

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

**Financial Report
with Supplemental Information
December 31, 2011**

Genesee County Drain Commissioner Division of Water and Waste Services

Contents

| | |
|--|-------|
| Report Letter | 1-2 |
| Management's Discussion and Analysis | 3-12 |
| Basic Financial Statements | |
| Statement of Net Assets - Proprietary Fund Types | 13 |
| Statement of Revenue, Expenses, and Changes in Net Assets - Proprietary Fund Types | 14 |
| Statement of Cash Flows - Proprietary Fund Types | 15 |
| Notes to Financial Statements | 16-30 |
| Supplemental Information | 31 |
| Statement of Net Assets (Divisional Detail) - Enterprise Fund | 32 |
| Statement of Revenue, Expenses, and Changes in Net Assets (Divisional Detail) - Enterprise Fund | 33 |
| Statement of Cash Flows (Divisional Detail) - Enterprise Fund | 34 |
| Statement of Net Assets - Internal Service Funds | 35 |
| Statement of Revenue, Expenses, and Changes in Net Assets - Internal Service Funds | 36 |
| Statement of Cash Flows - Internal Service Funds | 37 |
| Summary of Bonds Payable | 38-45 |

Independent Auditor's Report

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

We have audited the accompanying basic 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 (a component unit of Genesee County, Michigan) (the "Division") as of December 31, 2011. These financial statements are the responsibility of the Division's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year summarized comparative information has been derived from the Division's 2010 financial statements and, in our report dated May 18, 2011, we expressed unqualified opinions on the respective financial statements of the Enterprise Fund and Internal Service Funds.

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

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, 2011 and the results of its operations and cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

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

Accounting principles generally accepted in the United States of America require that management's discussion and analysis 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 (the "GASB") 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 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.

Our audit was conducted for the purpose of forming opinions on the Genesee County Drain Commissioner Division of Water and Waste Services' basic financial statements as a whole. The accompanying supplemental information, as identified in the table of contents, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The financial statements include summarized prior year comparative information. Such information does not include all of the information required or sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Division's financial statements for the year ended December 31, 2010, from which such summarized information was derived.

Plante & Moran, PLLC

June 25, 2012

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 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 cost centers. 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 contract 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 (Miss Dig) of water and sewer infrastructure
- 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, coordinates the repair of sanitary sewers, sewer main taps, and cut and cap water and sewer services
- Provides after-hours emergency response

Genesee County Drain Commissioner

Division of Water and Waste Services

Management's Discussion and Analysis (Continued)

Treatment Facilities - The core function of all treatment facilities is to effectively and efficiently treat sewage in compliance with regulations established by their NPDES 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/other alternatives
- Planning for plant improvements, equipment replacement, and upgrades
- Emergency response plan
- Storage lagoon operation and maintenance
- Discharge limitations and monitoring
- Pollutant minimization
- 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 3), the Bird Road Lagoons (District 7), and the Anthony Ragnone Treatment Plant (ARTP)(Districts 1, 2, 5, and 6). The Division has contracts for sewer treatment outside of its jurisdiction with Shiawassee, Lapeer, Saginaw, Oakland, and Livingston counties.

The ARTP provides sewage treatment for all of the Division's service area with the exception of Districts No. 3 and No. 7. The District No. 3 and No. 7 facilities are two distinctly separate operations but are combined administratively due to topography and geography. 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 2011 by applying 7,799 dry tons of stabilized biosolids on approximately 3,500 acres of approved fields. The ARTP added 45 new fields for application in 2011. District No. 3 applied 832 dry tons of stabilized biosolids on approximately 814 acres of approved fields. The ARTP continued to refine its decanting process during 2011, which resulted in approximately \$190,000 in savings from efficiency improvements.

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. There are approximately 14 significant industrial facilities discharging to GCDC-WWS sewer systems. The ordinance 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.

Water Supply - The water supply department is responsible for acquisition of water from the City of Detroit through the City of Flint. The Division transmits potable water to local communities, which in turn supply residential, commercial, and industrial customers with the distribution of water to the outlying communities of Genesee County. The Division contracts with local municipalities to operate and maintain water supply to outlying communities. It maintains a distribution system consisting of over 600 miles of water mains. The Division installs water connections at the request of customers, services and changes water meters, performs turn-ons/offers at the request of customers, 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
- Prepare cost estimates to construct, operate, and maintain selected alternatives

The Division is coordinating an interjurisdictional initiative for a new water supply system from Lake Huron. Currently, the City of Flint (Flint), Genesee County, Sanilac County, and the Greater Lapeer County Utilities Authority (GLCUA) are supplied water from the City of Detroit's Department of Water and Sewerage (DWSD). Because of growing concerns regarding the reliability and cost of the DWSD supply, these utilities have considered other alternatives for water supply.

A new governmental authority, the Karegnondi Water Authority (KWA), was incorporated on October 1, 2010. Its purpose is to develop and operate a new water supply. After construction of the new pipeline, it will then be KWA's responsibility to provide a supply of raw water to all contracting municipalities. KWA will be comprised of five governmental entities that will be supplied water from the new water line. The first formal study was completed in 1992; the most recent was completed in 2009.

Genesee County Drain Commissioner Division of Water and Waste Services

Management's Discussion and Analysis (Continued)

The five governmental entities - Genesee County, Lapeer County, City of Lapeer, Sanilac County, and the City of Flint - are involved with the negotiation of the contracts with KWA, which are expected to be signed by the end of 2012.

Objectives and Achievements

The main objectives of the Division are to maintain residential 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 expenditures for all cost centers. The budget is reviewed and approved by an advisory board. This helps with planning for new and improved systems. Each community customer has a seat on the advisory board and meets monthly to provide guidance to the Division.

The continuing rising cost of water from the City of Detroit to the City of Flint and there in turn to the Division has been and is of great concern. With continued efforts and negotiations with the City of Flint, the Drain Commissioner and the Division of Water and Waste Services were able to amend the 1973 City/County Water Supply Agreement in 2003. The cost from the City of Detroit is passed through with no markup and a flat rate is paid to the City of Flint.

Beginning January 1, 2004 and each calendar year thereafter through 2007, the flat rate of \$102,917 shall be adjusted for inflation in the amount of any annual average percentage increase in the Consumer Price Index for Urban Wage Earners and Clerical Workers (CPI-W) for the preceding calendar year. A water rate study was completed in 2003, which establishes the rates to be charged by the City of Flint with the concept of a flat rate structure to replace the original declining block rate structure. Under the 2003 agreement, Flint was to conduct and complete a study by 2008 justifying its charges to the Division based upon "true cost of service." There was no rate increase for the flat fee, as this study was not performed. When completed, this study is expected to modify the flat rate charged by the City of Flint in 2012. During 2011, the Division signed the 4th Amendment with the City of Flint and secured 5.2 million gallons per day in emergency backup water supply from Flint.

Rate Structure

The Division established a new rate structure for water and sewer service in 2008 and 2009. Part of the rate structure requires automatic adjustments based upon the City of Detroit's rate increases to the City of Flint. The self-balancing adjustments limit risk to loss and overcharging communities. During 2011, the Division began a review of the rate structure with the results being available mid-2012. The Division reviews and sets water and sewer rates on a five-year basis in order to maintain stable and fiscally responsible utility rates.

Genesee County Drain Commissioner Division of Water and Waste Services

Management's Discussion and Analysis (Continued)

Grant Acquisitions

- The Division was awarded funds of up to \$847,500 for the Vortex Grit Tank No.2 project at District No.3 in September 2011. The funds were awarded 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 2011, the Division received approximately \$1,300 of contributed capital towards the project.
- The Division was awarded funds of up to \$970,000 as part of the Kearsley Creek Interceptor project in 2006 and amended 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.

Using this Annual Report

This annual report consists of a series of financial statements. The statement of net assets, the statement of revenue, expenses, and changes in net assets, and the statement of cash flows provide information about the activities of the Division as a whole and present 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 |
|--|-----------------------|-----------------------|------------------------|----------------|
| | 2011 | 2010 | | |
| Assets | | | | |
| Current assets | \$ 24,633,437 | \$ 19,914,712 | \$ 4,718,725 | 23.7 % |
| Restricted assets | 5,459,054 | 7,884,147 | (2,425,093) | (30.8) |
| Noncurrent lease receivable | 28,668,516 | 30,590,000 | (1,921,484) | (6.3) |
| Capital assets | 321,952,707 | 310,265,085 | 11,687,622 | 3.8 |
| Other noncurrent assets | 2,246,704 | 1,012,486 | 1,234,218 | 121.9 |
| Total assets | 382,960,418 | 369,666,430 | 13,293,988 | 3.6 |
| Liabilities | | | | |
| Current liabilities | 15,420,478 | 12,795,085 | 2,625,393 | 20.5 |
| Liabilities payable from restricted assets | 3,509,475 | 6,281,470 | (2,771,995) | (44.1) |
| Other noncurrent liabilities | 7,685,828 | 4,037,688 | 3,648,140 | 90.4 |
| Long-term debt | 167,120,072 | 160,036,610 | 7,083,462 | 4.4 |
| Total liabilities | 193,735,853 | 183,150,853 | 10,585,000 | 5.8 |
| Net Assets | | | | |
| Invested in capital assets - Net of related debt | 178,661,325 | 176,961,290 | 1,700,035 | 1.0 |
| Restricted for bond ordinance | 3,098,052 | 3,695,340 | (597,288) | (16.2) |
| Unrestricted | 7,465,188 | 5,858,947 | 1,606,241 | 27.4 |
| Total net assets | \$ 189,224,565 | \$ 186,515,577 | \$ 2,708,988 | 1.5 |

Genesee County Drain Commissioner Division of Water and Waste Services

Management's Discussion and Analysis (Continued)

| | December 31 | | Increase (Decrease) | Percent Change |
|---|---------------------|----------------------|------------------------|----------------|
| | 2011 | 2010 | | |
| Revenue from operations | \$ 50,021,535 | \$ 50,002,564 | \$ 18,971 | 0.0 % |
| Interest on operating cash and receivables | 1,391,883 | 1,493,638 | (101,755) | (6.8) |
| Total revenue | 51,413,418 | 51,496,202 | (82,784) | (0.2) |
| Sludge disposal charges | 1,098,897 | 1,031,330 | 67,567 | 6.6 |
| Cost of water | 12,947,738 | 10,835,456 | 2,112,282 | 19.5 |
| Operating and maintenance | 18,853,461 | 17,798,002 | 1,055,459 | 5.9 |
| Administrative and depreciation | 12,283,110 | 12,114,792 | 168,318 | 1.4 |
| Total operating expenses | 45,183,206 | 41,779,580 | 3,403,626 | 8.1 |
| Other nonoperating expense | 3,789,452 | 3,632,023 | 157,429 | 4.3 |
| Change in net assets - Before capital contributions | 2,440,760 | 6,084,599 | (3,643,839) | (59.9) |
| Capital contributions | 268,228 | 29,853,229 | (29,585,001) | (99.1) |
| Change in net assets | \$ 2,708,988 | \$ 35,937,828 | \$ (33,228,840) | (92.5) |

Major Capital Assets and Debt Activity

The Division's Northeast Extension Sewer Project has three open contracts remaining in 2011 that had additional construction in progress of \$6.7 million in 2011 funded by State of Michigan Revolving Fund Loans. In 2010, construction was delayed due to contractor errors in construction. During 2010, the Division opened a new contract to repair the new pipeline in order for the project to be completed. The Division is currently seeking legal redress to recover all additional expenses caused from the flawed pipeline.

Construction projects completed by the Division totaled \$550,000 during 2011. This resulted in a reclassification of the construction costs of this amount from a nondepreciable asset to a depreciable asset. The major construction project closed was the completion of the Septage Receiving Station, which was approximately \$420,000.

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.

Genesee County Drain Commissioner Division of Water and Waste Services

Management's Discussion and Analysis (Continued)

Financial Overview

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 Assets

- Current assets increased by \$4.7 million in the current year. This is due to the water rate increase (pass-through from the City of Flint). Water rates went from \$2.76 per hundred cubic feet to \$2.96 per hundred cubic feet.
- Restricted assets decreased from the prior year by \$2.4 million due to a decrease of completion of construction projects during 2011, of which the assets are restricted for use. Additionally, \$600,000 was restricted by a covenant required by Series 2000 bond in 2010 which was refunded in 2011 and, therefore, is no longer being restricted.
- Other noncurrent assets increased by \$1.2 million in the current year. The increase is largely due to the Fenton Road Watermain construction project, which the Division bonded for on behalf of the City of Burton and Flint Township. During 2011, just over \$1.0 million of construction was completed for the project in progress.
- Current liabilities increased by \$2.6 million from the prior year. The increase is equally caused by \$1.1 million more in the current portion of debt payments due and a change in the Division's accounts payable policy accounting for approximately \$1.0 million of the increase. The Division made a one-time change of policy to ensure accurate reporting and consistency for treatment of year-end payables.
- Liabilities payable from restricted assets decreased \$2.8 million in 2011. This decrease is due to several large projects being partially, but mostly, completed as of December 31, 2011, as described above in major capital assets and debt.
- Other noncurrent liabilities increased by \$3.6 million. The resulting increase is the outcome of the Fenton Road Watermain (a community project, as described above) construction in progress being recorded as unearned leases, as well as an increase in the other postemployment benefit obligation.
- Restricted for bond ordinances decreased by \$600,000 due to the refunding of the Series 2000 bond that required a covenant of that amount. The refunded bond does not have a covenant requirement.
- The unrestricted net assets increase of \$1.6 million is largely a result of the pass-through rate increases as outlined above.

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

- The Division's cost of water increased approximately \$2.1 million in 2011. The Division purchases water from the City of Flint. The City of Flint increased its charges to the Division based on increases it received from the City of Detroit. The largest part of the increase was the fixed service fee, which went from \$90,000 to approximately \$210,000, which is paid monthly to the City of Flint as the Division's share of the fixed Detroit Service Charge.
- Capital contributions decreased \$29.6 million in 2011. This is directly related to the accumulation of assets through the completion of the District No. 3 2008-2009 capital improvement project as described in the 2010 statements, which were approximately \$21 million.

The following table shows the trend in total operating costs compared to flow volumes for sewage treatment:

| | Year Ended December 31 | | |
|-----------------------------------|------------------------|---------------|---------------|
| | 2009 | 2010 | 2011 |
| Total costs charged to townships | \$ 26,517,499 | \$ 26,597,823 | \$ 26,028,847 |
| Total flow (thousands of gallons) | 11,979,000 | 9,518,000 | 11,726,740 |
| Cost per thousand of gallons | \$ 2 21 | \$ 2 79 | \$ 2 22 |

In October 2007, metered water customers were charged \$2.57 per account for readiness to serve and a commodity charge of \$1.32 per hundred cubic feet of sewer. The sewer flat rate was increased to \$19.05 per month. On January 2, 2009, metered water customers were charged \$3.414 per unit for readiness to serve and a commodity charge of \$1.658 per hundred cubic feet. The sewer flat rate will be increased to \$24.14 per month. These rates are needed to cover estimated future costs for the operations capable of repairing and updating methods of treatment for better efficiency. No increases were made during 2011.

The following table shows the trend in total operating costs compared to efficiency of water purchased:

| | Year Ended December 31 | | |
|-------------------------------------|------------------------|---------------|---------------|
| | 2009 | 2010 | 2011 |
| Total costs charged to townships | \$ 19,809,718 | \$ 21,202,820 | \$ 21,697,903 |
| Amount of purchased water (cu. ft.) | 602,942,816 | 616,632,200 | 621,182,300 |
| Amount of sold water | 590,778,842 | 587,134,757 | 574,821,963 |
| Water efficiency | 98% | 95% | 93% |
| Cost of water (per 100 cu. ft.) | \$ 3 25 | \$ 3 41 | \$ 3 77 |

Genesee County Drain Commissioner Division of Water and Waste Services

Management's Discussion and Analysis (Continued)

The Division purchases water from the City of Flint, which in turn purchases water from the City of Detroit. The Division's payment to Flint is a flat rate of \$116,057 per month, which increased to \$117,054 per month in August 2010, plus a commodity charge equal to the charge from Detroit to Flint for water. The City of Detroit changed its rate structure so that the Division now is responsible for a flat rate fee of \$91,156 per month in addition to the flat rate charged by the City of Flint.

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 Assets - Proprietary Fund

| | December 31 | | | |
|--|-----------------------|---------------------------|-----------------------|-----------------------|
| | 2011 | | | 2010 |
| | Enterprise Fund | Internal Service Funds | Total | Total |
| Assets | | | | |
| Current assets: | | | | |
| Cash and cash equivalents (Note 2) | \$ 11,382,843 | \$ 1,997,951 | \$ 13,380,794 | \$ 6,590,256 |
| Accounts receivable | 8,253,909 | 1,998 | 8,255,907 | 10,389,428 |
| Prepaid expenses and other assets | 5,389 | 81,689 | 87,078 | 223,229 |
| Due from other governmental units | 2,000 | - | 2,000 | 3,500 |
| Current portion of leases receivable | 2,825,000 | - | 2,825,000 | 2,665,000 |
| Other assets | 30,000 | - | 30,000 | - |
| Inventory | 52,658 | - | 52,658 | 43,299 |
| Total current assets | 22,551,799 | 2,081,638 | 24,633,437 | 19,914,712 |
| Noncurrent assets: | | | | |
| Restricted cash and cash equivalents (Note 1) | 4,592,588 | - | 4,592,588 | 5,497,421 |
| Restricted accounts receivable | 532,653 | - | 532,653 | 883,501 |
| Restricted - Due from other governmental units | 333,813 | - | 333,813 | 1,503,225 |
| Leases receivable - Net of current portion | 28,668,516 | - | 28,668,516 | 30,590,000 |
| Deferred charge on bond | 54,374 | - | 54,374 | - |
| Bond discount | 22,547 | - | 22,547 | 52,187 |
| Unamortized cost of issuance | 756,622 | - | 756,622 | 493,857 |
| Local unit construction in progress | 1,413,161 | - | 1,413,161 | 466,442 |
| Capital assets (Note 3): | | | | |
| Land and other assets not being depreciated | 86,917,814 | 16,250 | 86,934,064 | 70,514,893 |
| Buildings and equipment - Net of depreciation | 232,187,172 | 2,831,471 | 235,018,643 | 239,750,192 |
| Total noncurrent assets | 355,479,260 | 2,847,721 | 358,326,981 | 349,751,718 |
| Total assets | 378,031,059 | 4,929,359 | 382,960,418 | 369,666,430 |
| Liabilities | | | | |
| Current liabilities: | | | | |
| Accounts payable and accrued expenses | 4,228,728 | 594,440 | 4,823,168 | 3,165,205 |
| Due to other governmental units | 237,310 | - | 237,310 | 254,880 |
| Internal balances | 26,185 | (26,185) | - | - |
| Current portion of bonds payable (Note 4) | 10,360,000 | - | 10,360,000 | 9,375,000 |
| Total current liabilities | 14,852,223 | 568,255 | 15,420,478 | 12,795,085 |
| Noncurrent liabilities: | | | | |
| Liabilities related to restricted assets | 3,509,475 | - | 3,509,475 | 6,281,470 |
| Unearned leases | 1,524,185 | - | 1,524,185 | 439,770 |
| Bond premium | 408,948 | - | 408,948 | 409,707 |
| Other postemployment benefit obligation | 5,752,695 | - | 5,752,695 | 3,188,211 |
| Bonds payable - Net of current portion (Note 4) | 167,120,072 | - | 167,120,072 | 160,036,610 |
| Total noncurrent liabilities | 178,315,375 | - | 178,315,375 | 170,355,768 |
| Total liabilities | 193,167,598 | 568,255 | 193,735,853 | 183,150,853 |
| Net Assets | | | | |
| Invested in capital assets - Net of related debt | 175,813,604 | 2,847,721 | 178,661,325 | 176,961,290 |
| Restricted for bond ordinance | 3,098,052 | - | 3,098,052 | 3,695,340 |
| Unrestricted | 5,951,805 | 1,513,383 | 7,465,188 | 5,858,947 |
| Total net assets | <u>\$ 184,863,461</u> | <u>\$ 4,361,104</u> | <u>\$ 189,224,565</u> | <u>\$ 186,515,577</u> |

Genesee County Drain Commissioner

Division of Water and Waste Services

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

| | Year Ended December 31 | | | | |
|---|------------------------|---------------------------|--------------------|-----------------------|-----------------------|
| | 2011 | | | 2010 | |
| | Enterprise Fund | Internal Service Funds | Eliminations | Total | Total |
| Operating Revenue | | | | | |
| Sewage disposal service | \$ 26,028,846 | \$ - | \$ - | \$ 26,028,846 | \$ 26,597,823 |
| Billing services | - | - | - | - | 162,455 |
| Sewer and pumping station - | | | | | |
| Operation and maintenance | 1,197,219 | - | - | 1,197,219 | 1,197,151 |
| Inspection fees | 5,003 | - | - | 5,003 | 9,951 |
| Water sales | 21,697,903 | - | - | 21,697,903 | 21,202,820 |
| Water meter sales | 64,662 | - | - | 64,662 | 65,757 |
| Billing to Enterprise Fund | - | 4,400,159 | (4,400,159) | - | - |
| Other operating revenue | 875,449 | 152,453 | - | 1,027,902 | 766,607 |
| Total operating revenue | 49,869,082 | 4,552,612 | (4,400,159) | 50,021,535 | 50,002,564 |
| Operating Expenses | | | | | |
| Personnel services | 11,936,199 | - | - | 11,936,199 | 11,020,014 |
| Administration | 4,735,970 | - | - | 4,735,970 | 4,514,280 |
| Contractual services | 622,620 | - | - | 622,620 | 983,960 |
| Sludge disposal service | 1,098,897 | - | - | 1,098,897 | 1,031,330 |
| Cost of water | 12,947,738 | - | - | 12,947,738 | 10,835,456 |
| Repairs and maintenance | 2,367,433 | - | (783,245) | 1,584,188 | 2,379,675 |
| Utilities | 4,288,957 | - | - | 4,288,957 | 3,328,468 |
| Other supplies and expenses | 1,033,489 | 10,628 | - | 1,044,117 | 1,069,845 |
| Insurance claims and expenses | 237,060 | 3,767,859 | (3,616,914) | 388,005 | 374,048 |
| Depreciation | 6,142,303 | 394,212 | - | 6,536,515 | 6,242,504 |
| Total operating expenses | 45,410,666 | 4,172,699 | (4,400,159) | 45,183,206 | 41,779,580 |
| Operating Income | 4,458,416 | 379,913 | - | 4,838,329 | 8,222,984 |
| Nonoperating Revenue (Expenses) | | | | | |
| Interest and investment revenue | 1,390,031 | 1,852 | - | 1,391,883 | 1,493,638 |
| Miscellaneous revenue | 635,689 | - | - | 635,689 | 670,596 |
| Interest expense | (4,267,026) | - | - | (4,267,026) | (4,296,163) |
| Miscellaneous expense | (158,115) | - | - | (158,115) | (6,456) |
| Total nonoperating (expenses) revenue | (2,399,421) | 1,852 | - | (2,397,569) | (2,138,385) |
| Income - Before capital contributions and operating transfer | 2,058,995 | 381,765 | - | 2,440,760 | 6,084,599 |
| Capital Contributions | 268,228 | - | - | 268,228 | 29,853,229 |
| Operating Transfer | (103,751) | 103,751 | - | - | - |
| Change in Net Assets | 2,223,472 | 485,516 | - | 2,708,988 | 35,937,828 |
| Net Assets - Beginning of year | 182,639,989 | 3,875,588 | - | 186,515,577 | 150,577,749 |
| Net Assets - End of year | \$ 184,863,461 | \$ 4,361,104 | \$ - | \$ 189,224,565 | \$ 186,515,577 |

Genesee County Drain Commissioner

Division of Water and Waste Services

Statement of Cash Flows - Proprietary Fund Types

| | Year Ended December 31 | | | |
|--|------------------------|------------------------|----------------------|----------------------|
| | 2011 | | | 2010 |
| | Enterprise Fund | Internal Service Funds | Total | Total |
| Cash Flows from Operating Activities | | | | |
| Cash received from customers | \$ 52,060,797 | \$ 4,587,106 | \$ 56,647,903 | \$ 54,367,181 |
| Cash payments to suppliers and others for goods and services | (28,444,732) | (3,681,895) | (32,126,627) | (29,192,983) |
| Cash payments to employees | (9,449,173) | - | (9,449,173) | (9,743,772) |
| Net cash provided by operating activities | 14,166,892 | 905,211 | 15,072,103 | 15,430,426 |
| Cash Flows from Capital and Related Financing Activities | | | | |
| Purchases of capital assets | (17,461,991) | (533,625) | (17,995,616) | (16,583,348) |
| Construction of community assets | 1,219,720 | - | 1,219,720 | (441,366) |
| County capital improvement fees | 630,783 | - | 630,783 | 575,035 |
| Collections of leases receivable from municipalities | 4,014,604 | - | 4,014,604 | 4,502,447 |
| Proceeds from issuance of bonded debt | 24,872,946 | - | 24,872,946 | 2,030,362 |
| Principal paid on bond maturities | (17,708,000) | - | (17,708,000) | (9,115,000) |
| Interest paid on bonds and other long-term liabilities | (4,277,392) | - | (4,277,392) | (4,340,771) |
| Proceeds from grants | - | - | - | 8,957,130 |
| Operating transfer | (103,751) | 103,751 | - | - |
| Net cash used in capital and related financing activities | (8,813,081) | (429,874) | (9,242,955) | (14,415,511) |
| Cash Flows from Investing Activities - Investment income | 54,705 | 1,852 | 56,557 | 253,146 |
| Net Increase in Cash and Cash Equivalents | 5,408,516 | 477,189 | 5,885,705 | 1,268,061 |
| Cash and Cash Equivalents - Beginning of year | 10,566,915 | 1,520,762 | 12,087,677 | 10,819,616 |
| Cash and Cash Equivalents - End of year | \$ 15,975,431 | \$ 1,997,951 | \$ 17,973,382 | \$ 12,087,677 |
| Reconciliation of Operating Income to Net Cash from Operating Activities | | | | |
| Operating income | \$ 4,458,416 | \$ 379,913 | \$ 4,838,329 | \$ 8,222,984 |
| Adjustments to reconcile operating income to net cash from operating activities: | | | | |
| Depreciation | 6,142,303 | 394,212 | 6,536,515 | 6,242,504 |
| Changes in assets and liabilities: | | | | |
| Accounts receivable | 2,122,207 | 32,683 | 2,154,890 | 351,202 |
| Inventories | (9,359) | - | (9,359) | 8,213 |
| Prepaid assets | (34,320) | 140,471 | 106,151 | (89,430) |
| Accounts payable and accrued expenses | 1,418,138 | (43,879) | 1,374,259 | 680,883 |
| Internal balances | (1,811) | 1,811 | - | - |
| Due from other governmental units - Net | 71,318 | - | 71,318 | 14,070 |
| Net cash provided by operating activities | \$ 14,166,892 | \$ 905,211 | \$ 15,072,103 | \$ 15,430,426 |
| Composition of Cash and Cash Equivalents | | | | |
| Cash and cash equivalents | \$ 11,382,843 | \$ 1,997,951 | \$ 13,380,794 | \$ 6,590,256 |
| Restricted cash and cash equivalents | 4,592,588 | - | 4,592,588 | 5,497,421 |
| Total cash and cash equivalents | \$ 15,975,431 | \$ 1,997,951 | \$ 17,973,382 | \$ 12,087,677 |

Noncash Investing, Capital, and Financing Activities - During the year ended December 31, 2011, the Enterprise Fund had \$268,229 contributed to the water and sewer systems by a grant and the Internal Service Funds had \$283,067 related to the purchase of capital assets.

Genesee County Drain Commissioner Division of Water and Waste Services

Notes to Financial Statements December 31, 2011

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, 2011

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.

The Division has elected, under GASB Statement No. 20, to apply all Financial Accounting Standards Board (FASB) statements issued after November 30, 1989, unless they conflict with the guidance of the Governmental Accounting Standards Board.

Genesee County Drain Commissioner

Division of Water and Waste Services

Notes to Financial Statements December 31, 2011

Note 1 - Summary of Significant Accounting Policies (Continued)

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.

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 funds 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.

Genesee County Drain Commissioner

Division of Water and Waste Services

Notes to Financial Statements December 31, 2011

Note 1 - Summary of Significant Accounting Policies (Continued)

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.

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.

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

Postemployment Benefits - In addition to the pension benefits described in Note 5, the Division provides postemployment healthcare, dental, and life insurance benefits after retirement through a contractual agreement. The Division is responsible for 100 percent of the cost of postretirement benefits and funds these costs as they are incurred. Postretirement benefits for retired employees were \$1,426,481 and \$1,335,785 for the years ended December 31, 2011 and 2010, respectively. The total number of eligible retirees amounted to 83 and 82 individuals during December 31, 2011 and 2010, respectively.

Compensated Absences - The Division's employees are granted vacation and personal leave in graduated amounts based on length of service. Vacation pay is fully vested when earned. Upon termination, employees are paid accumulated vacation at current salary rates to a limit of 150 percent of their current annual earned vacation. At December 31, 2011 and 2010, the Division has recorded a liability of approximately \$426,000 and \$483,000, 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.

Genesee County Drain Commissioner

Division of Water and Waste Services

Notes to Financial Statements December 31, 2011

Note 1 - Summary of Significant Accounting Policies (Continued)

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.

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 | 50 years |
| Machinery and equipment | 3-15 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.

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 local unit is allowed to invest in bonds, securities, and other direct obligations of the United States or any agency or instrumentality of the United States; repurchase agreements; bankers' acceptances of United States banks; commercial paper rated within the two highest classifications, which matures not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

Genesee County Drain Commissioner Division of Water and Waste Services

Notes to Financial Statements December 31, 2011

Note 2 - Deposits and Investments (Continued)

The Genesee County Drain Commissioner 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 Genesee County Drain Commissioner's deposits and investment policies are in accordance with statutory authority.

The Genesee County Drain Commissioner's cash and investments are subject to custodial credit risk, which is 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 Genesee County Drain Commissioner's deposits may not be returned to it. The Genesee County Drain Commissioner does not have a deposit policy for custodial credit risk. At year end, the Genesee County Drain Commissioner had \$10,196,318 of bank deposits (certificates of deposit, checking, and savings accounts) that were uninsured and uncollateralized. The Genesee County Drain Commissioner 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 Genesee County Drain Commissioner 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.

Genesee County Drain Commissioner

Division of Water and Waste Services

Notes to Financial Statements

December 31, 2011

Note 3 - Capital Assets

The following is a summary of proprietary fund-type capital assets at December 31, 2011:

| | Balance January 1, 2011 | Increases | Decreases | Reclassifications | Balance December 31, 2011 |
|--|-------------------------------|----------------------|-------------|-------------------|---------------------------------|
| Proprietary funds capital assets: | | | | | |
| Enterprise Fund: | | | | | |
| Capital assets not being depreciated: | | | | | |
| Land | \$ 871,021 | \$ - | \$ - | \$ - | \$ 871,021 |
| Construction in progress | <u>69,643,872</u> | <u>16,822,114</u> | <u>-</u> | <u>(419,193)</u> | <u>86,046,793</u> |
| Subtotal | 70,514,893 | 16,822,114 | - | (419,193) | 86,917,814 |
| Capital assets being depreciated: | | | | | |
| Distribution and collections system | 278,426,103 | 140,563 | - | 419,193 | 278,985,859 |
| Vehicles | 242,413 | 139,848 | - | - | 382,261 |
| Buildings and equipment | <u>5,114,144</u> | <u>304,920</u> | <u>-</u> | <u>-</u> | <u>5,419,064</u> |
| Subtotal | 283,782,660 | 585,331 | - | 419,193 | 284,787,184 |
| Less accumulated depreciation for: | | | | | |
| Distribution and collections system | (43,184,962) | (5,736,296) | - | - | (48,921,258) |
| Vehicles | (152,156) | (102,696) | - | - | (254,852) |
| Buildings and equipment | <u>(3,120,591)</u> | <u>(303,311)</u> | <u>-</u> | <u>-</u> | <u>(3,423,902)</u> |
| Subtotal | (46,457,709) | (6,142,303) | - | - | (52,600,012) |
| Net capital assets being depreciated | <u>237,324,951</u> | <u>(5,556,972)</u> | <u>-</u> | <u>419,193</u> | <u>232,187,172</u> |
| Total capital assets - Net of depreciation | 307,839,844 | 11,265,142 | - | - | 319,104,986 |
| Internal Service Funds: | | | | | |
| Capital assets not being depreciated - | | | | | |
| Construction in progress | - | 16,250 | - | - | 16,250 |
| Capital assets being depreciated - Buildings and equipment | | | | | |
| | 7,828,410 | 800,442 | - | - | 8,628,852 |
| Less accumulated depreciation - Buildings and equipment | | | | | |
| | <u>(5,403,169)</u> | <u>(394,212)</u> | <u>-</u> | <u>-</u> | <u>(5,797,381)</u> |
| Net capital assets being depreciated | <u>2,425,241</u> | <u>406,230</u> | <u>-</u> | <u>-</u> | <u>2,831,471</u> |
| Total capital assets - Net of depreciation | 2,425,241 | 422,480 | - | - | 2,847,721 |
| Total proprietary funds capital assets | <u>\$ 310,265,085</u> | <u>\$ 11,687,622</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 321,952,707</u> |

Genesee County Drain Commissioner

Division of Water and Waste Services

Notes to Financial Statements

December 31, 2011

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 December 31, 2011, the Division's commitments with contractors are as follows:

| | Spent to Date | Remaining Commitment |
|---|----------------------|-------------------------|
| Interceptor and treatment facilities | \$ 33,518,920 | \$ 5,183,651 |
| Sewage disposal system - District No. 3 | 1,679,329 | 105,961 |
| Sewage disposal system - District No. 7 | 13,866 | 26,000 |
| Water supply system | 1,992,508 | 336,231 |
| Total | <u>\$ 37,204,623</u> | <u>\$ 5,651,843</u> |

Note 4 - Bonds Payable

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 that pledge the full faith and credit of the government. 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.

The following is a summary of bond transactions for the Division for the year ended December 31, 2011:

| | Number of Issues | Interest Rate | Maturing Through | Balance January 1, 2011 | Additions | Reductions | Balance December 31, 2011 | Due Within One Year |
|----------------------------------|---------------------|------------------|---------------------|-------------------------------|---------------|-----------------|---------------------------------|------------------------|
| Genesee County Drain | | | | | | | | |
| Commissioner bonds payable: | | | | | | | | |
| Interceptor and | | | | | | | | |
| treatment facilities | 13 | 1.625%-6.00% | 2031 | \$ 88,535,000 | \$ 24,350,556 | \$ (13,574,000) | \$ 99,311,556 | \$ 6,005,000 |
| District No. 3 | 2 | 2.50%-4.50% | 2030 | 6,166,610 | 522,390 | (259,000) | 6,430,000 | 270,000 |
| Water supply system | 4 | 2.50%-5.125% | 2033 | 41,455,000 | - | (1,210,000) | 40,245,000 | 1,260,000 |
| Subtotal | | | | 136,156,610 | 24,872,946 | (15,043,000) | 145,986,556 | 7,535,000 |
| Community-related bonds payable: | | | | | | | | |
| Interceptor and | | | | | | | | |
| treatment facilities | 2 | 4.00%-4.35% | 2026 | 5,600,000 | - | (365,000) | 5,235,000 | 375,000 |
| District No. 3 | 6 | 2.50%-7.375% | 2024 | 27,655,000 | - | (2,300,000) | 25,355,000 | 2,415,000 |
| Water supply system | 1 | 2.50% | 2031 | - | 903,516 | - | 903,516 | 35,000 |
| Subtotal | | | | 33,255,000 | 903,516 | (2,665,000) | 31,493,516 | 2,825,000 |
| Total | | | | \$ 169,411,610 | \$ 25,776,462 | \$ (17,708,000) | \$ 177,480,072 | \$ 10,360,000 |

Genesee County Drain Commissioner

Division of Water and Waste Services

Notes to Financial Statements December 31, 2011

Note 4 - Bonds Payable (Continued)

Total interest expense for the year was approximately \$6.1 million, of which approximately \$1.8 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 | Principal | Interest | Total |
|-----------------------------|-----------------------|----------------------|-----------------------|
| 2012 | \$ 10,360,000 | \$ 5,895,254 | \$ 16,255,254 |
| 2013 | 10,655,000 | 5,568,376 | 16,223,376 |
| 2014 | 10,985,000 | 5,237,342 | 16,222,342 |
| 2015 | 11,350,000 | 4,891,321 | 16,241,321 |
| 2016 | 11,450,000 | 4,534,074 | 15,984,074 |
| 2017-2021 | 48,425,000 | 17,893,004 | 66,318,004 |
| 2022-2026 | 47,695,000 | 10,332,547 | 58,027,547 |
| 2027-2031 | 23,515,072 | 3,246,310 | 26,761,382 |
| 2032-2033 | 3,045,000 | 225,119 | 3,270,119 |
| Total | <u>\$ 177,480,072</u> | <u>\$ 57,823,347</u> | <u>\$ 235,303,419</u> |

Advance and Current Refundings

During the year, the Division issued \$7,870,000 in Revenue Bonds with an average interest rate of 2.13 percent. The proceeds of these bonds were used to advance refund \$2,250,000 of outstanding Series 2000 Sanitary Sewage Disposal Revenue Bonds with an average interest rate of 5.00 percent and \$5,490,000 of outstanding Series 2002A Sanitary Sewage Disposal Revenue Bonds with an average interest rate of 4.10 percent. The net proceeds of \$7,918,803 (after payment of \$93,444 in underwriting fees, insurance, and other issuance costs and consideration of a \$83,377 discount) were used to purchase U.S. government securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the original bonds. As a result, the bonds are considered to be defeased and the liability for the bonds has been removed from the Enterprise Funds liabilities. The advance refunding reduced total debt service payments over the next six years by approximately \$375,000, which represents an economic gain of approximately \$355,000.

Genesee County Drain Commissioner

Division of Water and Waste Services

Notes to Financial Statements
December 31, 2011

Note 4 - Bonds Payable (Continued)

Future Revenue Pledged for Debt Payment

Revenue Bonds - The Division has pledged substantially all revenue of the Water and Sewer Fund, 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 revenues of the water and sewer system. The remaining principal and interest to be paid on the bonds total \$122,993,488. During the current year, net revenues of the system were \$13,165,205 compared to the annual debt requirements of \$5,994,845.

Note 5 - Pension Plan

Plan Description - The Division participates in the Genesee County Employees' Retirement System (GCERS), which is a contributory agent multiemployer defined benefit plan providing for pension and disability benefits for substantially all Genesee County employees. 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. The 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.

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 - During 2011 and 2010, the Division's annual pension cost of \$1,763,782 and \$1,744,861, respectively, was equal to the Division's required and actual contributions. The required contributions were determined as part of the December 31, 2009 and 2008 actuarial valuations, using the entry age actuarial cost method.

Genesee County Drain Commissioner

Division of Water and Waste Services

Notes to Financial Statements December 31, 2011

Note 5 - Pension Plan (Continued)

Actuarial Methods and Assumptions - In the December 31, 2010 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 5.00 to 9.03 percent per year compounded annually. Both (a) and (b) included an inflation component of 5.00 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, 2010.

Schedule of Employer Contributions

| Fiscal Year Ended | Valuation Date | Contribution Rate as Percentage of Valuation | Annual Pension Cost (APC) | Actual Reported Contribution | Percentage of APC Contributed |
|-------------------|----------------|--|---------------------------|------------------------------|-------------------------------|
| December 31 | December 31 | Payroll | Cost (APC) | Contribution | Contributed |
| 2009 | 2007 | 16.49% | \$ 1,679,931 | \$ 1,679,931 | 100% |
| 2010 | 2008 | 17.76 | 1,744,861 | 1,744,861 | 100 |
| 2011 | 2009 | 18.81 | 1,762,782 | 1,762,782 | 100 |

Schedule of Funding Progress

| Actuarial Valuation Date | Actuarial Value of Assets (a) | Actuarial Accrued Liability (AAL) Entry Age (b) | Unfunded AAL (UAAL) (b-a) | Funded Ratio (a/b) | Valuation Payroll (c) | (UAAL) as a Percentage of Covered Payroll ((b-a)/c) |
|--------------------------|-------------------------------|---|---------------------------|--------------------|-----------------------|---|
| 2005 | \$ 34,908,400 | \$ 39,047,872 | \$ 4,139,472 | 89.4 % | \$ 8,138,717 | 50.9 % |
| 2006 | 37,578,528 | 42,770,145 | 5,191,617 | 87.9 | 8,245,848 | 63.0 |
| 2007 | 38,979,791 | 44,748,462 | 5,768,671 | 87.1 | 7,823,724 | 73.7 |
| 2008 | 37,329,643 | 46,855,482 | 9,525,839 | 79.7 | 8,420,060 | 113.1 |
| 2009 | 36,627,952 | 49,055,966 | 12,428,014 | 74.7 | 8,130,143 | 152.9 |
| 2010 | 35,600,950 | 50,285,901 | 14,684,951 | 70.8 | 7,610,890 | 192.9 |

Genesee County Drain Commissioner

Division of Water and Waste Services

Notes to Financial Statements December 31, 2011

Note 6 - Other Postemployment Benefits

Plan Description - The Division provides retiree healthcare, dental, life, and vision benefits to eligible employees and their spouses 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.

Funding Progress - For the year ended December 31, 2011, 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:

| | |
|---|----------------------------|
| Annual required contribution (recommended) | \$ 3,933,831 |
| Interest on the prior year's net OPEB obligation | 127,528 |
| Less adjustment to the annual required contribution | <u>(78,511)</u> |
| Annual OPEB cost | 3,982,848 |
| Amounts contributed: | |
| Payments of current premiums | (1,337,004) |
| Advance funding | <u>(81,360)</u> |
| Increase in net OPEB obligation | 2,564,484 |
| OPEB obligation - Beginning of year | <u>3,188,211</u> |
| OPEB obligation - End of year | <u><u>\$ 5,752,695</u></u> |

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

Genesee County Drain Commissioner

Division of Water and Waste Services

Notes to Financial Statements December 31, 2011

Note 6 - Other Postemployment Benefits (Continued)

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

| | | |
|------------------------|----|-----------|
| Annual OPEB costs | \$ | 3,982,848 |
| Percentage contributed | | 35.61% |
| Net OPEB obligation | \$ | 5,757,695 |

The funding progress of the plan as of the most recent valuation date is as follows:

| Valuation as of: | December 31, 2010 | December 31, 2008 |
|---------------------------------|-------------------|-------------------|
| Actuarial value of assets | \$ - | \$ - |
| Actuarial accrued liability | \$ 51,474,408 | \$ 35,394,879 |
| Unfunded AAL | \$ 51,474,408 | \$ 35,394,879 |
| Funded ratio | - % | - % |
| Annual covered payroll | \$ 7,610,890 | \$ 8,420,060 |
| Ratio of UAL to covered payroll | 676.23% | 420.26% |

The schedule of employer contributions is as follows:

| Fiscal Year Ended | Valuation Date | Contribution Rate as Percentage of Valuation | Annual Required Contribution (ARC) | Percentage of ARC Contributed |
|-------------------|----------------|--|------------------------------------|-------------------------------|
| December 31 | December 31 | Payroll | (ARC) | |
| 2009 | 2008 | 25.42% | \$ 2,114,429 | 49.18% |
| 2010 | 2008 | 32.43% | 2,641,753 | 55.87% |
| 2011 | 2010 | 50.59% | 2,987,848 | 25.61% |

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.

Genesee County Drain Commissioner

Division of Water and Waste Services

Notes to Financial Statements December 31, 2011

Note 6 - Other Postemployment Benefits (Continued)

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.

In 2012, the Division approved a prefunding plan and per the plan \$2,000,000 will be remitted to the trust in 2012 and \$1,200,000 per year will be remitted starting in 2013.

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 on the balance sheet. Changes in the estimated liability for the current year are as follows:

| | 2011 | 2010 |
|--|--------------------|--------------------|
| Unpaid claims - Beginning of year | \$ 261,162 | \$ 258,237 |
| Incurred claims (including claims incurred but not reported) | 2,559,231 | 2,444,271 |
| Claim payments | <u>(2,529,717)</u> | <u>(2,441,346)</u> |
| Unpaid claims - End of year | <u>\$ 290,676</u> | <u>\$ 261,162</u> |

Genesee County Drain Commissioner

Division of Water and Waste Services

Notes to Financial Statements

December 31, 2011

Note 8 - Stewardship, Compliance, and Accountability

Fund Deficits - For the year ended December 31, 2012, the Division's District No. 3 fund had a deficit in net assets of \$197,828.

Note 9 - Upcoming Accounting Pronouncements

In December 2010, the GASB issued Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. This statement incorporates into GASB literature certain accounting and financial reporting guidance issued on or before November 30, 1989 that is included in FASB statements and interpretations, APB opinions, and accounting research bulletins of the AICPA committee on accounting procedure. The Division is currently evaluating the impact this standard will have on the financial statements when adopted during the Division's 2012 fiscal year.

In June 2011, the GASB issued Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. The statement will be effective for the Division's 2012 fiscal year. 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. This 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. Once implemented, this statement will impact the format and reporting of the balance sheet at the government-wide level and also at the fund level.

Supplemental Information

Genesee County Drain Commissioner Division of Water and Waste Services

Statement of Net Assets (Divisional Detail) - Enterprise Fund

| | Year Ended December 31 | | | | | |
|--|---|-------------------------|-------------------|----------------------------|-----------------------|-----------------------|
| | 2011 | | | | | 2010 |
| | Interceptor and Treatment Facilities | Sewage Disposal Systems | | Water Supply Systems | Total | Total |
| | District No. 3 | District No. 7 | | | | |
| Assets | | | | | | |
| Current assets: | | | | | | |
| Cash and cash equivalents | \$ 2,298,821 | \$ 6,693 | \$ 40,523 | \$ 9,036,806 | \$ 11,382,843 | \$ 5,069,494 |
| Accounts receivable | 4,664,179 | 579,027 | 120,928 | 2,889,775 | 8,253,909 | 10,354,747 |
| Prepaid expenses | 1,275 | 175 | 151 | 3,788 | 5,389 | 1,069 |
| Internal balances | - | - | - | 4,679,557 | 4,679,557 | 2,573,473 |
| Due from other governmental units | 2,000 | - | - | - | 2,000 | 3,500 |
| Leases receivable | 375,000 | 2,415,000 | - | 35,000 | 2,825,000 | 2,665,000 |
| Other assets | - | - | - | 30,000 | 30,000 | - |
| Inventory | - | - | - | 52,658 | 52,658 | 43,299 |
| Total current assets | 7,341,275 | 3,000,895 | 161,602 | 16,727,584 | 27,231,356 | 20,710,582 |
| Noncurrent assets: | | | | | | |
| Restricted cash and cash equivalents | 3,828,107 | 404,390 | - | 360,091 | 4,592,588 | 5,497,421 |
| Restricted accounts receivable | 178,547 | 226,155 | - | 127,951 | 532,653 | 883,501 |
| Restricted - Due from other governmental units | - | 258,531 | - | 75,282 | 333,813 | 1,503,225 |
| Leases receivable | 4,860,000 | 22,940,000 | - | 868,516 | 28,668,516 | 30,590,000 |
| Deferred charge on bond | 54,374 | - | - | - | 54,374 | - |
| Bond discount | 22,547 | - | - | - | 22,547 | 52,187 |
| Unamortized cost of issuance | 705,279 | 22,346 | - | 28,997 | 756,622 | 493,857 |
| Local unit construction in progress | 176,237 | - | - | 1,236,924 | 1,413,161 | 466,442 |
| Capital assets: | | | | | | |
| Land and other assets not being depreciated | 83,724,524 | 2,023,106 | - | 1,170,184 | 86,917,814 | 70,514,893 |
| Buildings and equipment - Net of depreciation | 141,891,463 | 27,224,522 | 432,961 | 62,638,226 | 232,187,172 | 237,324,951 |
| Total noncurrent assets | 235,441,078 | 53,099,050 | 432,961 | 66,506,171 | 355,479,260 | 347,326,477 |
| Total assets | 242,782,353 | 56,099,945 | 594,563 | 83,233,755 | 382,710,616 | 368,037,059 |
| Liabilities | | | | | | |
| Current liabilities: | | | | | | |
| Accounts payable and accrued expenses | 1,516,608 | 247,026 | 30,202 | 2,434,892 | 4,228,728 | 2,809,953 |
| Due to other governmental units | 237,300 | - | - | 10 | 237,310 | 254,880 |
| Internal balances | 13,526 | 262,207 | 378 | 4,429,631 | 4,705,742 | 2,601,469 |
| Current portion of bonds payable | 6,380,000 | 2,685,000 | - | 1,295,000 | 10,360,000 | 9,375,000 |
| Total current liabilities | 8,147,434 | 3,194,233 | 30,580 | 8,159,533 | 19,531,780 | 15,041,302 |
| Noncurrent liabilities: | | | | | | |
| Liabilities related to restricted assets | 2,851,547 | 298,182 | - | 359,746 | 3,509,475 | 6,281,470 |
| Unearned lease | 176,237 | - | - | 1,347,948 | 1,524,185 | 439,770 |
| Bond premium | 207,590 | 25,553 | - | 175,805 | 408,948 | 409,707 |
| Other postemployment benefit obligation | 3,366,805 | 587,717 | 118,956 | 1,679,217 | 5,752,695 | 3,188,211 |
| Bonds payable - Net of current portion | 98,166,556 | 29,100,000 | - | 39,853,516 | 167,120,072 | 160,036,610 |
| Total noncurrent liabilities | 104,768,735 | 30,011,452 | 118,956 | 43,416,232 | 178,315,375 | 170,355,768 |
| Total liabilities | 112,916,169 | 33,205,685 | 149,536 | 51,575,765 | 197,847,155 | 185,397,070 |
| Net Assets | | | | | | |
| Invested in capital assets - Net of related debt | 128,817,257 | 23,146,784 | 432,961 | 23,416,602 | 175,813,604 | 174,536,049 |
| Restricted for bond ordinance | - | - | - | 3,098,052 | 3,098,052 | 3,695,340 |
| Unrestricted | 1,048,927 | (252,524) | 12,066 | 5,143,336 | 5,951,805 | 4,408,600 |
| Total net assets | \$ 129,866,184 | \$ 22,894,260 | \$ 445,027 | \$ 31,657,990 | \$ 184,863,461 | \$ 182,639,989 |

Genesee County Drain Commissioner Division of Water and Waste Services

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

| | Year Ended December 31 | | | | | |
|--|---|-------------------------|-------------------|----------------------------|-----------------------|-----------------------|
| | 2011 | | | | 2010 | |
| | Interceptor and Treatment Facilities | Sewage Disposal Systems | | Water Supply Systems | Total | Total |
| | District No. 3 | District No. 7 | | | | |
| Operating Revenue | | | | | | |
| Sewage disposal service | \$ 22,014,199 | \$ 3,286,223 | \$ 728,424 | \$ - | \$ 26,028,846 | \$ 26,597,823 |
| Billing services | - | - | - | - | - | 162,455 |
| Sewer and pumping station - Operation and maintenance | 1,197,219 | - | - | - | 1,197,219 | 1,197,151 |
| Inspection fees | 5,003 | - | - | - | 5,003 | 9,951 |
| Water sales | - | - | - | 21,697,903 | 21,697,903 | 21,202,820 |
| Water meter sales | - | - | - | 64,662 | 64,662 | 65,757 |
| Other operating revenue | 300,538 | 77,252 | - | 497,659 | 875,449 | 609,652 |
| Total operating revenue | 23,516,959 | 3,363,475 | 728,424 | 22,260,224 | 49,869,082 | 49,845,609 |
| Operating Expenses | | | | | | |
| Personnel services | 8,257,104 | 1,466,560 | 235,475 | 1,977,060 | 11,936,199 | 11,020,014 |
| Administration | 2,225,905 | 284,158 | 94,718 | 2,131,189 | 4,735,970 | 4,514,280 |
| Contractual services | 245,498 | 87,705 | 15,550 | 273,867 | 622,620 | 983,960 |
| Sludge disposal service | 917,399 | 181,498 | - | - | 1,098,897 | 1,031,330 |
| Cost of water | - | - | - | 12,947,738 | 12,947,738 | 10,835,456 |
| Repairs and maintenance | 1,388,331 | 209,064 | 146,326 | 623,712 | 2,367,433 | 2,754,390 |
| Utilities | 3,072,481 | 488,743 | 164,598 | 563,135 | 4,288,957 | 3,328,468 |
| Other supplies and expenses | 719,590 | 99,356 | 30,958 | 183,585 | 1,033,489 | 1,069,845 |
| Insurance claims and expenses | 131,220 | 23,695 | 3,153 | 78,992 | 237,060 | 223,608 |
| Depreciation | 3,663,996 | 673,546 | 22,616 | 1,782,145 | 6,142,303 | 5,879,881 |
| Total operating expenses | 20,621,524 | 3,514,325 | 713,394 | 20,561,423 | 45,410,666 | 41,641,232 |
| Operating Income | 2,895,435 | (150,850) | 15,030 | 1,698,801 | 4,458,416 | 8,204,377 |
| Nonoperating Revenue (Expenses) | | | | | | |
| Interest and investment revenue | 240,506 | 1,128,210 | - | 21,315 | 1,390,031 | 1,493,378 |
| Miscellaneous revenue | 246,845 | 3,087 | - | 385,757 | 635,689 | 670,596 |
| Interest expense | (1,032,263) | (1,359,258) | - | (1,875,505) | (4,267,026) | (4,296,163) |
| Miscellaneous expense | (135,302) | (1,176) | (20) | (21,617) | (158,115) | (6,456) |
| Total nonoperating expenses | (680,214) | (229,137) | (20) | (1,490,050) | (2,399,421) | (2,138,645) |
| Income (Loss) - Before capital contributions and operating transfer | 2,215,221 | (379,987) | 15,010 | 208,751 | 2,058,995 | 6,065,732 |
| Capital Contributions | 266,907 | 1,321 | - | - | 268,228 | 29,853,229 |
| Operating Transfer | 696,921 | (74,880) | (74,880) | (650,912) | (103,751) | (110,100) |
| Change in Net Assets | 3,179,049 | (453,546) | (59,870) | (442,161) | 2,223,472 | 35,808,861 |
| Net Assets - Beginning of year | 126,687,135 | 23,347,806 | 504,897 | 32,100,151 | 182,639,989 | 146,831,128 |
| Net Assets - End of year | <u>\$ 129,866,184</u> | <u>\$ 22,894,260</u> | <u>\$ 445,027</u> | <u>\$ 31,657,990</u> | <u>\$ 184,863,461</u> | <u>\$ 182,639,989</u> |

Genesee County Drain Commissioner Division of Water and Waste Services

Statement of Cash Flows (Divisional Detail) - Enterprise Fund

| | Year Ended December 31 | | | | | |
|--|---|-------------------------|---------------------|----------------------------|----------------------|----------------------|
| | 2011 | | | | 2010 | |
| | Interceptor and Treatment Facilities | Sewage Disposal Systems | | Water Supply Systems | Total | Total |
| | District No. 3 | District No. 7 | | | | |
| Cash Flows from Operating Activities | | | | | | |
| Cash received from customers | \$ 22,937,940 | \$ 3,477,335 | \$ 342,172 | \$ 25,303,350 | \$ 52,060,797 | \$ 50,209,727 |
| Cash payments to suppliers and others for goods and services | (10,695,161) | (1,396,960) | (446,557) | (15,906,054) | (28,444,732) | (25,384,736) |
| Cash payments to employees | (6,964,204) | (1,187,503) | (180,192) | (1,117,274) | (9,449,173) | (9,743,772) |
| Net cash provided by (used in) operating activities | 5,278,575 | 892,872 | (284,577) | 8,280,022 | 14,166,892 | 15,081,219 |
| Cash Flows from Capital and Related Financing Activities | | | | | | |
| Purchases of capital assets | (15,822,420) | (939,437) | - | (700,134) | (17,461,991) | (16,373,234) |
| Construction of community assets | 738,870 | - | 400,000 | 80,850 | 1,219,720 | (441,366) |
| County capital improvement fees | 220,166 | - | - | 410,617 | 630,783 | 575,035 |
| Collections of leases receivable from municipalities | 586,868 | 3,427,736 | - | - | 4,014,604 | 4,502,447 |
| Proceeds from issuance of bonded debt | 24,350,556 | 522,390 | - | - | 24,872,946 | 2,030,362 |
| Principal paid on bond maturities | (13,939,000) | (2,559,000) | - | (1,210,000) | (17,708,000) | (9,115,000) |
| Interest paid on bonds | (999,936) | (1,360,856) | - | (1,916,600) | (4,277,392) | (4,340,771) |
| Proceeds from grants | - | - | - | - | - | 8,957,130 |
| Operating transfer | 696,921 | (74,880) | (74,880) | (650,912) | (103,751) | (110,100) |
| Net cash provided by (used in) capital and related financing activities | (4,167,975) | (984,047) | 325,120 | (3,986,179) | (8,813,081) | (14,315,497) |
| Cash Flows from Investing Activities - Investment income (loss) | | | | | | |
| | (87,515) | 2,385 | (20) | 139,855 | 54,705 | 252,886 |
| Net Increase (Decrease) in Cash and Cash Equivalents | 1,023,085 | (88,790) | 40,523 | 4,433,698 | 5,408,516 | 1,018,608 |
| Cash and Cash Equivalents - Beginning of year | 5,103,843 | 499,873 | - | 4,963,199 | 10,566,915 | 9,548,307 |
| Cash and Cash Equivalents - End of year | \$ 6,126,928 | \$ 411,083 | \$ 40,523 | \$ 9,396,897 | \$ 15,975,431 | \$ 10,566,915 |
| Reconciliation of Operating Income to Net Cash from Operating Activities | | | | | | |
| Operating income | \$ 2,895,435 | \$ (150,850) | \$ 15,030 | \$ 1,698,801 | \$ 4,458,416 | \$ 8,204,377 |
| Adjustments to reconcile operating income to net cash from operating activities: | | | | | | |
| Depreciation | 3,663,996 | 673,546 | 22,616 | 1,782,145 | 6,142,303 | 5,879,881 |
| Changes in assets and liabilities: | | | | | | |
| Accounts receivable | 1,166,247 | 188,087 | 41,353 | 726,520 | 2,122,207 | 385,883 |
| Inventories | - | - | - | (9,359) | (9,359) | 8,213 |
| Prepaid assets | (586) | 35 | (131) | (33,638) | (34,320) | 22,053 |
| Accounts payable and accrued expenses | (701,250) | 256,281 | 64,160 | 1,798,947 | 1,418,138 | 602,577 |
| Internal balances | (1,730,767) | (160,727) | (427,605) | 2,317,288 | (1,811) | (35,835) |
| Due to (from) other governmental units - Net | (14,500) | 86,500 | - | (682) | 71,318 | 14,070 |
| Net cash provided by (used in) operating activities | \$ 5,278,575 | \$ 892,872 | \$ (284,577) | \$ 8,280,022 | \$ 14,166,892 | \$ 15,081,219 |
| Composition of Cash and Cash Equivalents | | | | | | |
| Cash and cash equivalents | \$ 2,298,821 | \$ 6,693 | \$ 40,523 | \$ 9,036,806 | \$ 11,382,843 | \$ 5,069,494 |
| Restricted cash and cash equivalents | 3,828,107 | 404,390 | - | 360,091 | 4,592,588 | 5,497,421 |
| Total cash and cash equivalents | \$ 6,126,928 | \$ 411,083 | \$ 40,523 | \$ 9,396,897 | \$ 15,975,431 | \$ 10,566,915 |

Noncash Investing, Capital, and Financing Activities - During the year ended December 31, 2011, the Enterprise Fund had \$268,229 contributed to the water and sewer systems by a grant

Genesee County Drain Commissioner Division of Water and Waste Services

Statement of Net Assets - Internal Service Funds

| | Year Ended December 31 | | | |
|--|------------------------|-------------------|---------------------|---------------------|
| | 2011 | | | 2010 |
| | Equipment Fund | Insurance Fund | Total | Total |
| Assets | | | | |
| Current assets: | | | | |
| Cash and cash equivalents | \$ 1,672,693 | \$ 325,258 | \$ 1,997,951 | \$ 1,520,762 |
| Accounts receivable | - | 1,998 | 1,998 | 34,681 |
| Internal balances | 26,185 | - | 26,185 | 27,996 |
| Prepaid expenses and other assets | - | 81,689 | 81,689 | 222,160 |
| Total current assets | 1,698,878 | 408,945 | 2,107,823 | 1,805,599 |
| Noncurrent assets: | | | | |
| Capital assets: | | | | |
| Construction in progress | 16,250 | - | 16,250 | - |
| Buildings and equipment - Net of depreciation | 2,831,471 | - | 2,831,471 | 2,425,241 |
| Total noncurrent assets | 2,847,721 | - | 2,847,721 | 2,425,241 |
| Total assets | 4,546,599 | 408,945 | 4,955,544 | 4,230,840 |
| Liabilities - Current liabilities - Accounts payable and accrued expenses | | | | |
| | 283,067 | 311,373 | 594,440 | 355,252 |
| Net Assets | | | | |
| Invested in capital assets - Net of related debt | 2,847,721 | - | 2,847,721 | 2,425,241 |
| Unrestricted | 1,415,811 | 97,572 | 1,513,383 | 1,450,347 |
| Total net assets | \$ 4,263,532 | \$ 97,572 | \$ 4,361,104 | \$ 3,875,588 |

Genesee County Drain Commissioner Division of Water and Waste Services

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

| | Year Ended December 31 | | | |
|---|------------------------|-------------------|---------------------|---------------------|
| | 2011 | | | 2010 |
| | Equipment Fund | Insurance Fund | Total | Total |
| Operating Revenue | | | | |
| Billing to Enterprise Fund | \$ 783,245 | \$ 3,616,914 | \$ 4,400,159 | \$ 3,999,345 |
| Other operating revenue | - | 152,453 | 152,453 | 156,955 |
| Total operating revenue | 783,245 | 3,769,367 | 4,552,612 | 4,156,300 |
| Operating Expenses | | | | |
| Repairs and maintenance | 10,628 | - | 10,628 | 2,770 |
| Insurance claims and expenses | - | 3,767,859 | 3,767,859 | 3,772,300 |
| Depreciation | 394,212 | - | 394,212 | 362,623 |
| Total operating expenses | 404,840 | 3,767,859 | 4,172,699 | 4,137,693 |
| Operating Income | 378,405 | 1,508 | 379,913 | 18,607 |
| Nonoperating Revenue - Interest and investment revenue | 1,852 | - | 1,852 | 260 |
| Total nonoperating revenue | 1,852 | - | 1,852 | 260 |
| Income - Before operating transfer | 380,257 | 1,508 | 381,765 | 18,867 |
| Operating Transfer | 103,751 | - | 103,751 | 110,100 |
| Change in Net Assets | 484,008 | 1,508 | 485,516 | 128,967 |
| Net Assets - Beginning of year | 3,779,524 | 96,064 | 3,875,588 | 3,746,621 |
| Net Assets - End of year | <u>\$ 4,263,532</u> | <u>\$ 97,572</u> | <u>\$ 4,361,104</u> | <u>\$ 3,875,588</u> |

Genesee County Drain Commissioner Division of Water and Waste Services

Statement of Cash Flows - Internal Service Funds

| | Year Ended December 31 | | | |
|--|----------------------------|--------------------------|----------------------------|----------------------------|
| | 2011 | | | 2010 |
| | Equipment Fund | Insurance Fund | Total | Total |
| Cash Flows from Operating Activities | | | | |
| Cash received from customers | \$ 785,056 | \$ 3,802,050 | \$ 4,587,106 | \$ 4,157,454 |
| Cash payments to suppliers and others for goods and services | <u>(10,515)</u> | <u>(3,671,380)</u> | <u>(3,681,895)</u> | <u>(3,808,247)</u> |
| Net cash provided by operating activities | 774,541 | 130,670 | 905,211 | 349,207 |
| Cash Flows from Capital and Related Financing Activities | | | | |
| Purchases of capital assets | (533,625) | - | (533,625) | (210,114) |
| Proceeds from sale of capital assets | - | - | - | - |
| Operating transfer | <u>103,751</u> | <u>-</u> | <u>103,751</u> | <u>110,100</u> |
| Net cash used in capital and related financing activities | (429,874) | - | (429,874) | (100,014) |
| Cash Flows from Investing Activities - Investment income | <u>1,852</u> | <u>-</u> | <u>1,852</u> | <u>260</u> |
| Net Increase in Cash and Cash Equivalents | 346,519 | 130,670 | 477,189 | 249,453 |
| Cash and Cash Equivalents - Beginning of year | <u>1,326,174</u> | <u>194,588</u> | <u>1,520,762</u> | <u>1,271,309</u> |
| Cash and Cash Equivalents - End of year | <u>\$ 1,672,693</u> | <u>\$ 325,258</u> | <u>\$ 1,997,951</u> | <u>\$ 1,520,762</u> |
| Reconciliation of Operating Income to Net Cash from Operating Activities | | | | |
| Operating income | \$ 378,405 | \$ 1,508 | \$ 379,913 | \$ 18,607 |
| Adjustments to reconcile operating income to net cash from operating activities: | | | | |
| Depreciation | 394,212 | - | 394,212 | 362,623 |
| Changes in assets and liabilities: | | | | |
| Accounts receivable | - | 32,683 | 32,683 | (34,681) |
| Prepaid assets | 113 | 140,358 | 140,471 | (111,483) |
| Accounts payable, accrued expenses, and deferred revenue | - | (43,879) | (43,879) | 78,306 |
| Internal balances | <u>1,811</u> | <u>-</u> | <u>1,811</u> | <u>35,835</u> |
| Net cash provided by (used in) operating activities | <u>\$ 774,541</u> | <u>\$ 130,670</u> | <u>\$ 905,211</u> | <u>\$ 349,207</u> |

Noncash Capital Activities - During the year ended December 31, 2011, the Equipment Fund had \$283,067 of noncash activity related to the purchase of capital assets.

Genesee County Drain Commissioner Division of Water and Waste Services

| Description of Issue | Principal Outstanding January 1, 2011 | Issued During the Year | Retired During the Year | Principal Outstanding December 31, 2011 | 2012 | | 2013 | | |
|--|--|---------------------------|----------------------------|--|-----------|----------|-----------|----------|------|
| | | | | | Principal | Interest | Principal | Interest | |
| Interceptor and Treatment Facilities | | | | | | | | | |
| <u>Genesee County Drain Commissioner</u> | | | | | | | | | |
| <u>Bonds Payable:</u> | | | | | | | | | |
| Series 2000 \$6,000,000 Revenue Bonds backed by the full faith and credit of the County of Genesee. Bond proceeds used for ARTP Grit Removal project. Due serially in various amounts ranging from \$200,000 to \$600,000 through 2015 with interest rates from 4.00% to 6.00% | \$ 2,750,000 | \$ - | \$ (2,750,000) | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - |
| Series 2002A \$11,000,000 Revenue Bonds backed by the full faith and credit of the County of Genesee. Bond proceeds used for ARTP Enhancement project. Due serially in various amounts ranging from \$485,000 to \$1,020,000 through 2017 with interest rates from 3.5% to 4.70% | 6,245,000 | - | (6,245,000) | - | - | - | - | - | - |
| 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% | 3,910,000 | - | (425,000) | 3,485,000 | 440,000 | 149,008 | 460,000 | 132,288 | |
| 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% | 18,290,000 | - | (1,010,000) | 17,280,000 | 1,025,000 | 280,800 | 1,045,000 | 264,144 | |
| 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% | 12,795,000 | - | (705,000) | 12,090,000 | 720,000 | 190,613 | 730,000 | 178,831 | |
| 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% | 2,450,000 | - | (125,000) | 2,325,000 | 130,000 | 37,781 | 130,000 | 35,669 | |
| 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% | 6,700,000 | - | (345,000) | 6,355,000 | 350,000 | 103,269 | 355,000 | 97,581 | |
| 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% | 3,770,000 | - | (195,000) | 3,575,000 | 200,000 | 58,094 | 200,000 | 54,844 | |

Summary of Bonds Payable Year Ended December 31, 2011

| 2014 | | 2015 | | 2016 | | Later | | Total | |
|-----------|----------|-----------|----------|-----------|----------|------------|-----------|------------|-----------|
| Principal | Interest | Principal | Interest | Principal | Interest | Principal | Interest | Principal | Interest |
| \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - |
| - | - | - | - | - | - | - | - | - | - |
| 480,000 | 113,888 | 495,000 | 93,488 | 515,000 | 72,450 | 1,095,000 | 74,475 | 3,485,000 | 635,597 |
| 1,060,000 | 247,163 | 1,080,000 | 229,938 | 1,095,000 | 212,388 | 11,975,000 | 1,095,739 | 17,280,000 | 2,330,172 |
| 740,000 | 166,888 | 755,000 | 154,741 | 765,000 | 142,391 | 8,380,000 | 698,913 | 12,090,000 | 1,532,377 |
| 130,000 | 33,556 | 135,000 | 31,444 | 135,000 | 29,250 | 1,665,000 | 166,805 | 2,325,000 | 334,505 |
| 365,000 | 91,813 | 370,000 | 85,881 | 375,000 | 79,869 | 4,540,000 | 454,512 | 6,355,000 | 912,925 |
| 205,000 | 51,594 | 205,000 | 48,763 | 210,000 | 44,931 | 2,555,000 | 256,019 | 3,575,000 | 513,745 |

Genesee County Drain Commissioner Division of Water and Waste Services

Interceptor and Treatment Facilities (Continued)

Genesee County Drain Commissioner Bonds Payable:

| Description of Issue | Principal Outstanding January 1, 2011 | Issued During the Year | Retired During the Year | Principal Outstanding December 31, 2011 | 2012 | | 2013 | |
|---|--|---------------------------|----------------------------|--|---------------------|---------------------|---------------------|---------------------|
| | | | | | Principal | Interest | Principal | Interest |
| 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% | 9,595,000 | - | (465,000) | 9,130,000 | 470,000 | 144,544 | 480,000 | 136,825 |
| 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 amounts ranging from \$240,000 to \$605,000 through 2028 with interest rates from 4.00% to 4.40% | 7,505,000 | - | (265,000) | 7,240,000 | 280,000 | 300,778 | 295,000 | 289,578 |
| 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 amounts ranging from \$475,000 to \$1,150,000 through 2029 with interest rates from 2.75% to 5.00% | 14,525,000 | - | (475,000) | 14,050,000 | 475,000 | 620,250 | 500,000 | 607,188 |
| 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. \$3,466,050 remaining to be drawn. Due in amounts ranging from \$569,000 to \$910,000 through 2030 with a interest rate of 2.50% | - | 11,077,950 | (569,000) | 10,508,950 | 440,000 | 262,750 | 450,000 | 251,750 |
| 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. \$867,394 remaining to be drawn. Due in amounts ranging from \$55,000 to \$90,000 through 2031 with a interest rate of 2.50% | - | 577,606 | - | 577,606 | 25,000 | 14,500 | 25,000 | 13,875 |
| 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 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, \$11,000,000 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 | - | 7,870,000 | 1,450,000 | 159,613 | 1,455,000 | 116,350 |
| Total Genesee County Drain Commission bonds payable | 88,535,000 | 24,350,556 | (13,574,000) | 99,311,556 | 6,005,000 | 2,523,500 | 6,125,000 | 2,380,423 |
| <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% | 2,405,000 | - | (230,000) | 2,175,000 | 235,000 | 85,273 | 245,000 | 75,433 |
| 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% | 3,195,000 | - | (135,000) | 3,060,000 | 140,000 | 124,035 | 145,000 | 118,335 |
| Total Community-related bonds payable | 5,600,000 | - | (365,000) | 5,235,000 | 375,000 | 209,308 | 390,000 | 193,768 |
| Total Interceptor and Treatment Facilities bonds payable | \$ 94,135,000 | \$ 24,350,556 | \$ (13,939,000) | \$ 104,546,556 | \$ 6,380,000 | \$ 2,732,808 | \$ 6,515,000 | \$ 2,574,191 |

Summary of Bonds Payable (Continued) Year Ended December 31, 2011

| 2014 | | 2015 | | 2016 | | Later | | Total | |
|---------------------|---------------------|------------------|------------------|------------------|------------------|----------------------|----------------------|-----------------------|----------------------|
| Principal | Interest | Principal | Interest | Principal | Interest | Principal | Interest | Principal | Interest |
| 485,000 | 128,984 | 495,000 | 121,022 | 500,000 | 112,938 | 6,700,000 | 674,213 | 9,130,000 | 1,318,526 |
| 310,000 | 277,778 | 325,000 | 265,378 | 340,000 | 252,378 | 5,690,000 | 1,718,013 | 7,240,000 | 3,103,903 |
| 525,000 | 593,438 | 525,000 | 577,688 | 600,000 | 561,281 | 11,425,000 | 4,309,313 | 14,050,000 | 7,269,158 |
| 460,000 | 240,500 | 475,000 | 229,000 | 485,000 | 217,125 | 8,198,950 | 1,620,000 | 10,508,950 | 2,821,125 |
| 25,000 | 13,250 | 25,000 | 12,625 | 25,000 | 12,000 | 452,606 | 95,313 | 577,606 | 161,563 |
| - | 201,500 | - | 201,500 | 180,000 | 198,800 | 4,645,000 | 1,744,145 | 4,825,000 | 2,748,945 |
| 1,465,000 | 87,150 | 1,500,000 | 57,500 | 1,000,000 | 32,500 | 1,000,000 | 11,250 | 7,870,000 | 464,363 |
| 6,250,000 | 2,247,502 | 6,385,000 | 2,108,468 | 6,225,000 | 1,968,301 | 68,321,556 | 12,918,710 | 99,311,556 | 24,146,904 |
| 255,000 | 65,183 | 265,000 | 54,523 | 275,000 | 43,453 | 900,000 | 58,283 | 2,175,000 | 382,148 |
| 155,000 | 112,335 | 165,000 | 105,935 | 170,000 | 99,235 | 2,285,000 | 527,511 | 3,060,000 | 1,087,386 |
| 410,000 | 177,518 | 430,000 | 160,458 | 445,000 | 142,688 | 3,185,000 | 585,794 | 5,235,000 | 1,469,534 |
| \$ 6,660,000 | \$ 2,425,020 | 6,815,000 | 2,268,926 | 6,670,000 | 2,110,989 | \$ 71,506,556 | \$ 13,504,504 | \$ 104,546,556 | \$ 25,616,438 |

Genesee County Drain Commissioner Division of Water and Waste Services

| Description of Issue | Principal Outstanding January 1, 2011 | Issued During the Year | Retired During the Year | Principal Outstanding December 31, 2011 | 2012 | | 2013 | |
|--|--|---------------------------|----------------------------|--|---------------------|---------------------|---------------------|---------------------|
| | | | | | Principal | Interest | Principal | Interest |
| District No. 3 | | | | | | | | |
| <u>Genesee County Drain Commissioner</u> | | | | | | | | |
| <u>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% to 4.5% | \$ 5,600,000 | \$ - | \$ (215,000) | \$ 5,385,000 | \$ 225,000 | \$ 223,838 | \$ 240,000 | \$ 214,538 |
| 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% | 566,610 | 522,390 | (44,000) | 1,045,000 | 45,000 | 26,161 | 45,000 | 25,000 |
| Total Genesee County Drain Commission bonds payable | 6,166,610 | 522,390 | (259,000) | 6,430,000 | 270,000 | 249,999 | 285,000 | 239,538 |
| <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% | 650,000 | - | (75,000) | 575,000 | 75,000 | 29,544 | 100,000 | 24,750 |
| Refunding Series 1996A \$12,940,000 Revenue Bonds backed by the full faith and credit of the County of Genesee. Refunded Series 2007, \$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% | 8,045,000 | - | (1,340,000) | 6,705,000 | 1,350,000 | 289,688 | 1,355,000 | 228,819 |
| 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% | 3,100,000 | - | (175,000) | 2,925,000 | 200,000 | 116,525 | 200,000 | 109,775 |
| Series 2004 \$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% | 6,575,000 | - | (325,000) | 6,250,000 | 350,000 | 260,250 | 350,000 | 244,500 |
| Series 2004 \$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% | 4,100,000 | - | (150,000) | 3,950,000 | 150,000 | 164,000 | 150,000 | 157,250 |
| 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% | 5,185,000 | - | (235,000) | 4,950,000 | 290,000 | 192,200 | 355,000 | 179,300 |
| Total Community-related bonds payable | 27,655,000 | - | (2,300,000) | 25,355,000 | 2,415,000 | 1,052,207 | 2,510,000 | 944,394 |
| Total District No. 3 bonds payable | \$ 33,821,610 | \$ 522,390 | \$ (2,559,000) | \$ 31,785,000 | \$ 2,685,000 | \$ 1,302,206 | \$ 2,795,000 | \$ 1,183,932 |

Summary of Bonds Payable (Continued) Year Ended December 31, 2011

| 2014 | | 2015 | | 2016 | | Later | | Total | |
|---------------------|---------------------|---------------------|-------------------|---------------------|-------------------|----------------------|---------------------|----------------------|---------------------|
| Principal | Interest | Principal | Interest | Principal | Interest | Principal | Interest | Principal | Interest |
| \$ 250,000 | \$ 204,738 | \$ 265,000 | \$ 194,438 | \$ 275,000 | \$ 183,638 | \$ 4,130,000 | \$ 1,090,433 | \$ 5,385,000 | \$ 2,111,623 |
| 45,000 | 23,875 | 45,000 | 22,750 | 50,000 | 21,625 | 815,000 | 161,250 | 1,045,000 | 280,661 |
| 295,000 | 228,613 | 310,000.00 | 217,188.00 | 325,000.00 | 205,263.00 | 4,945,000 | 1,251,683 | 6,430,000 | 2,392,284 |
| 100,000 | 19,250 | 100,000 | 13,750 | 100,000 | 8,250 | 100,000 | 2,750 | 575,000 | 98,294 |
| 1,345,000 | 164,694 | 1,330,000 | 99,500 | 1,325,000 | 33,125 | - | - | 6,705,000 | 815,826 |
| 200,000 | 102,775 | 200,000 | 95,775 | 225,000 | 88,525 | 1,900,000 | 377,513 | 2,925,000 | 890,888 |
| 400,000 | 225,750 | 400,000 | 207,750 | 400,000 | 191,750 | 4,350,000 | 824,875 | 6,250,000 | 1,954,875 |
| 150,000 | 149,750 | 200,000 | 142,000 | 300,000 | 132,000 | 3,000,000 | 541,000 | 3,950,000 | 1,286,000 |
| 440,000 | 163,400 | 540,000 | 143,800 | 595,000 | 121,100 | 2,730,000 | 163,600 | 4,950,000 | 963,400 |
| 2,635,000 | 825,619 | 2,770,000.00 | 702,575.00 | 2,945,000.00 | 574,750.00 | 12,080,000 | 1,909,738 | 25,355,000 | 6,009,283 |
| \$ 2,930,000 | \$ 1,054,232 | \$ 3,080,000 | \$ 919,763 | \$ 3,270,000 | \$ 780,013 | \$ 17,025,000 | \$ 3,161,421 | \$ 31,785,000 | \$ 8,401,567 |

Genesee County Drain Commissioner Division of Water and Waste Services

| Description of Issue | Principal Outstanding January 1, 2011 | Issued During the Year | Retired During the Year | Principal Outstanding December 31, 2011 | 2012 | | 2013 | |
|---|--|---------------------------|----------------------------|--|----------------------|---------------------|----------------------|---------------------|
| | | | | | Principal | Interest | Principal | Interest |
| Water Supply Systems | | | | | | | | |
| <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 Water Tower project. Due serially in various amounts ranging from \$455,000 to \$775,000 through 2018 with interest rates from 2.5% to 4.375% | \$ 5,425,000 | \$ - | \$ (590,000) | \$ 4,835,000 | \$ 615,000 | \$ 188,361 | \$ 635,000 | \$ 163,361 |
| Series 2003 \$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% | 16,545,000 | - | (255,000) | 16,290,000 | 270,000 | 794,563 | 290,000 | 783,763 |
| 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% | 13,935,000 | - | (215,000) | 13,720,000 | 225,000 | 621,650 | 235,000 | 614,338 |
| 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% | 5,550,000 | - | (150,000) | 5,400,000 | 150,000 | 233,478 | 150,000 | 227,478 |
| Total Genesee County Drain Commission bonds payable | 41,455,000 | - | (1,210,000) | 40,245,000 | 1,260,000 | 1,838,052 | 1,310,000 | 1,788,940 |
| <u>Community-related Bonds Payable:</u> | | | | | | | | |
| Series 2011 \$939,250 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. \$35,734 remaining to be drawn. Due in amounts ranging from \$34,250 to \$60,000 through 2031 with a interest rate of 2.50% | - | 903,516 | - | 903,516 | 35,000 | 22,188 | 35,000 | 21,313 |
| Total Community-related bonds payable | - | 903,516 | - | 903,516 | 35,000 | 22,188 | 35,000 | 21,313 |
| Total Water Supply Systems bonds payable | \$ 41,455,000 | \$ 903,516 | \$ (1,210,000) | \$ 41,148,516 | \$ 1,295,000 | \$ 1,860,240 | \$ 1,345,000 | \$ 1,810,253 |
| Total Genesee County Drain Commission bonds payable | \$ 136,156,610 | \$ 24,872,946 | \$ (15,043,000) | \$ 145,986,556 | \$ 7,535,000 | \$ 4,611,551 | \$ 7,720,000 | \$ 4,408,901 |
| Total Community-related bonds payable | 33,255,000 | 903,516 | (2,665,000) | 31,493,516 | 2,825,000 | 1,283,703 | 2,935,000 | 1,159,475 |
| Total - All bonds payable | \$ 169,411,610 | \$ 25,776,462 | \$ (17,708,000) | \$ 177,480,072 | \$ 10,360,000 | \$ 5,895,254 | \$ 10,655,000 | \$ 5,568,376 |

Summary of Bonds Payable (Continued) Year Ended December 31, 2011

| 2014 | | 2015 | | 2016 | | Later | | Total | |
|----------------------|---------------------|----------------------|---------------------|----------------------|---------------------|-----------------------|----------------------|-----------------------|----------------------|
| Principal | Interest | Principal | Interest | Principal | Interest | Principal | Interest | Principal | Interest |
| \$ 660,000 | \$ 137,461 | \$ 690,000 | \$ 110,116 | \$ 715,000 | \$ 80,956 | \$ 1,520,000 | \$ 66,877 | \$ 4,835,000 | \$ 747,132 |
| 310,000 | 772,163 | 325,000 | 759,763 | 345,000 | 746,763 | 14,750,000 | 7,697,625 | 16,290,000 | 11,554,640 |
| 240,000 | 606,700 | 240,000 | 598,300 | 250,000 | 588,700 | 12,530,000 | 4,927,000 | 13,720,000 | 7,956,688 |
| 150,000 | 221,328 | 160,000 | 214,953 | 160,000 | 208,153 | 4,630,000 | 2,196,049 | 5,400,000 | 3,301,439 |
| 1,360,000 | 1,737,652 | 1,415,000 | 1,683,132 | 1,470,000 | 1,624,572 | 33,430,000 | 14,887,551 | 40,245,000 | 23,559,899 |
| 35,000 | 20,438 | 40,000 | 19,500 | 40,000 | 18,500 | 718,516 | 143,504 | 903,516 | 245,443 |
| 35,000 | 20,438 | 40,000 | 19,500 | 40,000 | 18,500 | 718,516 | 143,504 | 903,516 | 245,443 |
| \$ 1,395,000 | \$ 1,758,090 | \$ 1,455,000 | \$ 1,702,632 | \$ 1,510,000 | \$ 1,643,072 | \$ 34,148,516 | \$ 15,031,055 | \$ 41,148,516 | \$ 23,805,342 |
| \$ 7,905,000 | \$ 4,213,767 | 8,110,000 | 4,008,788.00 | 8,020,000 | 3,798,136.00 | \$ 106,696,556 | \$ 29,057,944 | \$ 145,986,556 | \$ 50,099,087 |
| 3,080,000 | 1,023,575 | 3,240,000 | 882,533.00 | 3,430,000 | 735,938.00 | 15,983,516 | 2,639,036 | 31,493,516 | 7,724,260 |
| \$ 10,985,000 | \$ 5,237,342 | \$ 11,350,000 | \$ 4,891,321 | \$ 11,450,000 | \$ 4,534,074 | \$ 122,680,072 | \$ 31,696,980 | \$ 177,480,072 | \$ 57,823,347 |

June 25, 2012

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, 2011 and have issued our report thereon dated June 25, 2012. Professional standards require that we provide you with the following information related to our audit which is divided into the following sections:

Section I - Communications Required Under SAS 114

Section II - Other Recommendations

Section I includes information that current auditing standards require independent auditors to communicate to those individuals charged with governance. We will report this information annually to the Drain Commissioner.

Section II presents recommendations related to internal control and procedures noted during our current year audit. These comments are offered in the interest of helping the Division in its efforts toward continuous improvement, not just in the areas of internal control and accounting procedures, but also in operational or administrative efficiency and effectiveness.

We would like to take this opportunity to thank the Division's staff for the cooperation and courtesy extended to us during our audit. Their assistance and professionalism are invaluable.

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

We welcome any questions you may have regarding the following communications, and we would be willing to discuss any of these or other questions that you might have at your convenience.

Very truly yours,

Plante & Moran, PLLC



Leslie J. Pulver

Section I - Communications Required Under SAS 114

Our Responsibility Under U.S. Generally Accepted Auditing Standards

As stated in our engagement letter dated March 13, 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 Sewer 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.

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 March 27, 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 I to the financial statements.

No new accounting policies were adopted and the application of existing policies was not changed during 2011.

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, other than the accounts payable overstatement described in the summary of unrecorded possible adjustments.

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, 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 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.

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.

The attached schedule summarizes uncorrected misstatements of the financial statements. Management has determined that their effects are immaterial, both individually and in the aggregate, to the financial statements taken as a whole. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole.

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.

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

June 25, 2012

Management Representations

We have requested certain representations from management that are included in the management representation letter dated June 25, 2012.

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 Company’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.

Section II - Other Observations and Recommendations

Debt Refinancing

During the year, Division issued \$7,870,000 in Revenue Bonds. The proceeds of these bonds were used to advance refund \$2,250,000 of outstanding Series 2000 Revenue Bonds and \$5,490,000 of outstanding Series 2002A Revenue Bonds. The advance refunding reduced total debt service payments over the next 6 years by approximately \$375,000, which represents an economic gain of approximately \$355,000. We wanted to acknowledge this proactive approach by the commissioner which resulted in a substantial savings.

Year-end Processes

The Division's finance department has implemented several processes over the last few years to ensure that the year-end balances are appropriately adjusted for relating to any transactions occurring close to year end. This resulted in the audit process working in a most efficient manner this year. As above, we felt we should acknowledge these improvements and encourage the finance staff to continue to work toward strengthening these processes, including a detailed review of the beginning balances to make sure that all transactions recorded in the previous year have been properly reflected in the Division's general ledger.

Vendor Information

As a result of some vendor information testing performed during the audit, we noted that some vendors had multiple addresses in the system. We recommend that the Division review the vendor information and try to consolidate the information and attempt to use only the business address for any communication.

Departmental Deficit Elimination

As of the end of the fiscal year, the Enterprise Fund in total is in positive financial position with unrestricted net assets of \$5,951,805 and total net assets of approximately \$185,000,000. Within your management system, you track various departments to monitor distinct operations. At December 31, 2011 the District 3 operations has a deficit in net assets. Per the Treasury Numbered Letter 2012-1, deficit in an enterprise fund is the lower of the negative unrestricted net assets or the excess of current liabilities over current assets. It is unclear whether there is a requirement to eliminate this deficit within a department or a broader fund, however, in the interest of transparency and good financial policies, we suggest that the Division file a deficit elimination plan with the State as soon as possible to eliminate the deficit of \$193,338 (excess of current liabilities over current assets).

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

June 25, 2012

Client: **Genesee County Drain Commissioner (WWS)**
 Opinion Unit: **Enterprise Fund - Maj Ent Fund**
 Y/E: **12/31/2011**

SUMMARY OF UNRECORDED POSSIBLE ADJUSTMENTS

The pretax effect of misstatements and classification errors identified would be to increase (decrease) the reported amounts in the financial statement categories identified below:

| Ref. # | Description of Misstatement | Current Assets | Long-term Assets | Current Liabilities | Long-term Liabilities | Equity | Revenue | Expenses | Pretax Income |
|------------------------------|--|----------------|------------------|---------------------|-----------------------|--------|---------|----------------|---------------|
| KNOWN MISSTATEMENTS: | | | | | | | | | |
| A1 | Accounts payable is overstated | | | \$ (1,009,646) | | | | \$ (1,009,646) | \$ 1,009,646 |
| A2 | | | | | | | | | |
| ESTIMATE ADJUSTMENTS: | | | | | | | | | |
| B1 | | | | | | | | | |
| B2 | | | | | | | | | |
| IMPLIED ADJUSTMENTS: | | | | | | | | | |
| C1 | | | | | | | | | |
| C2 | | | | | | | | | |
| | | \$ - | \$ - | - | \$ - | \$ - | \$ - | - | - |
| | Combined effect - Before income taxes | - | - | (1,009,646) | - | - | - | (1,009,646) | 1,009,646 |
| | Less effect of adjustments for which auditor's report is qualified | - | - | - | - | - | - | - | - |
| | Effect of income taxes | - | - | - | - | - | - | - | - |
| | Total | \$ - | \$ - | \$ (1,009,646) | \$ - | \$ - | \$ - | \$ (1,009,646) | \$ 1,009,646 |

PASSED DISCLOSURES:
 D1
 D2