control of Genesee County Drain Commissioner Division of Water and Waste Services (the "Division"). Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

We are responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures specifically to identify such matters.

Our audit of the Division's 2011 financial statements has been conducted in accordance with *Government Auditing Standards*, issued by the Comptroller General of the United States. Under *Government Auditing Standards*, we are obligated to communicate certain matters that come to our attention related to our audit to those responsible for the governance of the Division, including compliance with certain provisions of laws, regulations, contracts, grant agreements, certain instances of error or fraud, illegal acts applicable to government agencies, and significant deficiencies in internal control that we identify during our audit. Toward this end, we issued a separate letter dated June 25, 2012 regarding our consideration of Division's internal control over financial reporting and separate letter dated May 14, 2013 regarding our consideration on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements.

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you in our meeting about planning matters on December 12, 2012.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the Division are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2012 other than that the Division adopted GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. As a result, there were very minor revisions to the terminology and reporting of the statement of net position.

We noted no transactions entered into by the Division during the year for which there is a lack of authoritative guidance or consensus.

There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were the recording of unbilled revenue, the postemployment benefit liability calculation, the pension disclosures, and the calculation of the self-insurance (IBNR) liability.

Management's estimate of the unbilled revenue is based on amounts billed subsequent to year end. We evaluated the key factors and assumptions used to develop the unbilled revenue in determining that it is reasonable in relation to the financial statements taken as a whole.

Management's estimate of the postemployment benefit liability and defined benefit pension costs is based on certain assumptions made by the actuary. We evaluated the key factors and assumptions used to calculate the liability in determining that it is reasonable in relation to the financial statements taken as a whole.

Management's estimate of the self-insurance liability is based on the quarterly billings received from BCBS. We evaluated the key factors and assumptions used to calculate the receivable in determining that it is reasonable in relation to the financial statements taken as a whole.

The disclosures in the financial statements are neutral, consistent, and clear.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Disagreements with Management

For the purpose of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report

We are pleased to report that no such disagreements arose during the course of our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management.

We did not detect any misstatements as a result of audit procedures.

Significant Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, business conditions affecting the Division, and business plans and strategies that may affect the risks of material misstatement with management each year prior to retention as the Division's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition of our retention.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated May 14, 2013.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Division's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Mr. Jeff Wright
Genesee County Drain Commissioner
Division of Water and Waste Services

May 14, 2013

This information is intended solely for the use of Mr. Jeff Wright, Genesee County Drain Commissioner, and management of Genesee County Drain Commissioner Division of Water and Waste Services and is not intended to be and should not be used by anyone other than these specified parties.

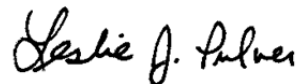
Other Information - Per Bulletin 6 issued by the State Department of Treasury, the State made some revisions to the Michigan qualifying statement as well as changes to the filing process. It is our understanding that the Division is considering issuing debt in the coming year, and would need to file a qualifying statement in order to initiate the process.

The bulletin details the revisions made to the form, changes in the electronic filing process, and provides information on the new process to submit a reconsideration request.

The qualifying statement is now Form 5047. The new form and link to the online filing are available at www.michigan.gov/municipalfinance. You can also find Bulletin 6 by following this same link.

Very truly yours,

Plante & Moran, PLLC



Leslie J. Pulver