

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

**Financial Report
with Supplemental Information
December 31, 2013**

Genesee County Drain Commissioner Division of Water and Waste Services

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Independent Auditor's Report

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

Report on the Financial Statements

We have audited the accompanying financial statements of the Enterprise Fund, Internal Service Funds, and business-type activities of the Genesee County Drain Commissioner Division of Water and Waste Services (the "Division") as of and for the year ended December 31, 2013 and the related notes to the financial statements, which collectively comprise the Genesee County Drain Commissioner Division of Water and Waste Services' basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

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

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, 2013 and the respective changes in its financial position and, where applicable, cash flows for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 9 to the basic financial statements, in 2013, the Division adopted GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. Statement No. 65 establishes accounting and financial reporting standards that reclassify as deferred outflows and inflows of resources, certain items that were previously reported as assets and liabilities. The Statement has been implemented retrospectively, resulting in a prior period adjustment as discussed in Note 9. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplemental Information

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

Supplemental Information

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

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

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

Report on Summarized Comparative Information

We have previously audited the Genesee County Drain Commissioner Division of Water and Waste Services' December 31, 2012 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated May 14, 2013. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2012 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Plante & Moran, PLLC

June 4, 2014

Genesee County Drain Commissioner Division of Water and Waste Services

Management's Discussion and Analysis

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

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

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

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

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

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

Genesee County Drain Commissioner Division of Water and Waste Services

Management's Discussion and Analysis (Continued)

- Provides training in the operation and maintenance of the water and sewer systems, along with safety and regulatory compliance
- Establishes and oversees capital improvement projects

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

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

The sanitary sewer treatment operations are responsible for the handling and treatment of effluent at 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). In addition to serving large portions of Genesee County, the Division has contracts for sewer treatment outside of its jurisdiction with Shiawassee, Lapeer, Saginaw, Oakland, and Livingston counties.

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

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

- **Biosolids Disposal** - Each treatment plant is responsible for disposing wastewater treatment plant biosolids in a manner that is considered beneficial reuse, in particular, biosolids application on farmland. The ARTP accomplished this goal in 2013 by applying 5,228 dry tons of stabilized biosolids on approximately 2,000 acres of approved fields. In 2013, District No. 3 applied 950 dry tons of stabilized biosolids on approximately 700 acres of approved fields.

Genesee County Drain Commissioner Division of Water and Waste Services

Management's Discussion and Analysis (Continued)

- **Industrial Pretreatment Program** - The Division regulates and monitors industrial and nondomestic dischargers to the wastewater system. The Division reviews applications, issues discharge permits, verifies compliance, calculates fees and surcharge bills for the customers, as well as enforces regulations through discharge permits, which protect the wastewater treatment facilities and the environment. An arsenic program for drinking water systems was implemented to ensure compliance with MDEQ regulations. The ordinance also allows for best management practices (BMP) in regulating silver and mercury from over 450 physician and dental offices and grease and oil from approximately 1,200 restaurants. Inter-jurisdictional agreements and the sewer use ordinance have been distributed to the municipalities that discharge into the Division's systems, and the local unit of government approval process is ongoing. At this time, there are 14 significant industrial facilities, and four categorical users that pay surcharges for the cost of treating various substances they discharge to the Division.

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

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

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

Objectives and Achievements

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

Genesee County Drain Commissioner Division of Water and Waste Services

Management's Discussion and Analysis (Continued)

The rising cost of water from the Detroit Water and Sewerage Department (DWSD) to the City of Flint, and there in turn to the Division and its community customers, continued to be of great concern in 2013. This cost from Detroit was once again passed through to the Division with no markup from the City of Flint. However, the Division did continue to pay a monthly flat rate of \$114,000 to the City of Flint, which also provided for up to 5.2 million gallons per day in emergency backup water supply.

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

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

During 2013, both the City of Flint and the Advisory Board of the Genesee County Drain Commissioner Division of Water and Waste Services voted to sign capacity contracts with KWA. These contracts became effective October 1, 2013. The City of Flint and the Genesee County Drain Commissioner Division of Water and Waste Services also entered into financing contracts with the KWA in 2013 which obligate both entities to make debt service payments to KWA for debt it subsequently issued in 2014.

KWA is expected to bring its water pipeline and pumping capacity online in 2016, at which time both Flint and the Genesee County Drain Commissioner Division of Water and Waste Services will begin using KWA as their respective sources of untreated water. The Division will then discontinue its purchase and use of DWSD treated water.

Rate Structure

During 2013, the Division finalized a review of its rate structure and subsequently adjusted water rates in both September 2013 and January 2014. Sewer rate increases were voted on and instituted for Districts 3 and 7 starting in January 2014, while an ARTP sewer rate increase was approved and set to begin in July 2014. Prior to the recent rate increases, the Division had been able to keep its portion of water and sewer rates constant since its last rate increases in 2008 and 2009. Part of the rate structure requires automatic adjustments based upon DWSD's rate increases to the City of Flint, which have typically been passed onto the Division's customers in September of each year.

Genesee County Drain Commissioner

Division of Water and Waste Services

Management's Discussion and Analysis (Continued)

Using this Annual Report

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

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
	2013	2012		
Assets				
Current assets	\$ 25,612,603	\$ 26,894,079	\$ (1,281,476)	(4.8) %
Restricted assets	23,741,635	-	23,741,635	
Noncurrent lease receivable	14,024,265	25,759,265	(11,735,000)	(45.6)
Capital assets	331,304,181	322,899,623	8,404,558	2.6
Other noncurrent assets	-	156,500	(156,500)	(100.0)
Total assets	394,682,684	375,709,467	18,973,217	5.0
Deferred outflows of resources - Deferred charge on refunding	36,249	45,312	(9,063)	(20.0)
Liabilities				
Current liabilities	16,211,993	15,940,041	271,952	1.7
Liabilities payable from restricted assets	4,857,143	572,124	4,285,019	749.0
Other noncurrent liabilities	5,197,070	5,832,566	(635,496)	(10.9)
Long-term debt	175,448,580	159,883,208	15,565,372	9.7
Total liabilities	201,714,786	182,227,939	19,486,847	10.7
Net Position				
Net investment in capital assets	180,089,795	180,915,992	(826,197)	(0.5)
Restricted	-	3,098,052	(3,098,052)	-
Unrestricted	12,914,352	9,512,796	3,401,556	35.8
Total net position	<u>\$ 193,004,147</u>	<u>\$ 193,526,840</u>	<u>\$ (522,693)</u>	(0.3)

Genesee County Drain Commissioner Division of Water and Waste Services

Management's Discussion and Analysis (Continued)

	December 31		Increase (Decrease)	Percent Change
	2013	2012		
Revenue from operations	\$ 52,629,628	\$ 52,560,768	\$ 68,860	0.1 %
Interest on operating cash and receivables	22,465	43,217	(20,752)	(48.0)
Total revenue	52,652,093	52,603,985	48,108	0.1
Sludge disposal charges	906,103	1,228,262	(322,159)	(26.2)
Cost of water	14,524,635	11,779,406	2,745,229	23.3
Operating and maintenance	21,963,651	21,825,607	138,044	0.6
Administrative and depreciation	11,342,032	12,208,067	(866,035)	(7.1)
Total operating expenses	48,736,421	47,041,342	1,695,079	3.6
Other nonoperating expense	(4,661,804)	(2,201,438)	(2,460,366)	111.8
Change in net position - Before capital contributions	(746,132)	3,361,205	(4,107,337)	(122.2)
Capital contributions	223,439	1,620,118	(1,396,679)	(86.2)
Change in net position	<u>\$ (522,693)</u>	<u>\$ 4,981,323</u>	<u>\$ (5,504,016)</u>	(110.5)

Major Capital Assets and Debt Activity

Construction projects completed by the Division totaled \$52,671,100 during 2013. This resulted in a reclassification of the construction costs of this amount from a non-depreciable to a depreciable asset. The Northeast Extension Sewer #3 project was the largest completed during 2013, valued at \$51,843,200.

The Division sold \$35,000,000 in water system supply bonds in connection with its involvement in the KWA. The majority of these funds are being used to construct the Division-owned water intake portion of the new water supply system, with a portion set aside for additional engineering and professional services work related to the new system.

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 Review

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

Statement of Net Position

- Current assets decreased by \$1.3 million in the current year, primarily due to a decrease in cash and equivalents.
- Current liabilities increased by approximately \$270,000 from the prior year. The increase is due to a rise in the current portion of long-term debt (while accounts payable actually decreased).
- Liabilities payable from restricted assets increased significantly in 2013, from \$.5 million in 2012 to nearly \$5.0 million at the end of 2013. This increase is due to the new water intake project started during the year.
- Combined unrestricted net position increased by approximately \$3.0 million, with increases occurring in three of the four divisions. Much of the overall increase is attributable to previously restricted assets being classified as unrestricted for 2013.

Statement of Revenue, Expenses, and Changes in Net Assets

- Operating revenue remained nearly constant with a slight increase of .1 percent for 2013. Operating expenses increased by 3.6 percent, primarily due to increases in the cost of water from DWSD, along with initial startup costs associated with the Division's involvement in the KWA water project.
- Utility costs increased approximately 19 percent in 2013. Unusually wet spring and summer weather led to increased pumping costs, which resulted in a significant portion of this overall increase.
- Contractual services decreased by approximately \$2.0 million in 2013.
- Depreciation increased by approximately \$1.0 million due to project completion in 2013 and the associated CIP having been converted to depreciable assets.

Genesee County Drain Commissioner Division of Water and Waste Services

Management's Discussion and Analysis (Continued)

The following table shows the trend in Interceptor and Treatment (I&T) sewage treatment revenue compared to total flow volumes for the Division's main ARTP treatment facility:

	Year Ended December 31		
	2011	2012	2013
Total revenue from I&T customers	\$ 22,014,199	\$ 22,785,153	\$ 22,158,447
Total flow (thousands of gallons)	11,726,740	9,540,064	10,621,660
Revenue per thousands of gallons treated	\$ 1.88	\$ 2.39	\$ 2.09

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

	Year Ended December 31		
	2011	2012	2013
Total revenue from water sales	\$ 21,697,903	\$ 23,104,124	\$ 23,471,127
Volume of water purchased (cu. ft.) by Division	621,182,300	630,152,800	587,285,100
Volume of water sold (cu. ft.) by Division	572,717,934	579,781,667	534,894,463
Water efficiency rate	92.2%	92.0%	91.1%
Revenue per 100 cu. ft. of water sold	\$ 3.79	\$ 3.98	\$ 4.39

Contacting the Division's Management

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

Genesee County Drain Commissioner

Division of Water and Waste Services

Statement of Net Position - Proprietary Fund Types

	December 31, 2013			December 31,
	Enterprise	Internal	Total	2012
	Fund	Service Fund		Total
Assets				
Current assets:				
Cash and cash equivalents (Note 2)	\$ 5,539,678	\$ 880,365	\$ 6,420,043	\$ 13,936,397
Accounts receivable	10,429,173	-	10,429,173	9,112,783
Current portion of leases receivable	3,085,000	-	3,085,000	2,940,000
Due from other governmental units (Note 10)	5,154,003	-	5,154,003	243,008
Inventory	40,619	-	40,619	75,625
Prepaid expenses and other assets	483,765	-	483,765	586,266
Total current assets	24,732,238	880,365	25,612,603	26,894,079
Noncurrent assets:				
Restricted cash and cash equivalents (Note 1)	23,741,635	-	23,741,635	-
Leases receivable - Net of current portion	14,024,265	-	14,024,265	25,759,265
Local unit construction in progress	-	-	-	156,500
Capital assets (Note 3):				
Assets not subject to depreciation	19,585,281	-	19,585,281	55,779,523
Assets subject to depreciation - Net of depreciation	309,240,055	2,478,845	311,718,900	267,120,100
Total noncurrent assets	366,591,236	2,478,845	369,070,081	348,815,388
Total assets	391,323,474	3,359,210	394,682,684	375,709,467
Deferred Outflows of Resources -				
Deferred charge on refunding	36,249	-	36,249	45,312
Liabilities				
Current liabilities:				
Accounts payable and accrued expenses	4,258,039	114,162	4,372,201	4,945,043
Payables for investment purchases	4,642	-	4,642	-
Due to other governmental units	150	-	150	-
Due to State of Michigan	-	-	-	149,998
Current portion of long-term debt (Note 4)	11,835,000	-	11,835,000	10,845,000
Total current liabilities	16,097,831	114,162	16,211,993	15,940,041
Noncurrent liabilities:				
Liabilities related to restricted assets	4,857,143	-	4,857,143	572,124
Unearned revenue	-	-	-	156,500
Other postemployment benefit obligation (Note 6)	5,197,070	-	5,197,070	5,676,066
Long-term debt - Net of current portion (Note 4)	175,448,580	-	175,448,580	159,883,208
Total noncurrent liabilities	185,502,793	-	185,502,793	166,287,898
Total liabilities	201,600,624	114,162	201,714,786	182,227,939
Equity - Net position				
Net investment in capital assets	177,610,950	2,478,845	180,089,795	180,915,992
Restricted	-	-	-	3,098,052
Unrestricted	12,148,149	766,203	12,914,352	9,512,796
Total net position	\$ 189,759,099	\$ 3,245,048	\$ 193,004,147	\$ 193,526,840

Genesee County Drain Commissioner

Division of Water and Waste Services

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

	December 31, 2013			Year Ended December 31, 2012
	Enterprise	Internal	Total	Total
	Fund	Service Fund		
Operating Revenue				
Charges for sales and service:				
Sale of water	\$ 23,471,127	\$ -	\$ 23,471,127	\$ 23,104,124
Sewage disposal charges	26,513,649	-	26,513,649	26,708,222
Billing services	141,347	-	141,347	146,171
Water meter sales	39,242	-	39,242	46,694
Sewer and pumping station - Operation and maintenance	1,197,219	-	1,197,219	1,197,219
Other operating revenue	1,267,044	-	1,267,044	1,358,338
Total operating revenue	52,629,628	-	52,629,628	52,560,768
Operating Expenses				
Cost of water	14,524,635	-	14,524,635	11,779,406
Sludge disposal service	906,103	-	906,103	1,228,262
Cost of insurance claims and expenses	301,601	-	301,601	277,414
Repairs and maintenance	2,192,664	-	2,192,664	2,380,516
Personnel services	14,911,701	-	14,911,701	15,207,816
Other supplies and expenses	886,312	106,759	993,071	995,794
Contractual services	2,699,483	-	2,699,483	4,620,263
Utilities	3,866,215	-	3,866,215	3,241,481
Depreciation	7,951,219	389,729	8,340,948	7,310,390
Total operating expenses	48,239,933	496,488	48,736,421	47,041,342
Operating Income (Loss)	4,389,695	(496,488)	3,893,207	5,519,426
Nonoperating Revenue (Expenses)				
Community bond interest income	1,073,087	-	1,073,087	1,263,136
Community bond interest expense	(1,073,087)	-	(1,073,087)	(1,263,136)
Miscellaneous income	318,163	-	318,163	930,054
Miscellaneous expense	-	-	-	(47,338)
Interest expense	(4,439,288)	-	(4,439,288)	(3,103,857)
Bond issuance costs	(544,179)	-	(544,179)	-
Investment income	22,465	-	22,465	43,217
Gain on sale of assets	-	3,500	3,500	19,703
Total nonoperating (expense) revenue	(4,642,839)	3,500	(4,639,339)	(2,158,221)
(Loss) Income - Before capital contributions	(253,144)	(492,988)	(746,132)	3,361,205
Capital Contributions	223,439	-	223,439	1,620,118
(Decrease) Increase in Net Position	(29,705)	(492,988)	(522,693)	4,981,323
Net Position - Beginning of year (as restated - Note 9)	189,788,804	3,738,036	193,526,840	188,545,517
Net Position - End of year	\$ 189,759,099	\$ 3,245,048	\$ 193,004,147	\$ 193,526,840

Genesee County Drain Commissioner

Division of Water and Waste Services

Statement of Cash Flows - Proprietary Fund Types

	December 31, 2013			December 31,
	Enterprise	Internal	Total	2012
	Fund	Service Fund		Total
Cash Flows from Operating Activities				
Receipts from customers	\$ 46,176,624	\$ -	\$ 46,176,624	\$ 52,107,403
Payments to suppliers and others for goods and services	(21,716,680)	(1,150)	(21,717,830)	(25,839,930)
Payments for salaries and employee benefits	(15,271,235)	-	(15,271,235)	(14,771,454)
Net cash provided by (used in) operating activities	9,188,709	(1,150)	9,187,559	11,496,019
Cash Flows from Capital and Related Financing Activities				
Purchases of capital assets	(16,253,419)	(261,567)	(16,514,986)	(9,199,334)
Community bond interest income	1,073,087	-	1,073,087	-
Community bond interest expense	(1,073,087)	-	(1,073,087)	968,219
Proceeds from sale of capital assets	-	3,500	3,500	-
Collections of leases receivable from municipalities	11,590,000	-	11,590,000	4,030,844
Proceeds from issuance of bonded debt	35,037,924	-	35,037,924	3,418,569
Principal paid on bond maturities	(18,981,419)	-	(18,981,419)	(10,534,250)
Interest paid on bonds and other long-term liabilities	(4,439,288)	-	(4,439,288)	(4,371,165)
Miscellaneous revenue	318,163	-	318,163	-
Net cash provided by (used in) capital and related financing activities	7,271,961	(258,067)	7,013,894	(15,687,117)
Cash Flows from Investing Activities - Investment income	23,828	-	23,828	154,113
Net Increase (Decrease) in Cash and Cash Equivalents	16,484,498	(259,217)	16,225,281	(4,036,985)
Cash and Cash Equivalents - Beginning of year	12,796,815	1,139,582	13,936,397	17,973,382
Cash and Cash Equivalents - End of year	\$ 29,281,313	\$ 880,365	\$ 30,161,678	\$ 13,936,397
Balance Sheet Classification of Cash and Cash Equivalents				
Cash and cash equivalents	\$ 5,539,678	\$ 880,365	\$ 6,420,043	\$ 13,936,397
Restricted cash and cash equivalents	23,741,635	-	23,741,635	-
Total cash and cash equivalents	\$ 29,281,313	\$ 880,365	\$ 30,161,678	\$ 13,936,397
Reconciliation of Operating Income to Net Cash from Operating Activities				
Operating income (loss)	\$ 4,389,695	\$ (496,488)	\$ 3,893,207	\$ 5,519,426
Depreciation	7,951,219	389,729	8,340,948	7,310,390
Write-off of construction in progress	-	-	-	2,369,806
Changes in assets and liabilities:				
Receivables	(1,257,538)	-	(1,257,538)	(455,647)
Other	-	-	-	(1,756)
Inventories	35,006	-	35,006	(22,967)
Prepaid and other assets	222,752	105,609	328,361	(469,188)
Accounts payable	3,428,848	-	3,428,848	(3,184,153)
Due from other governmental units - Net	(5,038,966)	-	(5,038,966)	(30,292)
Accrued and other liabilities	(542,307)	-	(542,307)	460,400
Net cash provided by (used in) operating activities	\$ 9,188,709	\$ (1,150)	\$ 9,187,559	\$ 11,496,019

Genesee County Drain Commissioner Division of Water and Waste Services

**Notes to Financial Statements
December 31, 2013**

Note 1 - Summary of Significant Accounting Policies

The accounting policies of the Genesee County Drain Commissioner Division of Water and Waste Services (the "Division") conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the Genesee County Drain Commissioner Division of Water and Waste Services:

Reporting Entity

The Genesee County Drain Commissioner Division of Water and Waste Services (the "Division"), a discretely presented component unit of Genesee County, 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.

Included within the reporting entity are the following:

1. Genesee County Sewage Disposal Systems Nos. 1, 2, 5, and 6 (interceptors and treatment facilities)
2. Genesee County Sanitary Sewage Disposal Systems Nos. 3 and 7
3. Genesee County water supply systems
4. Genesee County Division of Water and Waste Services - Vehicle and Equipment Fund (Internal Service Fund)
5. 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, 2013

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.

The more significant of the Division's accounting policies are described below:

Accounting and Reporting Principles

The Division follows accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. Accounting and financial reporting pronouncements are promulgated by the Government Accounting Standards Board.

Report Presentation

This report includes the fund-based statements of the Division. In accordance with government accounting principles, a government-wide presentation with program and general revenues is not applicable to special purpose governments engaged only in business-type activities.

Fund Accounting

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, whereby the costs (expenses, including depreciation) of providing water and sewer services to the general public on a continuing basis are financed through user charges.

Genesee County Drain Commissioner

Division of Water and Waste Services

Notes to Financial Statements
December 31, 2013

Note I - Summary of Significant Accounting Policies (Continued)

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 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.

Basis of Accounting

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

Proprietary funds use the economic resources measurement focus and the full 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.

Specific Balances and Transactions

Cash, Cash Equivalents, 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.

Genesee County Drain Commissioner

Division of Water and Waste Services

Notes to Financial Statements December 31, 2013

Note 1 - Summary of Significant Accounting Policies (Continued)

Inventories and Prepaid Items - 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. Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items.

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

In 2013, total restricted cash in the Water Supply System Fund of \$23,741,635 is comprised of \$23,192,995 related to unspent bond proceeds and \$548,640 related to retraction by bond ordinance. The liabilities payable from restricted assets include construction accounts payable in the amount of \$4,242,066 which will be paid from the unspent bond proceeds and accrued interest payable of \$615,077 which will be paid from the restricted cash for bond ordinances and unrestricted cash from operations.

At December 31, 2012, there were no restrictions on cash.

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

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

Capital Assets - 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.

Genesee County Drain Commissioner

Division of Water and Waste Services

Notes to Financial Statements December 31, 2013

Note 1 - Summary of Significant Accounting Policies (Continued)

Interest incurred during the construction of capital assets of business-type activities is included as part of the capitalized value of the assets constructed. During the current year, approximately \$332,000 of interest expense was capitalized as part of the cost of assets under construction.

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:

Capital Asset Class	Lives
Land improvements and underground networks	25-100 years
Buildings	10-50 years
Machinery and equipment	3-25 years

Long-term Obligations - Long-term debt and other long-term obligations are reported as liabilities in the applicable business-type activities. Bond premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method; bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are expensed at the time they are incurred.

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position and/or balance sheet will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The government has one item that qualifies for reporting in this category. It is the deferred charge on refunding reported in the statement of net position. A deferred charge on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt.

In addition to liabilities, the statement of financial position and/or balance sheet will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The Division has not reported any item that qualifies for reporting in this category.

Genesee County Drain Commissioner

Division of Water and Waste Services

Notes to Financial Statements December 31, 2013

Note 1 - Summary of Significant Accounting Policies (Continued)

Net Position Flow Assumption

Sometimes the Division will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted net position and unrestricted net position in the government-wide and proprietary fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the Division's policy to consider restricted net position to have been depleted before unrestricted net position is applied.

Pension and Other Postemployment Benefit Costs - The Division offers both pension and retiree health care benefits to retirees. The Division receives an actuarial valuation to compute the annual required contribution (ARC) necessary to fund the obligations over the remaining amortization period. For the government-wide statements and proprietary funds, the Division reports the full accrual cost equal to the current year required contribution, adjusted for interest and "adjustment to the ARC" on the beginning of year underpaid amount, if any.

The Division is responsible for 100 percent of the cost of postemployment benefits and advance funds. Postemployment benefits for retired employees were \$1,405,157 and \$1,514,865 for the years ended December 31, 2013 and 2012, respectively. The total number of eligible retirees amounted to 92 and 82 individuals during December 31, 2013 and 2012, respectively.

Compensated Absences (Vacation and Sick Leave) - The Division's employees are granted vacation leave twice a year based on length of service. Eighty hours of personal leave is granted at the beginning of each year. Upon retirement or separation, employees are paid accumulated vacation at current salary rates. Upon retirement or separation for non-union employees, up to 112 hours of personal leave is also paid at current salary rates. Union employees are paid up to 112 hours of personal leave upon retirement only. At December 31, 2013 and 2012, the Division has recorded a liability of approximately \$386,000 and \$431,000, respectively, for accumulated vacation and personal 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, 2013

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 the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

Comparative Data - 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.

Note 2 - Deposits and Investments

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

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

The Division's cash and investments are subject to custodial credit risk, which 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 Division's deposits may not be returned to it. The Division does not have a deposit policy for custodial credit risk. At year end, the Division had \$7,442,603 of bank deposits (certificates of deposit, checking, and savings accounts) that were uninsured and uncollateralized. The Division believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the Division evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

Genesee County Drain Commissioner

Division of Water and Waste Services

Notes to Financial Statements December 31, 2013

Note 3 - Capital Assets

Capital asset activity of the Division's proprietary fund type at December 31, 2013 was as follows:

	Balance January 1, 2013	Reclassifications*	Additions	Disposals	Balance December 31, 2013
Enterprise Fund:					
Capital assets not being depreciated:					
Land	\$ 871,021	\$ -	\$ 1,515,795	\$ -	\$ 2,386,816
Construction in progress	54,908,502	(52,437,181)	14,776,785	(49,641)	17,198,465
Subtotal	55,779,523	(52,437,181)	16,292,580	(49,641)	19,585,281
Capital assets being depreciated:					
Distribution and collections system	310,687,588	51,916,075	50,788	-	362,654,451
Buildings and equipment	12,899,439	260,938	183,131	-	13,343,508
Vehicles	382,261	260,168	-	-	642,429
Subtotal	323,969,288	52,437,181	233,919	-	376,640,388
Accumulated depreciation:					
Distribution and collections system	(55,248,928)	-	(7,250,528)	-	(62,499,456)
Buildings and equipment	(3,830,820)	52,034	(612,966)	-	(4,391,752)
Vehicles	(369,366)	(52,034)	(87,725)	-	(509,125)
Subtotal	(59,449,114)	-	(7,951,219)	-	(67,400,333)
Net capital assets being depreciated	264,520,174	52,437,181	(7,717,300)	-	309,240,055
Net capital assets	\$ 320,299,697	\$ -	\$ 8,575,280	\$ (49,641)	\$ 328,825,336
Internal Service Funds:					
Capital assets being depreciated -					
Buildings and equipment	\$ 8,505,865	\$ -	\$ 268,648	\$ -	\$ 8,774,513
Accumulated depreciation - Buildings and improvements					
	(5,905,939)	-	(389,729)	-	(6,295,668)
Net capital assets	2,599,926	-	(121,081)	-	2,478,845
Total proprietary funds capital assets	\$ 322,899,623	\$ -	\$ 8,454,199	\$ (49,641)	\$ 331,304,181

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

	Spent to Date	Remaining Commitment
Water supply system	\$ 16,052,724	\$ 29,560,184

Genesee County Drain Commissioner Division of Water and Waste Services

Notes to Financial Statements December 31, 2013

Note 4 - Long-term Debt

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

Long-term debt activity for the year ended December 31, 2013 can be summarized as follows:

	Number of Issues	Interest Rate Ranges	Principal Maturity Ranges	Beginning Balance *	Additions	Reductions	Ending Balance *	Due Within One Year
Genesee County Drain Commissioner bonds payable:								
Interceptor and treatment facilities	13	1.625%-5.00%	2031	\$ 96,520,126	\$ 410,897	\$ (6,280,000)	\$ 90,651,023	\$ 6,425,000
District No. 3	2	2.50%-4.50%	2030	6,160,000	-	(285,000)	5,875,000	295,000
Water supply system	5	2.50%-5.375%	2038	38,985,000	35,000,000	(1,310,000)	72,675,000	2,030,000
Subtotal				141,665,126	35,410,897	(7,875,000)	169,201,023	8,750,000
Community-related bonds payable:								
Interceptor and treatment facilities	2	4.00%-4.35%	2026	4,860,000	-	(390,000)	4,470,000	410,000
District No. 3	6	2.50%-7.375%	2024	22,940,000	-	(11,160,000)	11,780,000	2,635,000
Water supply system	1	2.50	2031	899,265	-	(40,000)	859,265	40,000
Subtotal				28,699,265	-	(11,590,000)	17,109,265	3,085,000
Total bonds payable				\$ 170,364,391	\$ 35,410,897	\$ (19,465,000)	\$ 186,310,288	\$ 11,835,000

* Long-term debt balance excludes premium of \$973,292 and \$318,505 at December 31, 2013 and 2012, respectively. These amounts are properly included with the debt balance in the statement of net position.

Total interest expense for the year was approximately \$5.8 million, of which approximately \$332 thousand was capitalized as part of construction in progress. Annual debt service requirements to maturity for the above obligations are as follows:

Years Ending December 31	Business-type Activities		
	Principal	Interest	Total
2014	\$ 11,835,000	\$ 6,159,841	\$ 17,994,841
2015	11,740,000	5,802,902	17,542,902
2016	11,755,000	5,563,425	17,318,425
2017	11,030,000	5,313,164	16,343,164
2018	10,275,000	5,052,667	15,327,667
2019-2023	48,360,000	21,939,056	70,299,056
2024-2028	47,995,000	13,439,616	61,434,616
2029-2033	22,490,288	5,731,450	28,221,738
2034-2038	10,830,000	1,807,344	12,637,344
Total	\$ 186,310,288	\$ 70,809,465	\$ 257,119,753

Genesee County Drain Commissioner

Division of Water and Waste Services

Notes to Financial Statements
December 31, 2013

Note 4 - Long-term Debt (Continued)

Future Revenue Pledged for Debt Payment

Revenue Bond - The Division has pledged substantially all revenue, net of operating expenses, to repay the above Genesee County Drain Commissioner water and sewer revenue bonds. Proceeds from the bonds provided financing for the construction of the water and waste systems described above. The bonds are payable solely from the net revenue of the water and sewer system. The remaining principal and interest to be paid on the bonds total \$170,944,321. During the current year, net revenue of the system was \$12,340,914 compared to the annual debt requirements of \$7,610,379.

Note 5 - Defined Benefit Pension Plan

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

Funding Policy - The County's funding policy provides for periodic employer contributions at actuarially determined rates that, expressed as percentages of annual covered payroll, are designed to accumulate sufficient assets to pay benefits when due. The normal cost is determined using an attained age actuarial funding method.

Annual Pension Cost - For the years ended December 31, 2013 and 2012, the Division's annual pension cost of \$1,456,416 and \$1,531,645, respectively, was equal to the Division's required and actual contribution. The annual required contributions were determined as part of the actuarial valuations at December 31, 2011 and December 31, 2010 using the individual entry age actuarial cost method.

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

**Notes to Financial Statements
December 31, 2013**

Note 5 - Defined Benefit Pension Plan (Continued)

Actuarial Methods and Assumptions - In the December 31, 2012 and the December 31, 2013 actuarial valuation, the individual entry age actuarial cost method was used. Significant actuarial assumptions used include (a) a rate of return on the investment of present and future assets of 8.00 percent per year compounded annually and (b) projected salary increases of 3.00 percent to 7.03 percent per year compounded annually. Both (a) and (b) included an inflation component of 3.00 percent. The actuarial value of the Division's assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a four-year period. The Division's unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on an open basis, with the remaining amortization period of 25 years at December 31, 2012 and 2013.

Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (Percent) (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll
12/31/08	\$ 37,329,643	\$ 46,855,482	\$ 9,525,839	79.7	\$ 8,420,060	113.1
12/31/09	36,627,952	49,055,966	12,428,014	74.7	8,130,143	152.9
12/31/10	35,600,950	50,285,901	14,684,951	70.8	7,610,890	192.9
12/31/11	32,632,128	48,896,200	16,264,072	66.7	7,312,770	222.4
12/31/12	35,276,770	51,685,692	16,408,922	68.3	7,050,579	232.7
12/31/13	37,640,682	52,678,805	15,038,123	71.5	7,199,930	208.9

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

**Notes to Financial Statements
December 31, 2013**

Note 5 - Defined Benefit Pension Plan (Continued)

Schedule of Employer Contributions

<u>Fiscal Year Ended</u>	<u>Actuarial Valuation Date</u>	<u>Contribution Rate as Percentage of Valuation Payroll</u>	<u>Annual Pension Cost (APC)</u>	<u>Actual Reported Contribution</u>	<u>Percentage of ARC Contributed</u>
12/31/11	12/31/09	18.81 %	\$ 1,763,782	\$ 1,763,782	100
12/31/12	12/31/10	16.62	1,531,645	1,531,645	100
12/31/13	12/31/12	20.30	1,456,416	1,456,416	100

Note 6 - Other Postemployment Benefits

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

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

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

**Notes to Financial Statements
December 31, 2013**

Note 6 - Other Postemployment Benefits (Continued)

Funding Progress - For the year ended December 31, 2013, the Division has estimated the cost of providing retiree healthcare benefits through an actuarial valuation as of December 31, 2013. The valuation computes an annual required contribution, which represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed 30 years. This valuation's computed contribution and actual funding are summarized as follows:

	<u>2013</u>	<u>2012</u>
Annual required contribution (recommended)	\$ 2,523,914	\$ 3,818,480
Interest on the prior year's net OPEB obligation	283,120	230,108
Less adjustment to the annual required contribution	<u>(83,122)</u>	<u>(101,338)</u>
Annual OPEB cost	2,723,912	3,947,250
Amounts contributed:		
Payments of current premiums	(1,442,340)	(1,523,879)
Advance funding	<u>(1,760,568)</u>	<u>(2,500,000)</u>
Total contributions	<u>(3,202,908)</u>	<u>(4,023,879)</u>
Decrease in net OPEB obligation	(478,996)	(76,629)
OPEB obligation - Beginning of year	<u>5,676,066</u>	<u>5,752,695</u>
OPEB obligation - End of year	<u>\$ 5,197,070</u>	<u>\$ 5,676,066</u>

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

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

<u>Fiscal Year Ended</u>	<u>Annual OPEB Costs</u>	<u>Percentage Contributed</u>	<u>Net OPEB Obligation</u>
12/31/11	\$ 3,982,848	35.61 %	\$ 5,752,695
12/31/12	3,947,250	101.94	5,676,066
12/31/13	2,723,912	117.60	5,197,070

Genesee County Drain Commissioner

Division of Water and Waste Services

Notes to Financial Statements December 31, 2013

Note 6 - Other Postemployment Benefits (Continued)

The funding progress of the plan is as follows:

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (Percent) (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll
12/31/08	\$ -	\$ 35,394,879	\$ 35,394,879	- %	\$ 8,420,060	420.36 %
12/31/10	-	51,474,408	51,474,408	-	7,610,890	676.33
9/30/12	2,333,369	37,819,976	35,486,607	6.17	7,312,770	485.27
12/31/13	4,580,978	52,626,256	48,045,278	8.70	7,092,691	677.39

The schedule of employer contributions is as follows:

Fiscal Year Ended	Actuarial Valuation Date	Annual Required Contribution (ARC)	Percentage of ARC Contributed	Contribution Rate as Percentage of Valuation Payroll
12/31/11	12/31/10	\$ 3,933,831	65.19 %	32.43 %
12/31/12	12/31/10	3,818,480	105.38	50.59
12/31/13	12/31/13	2,523,914	126.86	48.48

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

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

Genesee County Drain Commissioner

Division of Water and Waste Services

Notes to Financial Statements December 31, 2013

Note 6 - Other Postemployment Benefits (Continued)

In the December 31, 2013 actuarial valuation, the individual entry age actuarial cost method was used. The actuarial assumptions included a 6.0 percent investment rate of return (net of administrative expenses) and an assumed rate of increase for healthcare costs was 8 percent for medical and prescription drugs for 2013, with this rate of increase declining over seven years in 0.5 percent increments. Thereafter, it is assumed to be 5.0 percent per year. The UAAL is being amortized as a level percentage of projected payroll over 30 years.

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, dental, and vision benefits and has purchased commercial insurance for life, disability, workers' compensation, and general liability insurance. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

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

	2013	2012
Unpaid claims - Beginning of year	\$ 460,040	\$ 290,676
Incurred claims, including claims incurred but not reported	2,855,944	2,208,189
Claim payments	<u>(2,844,586)</u>	<u>(2,038,825)</u>
Unpaid claims - End of year	<u>\$ 471,398</u>	<u>\$ 460,040</u>

Genesee County Drain Commissioner

Division of Water and Waste Services

Notes to Financial Statements December 31, 2013

Note 8 - Upcoming Accounting Pronouncements

In June 2012, the GASB issued GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*. Statement No. 68 requires governments providing defined benefit pensions to recognize their unfunded pension benefit obligation as a liability for the first time, and to more comprehensively and comparably measure the annual costs of pension benefits. This net pension liability that will be recorded on the government-wide and proprietary statements will be computed differently than the current unfunded actuarial accrued liability, using specific parameters set forth by the GASB. The statement also enhances accountability and transparency through revised note disclosures and required supplementary information (RSI). The Division is currently evaluating the impact this standard will have on the financial statements when adopted. The provisions of this statement are effective for financial statements for the year ending December 31, 2015.

Note 9 - Change in Accounting

During the current year, the Division adopted GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. The objective of this statement is to establish standards that reclassify certain items that were previously reported as assets and liabilities and instead to classify them as deferred inflows of resources, deferred outflows of resources, or as outflows of resources.

As a result of implementing this statement, the following assets and liabilities have been reclassified, as indicated:

Item	Amount	Prior Reporting Classification/Treatment	New Classification After Adoption of GASB No. 65
Deferred amounts on debt refundings	\$ 36,249	Adjustment to the bonds payable liability	Deferred outflow
Bond issuance costs	679,048	Asset	Outflow of resources (an expense). The standard is applied retrospectively and hence beginning net position has been restated.

Genesee County Drain Commissioner

Division of Water and Waste Services

Notes to Financial Statements

December 31, 2013

Note 9 - Change in Accounting (Continued)

As a result of the Division implementing the new standard, prepaid bond issuance costs in the amount of \$679,048 (\$657,879 in the Interceptor and Treatment Facilities and \$21,169 in the District No. 3 fund) were expensed.

The standard was applied retrospectively, resulting in a restatement of the beginning net position of the Enterprise Fund from \$190,467,852 to \$189,788,804. The beginning net position was restated, at the fund level, as below:

1. The beginning net position in the Interceptor and Treatment Facilities was restated from \$131,942,695 to \$131,284,816.
2. The beginning net position in District No. 3 was restated from \$22,894,255 to \$22,873,086.

Note 10 - Related Party Transactions

During the year, the Karegnondi Water Authority (the "Authority") was formed. The Authority has retained the services of the Division to administer the design and construction of the raw water supply system. In addition, it is expected that the Authority will contract with the Division for operation and maintenance of the raw water supply system after the system is completed and operational. The Authority has no employees of its own, with all current and future services expected to be rendered by Division employees.

The Division has entered into certain contracts with the Authority as a local unit so as to acquire a supply of raw water. This raw water supply system is expected to come on line in 2016 and will allow the Division to cease purchasing finished water from the Detroit Water and Sewerage Department, currently done so via contract with the City of Flint.

In August 2013, the Division entered into a Water Purchase Contract with the Authority which provides the Division with 42 MGD of capacity, out of a total Authority capacity of 60 MGD. This arrangement in effect means the Division will provide the Authority with 70 percent of its total operating revenue over the coming years. In addition, the Division has entered into a Financing Contract with the Authority which obligates the Division to pay to the Authority approximately 65.8 percent of the Authority's debt service. A copy of the Financing Contract can be viewed in the Authority's Official Statement.

In fiscal year 2013, under these contracts, the Division provided a short-term loan in the amount of \$5,000,000 which is due April 30, 2014. The agreement included an interest rate of 0.12 percent per annum. The Division also paid approximately \$1,582,000 to the Authority for future water purchase capacity.

Required Supplemental Information

Genesee County Drain Commissioner

Division of Water and Waste Services

Required Supplemental Information Pension Schedule of Funding Progress Year Ended December 31, 2013

The schedule of funding progress is as follows:

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (Percent) (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll
12/31/08	\$ 37,329,643	\$ 46,855,482	\$ 9,525,839	79.7	\$ 8,420,060	113.1
12/31/09	36,627,952	49,055,966	12,428,014	74.7	8,130,143	152.9
12/31/10	35,600,950	50,285,901	14,684,951	70.8	7,610,890	192.9
12/31/11	32,632,128	48,896,200	16,264,072	66.7	7,312,770	222.4
12/31/12	35,276,770	51,685,692	16,408,922	68.3	7,050,579	232.7
12/31/13	37,640,682	52,678,805	15,038,123	71.5	7,199,930	208.9

The schedule of employer contributions is as follows:

Fiscal Year Ended	Actuarial Valuation Date	Annual Required Contribution *	Percentage Contributed
12/31/08	12/31/06	\$ 1,717,656	100.0
12/31/09	12/31/07	1,679,931	100.0
12/31/10	12/31/08	1,744,861	100.0
12/31/11	12/31/09	1,763,782	100.0
12/31/12	12/31/10	1,531,645	100.0
12/31/13	12/31/11	1,456,416	100.0

* The required contribution is expressed to the Division as a percentage of payroll.

The information presented above was determined as part of the actuarial valuations at the dates indicated. Additional information as of December 31, 2013, the latest actuarial valuation, follows:

Amortization method	Level percent of payroll, open
Amortization period (perpetual)	25 years
Asset valuation method	4-year smoothed market
Actuarial assumptions:	
Investment rate of return	8.0%
Projected salary increases	3.00% - 7.03%
*Includes inflation at	3.00%
Cost of living adjustments	Yes, depending on Benefit Group

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

**Required Supplemental Information
Other Postemployment Health Benefits
Schedule of Funding Progress
Year Ended December 31, 2013**

The schedule of funding progress is as follows:

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (Percent) (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll
12/31/10	\$ -	\$ 51,474,408	\$ 51,474,408	-	\$ 7,610,890	676.3
9/30/12	2,333,369	37,819,976	35,486,607	6.2	7,312,770	485.3
12/31/13	4,580,978	52,626,256	48,045,278	8.7	7,092,691	677.4

The information presented above was determined as part of the actuarial valuations at the dates indicated. Additional information as of December 31, 2013, the latest actuarial valuation, follows:

Amortization method	Level percent
Amortization period (perpetual)	30 years
Asset valuation method	Market value
Actuarial assumptions:	
Investment rate of return	6.0%
Medical inflation rate	8.0%

Supplemental Information

Genesee County Drain Commissioner

Division of Water and Waste Services

Statement of Net Position (Divisional Detail)

Proprietary Fund Types

	December 31, 2013					December 31, 2012
	Sewage Disposal Systems				Total	Total
	Interceptor and Treatment Facilities	District No. 3	District No. 7	Water Supply Systems	Total	Total
Assets						
Current assets:						
Cash and cash equivalents	\$ 1,727,336	\$ 407,451	\$ 74,237	\$ 3,330,654	\$ 5,539,678	\$ 12,796,815
Accounts receivable	5,320,762	801,671	301,948	4,004,792	10,429,173	9,112,783
Current portion of leases receivable	410,000	2,635,000	-	40,000	3,085,000	2,940,000
Due from other governmental units	30,974	117,659	-	5,005,370	5,154,003	243,008
Inventory	-	-	-	40,619	40,619	75,625
Prepaid expenses and other assets	232,214	33,862	4,838	212,851	483,765	586,266
Total current assets	7,721,286	3,995,643	381,023	12,634,286	24,732,238	25,754,497
Noncurrent assets:						
Restricted cash and cash equivalents	-	-	-	23,741,635	23,741,635	-
Leases receivable - Net of current portion	4,060,000	9,145,000	-	819,265	14,024,265	25,759,265
Local unit construction in progress	-	-	-	-	-	156,500
Capital assets:						
Assets not subject to depreciation	871,020	619,659	-	18,094,602	19,585,281	55,779,523
Assets subject to depreciation - Net of depreciation	219,192,305	27,657,534	412,386	61,977,830	309,240,055	264,520,174
Total noncurrent assets	224,123,325	37,422,193	412,386	104,633,332	366,591,236	346,215,462
Total assets	231,844,611	41,417,836	793,409	117,267,618	391,323,474	371,969,959
Deferred Outflows of Resources -						
Deferred charge on refunding	36,249	-	-	-	36,249	45,312
Liabilities						
Current liabilities:						
Accounts payable and accrued expenses	2,044,329	355,657	44,614	1,813,439	4,258,039	4,943,571
Unearned revenue	-	-	-	4,642	4,642	-
Due to other governmental units	-	150	-	-	150	-
Due to State of Michigan	-	-	-	-	-	149,998
Current portion of long-term debt	6,835,000	2,930,000	-	2,070,000	11,835,000	10,845,000
Total current liabilities	8,879,329	3,285,807	44,614	3,888,081	16,097,831	15,938,569
Noncurrent liabilities:						
Liabilities related to restricted assets	-	-	-	4,857,143	4,857,143	(572,124)
Unearned leases	-	-	-	-	-	156,500
Other postemployment benefit obligation	3,203,010	504,699	85,178	1,404,183	5,197,070	5,676,066
Long-term debt - Net of current portion	88,449,004	14,747,359	-	72,252,217	175,448,580	159,883,208
Total noncurrent liabilities	91,652,014	15,252,058	85,178	78,513,543	185,502,793	165,143,650
Total liabilities	100,531,343	18,537,865	129,792	82,401,624	201,600,624	181,082,219
Equity - Net position						
Net investment in capital assets	129,249,321	22,379,834	412,386	25,569,409	177,610,950	178,316,066
Restricted	-	-	-	-	-	3,098,052
Unrestricted	2,100,196	500,137	251,231	9,296,585	12,148,149	8,374,686
Total net position	\$ 131,349,517	\$ 22,879,971	\$ 663,617	\$ 34,865,994	\$ 189,759,099	\$ 189,788,804

Genesee County Drain Commissioner Division of Water and Waste Services

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

	Year Ended December 31, 2013					Year Ended December 31, 2012
	Sewage Disposal Systems					
Interceptor and Treatment Facilities	District No. 3	District No. 7	Water Supply Systems	Total	Total	Total
Operating Revenue						
Charges for sales and service:						
Sale of water	\$ -	\$ -	\$ -	\$ 23,471,127	\$ 23,471,127	\$ 23,104,124
Sewage disposal charges	22,158,447	3,578,864	776,338	-	26,513,649	26,708,222
Billing services	141,347	-	-	-	141,347	146,171
Water meter sales	-	-	-	39,242	39,242	46,694
Sewer and pumping station - Operation and maintenance	1,197,219	-	-	-	1,197,219	1,197,219
Other operating revenue	405,709	78,633	1,467	781,235	1,267,044	1,358,338
Total operating revenue	23,902,722	3,657,497	777,805	24,291,604	52,629,628	52,560,768
Operating Expenses						
Cost of water	-	-	-	14,524,635	14,524,635	11,779,406
Sludge disposal service	730,002	176,101	-	-	906,103	1,228,262
Cost of insurance claims and expenses	130,923	30,205	4,599	135,874	301,601	277,414
Repairs and maintenance	1,180,418	268,425	169,184	574,637	2,192,664	2,314,611
Personnel services	8,646,914	1,636,013	238,915	4,389,859	14,911,701	15,207,816
Other supplies and expenses	598,983	45,739	24,857	216,733	886,312	995,794
Contractual services	2,166,451	96,348	7,672	429,012	2,699,483	4,620,263
Utilities	2,648,345	472,263	184,735	560,872	3,866,215	3,241,481
Depreciation	5,252,556	756,508	23,360	1,918,795	7,951,219	6,849,102
Total operating expenses	21,354,592	3,481,602	653,322	22,750,417	48,239,933	46,514,149
Operating Income	2,548,130	175,895	124,483	1,541,187	4,389,695	6,046,619
Nonoperating Revenue (Expenses)						
Community bond interest income	191,551	859,802	-	21,734	1,073,087	1,263,136
Community bond interest expense	(191,551)	(859,802)	-	(21,734)	(1,073,087)	(1,263,136)
Miscellaneous income	(38,985)	-	-	357,148	318,163	930,054
Miscellaneous expense	-	-	-	-	-	(45,582)
Bond issuance costs	-	-	-	(544,179)	(544,179)	-
Interest expense	(2,451,266)	(236,385)	-	(1,751,637)	(4,439,288)	(3,103,857)
Investment income	6,822	436	98	15,109	22,465	43,217
Total nonoperating (expense) revenue	(2,483,429)	(235,949)	98	(1,923,559)	(4,642,839)	(2,176,168)
Income (Loss) - Before capital contributions and operating transfers	64,701	(60,054)	124,581	(382,372)	(253,144)	3,870,451
Capital Contributions	-	66,939	-	156,500	223,439	1,620,118
Transfers In	-	-	-	-	-	113,822
Increase (Decrease) in Net Position	64,701	6,885	124,581	(225,872)	(29,705)	5,604,391
Net Position - Beginning of year (as restated)	131,284,816	22,873,086	539,036	35,091,866	189,788,804	184,184,413
Net Position - End of year	\$ 131,349,517	\$ 22,879,971	\$ 663,617	\$ 34,865,994	\$ 189,759,099	\$ 189,788,804

Genesee County Drain Commissioner Division of Water and Waste Services

Statement of Cash Flows (Divisional Detail) - Enterprise Fund

	Year Ended December 31, 2013					Year Ended December 31, 2012
	Sewage Disposal Systems					
	Interceptor and Treatment Facilities	District No. 3	District No. 7	Water Supply Systems	Total	Total
Cash Flows from Operating Activities						
Receipts from customers	\$ 23,573,576	\$ 3,556,681	\$ 630,067	\$ 18,416,300	\$ 46,176,624	\$ 52,079,220
Payments to suppliers and others for goods and services	(7,831,729)	(1,169,324)	(377,156)	(12,338,471)	(21,716,680)	(25,544,057)
Payments for salaries and employee benefits	(8,908,664)	(1,687,511)	(239,017)	(4,436,043)	(15,271,235)	(14,771,454)
Net cash provided by operating activities	6,833,183	699,846	13,894	1,641,786	9,188,709	11,763,709
Cash Flows from Capital and Related Financing Activities						
Purchases of capital assets	(153,918)	(39,844)	(19,847)	(16,039,810)	(16,253,419)	(8,722,477)
Community bond interest income	191,551	859,802	-	21,734	1,073,087	-
Community bond interest expense	(191,551)	(859,802)	-	(21,734)	(1,073,087)	968,219
Collection of leases receivable from municipalities	390,000	11,160,000	-	40,000	11,590,000	4,030,844
Proceeds from issuance of bonded debt	-	-	-	35,037,924	35,037,924	3,418,569
Principal paid on bond maturities	(6,224,822)	(11,446,597)	-	(1,310,000)	(18,981,419)	(10,534,250)
Interest paid on bonds	(2,451,266)	(236,385)	-	(1,751,637)	(4,439,288)	(4,371,165)
Miscellaneous (expense) revenue	(38,985)	-	-	357,148	318,163	-
Operating transfer	-	-	-	-	-	113,822
Net cash (used in) provided by capital and related financing activities	(8,478,991)	(562,826)	(19,847)	16,333,625	7,271,961	(15,096,438)
Cash Flows from Investing Activities - Investment income	8,198	436	85	15,109	23,828	154,113
Net (Decrease) Increase in Cash and Cash Equivalents	(1,637,610)	137,456	(5,868)	17,990,520	16,484,498	(3,178,616)
Cash and Cash Equivalents - Beginning of year	3,364,946	269,995	80,105	9,081,769	12,796,815	15,975,431
Cash and Cash Equivalents - End of year	<u>\$ 1,727,336</u>	<u>\$ 407,451</u>	<u>\$ 74,237</u>	<u>\$ 27,072,289</u>	<u>\$ 29,281,313</u>	<u>\$ 12,796,815</u>
Balance Sheet Classification of Cash and Cash Equivalents						
Cash and investments	\$ 1,727,336	\$ 407,451	\$ 74,237	\$ 3,330,654	\$ 5,539,678	\$ 12,796,815
Restricted cash and cash equivalents	-	-	-	23,741,635	23,741,635	-
Total cash and cash equivalents	<u>\$ 1,727,336</u>	<u>\$ 407,451</u>	<u>\$ 74,237</u>	<u>\$ 27,072,289</u>	<u>\$ 29,281,313</u>	<u>\$ 12,796,815</u>
Reconciliation of Operating Income to Net Cash from Operating Activities						
Operating income	\$ 2,548,130	\$ 175,895	\$ 124,483	\$ 1,541,187	\$ 4,389,695	\$ 6,046,619
Depreciation	5,252,556	756,508	23,360	1,918,795	7,951,219	6,849,102
Write-off of construction in progress	-	-	-	-	-	2,369,806
Changes in assets and liabilities:						
Receivables	(256,598)	(129,756)	(147,738)	(723,446)	(1,257,538)	(457,645)
Inventories	-	-	-	35,006	35,006	(22,967)
Prepaid and other assets	(31,652)	5,513	581	248,310	222,752	(550,877)
Accounts payable and accrued	(325,869)	(24,156)	21,714	3,757,159	3,428,848	(2,874,252)
Due (from) to other governmental units - Units	(72,548)	28,940	-	(4,995,358)	(5,038,966)	(30,292)
Accrued and other liabilities	(280,836)	(113,098)	(8,506)	(139,867)	(542,307)	460,400
Internal balances	-	-	-	-	-	(26,185)
Net cash provided by operating activities	<u>\$ 6,833,183</u>	<u>\$ 699,846</u>	<u>\$ 13,894</u>	<u>\$ 1,641,786</u>	<u>\$ 9,188,709</u>	<u>\$ 11,763,709</u>

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

Statement of Net Position - Internal Service Funds

	December 31, 2013			December 31, 2012
	Equipment Fund	Insurance Fund	Total	Total
Assets				
Current assets - Cash and cash equivalents	\$ 880,365	\$ -	\$ 880,365	\$ 1,139,582
Noncurrent assets - Capital assets - Assets subject to depreciation - Net of depreciation	<u>2,478,845</u>	<u>-</u>	<u>2,478,845</u>	<u>2,599,926</u>
Total assets	3,359,210	-	3,359,210	3,739,508
Liabilities - Current liabilities - Accounts payable and accrued expenses				
	<u>114,162</u>	<u>-</u>	<u>114,162</u>	<u>1,472</u>
Equity - Net position				
Net investment in capital assets	2,478,845	-	2,478,845	2,599,926
Unrestricted	<u>766,203</u>	<u>-</u>	<u>766,203</u>	<u>1,138,110</u>
Total net position	<u>\$ 3,245,048</u>	<u>\$ -</u>	<u>\$ 3,245,048</u>	<u>\$ 3,738,036</u>

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

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

	Year Ended December 31, 2013			Year Ended December 31, 2012
	Equipment	Insurance	Total	Total
	Fund	Fund		
Operating Expenses				
Repairs and maintenance	\$ -	\$ -	\$ -	\$ 65,905
Other supplies and expenses	106,759	-	106,759	1,756
Depreciation	389,729	-	389,729	461,288
Total operating expenses	496,488	-	496,488	528,949
Operating Loss	(496,488)	-	(496,488)	(528,949)
Nonoperating Revenue - Gain on sale of assets	3,500	-	3,500	19,703
Loss - Before operating transfers	(492,988)	-	(492,988)	(509,246)
Transfers Out	-	-	-	(113,822)
Decrease in Net Position	(492,988)	-	(492,988)	(623,068)
Net Position - Beginning of year	3,738,036	-	3,738,036	4,361,104
Net Position - End of year	<u>\$ 3,245,048</u>	<u>\$ -</u>	<u>\$ 3,245,048</u>	<u>\$ 3,738,036</u>

Genesee County Drain Commissioner

Division of Water and Waste Services

Statement of Cash Flows - Internal Service Funds

	Year Ended December 31, 2013			Year Ended December 31, 2012
	Equipment			Total
	Fund	Insurance Fund	Total	
Cash Flows from Operating Activities				
Receipts from customers	\$ -	\$ -	\$ -	\$ 28,183
Payments to suppliers and others for goods and services	-	(1,150)	(1,150)	(295,873)
Net cash used in operating activities	-	(1,150)	(1,150)	(267,690)
Cash Flows from Capital and Related Financing Activities				
Proceeds from sales of capital assets	3,500	-	3,500	-
Purchase of capital assets	(261,567)	-	(261,567)	(476,857)
Operating transfer	-	-	-	(113,822)
Net cash used in capital and related financing activities	(258,067)	-	(258,067)	(590,679)
Cash Flows from Investing Activities -				
Investment income	-	-	-	-
Net Decrease in Cash and Cash Equivalents	(258,067)	(1,150)	(259,217)	(858,369)
Cash and Cash Equivalents - Beginning of year	1,138,432	1,150	1,139,582	1,997,951
Cash and Cash Equivalents - End of year	<u>\$ 880,365</u>	<u>\$ -</u>	<u>\$ 880,365</u>	<u>\$ 1,139,582</u>
Balance Sheet Classification of Cash and Cash Equivalents	<u>\$ 880,365</u>	<u>\$ -</u>	<u>\$ 880,365</u>	<u>\$ 1,139,582</u>
Reconciliation of Operating Loss to Net Cash from Operating Activities				
Operating loss	\$ (496,488)	\$ -	\$ (496,488)	\$ (528,949)
Depreciation	389,729	-	389,729	461,288
Changes in assets and liabilities:				
Receivables	-	-	-	1,998
Prepaid and other assets	-	-	-	81,689
Accounts payable, accrued expenses, and deferred revenue	106,759	(1,150)	105,609	(309,901)
Internal balances	-	-	-	26,185
Net cash used in operating activities	<u>\$ -</u>	<u>\$ (1,150)</u>	<u>\$ (1,150)</u>	<u>\$ (267,690)</u>

Genesee County Drain Commissioner Division of Water and Waste Services

Description of Issue	Principal Outstanding	Issued During the	Retired During the	Principal Outstanding	2014		2015	
	January 1, 2013	Year	Year	December 31, 2013	Principal	Interest	Principal	Interest
Interceptor and Treatment Facilities								
<u>Genesee County Drain Commissioner</u>								
<u>Bonds Payable:</u>								
Series 2003 \$9,000,000 Revenue Bonds backed by the full faith and credit of the County of Genesee. Bond proceeds used for Division Western Trunk Relief project. Due serially in various amounts ranging from \$350,000 to \$2,350,000 through 2018 with interest rates from 2.00% to 4.50%	\$ 3,045,000	\$ -	\$ (460,000)	\$ 2,585,000	\$ 480,000	\$ 113,888	\$ 495,000	\$ 93,488
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%	16,255,000	-	(1,045,000)	15,210,000	1,060,000	247,163	1,080,000	229,938
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%	11,370,000	-	(730,000)	10,640,000	740,000	166,888	755,000	154,741
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%	2,195,000	-	(130,000)	2,065,000	130,000	33,556	135,000	31,444
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%	6,005,000	-	(355,000)	5,650,000	365,000	91,813	370,000	85,881
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%	3,375,000	-	(200,000)	3,175,000	205,000	51,594	205,000	48,263

Summary of Bonds Payable Year Ended December 31, 2013

2016		2017		2018		Later		Total	
Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
\$ 515,000	\$ 72,450	\$ 535,000	\$ 49,275	\$ 560,000	\$ 25,200	\$ -	\$ -	\$ 2,585,000	\$ 354,301
1,095,000	212,388	1,115,000	194,594	1,130,000	176,475	9,730,000	724,670	15,210,000	1,785,228
765,000	142,391	780,000	129,838	790,000	117,081	6,810,000	451,994	10,640,000	1,162,933
135,000	29,250	140,000	27,056	140,000	24,781	1,385,000	114,968	2,065,000	261,055
375,000	79,869	380,000	73,775	385,000	67,600	3,775,000	313,137	5,650,000	712,075
210,000	44,931	215,000	41,519	215,000	38,025	2,125,000	176,475	3,175,000	400,807

Genesee County Drain Commissioner

Division of Water and Waste Services

Description of Issue	Principal Outstanding	Issued During the	Retired During the	Principal Outstanding	2014		2015	
	January 1, 2013	Year	Year	December 31, 2013	Principal	Interest	Principal	Interest
Interceptor and Treatment Facilities								
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%	\$ 8,660,000	\$ -	\$ (480,000)	\$ 8,180,000	\$ 485,000	\$ 128,984	\$ 495,000	\$ 121,022
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%	6,960,000	-	(295,000)	6,665,000	310,000	277,778	325,000	265,378
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%	13,575,000	-	(500,000)	13,075,000	525,000	593,438	525,000	577,688
Series 2010A \$14,010,023 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. Fully drawn May 2013. Due in amounts ranging from \$569,000 to \$861,023 through 2030 with interest rate of 2.50%	12,445,126	410,897	(570,000)	12,286,023	600,000	307,151	615,000	292,151
Series 2011A \$1,445,000 State Revolving Fund Program Revenue Bonds backed by the full faith and credit of the County of Genesee. Bond proceeds used for ARTP Switchgears. Fully drawn in October 2012. Due in amounts ranging from \$55,000 to \$90,000 through 2031 with interest rate of 2.50%	1,390,000	-	(60,000)	1,330,000	60,000	33,250	60,000	31,750
Series 2011B \$4,825,000 Revenue Bonds backed by the full faith and credit of the County of Genesee. Bond proceeds used for NEES 3E. Due serially and term in amounts ranging from \$180,000 to \$405,000 through 2031 with interest rates from 3.00% to 5.00%	4,825,000	-	-	4,825,000	-	201,500	-	201,500
Refunding Series 2011C \$7,870,000 Revenue Bonds backed by the full faith and credit of the County of Genesee. Refunded Series 2000, \$6,000,000 ARTP Grit Removal bond and Series 2002A, \$1,1,000,000 ARTP Enhancement bond. Due in amounts ranging from \$1,000,000 to \$1,500,000 through 2017 with interest rates from 2.00% to 2.25%	6,420,000	-	(1,455,000)	4,965,000	1,465,000	87,150	1,500,000	57,500
Total Genesee County Drain Commission bonds payable	96,520,126	410,897	(6,280,000)	90,651,023	6,425,000	2,334,153	6,560,000	2,190,744

Summary of Bonds Payable (Continued) Year Ended December 31, 2013

2016		2017		2018		Later		Total	
Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
500,000	112,938	510,000	104,731	520,000	96,363	\$ 5,670,000	\$ 473,119	\$ 8,180,000	\$ 1,037,157
340,000	252,378	360,000	238,778	375,000	224,378	4,955,000	1,254,857	6,665,000	2,513,547
600,000	561,281	625,000	541,031	675,000	519,156	10,125,000	3,249,126	13,075,000	6,041,720
615,000	276,776	645,000	261,401	645,000	245,276	9,166,023	1,552,437	12,286,023	2,935,192
60,000	30,250	65,000	28,750	65,000	27,125	1,020,000	187,375	1,330,000	338,500
180,000	198,800	185,000	193,325	250,000	186,800	4,210,000	1,364,020	4,825,000	2,345,945
1,000,000	32,500	1,000,000	11,250	-	-	-	-	4,965,000	188,400
6,390,000	2,046,202	6,555,000	1,895,323	5,750,000	1,748,260	58,971,023	9,862,178	90,651,023	20,076,860

Genesee County Drain Commissioner Division of Water and Waste Services

Description of Issue	Principal Outstanding January 1, 2013	Issued During the Year	Retired During the Year	Principal Outstanding December 31, 2013	2014		2015	
					Principal	Interest	Principal	Interest
Interceptor and Treatment Facilities								
<u>Community-related Bonds Payable:</u>								
Refunding Series 2005 \$2,900,000 County of Genesee Limited Tax General Obligation Bonds. Refunded Series 1999, \$3,800,000 Bonds for Mt. Morris Township Sanitary Sewer System project. Due serially in amounts ranging from \$15,000 to \$315,000 through 2019 with interest rates from 4.00% to 4.25%	\$ 1,940,000	\$ -	\$ (245,000)	\$ 1,695,000	\$ 255,000	\$ 65,183	\$ 265,000	\$ 54,523
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%	2,920,000	-	(145,000)	2,775,000	155,000	112,335	165,000	105,935
Total Community-related bonds payable	4,860,000	-	(390,000)	4,470,000	410,000	177,518	430,000	160,458
Total Interceptor and Treatment Facilities bonds payable	\$ 101,380,126	\$ 410,897	\$ (6,670,000)	\$ 95,121,023	\$ 6,835,000	\$ 2,511,671	\$ 6,990,000	\$ 2,351,202

Interceptor and Treatment Facilities

District No. 3

Genesee County Drain Commissioner Bonds Payable:

Series 2007 \$6,000,000 Revenue Bonds backed by the full faith and credit of the County of Genesee. Bond proceeds used for Treatment Plant Improvement project. Due serially in various amounts ranging from \$195,000 to \$470,000 through 2027 with interest rates from 4.00% to 4.50%	\$ 5,160,000	\$ -	\$ (240,000)	\$ 4,920,000	\$ 250,000	\$ 204,738	\$ 265,000	\$ 194,438
Series 2010A \$1,089,000 State Revolving Fund Program Revenue Bonds backed by the full faith and credit of the County of Genesee. Bond proceeds used for District #3 Digester Phase I. Fully drawn in September 2011. Due in amounts ranging from \$44,000 to \$70,000 through 2030 with interest rate of 2.50%	1,000,000	-	(45,000)	955,000	45,000	23,875	45,000	22,750
Total Genesee County Drain Commission bonds payable	6,160,000	-	(285,000)	5,875,000	295,000	228,613	310,000	217,188

Summary of Bonds Payable (Continued) Year Ended December 31, 2013

2016		2017		2018		Later		Total	
Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
\$ 275,000	\$ 43,453	\$ 285,000	\$ 31,901	\$ 300,000	\$ 19,688	\$ 315,000	\$ 6,694	\$ 1,695,000	\$ 221,442
170,000	99,235	180,000	92,235	190,000	84,835	1,915,000	350,441	2,775,000	845,016
445,000	142,688	465,000	124,136	490,000	104,523	2,230,000	357,135	4,470,000	1,066,458
\$ 6,835,000	\$ 2,188,890	\$ 7,020,000	\$ 2,019,459	\$ 6,240,000	\$ 1,852,783	\$ 61,201,023	\$ 10,219,313	\$ 95,121,023	\$ 21,143,318
\$ 275,000	\$ 183,638	\$ 290,000	\$ 172,338	\$ 305,000	\$ 160,438	\$ 3,535,000	\$ 757,657	\$ 4,920,000	\$ 1,673,247
50,000	21,625	50,000	20,375	50,000	19,125	715,000	121,750	955,000	229,500
325,000	205,263	340,000.00	192,713.00	355,000.00	179,563.00	4,250,000	879,407	5,875,000	1,902,747

Genesee County Drain Commissioner Division of Water and Waste Services

Description of Issue	Principal Outstanding	Issued During the	Retired During the	Principal Outstanding	2014		2015	
	January 1, 2013	Year	Year	December 31, 2013	Principal	Interest	Principal	Interest
Interceptor and Treatment Facilities								
Community-related Bonds Payable:								
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%	\$ 500,000	\$ -	\$ (100,000)	\$ 400,000	\$ 100,000	\$ 19,250	\$ 100,000	\$ 13,750
Refunding Series 1996A \$12,940,000 Revenue Bonds backed by the full faith and credit of the County of Genesee. Refunded Series 2005, \$6,000,000 District No. 3 Treatment Plant Improvement bond. Due serially in various amounts ranging from \$75,000 to \$1,355,000 through 2016 with interest rates from 2.50% to 5.00%	5,355,000	-	(1,355,000)	4,000,000	1,345,000	164,694	1,330,000	99,500
Series 2003 \$4,000,000 County of Genesee Limited Tax General Obligation Bonds for Fenton Township Sewage Disposal System project. Due serially in amounts ranging from \$125,000 to \$250,000 through 2024 with interest rates from 2.50% to 4.50%	2,725,000	-	(200,000)	2,525,000	200,000	102,775	200,000	95,775
Series 2004A \$8,000,000 County of Genesee Limited Tax General Obligation Bonds for Fenton Township Sewage Disposal System project. Due serially in amounts ranging from \$250,000 to \$700,000 through 2024 with interest rates from 4.00% to 5.00%. Refunded in December	5,900,000	-	(5,500,000)	400,000	400,000	10,000	-	-
Series 2004B \$4,600,000 County of Genesee Limited Tax General Obligation Bonds for Fenton Township Sewage Disposal System project. Due serially in amounts ranging from \$100,000 to \$400,000 through 2024 with interest rates from 4.00% to 5.00%. Refunded in December	3,800,000	-	(3,650,000)	150,000	150,000	3,750	-	-
Refunding Series 2007 \$5,615,000 County of Genesee Limited Tax General Obligation Bonds. Partially refunded Series 1998, \$7,140,000 Bonds for City of Fenton, Fenton Township, and City of Linden Sewage Disposal System project. Due serially in amounts ranging from \$20,000 to \$915,000 through 2019 with interest rate of 4.00%	4,660,000	-	(355,000)	4,305,000	440,000	163,400	540,000	143,800
Total Community-related bonds payable	22,940,000	-	(11,160,000)	11,780,000	2,635,000	463,869	2,170,000	352,825
Total District No. 3 bonds payable	\$ 29,100,000	\$ -	\$ (11,445,000)	\$ 17,655,000	\$ 2,930,000	\$ 692,482	\$ 2,480,000	\$ 570,013

Summary of Bonds Payable (Continued) Year Ended December 31, 2013

2016		2017		2018		Later		Total	
Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
\$ 100,000	\$ 8,250	\$ 100,000	\$ 2,750	\$ -	\$ -	\$ -	\$ -	\$ 400,000	\$ 44,000
1,325,000	33,125	-	-	-	-	-	-	4,000,000	297,319
225,000	88,525	225,000	80,088	225,000	71,425	1,450,000	226,000	2,525,000	664,588
-	-	-	-	-	-	-	-	400,000	10,000
-	-	-	-	-	-	-	-	150,000	3,750
595,000	121,100	910,000	91,000	915,000	54,500	905,000	18,100	4,305,000	591,900
<u>2,245,000</u>	<u>251,000</u>	<u>1,235,000</u>	<u>173,838</u>	<u>1,140,000</u>	<u>125,925.00</u>	<u>2,355,000</u>	<u>244,100</u>	<u>11,780,000</u>	<u>1,611,557</u>
\$ 2,570,000	\$ 456,263	\$ 1,575,000	\$ 366,551	\$ 1,495,000	\$ 305,488	\$ 6,605,000	\$ 1,123,507	\$ 17,655,000	\$ 3,514,304

Genesee County Drain Commissioner Division of Water and Waste Services

Description of Issue	Principal Outstanding January 1, 2013	Issued During the Year	Retired During the Year	Principal Outstanding December 31, 2013	2014		2015		
					Principal	Interest	Principal	Interest	
Interceptor and Treatment Facilities									
Water Supply Systems									
<u>Genesee County Drain Commissioner</u>									
<u>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 2.50% to 4.375%	\$ 4,220,000	\$ -	\$ (635,000)	\$ 3,585,000	\$ 660,000	\$ 137,461	\$ 690,000	\$ 110,116	
Series 2003B \$18,000,000 Revenue Bonds backed by the full faith and credit of the County of Genesee. Bond proceeds used for North Water Loop III project. Due serially and term in various amounts ranging from \$175,000 to \$10,085,000 through 2033 with interest rates from 4.00% to 5.125%	16,020,000	-	(290,000)	15,730,000	310,000	772,163	325,000	759,763	
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%	13,495,000	-	(235,000)	13,260,000	240,000	606,700	240,000	598,300	
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%	5,250,000	-	(150,000)	5,100,000	150,000	221,328	160,000	214,953	
Series 2013 \$35,000,000 Revenue Bonds backed by the full faith and credit of the County of Genesee. Bond proceeds used for Lake Huron Initiative project. Due serially and term in various amounts ranging from \$670,000 to \$2,400,000 through 2038 with interest rates from 2.00% to 5.375%	-	35,000,000	-	35,000,000	670,000	1,859,423	815,000	1,711,838	
Total Genesee County Drain Commission bonds payable	38,985,000	35,000,000	(1,310,000)	72,675,000	2,030,000	3,597,075	2,230,000	3,394,970	
<u>Community-related Bonds Payable:</u>									
Series 2011 \$933,515 Drinking Water Revolving Fund Program Revenue Bonds backed by the full faith and credit of the County of Genesee. Bond proceeds used for Fenton Road Watermain - Bristol to Maple. Fully drawn in July 2012. Due in amounts ranging from \$34,250 to \$59,265 through 2031 with interest rate of 2.50%	899,265	-	(40,000)	859,265	40,000	20,982	40,000	19,982	
Total Community-related bonds payable	899,265	-	(40,000)	859,265	40,000	20,982	40,000	19,982	
Total Water Supply Systems bonds payable	\$ 39,884,265	\$ 35,000,000	\$ (1,350,000)	\$ 73,534,265	\$ 2,070,000	\$ 3,618,056	\$ 2,270,000	\$ 3,414,952	
Total Genesee County Drain Commission bonds payable	\$ 141,665,126	\$ 35,410,897	\$ (7,875,000)	\$ 169,201,023	\$ 8,750,000	\$ 6,159,841	\$ 9,100,000	\$ 5,802,902	
Total Community-related bonds payable	28,699,265	-	(11,590,000)	17,109,265	3,085,000	662,369	2,640,000	533,265	
Total - All bonds payable	\$ 170,364,391	\$ 35,410,897	\$ (19,465,000)	\$ 186,310,288	\$ 11,835,000	\$ 6,822,209	\$ 11,740,000	\$ 6,336,167	

Summary of Bonds Payable (Continued) Year Ended December 31, 2013

2016		2017		2018		Later		Total	
Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
\$ 715,000	\$ 80,956	\$ 745,000	\$ 49,924	\$ 775,000	\$ 16,953	\$ -	\$ -	\$ 3,585,000	\$ 395,410
345,000	746,763	365,000	732,963	385,000	717,450	14,000,000	6,247,212	15,730,000	9,976,314
250,000	588,700	260,000	578,700	270,000	568,300	12,000,000	3,780,000	13,260,000	6,720,700
160,000	208,153	160,000	201,353	165,000	194,553	4,305,000	1,800,143	5,100,000	2,840,483
840,000	1,687,388	865,000	1,662,188	900,000	1,627,588	30,910,000	19,635,831	35,000,000	28,184,254
2,310,000	3,311,960	2,395,000	3,225,128	2,495,000	3,124,844	61,215,000	31,463,186	72,675,000	48,117,161
40,000	18,982	40,000	17,982	45,000	16,919	654,265	111,459	859,265	206,306
40,000	18,982	40,000	17,982	45,000	16,919	654,265	111,459	859,265	206,306
\$ 2,350,000	\$ 3,330,942	\$ 2,435,000	\$ 3,243,110	\$ 2,540,000	\$ 3,141,763	\$ 61,869,265	\$ 31,574,645	\$ 73,534,265	\$ 48,323,467
\$ 9,025,000	\$ 5,563,425	\$ 9,290,000	\$ 5,313,164	\$ 8,600,000	\$ 5,052,667	\$ 124,436,023	\$ 42,204,771	\$ 169,201,023	\$ 70,096,768
2,730,000	412,670	1,740,000	315,956.00	1,675,000	247,367.00	5,239,265	712,694	17,109,265	2,884,321
\$ 11,755,000	\$ 5,976,095	\$ 11,030,000	\$ 5,629,120	\$ 10,275,000	\$ 5,300,034	\$ 129,675,288	\$ 42,917,465	\$ 186,310,288	\$ 72,981,089

June 4, 2014

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"). Professional standards require that we provide you with the following information related to our audit.

Our Responsibility Under U.S. Generally Accepted Auditing Standards

As stated in our engagement letter dated November 1, 2013, our responsibility, as described by professional standards, is to express an opinion about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities. Our responsibility is to plan and perform the audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement.

As part of our audit, we considered the internal control of Genesee County Drain Commissioner Division of Water and Waste Services. 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 February 2, 2014.

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.

As described in Note 9, the Division changed accounting policies related to the adoption of GASB Statement No. 65. The new statement provides a new statement of net position format to report all assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position. The statements impact the format and reporting of the balance sheet. Additionally in accordance with the new statement, the Division has expensed bond issuance costs, in the amount of approximately \$657,000, that were reported as an asset in previous years. Accordingly, the accounting change has been retrospectively applied to prior periods presented as if the policy had always been used.

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

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

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

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

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

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

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

Difficulties Encountered in Performing the Audit

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

Disagreements with Management

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

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

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. We did not detect any misstatements as a result of audit procedures.

Significant Findings or Issues

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

During the year, the Division entered into two agreements with the Karegnondi Water Authority (KWA), a related party, and below is a detail of the transactions:

- a. Short-term loan - The Division entered into an agreement with KWA, and under this agreement, the Division provided KWA with a loan of \$5,000,000.
- b. Water purchase agreement - The Division entered into a water purchase agreement with KWA, and under this agreement made payments of approximately \$1,582,000 to KWA.

Both transactions have been disclosed in the financial statements.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated June 4, 2014.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a “second opinion” on certain situations. If a consultation involves application of an accounting principle to the Division’s financial statements or a determination of the type of auditor’s opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts.

To our knowledge, there were no such consultations with other accountants.

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

Other Information:

Amendments to Public Act 152 of 2011 (Healthcare Limitations)

On December 11, 2013, legislation was passed (formerly SB 541-545) in an effort to clarify PA 152 of 2011. These amendments are effective immediately. SB 542 and 543 have perhaps the most direct financial impact on communities.

SB 542: This bill modified the current law which allows employers to opt between a percentage-based cap or a dollar-limit (hard cap) on employee health insurance premiums. The bill increases the dollar-cap for individual and spouse coverage from the current limit under PA 152 of \$11,000 to \$13,455. This applies for all medical plan coverage years beginning in calendar year 2013 according to the current language. The \$13,455 cap is increased annually for any changes in medical CPI on an annual basis. Please keep in mind that if your coverage year began after January 1, 2013, this could have resulted in an unanticipated additional cost of \$2,455 per employee. Several communities have questioned this aspect but it does not appear to have been addressed in the bill.

Currently, PA 152 excludes elected officials from the number of employees in the dollar cap formula. This would no longer be the case; they would become part of that calculation.

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

June 4, 2014

SB 543: This bill applies only to those public employers that adopt the 80/20 percentage-based option. It clarifies that all public employers (excluding the State) have to have support of a 2/3 vote by the governing body prior to the start of each medical benefit plan coverage year. If this does not occur, the public employer would then have to follow the hard cap requirement.

Very truly yours,

Plante & Moran, PLLC



Leslie J. Pulver



William Brickey