

Office of Legislative
Auditor General

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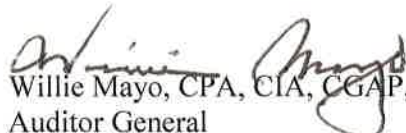
November 8, 2013

FINAL REPORT TRANSMITTAL LETTER

Honorable Wayne County Commission:

Enclosed is our final copy of the Office of Legislative Auditor General's Financial Assessment – Limited Review report on the Sewage Disposal Systems Audited Financial Statements for the fiscal year ended September 30, 2012. Our report is dated September 25, 2013; DAP No. 2013-57-910. The contents of this report did not change from the draft report previously issued. The report was accepted by the Audit Committee at its meeting October 30, 2013 and formally received by the Wayne County Commission on November 7, 2013.

We are pleased to inform you that officials from the Departments of Public Services - Environmental Services and Management and Budget provided their full and complete cooperation during the review. If you have any questions, concerns, or desire to discuss this report in greater detail, we would be happy to do so at your convenience. This report is intended for your information and should not be used for any other purpose. Copies of all Office of Legislative Auditor General's reports can be found on our website: <http://www.waynecounty.com/commission/lagreports.htm>.


Willie Mayo, CPA, CIA, CGAP, CICA, CGMA
Auditor General

REPORT DISTRIBUTION

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Department of Management & Budget
Terry L. Hasse, Director, Grants Compliance and Contracts Management

Wayne County Executive



Office of Legislative
Auditor General



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September 25, 2013

DAP No. 2013-57-910

Honorable Raymond Basham, Chairman
Audit Committee
Wayne County Commission
County of Wayne, Michigan
500 Griswold, Suite 727
Detroit, MI 48226

Subject: Office of Legislative Auditor General's Financial Assessment – Limited Review
Report of the Sewage Disposal Systems Audited Financial Statements for the
fiscal year ended September 30, 2012.

Dear Chairman Basham:

The Department of Management & Budget provided the OAG with a copy of the Sewage Disposal Systems financial statements for the fiscal year ended September 30, 2012, in accordance with Wayne County Ordinance 98-59, which requires all county departments, agencies and units to provide a copy of any audit or consulting report to the Legislative Auditor General.

Because we have performed more extensive financial reviews of the Sewage Disposal Systems financial statements in the past few years, in accordance with professional attestation standards, and determined they were complete, thorough and in accordance with generally accepted accounting principles, we elected to conduct a limited review of their financial statements for fiscal year ended September 30, 2012.

Our limited review is substantially less in scope than an examination or audit in accordance with Generally Accepted Government Auditing Standards or Generally Accepted Auditing Standards, the objective of which is the expression of an opinion on the audited financial statements. Accordingly, we do not express such an opinion.

Our limited review of the Sewage Disposal Systems audited financial statements, for the fiscal year ended September 30, 2012, included, but was not necessarily limited to, a thorough and



complete review of the documents, limited inquiries of county officials, and analytical review procedures. Below we have summarized some key items from the Sewage Disposal Systems financial statements for consideration by the Committee and Commission members.

Background

- The Downriver Sewage Disposal System, Rouge Valley Sewage Disposal System, Northeast Sewage Disposal System, and Combined Sewer Overflow Basins (CSO Basins) are collectively referred to as the Sewage Disposal Systems of the County of Wayne, Michigan.
- The Sewage Disposal Systems are classified as both major (i.e., Downriver, Rouge Valley) and non-major (i.e., Northeast, CSO Basins) enterprise funds within the county's Comprehensive Annual Financial Report (CAFR). Enterprise funds operating revenue and expenses generally result from providing services and producing/delivering goods.
- An agreement exists between Wayne County and the communities within each sewage disposal system in accordance with the 1962 Downriver Agreement. This agreement designates Wayne County Department of Environment (DOE) as the operator of the Sewage Disposal Systems in accordance with the 1962 Downriver Agreement and obligates communities to reimburse each sewage disposal system for operational and maintenance costs, and debt service payments for construction of sewage facilities and systems. This agreement expired in FY 2012 and has not been renewed yet. However negotiations of renewal between the Downriver communities and Wayne County are in progress at the present.
- The Downriver, Rouge Valley, and Northeast Sewage Disposal Systems' revenues are based on sewage disposal usage. These revenues are collected from business and residential customers according to established sewage treatment rates, based on the amount of water sold and consumed. The CSO Basins' revenues are based on billings to respective communities served. These billings recover 100 percent of the actual cost for labor and supplies incurred to maintain and operate the CSO holding stations during the fiscal year.

External Auditors Reports and Letters

- The Sewage Disposal System received an "unqualified opinion" on the audited financial statements from Plante & Moran, PLLC, for the fiscal year ended September 30, 2012. An unqualified opinion is issued by an auditor when the financial statements presented are free of material misstatements and are represented fairly in accordance with the Generally Accepted Accounting Principles (GAAP), which in other words means that the entity's financial condition, position, and operations are fairly presented in the financial statements. It is the best type of report an entity may receive from an external auditor.

- The financial statements of the Sewage Disposal Systems have been included in the county's Comprehensive Annual Financial Report (CAFR) as enterprise funds.
- The auditors did not issue a separate SAS 114 letter nor a A-133 (Single Audit) for the Sewage Disposal System. However, the Sewage Disposal Systems was included in the county's report on Federal Awards (A-133) and Auditor's Report to the Audit Committee (SAS 114). These reports did not refer to any deficiencies or material weakness for Sewage Disposal Systems and no instances of non-compliance with laws, statutes, or award/grant agreements were identified.

Statement of Net Assets (In Thousands)

Description	FY 2012	FY 2011	Increase (Decrease)	Primary Reasons
Assets	\$539,382	\$556,563	(\$17,181)	Primarily due to a decrease in bond principal due from municipalities.
Liabilities	\$217,066	\$226,193	(\$9,127)	Primarily due to a decrease in current portion of long-term obligation offset by increase in non-current liabilities.
Net Assets	\$322,316	\$330,370	(\$8,054)	Primarily due to depreciation expenses offset by increase in other non-current assets.

Financial Highlights

1. Total assets decreased by \$17.2 million primarily due to a decrease in bond principal due from municipalities of \$14 million from payments made on existing long term dept combined with addition debt for pre-approved State Revolving loans for new capital improvements. Also a reduction in net infrastructure of \$15.8 million depreciated, offset by a net increase of \$11.5 million of construction work in progress.
2. Total liabilities decreased \$9.1 million from FY 2011 primarily due to a decrease in current portion of long-term obligation of \$22.4 million, offset by an increase in non-current liability of \$13.2 million.
3. Net assets decreased by \$8 million in FY 2012 primarily due to \$13.4 million of depreciation expense not totally recovered throughout rates charged to participating communities. Offset by increase in other non-current assets of \$5.2 million.

4. The majority of the Systems' net assets are not available for spending. They are restricted or invested in capital assets. Net assets invested in capital assets, net of related debt, remained consistent with the prior year.

Long Term Debt and Other Obligations

The County has pledged future Downriver Sewage Disposal Systems revenue, net of specified operating expenses, to repay the outstanding balance of \$3.7 million of Downriver Sewage Disposal System revenue bonds and \$28.5 million of State Revolving Loan fund bonds payable through 2030.

Principal and interest paid on the bonds for FY 2012 was \$2.3 million and the total customer net revenue was \$3.7 million. The County also pledged future Northeast Sewage Disposal System revenues, net of specified operating expenses, to repay the outstanding balance of \$1.1 million of North Sewage Disposal revenue bonds payable through FY 2014.

Increase Fixed Costs Charges

During FY 2012 a rate adjustment was implemented increasing fixed costs charged to the communities in the Rouge Valley System resulting in net income of \$2.7 million for Rouge Valley System and the Northeast System. Therefore, the net loss has decreased by \$1.34 million from FY 2011.

Restricted Assets

Total restricted assets are approximately \$172.6 million and represent amounts restricted for use in replacement, improvement and construction projects, bond reserves, and amounts pledged toward the payment of outstanding bonds and notes.

Internal Control/Compliance

The county's report on Federal Awards (A-133) and county wide letter (SAS 114). No deficiencies or material weakness were stated in the reports for the Sewage Disposal System and no instances of non-compliance were identified.

Upcoming Reporting Changes

Statement No. 60, Accounting and Financial Reporting for Services Concession Arrangements – This statement addresses financial reporting related to service concession arrangements (SCA). Provisions of this statement were effective for fiscal years beginning after December 15, 2011. The county is currently evaluating the impact of this standard.

Statement No. 61, The Financial Reporting Entity: Omnibus – This statement modifies certain requirements for inclusion of component units in the financial reporting entity was effective for

fiscal years beginning after June 15, 2012. The county is currently evaluating the impact of this standard.

Statement No. 62, Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements – This statement incorporates into GASB literature certain accounting and financial reporting guidance that is included in Financial Accounting Standards Board (FASB) and American Institute of Certified Public Accountants (AICPA) pronouncements. Provisions of this statement were effective for fiscal years beginning after December 15, 2011. The county is currently evaluating the impact of this standard.

Statement No. 63, Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position – This statement will have an impact on the format and reporting of the balance sheet at the government-wide level and the fund level. Provisions of this statement were effective for fiscal years beginning after December 15, 2011. The county is currently evaluating the impact of this standard.

Statement No. 65, Items Previously Reported as Assets and Liabilities – This statement is required to be implemented for fiscal years beginning after December 15, 2012. This statement establishes accounting and financial reporting standards that reclassify as deferred outflows and inflows of resources, certain items that were previously reported as assets and liabilities. This statement also provides other financial reporting guidance related to the impact of the financial statement elements deferred outflows and inflow of resources. The county will implement this statement beginning October 1, 2013.

Statement No. 68, Accounting and Financial Reporting for Pensions – This statement 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 statement will be effective for financial statements for the fiscal year ended September 30, 2015. The county is currently evaluating the impact this standard will have on the financial statements when adopted.

Conclusion and Recommendation:

Based on our limited review, nothing came to our attention that caused us to believe the financial report, including the audited financial statements of the Sewage Disposal Systems are not presented in conformity with generally accepted accounting principles.

It is our recommendation that the OAG's Financial Assessment – Limited Review Report of the Sewage Disposal Systems for fiscal year ended September 30, 2012, be forwarded to the Wayne County Commission for receiving and filing.

Chairman Basham
Sewage Disposal Systems
DAP No. 2013-57-910
September 25, 2013
Page 6 of 6

Respectfully submitted,


Willie Mayo, CPA, CIA, CGAP, CGMA, CICA
Auditor General

Cc: Terry Spryszak, Director, Department of Public Services
Kenneth Kucel, Deputy Director, Department of Public Services - Environmental Services
Dennis Scully, Department Administrator, Department of Public Services - Environmental Services
Terry L. Hasse, Director - Grants Compliance and Contracts Management, Department of Management & Budget

Attachment

**Financial Statements for
Sewage Disposal Systems
Fiscal Year 2012**

CHARTER COUNTY OF WAYNE, MICHIGAN
**SEWAGE DISPOSAL
SYSTEM**



ROBERT A. FICANO
COUNTY EXECUTIVE

2012

**CHARTER COUNTY OF WAYNE, MICHIGAN
SEWAGE DISPOSAL SYSTEMS**

Basic Financial Statements

September 30, 2012

(With Independent Auditors' Report Thereon)

CHARTER COUNTY OF WAYNE, MICHIGAN
SEWAGE DISPOSAL SYSTEMS
September 30, 2012

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Independent Auditor's Report

To the Wayne County Commission
and the County Executive
Sewage Disposal Systems,
Charter County of Wayne, Michigan

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Charter County of Wayne, Michigan (the "County") as of and for the year ended September 30, 2012, which collectively comprise the County's basic financial statements, and have issued our report thereon dated January 31, 2013, which expressed unqualified opinions on the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information. Our audit was performed for the purpose of forming an opinion on the financial statements as a whole. We have not performed any procedures with respect to the audited financial statements subsequent to January 31, 2013.

The accompanying financial statements of the Downriver Sewage Disposal System Fund, the Rouge Valley Sewage Disposal System Fund, the Northeast Sewage Disposal System Fund, and the Combined Sewer Overflow (CSO) Basins Fund (collectively, the Sewage Disposal Systems) of the Charter County of Wayne, Michigan are presented for the purpose of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

To the Wayne County Commission
and the County Executive
Sewage Disposal Systems,
Charter County of Wayne, Michigan

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

Plante & Moran, PLLC

March 26, 2013

**CHARTER COUNTY OF WAYNE, MICHIGAN
SEWAGE DISPOSAL SYSTEMS**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
(Unaudited)**

As management of the Sewage Disposal Systems, we offer readers of the Systems' financial statements this narrative overview and analysis of the financial activities of the Systems for the year ended September 30, 2012. We encourage readers to consider the information presented here in conjunction with the preceding Independent Auditor's Report, the accompanying basic financial statements, the notes to the basic financial statements, and the Charter County of Wayne Michigan (the County) Comprehensive Annual Financial Report.

Overview

The Sewage Disposal Systems

The Downriver Sewage Disposal System (Downriver), Rouge Valley Sewage Disposal System (Rouge Valley), Northeast Sewage Disposal System (Northeast), and Combined Sewer Overflow Basins (CSO Basins), collectively referred to as the Sewage Disposal Systems, or Systems, are enterprise funds of the County. Rouge Valley and Northeast were organized by the Wayne County Board of Supervisors under the provisions of Act 342, of the Public Acts of Michigan of 1939, as amended for the purposes of sewage disposal. The Wayne County Board of Supervisors organized Downriver under the provisions of Act 185 of the Public Acts of Michigan of 1957, as amended for the purpose of sewage disposal. In 1998, the County decided to transfer portions of the Downriver and Rouge Valley systems into the CSO Basin, a separate fund, to more accurately track construction and operations costs for the communities served by that system. The Wayne County Department of Public Services Environmental Services Group administers Downriver in accordance with the 1962 Downriver Agreement, which expired in 2012. A new agreement is being negotiated as of the issuance date of this report.

Required Financial Statements

The financial statements of the Systems report information utilizing the full accrual basis of accounting and conform to accounting principles that are generally accepted in the United States of America. The financial statements consist of three interrelated statements designed to provide the reader with relevant, understandable data on the Systems' financial condition and operating results. These statements are the Statement of Net Assets, the Statement of Revenues, Expenses and Changes in Net Assets, and the Statement of Cash Flows.

The Statement of Net Assets presents information on the Systems' assets and liabilities, and provides information about the nature and amounts of investments in resources (assets) and the obligation to the Systems' creditors (liabilities) with the difference between the two being reported as Net Assets. Over time, increases and decreases in Net Assets may serve as a useful indicator of whether the financial position of the Systems are improving or deteriorating. However, one must consider other non-financial factors such as the changes in economic conditions, population growth, zoning, and new or changed government legislation.

The Statement of Revenues, Expenses and Changes in Net Assets identifies the Systems' revenue and expenses for the fiscal year. It provides information on the Systems' operations over the past fiscal year and can be used to determine whether the Systems have recovered all of its projected costs through user fees, tax revenues and other service related charges.

The Statement of Cash Flows presents information regarding the Systems' cash receipts and cash payments for the period, categorized according to whether they stem from operating activities, non-capital financing activities, capital and related financing activities or investing activities. From this statement, the reader can obtain comparative information on the sources and uses of the Systems' cash.

The Notes to the Basic Financial Statements provide additional information that is essential to a full understanding of the data provided in the basic financial statements and are an integral part of the financial statements.

Summary Financial Information and Analysis

The following table summarizes a comparison of the Change in Net Assets over the past two years:

	<u>2012</u>	<u>2011</u>
Operating revenues	\$ 96,217	\$ 85,276
Operating expenses	103,193	100,073
Operating loss	(6,976)	(14,797)
Non-operating revenues/(expenses)	(1,078)	(560)
Net loss before transfers	(8,054)	(15,357)
Capital contributions	-	-
Transfers in	-	157
Transfers out	-	(157)
Interfund chargeback recovery	-	87
Change in net assets	(8,054)	(15,270)
Net assets at October 1	330,370	345,640
Net assets at September 30	<u>\$ 322,316</u>	<u>\$ 330,370</u>

Net assets decreased by \$8.05 million in fiscal year 2012. Key elements of the decrease are as follows:

- \$13.4 million of depreciation expense, a non-cash expense, for the Downriver System is not totally recovered through rates charged to participating communities.
- Operating expenses exceeded operating revenues in two of the Sewage Disposal Systems – the Downriver and Northeast Systems, which was anticipated due to depreciation. The CSO Basins System also had an operating loss as operating expenses increased \$72,000 from 2011; this exceeded the budgeted revenue decrease of \$129,000 (11.5 percent).
- Rate adjustments implemented during 2011 and 2012 increasing fixed costs charged to the communities in the Rouge Valley System have resulted in net income of \$2.7 million for the Rouge Valley system and for the Northeast System, the net loss has decreased \$1.34 million from 2011.

Other significant fluctuations are discussed below:

- Operating revenues primarily consist of sewage disposal charges assessed to participating communities; the fixed charge rates increased by an average 25 percent to the communities in 2012.
- Operating expenses increased by \$3.1 million or 3.2 percent due to increases in contractual services costs (\$2 million) and miscellaneous operating costs (\$1.3 million) for the Rouge Valley System.

Non-operating revenues decreased \$518,000, from 2011, largely due to the decrease in revenues of \$232,000 from investment earnings and \$625,000 from collection from participating local units for SRF Bond/Loan principal payment. Also interest expense decreased by \$339,000 from 2011 due to decrease in debt service payments.

The following table summarizes a comparison of the Statement of Net Assets for the past two years:

	<u>2012</u>	<u>2011</u>
Current assets	\$ 34,925	\$ 53,373
Capital assets	331,134	335,086
Other non-current assets	173,323	168,104
Total assets	<u>539,382</u>	<u>556,563</u>
Current liabilities	19,093	41,497
Non-current liabilities	197,973	184,696
Total liabilities	<u>217,066</u>	<u>226,193</u>
Net assets:		
Invested in capital assets, net of related debt	170,444	166,729
Restricted	137,351	152,559
Unrestricted	14,521	11,082
Total net assets	<u>\$ 322,316</u>	<u>\$ 330,370</u>

The majority of the Systems' net assets are not available for spending. They are restricted or invested in capital assets. Net assets invested in capital assets, net of related debt remained consistent with the prior year. Restricted net assets decreased by \$15.2 million mainly due to payments on debt.

Unrestricted net assets for the Sewage Disposal Systems at the end of the year amounted to the following:

- Downriver's unrestricted net assets decreased by \$542,000 from the prior year, a 4% decrease roughly matching the 4% decrease in net assets due to depreciation.

- Rouge Valley's unrestricted net assets increased by \$3.1 million from the prior year due to increased revenues collected from communities in the fixed costs for excess sewage flows.
- Northeast's unrestricted net assets increased by \$153,000 from the prior year due to rate adjustments implemented during the fiscal year.
- CSO's unrestricted net assets increased by \$749,000 from the prior year due to an increase in current receivables for operations, combined with a larger reduction in assets restricted for debt repayment.

The increase in other non-current assets of \$5.2 million (3 percent) is primarily due to:

- A net decrease in bond principal due from municipalities of \$14 million from payments made on existing long term debt combined with additional debt for pre-approved State Revolving loans for new capital improvements, and
- \$17.9 million increase of restricted equity in pooled cash and investments collected primarily for future debt retirement.

Capital assets decreased by \$4.0 million or 0.1 percent due to the reduction of net infrastructure of \$15.8 million depreciated, offset by a net increase of \$11.5 million of construction work in progress.

Capital Assets, Net
As of September 30 (in thousands)

	<u>2012</u>	<u>2011</u>
Land and improvements	\$ 4,805	\$ 4,895
Buildings and improvements	6,622	7,323
Machinery, equipment and vehicle	506	511
Infrastructure	265,302	279,959
Construction in progress	<u>53,899</u>	<u>42,398</u>
Total	<u>\$ 331,134</u>	<u>\$ 335,086</u>

The County currently has a "BBB+" rating with stable outlook from Standard & Poor's, a "Baa2" rating with negative outlook from Moody's Investors Service and a "BBB+" rating with negative outlook from Fitch Ratings for uninsured debt issues.

Requests for Information

This financial report is designed to provide a general overview of the System's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Charter County of Wayne, Michigan, Department of Management and Budget, Financial Reporting Division, 500 Griswold Street, 20th Floor, Detroit, Michigan 48226.

CHARTER COUNTY OF WAYNE, MICHIGAN
SEWAGE DISPOSAL SYSTEMS
STATEMENT OF NET ASSETS

As of September 30, 2012
(in thousands)

	<u>Downriver</u>	<u>Rouge Valley</u>	<u>Northeast</u>	<u>CSO Basins</u>	<u>Total</u>
<u>Assets</u>					
Current assets:					
Equity in pooled cash and investments (note 4)	\$ 13,363	786	1,820	-	\$ 15,969
Other cash and investments (note 4)	1	-	-	-	1
Due from component units (note 7)	19	-	-	-	19
Receivables:					
Accounts	357	-	-	881	1,238
Due from other governmental units	3,401	11,293	1,644	1,788	18,126
Less allowance for uncollectable accounts	(144)	(408)	-	-	(552)
Prepayments and deposits	124	-	-	-	124
Total current assets	17,121	11,671	3,464	2,669	34,925
Non-current assets:					
Restricted assets (note 5):					
Equity in pooled cash and investments (note 4)	23,342	5,605	1,887	5,131	35,965
Other cash and investments (note 4)	4,181	-	-	-	4,181
Accounts receivable	11,998	-	-	2,674	14,672
Bond principal due from municipalities	102,342	170	1,101	14,224	117,837
Capital assets (note 6):					
Non-depreciable	34,038	22,432	394	922	57,786
Depreciable, net	194,400	75,752	3,196	-	273,348
Other assets:					
Bond issuance cost, net of amortization	429	47	5	187	668
Total non-current assets	370,730	104,006	6,583	23,138	504,457
Total assets	<u>\$ 387,851</u>	<u>115,677</u>	<u>10,047</u>	<u>25,807</u>	<u>\$ 539,382</u>

(Continued)

See accompanying notes to the basic financial statements.

CHARTER COUNTY OF WAYNE, MICHIGAN
SEWAGE DISPOSAL SYSTEMS

Statement of Net Assets
As of September 30, 2012

	<u>Downriver</u>	<u>Rouge Valley</u>	<u>Northeast</u>	<u>CSO Basins</u>	<u>Total</u>
<u>Liabilities and Net Assets</u>					
Current liabilities:					
Accounts and contracts payable	1,942	36	258	31	2,267
Accrued wages and benefits	123	-	-	-	123
Due to other funds (note 7)	84	14	5	1,641	1,744
Current portion of long-term obligations (note 8)	311	50	-	-	361
Other liabilities	265	9,429	4,900	4	14,598
Total current liabilities	2,725	9,529	5,163	1,676	19,093
Non-current liabilities:					
Payable from restricted assets:					
Accounts payable	1,595	-	170	3,316	5,081
Other liabilities	12,356	-	-	-	12,356
Bonds and notes payable due in less than one year (note 8)	16,840	490	541	3,240	21,111
Bonds and notes payable due in more than one year (note 8)	109,552	3,536	561	13,858	127,507
Accrued interest	486	-	10	273	769
Other liabilities (note 10)	1,877	-	-	102	1,979
Bonds and notes payable due in more than one year (note 8)	22,417	6,753	-	-	29,170
Total non-current liabilities	165,123	10,779	1,282	20,789	197,973
Total liabilities	167,848	20,308	6,445	22,465	217,066
Net assets:					
Invested in capital assets, net of related debt	79,629	87,405	2,488	922	170,444
Restricted net assets - bond programs	127,426	5,775	2,808	1,342	137,351
Unrestricted	12,948	2,189	(1,694)	1,078	14,521
Total net assets	220,003	95,369	3,602	3,342	322,316
Total liabilities and net assets	\$ 387,851	115,677	10,047	25,807	\$ 539,382

(Concluded)

See accompanying notes to the basic financial statements.

CHARTER COUNTY OF WAYNE, MICHIGAN
SEWAGE DISPOSAL SYSTEMS
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
For the year ended September 30, 2012
(in thousands)

	<u>Downriver</u>	<u>Rouge Valley</u>	<u>Northeast</u>	<u>CSO Basins</u>	<u>Total</u>
Operating revenues:					
Sewage disposal charges	\$ 15,772	53,580	21,084	41	\$ 90,477
Industrial surcharges	1,728	-	-	-	1,728
Other charges for services	3,035	22	-	955	4,012
Total operating revenues	20,535	53,602	21,084	996	96,217
Operating expenses:					
Personnel	2,245	-	-	-	2,245
Fringe benefits	1,506	-	-	-	1,506
Pension	386	-	-	-	386
Materials and supplies	2,118	54	6	106	2,284
Contractual services	5,637	47,309	20,370	1,154	74,470
Travel	4	-	-	-	4
Miscellaneous operating	3,892	1,401	442	258	5,993
Rentals	57	153	297	10	517
Depreciation	13,443	1,993	352	-	15,788
Total operating expenses	29,288	50,910	21,467	1,528	103,193
Operating income (loss)	(8,753)	2,692	(383)	(532)	(6,976)
Non-operating revenues (expenses):					
Investment earnings (loss)	14	4	17	161	196
Collections from participating local units	3,556	4	48	899	4,507
Interest expense	(4,452)	(253)	(66)	(1,010)	(5,781)
Total non-operating revenues (expenses)	(882)	(245)	(1)	50	(1,078)
Change in net assets	(9,635)	2,447	(384)	(482)	(8,054)
Net assets at October 1, 2011	229,638	92,922	3,986	3,824	330,370
Net assets at September 30, 2012	\$ 220,003	95,369	3,602	3,342	\$ 322,316

See accompanying notes to the basic financial statements.

CHARTER COUNTY OF WAYNE, MICHIGAN
SEWAGE DISPOSAL SYSTEMS

Statement of Cash Flows
For the year ended September 30, 2012
(in thousands)

	Downriver	Rouge Valley	Northeast	CSO Basins	Total
Cash flows from operating activities:					
Receipts from customers	\$ 19,373	50,566	22,873	1,419	\$ 94,231
Payments to suppliers	(8,966)	(50,295)	(21,316)	(1,527)	(82,104)
Payments to employees	(2,226)	-	-	-	(2,226)
Payments for benefits	(1,450)	-	-	-	(1,450)
Internal activity - receipts from other funds	-	-	-	1,641	1,641
Internal activity - payments to other funds	84	14	5	-	103
Internal activity - receipts from component units	35	-	-	-	35
Net cash provided by (used in) operating activities	6,850	285	1,562	1,533	10,230
Cash flows from capital and related financing activities:					
Repayment of long-term debt	(16,448)	(478)	(545)	(3,226)	(20,697)
Proceeds from issuance of long term debt	6,813	2,975	-	1,151	10,939
Bond principal received from municipalities	12,300	20	531	3,053	15,904
Acquisition of capital assets	(7,787)	(2,744)	(383)	(923)	(11,837)
Interest received from participating local units	3,556	4	48	899	4,507
Interest paid	(4,449)	(251)	(52)	(1,022)	(5,774)
Net cash provided by (used in) capital and related financing activities	(6,015)	(474)	(401)	(68)	(6,958)
Cash flows from investing activities - investment earnings	14	4	17	161	196
Net increase (decrease) in cash and cash equivalents	849	(185)	1,178	1,626	3,468
Cash and cash equivalents at October 1, 2011	40,038	6,576	2,529	3,505	52,648
Cash and cash equivalents at September 30, 2012	\$ 40,887	6,391	3,707	5,131	\$ 56,116
Reconciliation of operating loss to net cash provided by (used in) operating activities					
Operating income (loss)	\$ (8,753)	2,692	(383)	(532)	\$ (6,976)
Adjustments to reconcile operating loss to net cash provided by (used in) operating activities:					
Depreciation	13,443	1,993	352	-	15,788
Decreases (increases) in current assets:					
Accounts receivable	(1,686)	-	-	(751)	(2,437)
Due from other governmental units	524	(3,036)	1,789	1,174	451
Due from component units	35	-	-	-	35
Other current assets	3	6	2	-	11
Increases (decreases) in current liabilities:					
Accounts and contracts payable	1,641	(279)	253	6	1,621
Accrued wages	19	-	-	-	19
Accrued benefits	12	-	-	-	12
Due to other funds	84	14	5	1,641	1,744
Compensated absences	(1)	-	-	-	(1)
Other liabilities	1,098	(1,105)	(456)	(5)	(468)
(Decrease) in non current other liabilities	431	-	-	-	431
Net cash provided by (used in) operating activities	\$ 6,850	285	1,562	1,533	\$ 10,230
Cash and cash equivalents at September 30, 2012 consists of the following:					
Equity in pooled cash and investments	\$ 13,363	786	1,820	-	\$ 15,969
Other cash and investments	1	-	-	-	1
Restricted assets:					
Equity in pooled cash and investments	23,342	5,605	1,887	5,131	35,965
Other cash and investments	4,181	-	-	-	4,181
Total cash and investments	\$ 40,887	6,391	3,707	5,131	\$ 56,116

See accompanying notes to the basic financial statements.

CHARTER COUNTY OF WAYNE, MICHIGAN
SEWAGE DISPOSAL SYSTEMS
NOTES TO THE BASIC FINANCIAL STATEMENTS
For the year ended September 30, 2012

(1) Reporting Entities

The Downriver Sewage Disposal System (Downriver), Rouge Valley Sewage Disposal System (Rouge Valley), Northeast Sewage Disposal System (Northeast), and Combined Sewer Overflow Basins (CSO Basins), collectively referred to as the Sewage Disposal Systems, are Enterprise funds of the Charter County of Wayne Michigan (the County). Rouge Valley and Northeast were organized by the Wayne County Board of Supervisors under the provisions of Act 342, of the Public Acts of Michigan of 1939, as amended for the purposes of sewage disposal. The Wayne County Board of Supervisors organized Downriver under the provisions of Act 185 of the Public Acts of Michigan of 1957, as amended for the purpose of sewage disposal. In 1998, the County decided to transfer portions of the Downriver and Rouge Valley systems into the CSO Basin, a separate fund, to more accurately track construction and operations costs for the communities served by that system. The Wayne County Department of Environment (DOE) administers the various sewage disposal systems in accordance with the 1962 Downriver Agreement, which expires in 2012. DOE's continued existence is predicated on the renewal of the agreement.

Direct salaries, wages, and employee benefits, plus materials and services supplied by outside vendors or other County operations, are charged to the system responsible for such expenses when incurred. Certain other services are shared among the systems and other County operations, with proportionate cost of these services being billed to the individual system based upon actual services provided.

These financial statements present only the Sewage Disposal Systems' of the County and are not intended to present the financial position and results of operation of the County in conformity with accounting principles generally accepted in the United States of America. The financial statements of the Sewage Disposal Systems' have been included in the County's comprehensive annual financial report, reported as enterprise funds. The County's comprehensive annual report can be obtained by contacting the Office of Management and Budget, 500 Griswold, 20th Floor, Detroit, Michigan 48226.

(2) Summary of Significant Accounting Policies

(a) Basis of Accounting

The Sewage Disposal Systems are accounted for on the flow of economic resources measurement focus and use the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred.

As allowed by Government Accounting Standards Board (GASB) Statement No. 20, the County's Sewage Disposal Systems follow all GASB pronouncements and Financial Accounting Standards Board Statements and Interpretations, Accounting Principle Board Opinions, and Accounting Research Bulletins issued on or before November 30, 1989, except those that conflict with GASB pronouncements.

(b) Sewage Disposal Revenues

The Sewage Disposal Systems' revenues, except for the CSO Basins' are recorded and based on consumption. The CSO Basins' revenues are based on the recovery of operation and maintenance costs.

CHARTER COUNTY OF WAYNE, MICHIGAN
SEWAGE DISPOSAL SYSTEMS
NOTES TO THE BASIC FINANCIAL STATEMENTS
For the year ended September 30, 2012

(2) Summary of Significant Accounting Policies, continued

Sewage disposal revenues are a result of the terms in the Downriver agreement between Wayne County and communities within each sewage disposal system. These agreements designated Wayne County as operator of the Sewage Disposal Systems and obligate communities to reimburse each sewage disposal system for those operation and maintenance costs.

(c) Contractual services

Contractual services for the Rouge Valley and Northeast systems represent amounts billed for sewage treatment costs under long-term Sewage Disposal Agreements ("Agreement") with the City of Detroit. The Agreement is renewable upon expiration and provide for costs for sewage treatment and disposal at rates established by the City of Detroit.

(d) Cash and investments

Cash resources of the individual funds of the County, except as specifically stated by ordinance, are pooled and invested. Interest on pooled investments is allocated among the respective funds based on average investment balances.

(e) Cash flows

For the purposes of the statement of cash flows, the County considers all highly liquid investments, including restricted assets, with a maturity of three months or less when purchased to be cash equivalents. All pooled investments qualify as cash equivalents.

(f) Bonds payable

Bonds payable are reported net of the loss on refunding. The County defers the difference between the reacquisition price and the net carrying amount of the old debt in a refunding. The deferred amount is amortized and recorded as a component of interest expense.

(g) Use of estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles 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 reporting period. Actual results could differ from those estimates.

(h) Capital assets

Capital assets are stated at cost. Depreciation is computed using the straight-line method over the estimated useful lives of the assets as follows:

Buildings and improvements	5-25 years
Equipment	5-25 years
Infrastructure (interceptors and appurtenances)	25-80 years

CHARTER COUNTY OF WAYNE, MICHIGAN
SEWAGE DISPOSAL SYSTEMS
NOTES TO THE BASIC FINANCIAL STATEMENTS
For the year ended September 30, 2012

(2) Summary of Significant Accounting Policies, continued

Expenditures greater than \$5,000 for capital assets and for major renewals and betterments that extend the estimated useful life of the assets are capitalized; routine maintenance and repairs are charged to expense as incurred. All costs relating to the construction of facilities and other capital assets are capitalized, including salaries, employee benefits, and qualifying net bond interest costs during construction. At the time capital assets are disposed of, the costs and related accumulated depreciation are removed from the accounts and any gain or loss is reflected in the results of operations.

(i) Due From Other Governmental Units

Due from Other Governmental Units, net, represents receivables from local municipalities and the State of Michigan, for sewage disposal and grant revenue. The balance sheet (aging) method is used to estimate the reserve for uncollectable.

(j) Compensated absences

The Sewage Disposal Systems' employees earn vacation and sick leave benefits based, in part, on length of service. Vacation pay is fully vested when earned and sick pay vests upon completion of two years of service. Upon separation from service, employees are paid accumulated vacation and sick pay depending upon the nature of the separation (death, retirement, or termination). Certain limitations are placed on the hours of vacation and sick leave that employees may accumulate and carry over for payment at termination, retirement, or death. Unused hours exceeding these limitations are forfeited. The amount of accumulated unpaid vacation and sick pay is recorded in other liabilities in the statement of net assets.

(k) Retirement and other post employment benefit costs

The County offers both pension and retiree health care benefits to retirees. The County receives an actuarial valuation to compute the annual required contribution (ARC) necessary to fund the obligation over the remaining amortization period. The Sewer funds report 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.

(l) Unearned revenue

Unearned revenue represents revenue that was billed and received but not yet earned. Accordingly, these revenues are deferred until such time as they are earned.

(m) Net assets

The basic financial statements utilize a net asset presentation. Net assets are categorized as investment in capital assets (net of related debt), restricted and unrestricted.

CHARTER COUNTY OF WAYNE, MICHIGAN
SEWAGE DISPOSAL SYSTEMS
NOTES TO THE BASIC FINANCIAL STATEMENTS
For the year ended September 30, 2012

(2) Summary of Significant Accounting Policies, concluded

Investment in capital assets (net of related debt) – consists of capital assets, net of accumulated depreciation. The outstanding balances of bonds, mortgages, notes, or other borrowing that are attributable to the acquisition, construction, or improvement of those assets would further reduce this component. If there were significant unspent related debt proceeds at year-end, the portion of the debt attributable to the unspent proceeds would be offset by the outstanding debt.

Restricted assets – consist of constraints placed on net asset use through external constraints imposed by grantors, contributors, or laws.

Unrestricted assets – represent unrestricted liquid assets. While the Sewage Disposal Systems' management may have categorized and segmented portions for various purposes, the County Commission has the unrestricted authority to revise or alter these managerial decisions.

(3) Risk Management

The County 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 County is self-insured for workers' compensation, certain health and disability benefits and other claims, litigation, and assessments. Accruals for claims, litigation, and assessments are recorded in the government-wide and proprietary fund financial statements. These accruals are recorded in the fund financial statements, within the governmental funds, when the amounts are due and payable at year-end. All other amounts are recorded in the government-wide financial statements when probable of loss and estimable in amount.

Health insurance and workers' compensation claims that are probable of loss and estimable in amount are included in the government-wide, proprietary and fiduciary fund financial statements. Other claims consist of property damage and minor auto damage claims. The amount of claims liability is based on analyses performed by outside consultants and includes an estimate of incurred claims that have not yet been reported. The County purchases commercial insurance for claims in excess of coverage provided by the internal service funds and for all other risks of loss. Settled claims have not exceeded this commercial coverage in any of the past three years.

CHARTER COUNTY OF WAYNE, MICHIGAN
SEWAGE DISPOSAL SYSTEMS
NOTES TO THE BASIC FINANCIAL STATEMENTS
For the year ended September 30, 2012

(3) Risk Management, concluded

A reconciliation of the County's self-insured claims liability at September 30, 2012 follows (in thousands):

	Workers'	Hospitalizat	Long-term	Other	
	Compensation	ion	disability	Claims	Total
		Insurance			
Estimated liability,					
September 30, 2010	\$ 8,712	\$ 3,605	\$ 331	\$ 145	\$ 12,793
Estimated claims incurred	(286)	77,903	781	393	78,791
Change in estimate for					
prior period claims	1,632	(1,031)	-	200	801
Claim payments	(1,926)	(76,385)	(781)	(393)	(79,485)
Estimated liability,					
September 30, 2011	8,132	4,092	331	345	12,900
Estimated claims incurred	(387)	78,330	581	121	78,645
Change in estimate for					
prior period claims	1,373	2,122	-	(95)	3,400
Claim payments	(1,842)	(81,573)	(581)	(121)	(84,117)
Estimated liability,					
September 30, 2012	\$ 7,276	\$ 2,971	\$ 331	\$ 250	\$ 10,828

The liability for workers' compensation claims includes an estimate of loss and allocated loss adjustment expenses (ALAE). The estimate of loss is based on historical loss runs for the workers' compensation program through September 30, 2012, specific data for individual open claims, which occurred prior to 1985, and historical payroll data. ALAE represents the cost of legal fees, expert testimony, medical examinations, etc., that are associated with the defense and settlement of particular claims. Unallocated loss adjustment expenses are not included in the estimate.

A discount rate of 1.0 percent was used to determine the present value of unpaid workers' compensation claims.

CHARTER COUNTY OF WAYNE, MICHIGAN
SEWAGE DISPOSAL SYSTEMS
NOTES TO THE BASIC FINANCIAL STATEMENTS
For the year ended September 30, 2012

(4) Cash and Investments

State statutes (Public Act 20 of 1943, as amended) place limitations on the nature of deposits and investments available to the County. Deposits include demand deposits, money markets, and certificates of deposits in federally insured banks, credit unions and savings and loan associations that have offices in the State of Michigan. Statutes authorize the County to invest in obligations of the U.S. Treasury or any agency or instrumentality of the United States, certain commercial paper, repurchase agreements, bankers' acceptances of United States banks, external investment pools (organized under Public Act 367 or 121), mutual funds composed of otherwise legal investments (except those with fluctuating per share value), and certain obligations of the State of Michigan or its political subdivisions.

The investment policy adopted by the County, in accordance with Public Act 20 of 1943, as amended, authorizes investments in U.S. Treasuries, agencies, and instrumentalities, certificates of deposit, savings accounts, deposit accounts, or depository receipts of a bank, savings bank, or savings and loan association that is a member of the Federal Deposit Insurance Corporation (FDIC). The Treasurer may invest in commercial paper (rated A2/P2 or above), repurchase agreements, and bankers' acceptances. Investment pools organized under the Urban Cooperation Act of 1967, PA 7, MCL 124.501 to 124.512, under the local government investment pool Act of 1985, PA 121, MCL 129.141 to 129.150, and investment pools organized under the surplus funds investment act, 1982 PA 367, MCL 129.111 to 129.118, are also permitted. Investments may also be made in mutual funds registered under the investment company Act of 1940 Title I of Chapter 686, 54 stat. 789, 15 U.S.C. 80A-1 to 80A-3 and 80A-4 to 80A-64, with authority to purchase only investment vehicles that are legal for direct investment by a public corporation, which maintain a rating of AAA or better by a nationally recognized statistical rating agency or that maintain a net \$1.00 share value. The foremost objective of the investment policy is the safety of investment principal.

The County's cash and investments are subject to several types of risk, which are discussed in more detail below.

Custodial Credit Risk of Bank Deposits – Custodial credit risk is the risk that, in the event of the failure of a depository financial institution, the government's deposits may not be recovered. The County's investment policy requires that deposits over the \$250,000 insured limit in a commercial bank shall not equal more than 25% of the combined capital and surplus of that bank, savings bank, or savings and loan association and that institution must meet minimum standards of at least one standard rating service. If deposits in a credit union exceed the insured limit, that institution must meet the minimum standards of at least one standard rating service. At year-end, the County portfolio had \$594.1 million of bank deposits (primarily demand deposits and certificates of deposit) with a carrying value of \$594 million that were largely uninsured and uncollateralized. Other primary government depository accounts (outside of the portfolio administered by the Wayne County Treasurer) had a total bank balance of \$238 thousand and \$637 carrying value. The County believes that due to the dollar amount of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the government evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution. Only those institutions with acceptable levels of estimated risk are used as depositories.

CHARTER COUNTY OF WAYNE, MICHIGAN
SEWAGE DISPOSAL SYSTEMS
NOTES TO THE BASIC FINANCIAL STATEMENTS
For the year ended September 30, 2012

(4) Cash and Investments, continued

Custodial Credit Risk of Investments – Following is a summary of the County's investments as of September 30, 2012: (in thousands)

U.S. agency bonds	\$	4,000
Municipal bonds		53,578
Money market funds		9,163
	\$	66,741

Custodial credit risk is the risk that in the event of the failure of the counterparty, the County will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party.

Investment securities are exposed to custodial credit risk if the securities are uninsured, are not registered in the name of the government and are held by either the counterparty, or the counterparty's trust department or agent, but not in the County's name.

The County's investment policy requires that bonds, securities, and obligations of the United States or an agency or instrumentality of the United States must be held in the name of the County treasurer, be purchased using the delivery versus payment procedure, and be held in third party safekeeping. Commercial paper should either be purchased directly from the issuing corporation, or be held in safekeeping by a third party institution. At year-end, none of the County's investments were subject to custodial credit risk due to one of the following:

- Investments were held by a third-party safe-keeper in the County's name,
- Investments were held by a trustee in the County's name,
- Investments were part of a mutual fund.

Credit Risk – Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. In compliance with State law, the County's investment policy limits investments of commercial paper to the two highest classifications established by not less than two standard rating services, and which mature not more than 270 days after the date of purchase. As of year-end, the credit quality ratings of investments (other than the U.S. government) are as follows for the primary government (non-fiduciary) (in thousands):

CHARTER COUNTY OF WAYNE, MICHIGAN
SEWAGE DISPOSAL SYSTEMS
NOTES TO THE BASIC FINANCIAL STATEMENTS
For the year ended September 30, 2012

(4) Cash and Investments, continued

Investment Type	Fair Value	Rating	Organization
Government agency bonds	\$ 4,000	AA+	S&P
Municipal bonds	2,790	Aa3	Fitch/Moody's
Municipal bonds	920	Aa2	Fitch
Municipal bonds	2,805	Aa2	Moody's
Municipal bonds	3,915	AA-	S&P
Municipal bonds	543	BBB+	S&P
Municipal bonds	31,100	SP-1	Moody's
Municipal Bonds	8,500	SP-1+	Moody's
Municipal Bonds	2,505	A+	Moody's
Municipal Bonds	500	A1	Fitch
	<u>53,578</u>		
Investment Type	Fair Value	Rating	Organization
Money market funds	3,172	AAAm	S&P
Money market funds	2,132	AAAm-G	S&P
Money market funds	1,831	Not Rated	367 Fund/Moody's
Money market funds	2,029	SP-1+	S&P
	<u>9,163</u>		
Total	\$ <u>66,741</u>		

Concentration of Credit Risk – Concentration of credit risk is the risk of loss attributable to the magnitude of a government's investments with a single issuer. Through its investment policy, the County places limits on the amount the government may invest in any one issuer, along with the minimal capital strength of those issuers. There are also limits as to the use of specific types of instruments, along with limits upon use of a single institution. These limits are as follows:

Limits using capital strength test – Maximum investment is 25% of combined capital and surplus position of that financial institution.

Limits based upon use of specific instruments –

Investment Type	Limit
Bankers' acceptances	50%
Repurchase agreements	25%
U.S. government	100%
Commercial paper	60%
Money market funds, mutual funds and investment pools	50%
Certificates of deposit (bank)	50%
Certificates of deposit (credit union)	10%
Certificates of deposit (savings and loan associations)	10%

CHARTER COUNTY OF WAYNE, MICHIGAN
SEWAGE DISPOSAL SYSTEMS
NOTES TO THE BASIC FINANCIAL STATEMENTS
For the year ended September 30, 2012

(4) Cash and Investments, continued

County limits based on use of a single issuer –

<u>Investment Type</u>	<u>Limit</u>
Bankers' acceptances	25% of total portfolio
Repurchase agreement	10% of total portfolio
Certificates of deposit (bank)	33% of total portfolio
Certificates of deposit (S&L)	5% of total portfolio

At year-end, the County's investment portfolio did not exceed the limits based on use of specific instruments or use of a single issuer.

Interest Rate Risk – Interest rate risk is the risk that the value of investments will decrease as a result of a rise in interest rates. The County's investment policy addresses this risk by limiting the maturities on investments:

The County's investment policy also dictates that for operating funds, investment maturities shall be scheduled to coincide with projected cash flow needs, according to the following general guidelines:

<u>Length of Maturity</u>	<u>Percent of Portfolio (minimums)</u>
Under 30 days	10%
Under 90 days	25%
Under 270 days	50%
Under one year	100%

Investments as of September 30, 2012 adhere to the guidelines concerning limits on maturities of investments.

At year-end, the average maturities of investments subject to interest rate risk are as follows:

	<u>Fair Value (in thousands)</u>	<u>Avg. Days to Maturity</u>
Government agency bond	\$ 4,000	554
Municipal bonds	<u>53,578</u>	543
Investments subject to risk	\$ <u>57,578</u>	

Cash and investments in the pooled accounts are allocated to the respective County funds and accounts based on an internal ledger system maintained by the County Treasurer. At September 30, 2012, the Sewage Disposal System's pooled cash and investments totaled \$52 million, which is 7.6 percent of the portfolio. No pooled amounts are directly attributable to a specific bank account or investment.

CHARTER COUNTY OF WAYNE, MICHIGAN
SEWAGE DISPOSAL SYSTEMS
NOTES TO THE BASIC FINANCIAL STATEMENTS
For the year ended September 30, 2012

(5) Restricted Assets

Restricted assets total approximately \$172.6 million and represent amounts restricted for use in replacement, improvement and construction projects, bond reserves, and amounts pledged toward the payment of outstanding bonds and notes. These amounts are summarized in the table that follows.

Bond principal due from municipalities are recorded upon the issuance of debt for construction of sewage facilities and systems. Such principal will be repaid by the benefited local communities in accordance with the debt services requirements of the County.

Bond and interest redemption equity in pooled cash and investments includes both bond reserve balances and collections from current billings to communities for upcoming debt payments.

Bond reserve balances are established at bond issuance with bond proceeds. The initial establishment and balances are in accordance with bond covenants associated with each bond issue.

	Business Type Activities				Total
	Downriver	Rouge Valley	Northeast Sewage	CSO Basin	
Equity in pooled cash and investments:					
Replacements and improvements	\$ 6,924	5,328	2,271	417	\$ 14,940
Construction	550	277		1,967	2,794
Bond and interest redemption	15,868	-	(384)	2,747	18,231
Total equity in pooled cash and investments	23,342	5,605	1,887	5,131	35,965
Other cash and investments -					
Bond and interest redemption	4,181	-	-	-	4,181
Accounts receivable -					
Bond and interest redemption	11,998	-	-	2,674	14,672
Bond principal due from local units	102,342	170	1,101	14,224	117,837
Total	\$ 141,863	5,775	2,988	22,029	\$ 172,655

CHARTER COUNTY OF WAYNE, MICHIGAN
SEWAGE DISPOSAL SYSTEMS
NOTES TO THE BASIC FINANCIAL STATEMENTS
For the year ended September 30, 2012

(6) Capital Assets

Capital assets are capitalized in the fund in which they are utilized. The following summarizes changes in capital assets at September 30, 2012 (in thousands):

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Disposals</u>	<u>Ending Balance</u>
Downriver Sewage Disposal System				
Capital assets, not being depreciated:				
Land	\$ 2,427	-	-	\$ 2,427
Construction in progress	24,159	7,452	-	31,611
	<u>26,586</u>	<u>7,452</u>	<u>-</u>	<u>34,038</u>
Capital assets, being depreciated:				
Land improvements	1,367	-	-	1,367
Buildings and improvements	19,124	-	-	19,124
Machinery, equipment and vehicles	853	95	-	948
Infrastructure	363,994	248	(9)	364,233
	<u>385,338</u>	<u>343</u>	<u>(9)</u>	<u>385,672</u>
Less accumulated depreciation for:				
Land improvements	(387)	(62)	-	(449)
Buildings and improvements	(17,313)	(134)	-	(17,447)
Machinery, equipment and vehicles	(555)	(71)	-	(626)
Infrastructure	(159,575)	(13,175)	-	(172,750)
	<u>(177,830)</u>	<u>(13,442)</u>	<u>-</u>	<u>(191,272)</u>
Total capital assets being depreciated, net	<u>207,508</u>	<u>(13,099)</u>	<u>(9)</u>	<u>194,400</u>
Downriver Sewage Disposal capital assets, net	<u>\$ 234,094</u>	<u>(5,647)</u>	<u>(9)</u>	<u>\$ 228,438</u>

CHARTER COUNTY OF WAYNE, MICHIGAN
SEWAGE DISPOSAL SYSTEMS
NOTES TO THE BASIC FINANCIAL STATEMENTS
For the year ended September 30, 2012

(6) Capital Assets, continued

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Disposals</u>	<u>Ending Balance</u>
Rouge Valley Sewage Disposal System				
Capital assets, not being depreciated:				
Land	\$ 1,449	-	-	\$ 1,449
Construction in progress	18,240	2,743	-	20,983
	<u>19,689</u>	<u>2,743</u>	<u>-</u>	<u>22,432</u>
Capital assets, being depreciated:				
Buildings and improvements	9,043	-	-	9,043
Machinery, equipment and vehicles	281	-	-	281
Infrastructure	118,135	-	-	118,135
	<u>127,459</u>	<u>-</u>	<u>-</u>	<u>127,459</u>
Less accumulated depreciation for:				
Buildings and improvements	(6,321)	(272)	-	(6,593)
Machinery, equipment and vehicles	(111)	(24)	-	(135)
Infrastructure	(43,282)	(1,697)	-	(44,979)
	<u>(49,714)</u>	<u>(1,993)</u>	<u>-</u>	<u>(51,707)</u>
Total capital assets				
being depreciated, net	<u>77,745</u>	<u>(1,993)</u>	<u>-</u>	<u>75,752</u>
 Rouge Valley Sewage Disposal System				
capital assets, net	<u>\$ 97,434</u>	<u>750</u>	<u>-</u>	<u>\$ 98,184</u>

CHARTER COUNTY OF WAYNE, MICHIGAN
SEWAGE DISPOSAL SYSTEMS
NOTES TO THE BASIC FINANCIAL STATEMENTS
For the year ended September 30, 2012

(6) Capital Assets, continued

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Disposals</u>	<u>Ending Balance</u>
Northeast Sewage Disposal System				
Capital assets, not being depreciated:				
Land	\$ 11	-	-	\$ 11
Construction in progress	-	383	-	383
	<u>11</u>	<u>383</u>	<u>-</u>	<u>394</u>
Capital assets, being depreciated:				
Buildings and improvements	10,065	-	-	10,065
Machinery, equipment and vehicles	60	-	-	60
Infrastructure	<u>1,157</u>	<u>-</u>	<u>-</u>	<u>1,157</u>
	<u>11,282</u>	<u>-</u>	<u>-</u>	<u>11,282</u>
Less accumulated depreciation for:				
Buildings and improvements	(7,248)	(322)	-	(7,570)
Machinery, equipment and vehicles	(17)	(5)	-	(22)
Infrastructure	<u>(469)</u>	<u>(24)</u>	<u>-</u>	<u>(493)</u>
	<u>(7,734)</u>	<u>(352)</u>	<u>-</u>	<u>(8,085)</u>
Total capital assets being depreciated, net	<u>3,548</u>	<u>(352)</u>	<u>-</u>	<u>3,196</u>
Northeast Sewage Disposal System capital assets, net	<u>\$ 3,559</u>	<u>31</u>	<u>-</u>	<u>\$ 3,590</u>

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Disposals</u>	<u>Ending Balance</u>
CSO Basin Fund				
Capital assets, not being depreciated:				
Construction in progress	\$ -	922	-	\$ 922
CSO Basin System capital assets, net	<u>\$ -</u>	<u>922</u>	<u>-</u>	<u>\$ 922</u>

CHARTER COUNTY OF WAYNE, MICHIGAN
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(6) Capital Assets, continued

Depreciation expense was charged to the Sewage Disposal Systems as follows (in thousands):

Downriver	\$ 13,442
Rouge Valley	1,993
Northeast	<u>352</u>
	<u>\$ 15,787</u>

Construction in progress in the Sewage Disposal Systems involves various improvements. The costs expected to be incurred to complete these projects are estimated at \$75 million. These projects are expected to be funded by future contributions from federal grants, participating local governmental units, and assets restricted for improvements.

(7) Interfund Receivables and Payables

As of September 30, 2012, \$84,000, \$14,000 and \$5,000 were due to the internal service funds from the Sewage, Rouge Valley and Northeast Disposal Systems, respectively. Amounts represent reimbursement for personnel charges and services provided by the internal service funds. Additionally, \$1.6 million was due to the Delinquent Tax Revolving fund from the CSO Basin fund. This amount represents CSO Basin fund's liability for overdrawing its share of the pooled cash. Amounts due from component units in the amount of \$19,000 represent surveillance fees due from the Metro Airport.

(8) Long-Term Debt and Other Obligations

The principal and interest payments on all the sewage disposal system bonds, other than noted below, are payable from contributions of the participating local governmental units as set forth in the related sewage disposal system contracts and bond ordinances.

The County has pledged future Downriver Sewage Disposal System revenues, net of specified operating expenses, to repay the outstanding balance of \$3.7 million of Downriver Sewage Disposal System 2007D revenue bonds and \$28.5 million of State Revolving Loan fund 5217 Series 02 through 05 Bonds (collectively the "5217" bonds), payable through 2030. Annual principal and interest payments on the revenue bonds are expected to require less than 100 percent of net revenues. Principal and interest paid on the bonds for the current year and total customer net revenues were approximately \$2.3 million and \$3.7 million, respectively.

The County has pledged future Northeast Sewage Disposal System revenues, net of specified operating expenses, to repay the outstanding balance of \$1.1 million of Northeast Sewage Disposal revenue bonds, payable through 2014. Annual principal and interest payments on the bonds are expected to require less than 100 percent of net revenues. The total principal and interest remaining to be paid on the bonds is \$1.8 million. Principal and interest paid on the bonds for the current year and total customer net revenues were \$578,000 and \$578,000.

CHARTER COUNTY OF WAYNE, MICHIGAN
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For the year ended September 30, 2012

(8) Long-Term Debt and Other Obligations, continued

In September 1994, the County authorized issuance of bonds to the Michigan Municipal Bond Authority (MMBA) Revolving Loan Fund for up to \$13.0 million, for the Downriver Sewage Disposal System. Through September 30, 2012, the County received \$12.6 million from the revolving loan fund for the projects supported by these bonds.

In 1995, the County authorized additional issuance of bonds to the MMBA Revolving Loan Fund for up to \$21.4 million, for the Downriver Sewage Disposal System and CSO Basins. Through September 30, 2012, the County received \$21.3 million from the revolving loan fund.

In 1995, the County authorized the issuance of bonds to the MMBA Revolving Loan Fund up to \$5.2 million for the Rouge Valley Sewage Disposal System. Through September 30, 2012, the County received \$5.2 million from the revolving loan fund.

In 1996, the County authorized the issuance of bonds to the MMBA Revolving Loan Fund for up to \$78.8 million for the Downriver Sewage Disposal System. Through September 30, 2012, the County received \$78.0 million from the revolving loan fund.

In 1997, the County authorized the issuance of bonds to the MMBA Revolving Loan fund for up to \$84.0 million for the Downriver Sewage Disposal System. Through September 30, 2012, the County received \$82.9 million from the revolving loan fund.

In 1998, the County authorized the issuance of bonds to the MMBA Revolving Loan fund for up to \$31.3 million for the Downriver Sewage Disposal System. Through September 30, 2012, the County received \$31.1 million from the revolving loan fund.

In 1998, the County authorized the issuance of bonds to the MMBA Revolving Loan fund for up to \$425,000 for the Rouge Valley Sewage Disposal System. Through September 30, 2012, the County received \$425,000 from the revolving loan fund.

In 1999, the County authorized the issuance of bonds to the MMBA Revolving Loan fund for up to \$12.6 million for the Downriver Sewage Disposal System. An estimate amount up to \$445,000 of this issuance is designated for two communities covered under the Chapter 20 Drainage District, a component unit of the County of Wayne, and is reported under Component Unit segment of County debt. Through September 30, 2012, the County has received \$12.5 million from the revolving loan fund, of which \$426,151 is directly attributable to the Chapter 20 Drainage District bond debt.

In 2000, the County authorized additional issuance of bonds to the MMBA Revolving Loan Fund for up to \$5.1 million for the Downriver Sewage Disposal System. Through September 30, 2012, the County received \$5.1 million from the revolving loan fund.

In 2005, the County authorized additional issuance of bonds to the MMBA Revolving Loan Fund for up to \$4.7 million for the Downriver Sewage Disposal System. Through September 30, 2012, the County received \$4.7 million from the revolving loan fund.

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NOTES TO THE BASIC FINANCIAL STATEMENTS
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(8) Long-Term Debt and Other Obligations, continued

In 2008, the County authorized the issuance of bonds to the MMBA Revolving Loan Fund for up to \$32.1 million for the Series 2008 A-D revenue bonds for improvement projects to the Downriver Sewage Disposal System. Through September 30, 2012, the County received \$31.3 million from the revolving loan fund. Subsequent to September 30, 2012, the County received an additional \$13 thousand.

In 2011, the County authorized the issuance of bonds to the MMBA Revolving Loan Fund for up to \$14.1 million for the Series 2011 A revenue bonds for capital improvement projects to the Downriver Sewage Disposal System. Through September 30, 2012, the County received \$6.7 million from the revolving loan fund. Subsequent to September 30, 2012, the County received an additional \$3.6 million.

In December 2009, the Michigan Municipal Bond Authority (MMBA) approved the County's loan application for \$19.6 million for projects to upgrade and improve the Rouge Valley Sewage Disposal System. Up to forty percent of the loaned amount is forgiven under the American Recovery and Reinvestment Act of 2009 (ARRA). As of September 30, 2012, the County received \$18.9 million of MMBA bond funds for this project, \$7.82 million of which were ARRA funds.

The County recognized \$7.6 million of new debt for the Rouge Valley Disposal System. Subsequent to September 30, 2012, the County received \$65 thousand in additional funds. These loans are limited tax general obligations of the County of Wayne, but are payable from sewage revenues to be received from the communities served by the Rouge Valley Sewage Disposal System.

The County has pledged its full faith and credit on \$10.1 million of water and sewage bonds issued by local communities for various water and sewer construction activities. The obligations were paid from the revenues of the various communities' water and sewage fund operations. As of October of 2009, all principal and interest payments were made. The assets and related obligations have not been reflected within the County's financial statements for these activities.

In December 1995, the County authorized the issuance of bonds in an aggregate principal amount of \$16.3 million designated Wayne County Combined Sewer Overflow (City of River Rouge) Bonds, Series B. These bonds were used to finance construction of a combined sewer overflow control facility in the City of River Rouge to comply with the requirements of a Federal Grant and applicable National Pollutant Discharge Elimination System (NPDES) permit. The obligations are Limited Tax General Obligations of the County of Wayne, but are payable from contractual payments to be received from the City of River Rouge.

In August 2007, the County issued \$9.9 million in 2007B River Rouge CSO Basin bonds with a premium of \$425,190, through the Michigan Municipal Bond Authority's Local Government Loan Program. These bonds, with an average interest rate of 5.0 percent were issued to advance refund \$10.1 million of outstanding 1995B bonds.

In September 2011, the Michigan Finance Authority (MFA) approved a loan application under the State Revolving Loan Fund (SRF) program for improvements to the River Rouge CSO Basin. SRF Project 5433-01 was approved for the City of River Rouge's CSO Basin improvements in the amount of \$760,000 and payments will be due serially until 2032. The obligations are limited tax general obligations of the County of Wayne, but are payable from contractual payments to be received from the City of River Rouge. During the year ended September 30, 2012, the County received \$750,938. Subsequent to September 30th, the County received the final advance loan amount of \$9,062.

CHARTER COUNTY OF WAYNE, MICHIGAN
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NOTES TO THE BASIC FINANCIAL STATEMENTS
For the year ended September 30, 2012

(8) Long-Term Debt and Other Obligations, continued

In September 2011, the Michigan Finance Authority (MFA) approved a loan application under the State Revolving Loan Fund (SRF) program for improvements to the Dearborn Heights CSO Basin. SRF Project 5430-01 was approved for the City of Dearborn Heights' CSO Basin improvements in the amount of \$325,000 and payments will be due serially until 2032. The obligations are limited tax general obligations of the County of Wayne, but are payable from contractual payments to be received from the City of Dearborn Heights. During the year ended September 30, 2012, the County received \$229,018. Subsequent to September 30th, the County received an additional \$3,595.

In April 1999, the County issued \$23.1 million, Series 1999B Revenue Bonds, under the Michigan Municipal Bond Authority's Local Government Loan Program to provide resources to advance refund \$20.3 million of existing Sewage Disposal System Debt, Series 1994D, F and G, and Chapter 21 Drainage District, a component unit, Series 1993B. The proceeds of the refunding bonds were placed into an irrevocable trust to provide for all future debt service payments on the retired bonds.

As a result, the retired bonds are considered to be defeased. Accordingly, the trust account assets and liabilities for the defeased bonds are not included in the County's financial statements. This refunding was made solely to retire the refunded debt and reduce the total of future debt service payments. This bond issue is a limited tax general obligation of the County of Wayne, but is payable from contractual payments to be received from the communities participating in the respective sewage systems benefited. Should the assets in escrow not be sufficient to fund the debt service requirements, additional amounts would be required to be deposited from the respective Sewage Disposal System.

In August 1999, the County of Wayne issued the Series 1999A Refunding Bonds in the amount of \$6.5 million and the Series 1999B Bonds in the amount of \$15.0 million for the Downriver Sewage Disposal System, under the Michigan Municipal Bond Authority's Local Government Loan Program. Proceeds from the Series 1999A Bonds were used to advance refund \$6.1 million to existing Sewage Disposal System Debt, Series 1994A. Proceeds from the Series 1999B Bonds were used to finance improvements to the Downriver Sewer Disposal System.

The proceeds of the 1999A refunding bonds were placed into an irrevocable trust to provide for all future debt services payments on the retired bonds. As a result, the retired bonds are considered to be defeased. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the County financial statements. This refunding was taken solely to retire the refunded debt and reduce total future debt service payments. This bond issue is a limited tax general obligation of the County of Wayne, but is payable from contractual payments to be received from the communities participating in the respective sewage disposal systems benefited. Should the assets in escrow not be sufficient to fund the debt service requirements, additional amounts would be required to be deposited from the respective Sewage Disposal Systems.

In August 2007, the County issued Michigan Municipal Bond Authority Local Government Loan Program Revenue Bonds, Series 2007B in the amount of \$15.8 million to finance certain court ordered improvements to a sewage disposal system pursuant to a judgment to which the County and certain cities, villages and townships located in the County are subject. The obligation is secured by a limited tax full faith and credit pledge of the County and the obligation of the applicable communities to make judgment payments pursuant to the judgment.

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(8) Long-Term Debt and Other Obligations, continued

In December 2007, the County issued Michigan Municipal Bond Authority Local Government Loan Program Revenue Bonds, Series 2007D in the amount of \$4.3 million to finance improvements to the Downriver Sewage Disposal system not covered by the available State Revolving Loan funds. This obligation is secured by a limited tax full faith and credit pledge of the County, and by the contractual consent of the communities served by the Downriver System to pay all principal and interest obligations from the revenues of the System.

The annual requirements of principal and interest on the debt outstanding at September 30, 2012 are summarized as follows:

<u>Downriver Sewage Disposal System</u>		
(in thousand)		
Year Ended		
<u>30-Sep</u>	<u>Principal</u>	<u>Interest</u>
2013	\$ 16,838	\$ 4,015
2014	17,056	3,623
2015	16,652	3,181
2016	16,154	2,745
2017	16,384	2,322
2018-2022	40,776	6,590
2023-2027	17,653	2,674
2028-2030	6,766	307
Total	<u>\$ 148,279</u>	<u>\$ 25,457</u>

<u>Rouge Valley Sewage Disposal System</u>		
(in thousand)		
Year Ended		
<u>30-Sep</u>	<u>Principal</u>	<u>Interest</u>
2013	\$490	\$268
2014	505	257
2015	520	244
2016	530	231
2017	545	218
2018-2022	2,850	882
2023-2027	3,175	512
2028-2032	2,164	112
Total	<u>\$10,779</u>	<u>\$2,724</u>

<u>Northeast Sewage Disposal System</u>		
(in thousand)		
Year Ended		
<u>30-Sep</u>	<u>Principal</u>	<u>Interest</u>
2013	\$ 555	\$ 33
2014	575	17
Total	<u>\$1,130</u>	<u>\$50</u>

<u>Combined Sewer Overflow Basins</u>		
(in thousand)		
Year Ended		
<u>30-Sep</u>	<u>Principal</u>	<u>Interest</u>
2013	\$ 3,390	\$ 688
2014	3,535	540
2015	3,700	376
2016	2,895	211
2017	1,570	97
2018-2022	1,822	90
2023-2027	280	49
2028-2032	225	16
Total	<u>\$17,417</u>	<u>\$2,067</u>

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NOTES TO THE BASIC FINANCIAL STATEMENTS
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(8) Long-Term Debt and Other Obligations, concluded

The details of the long term debt for the Sewer Disposal Systems are as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Business-type activities					
General obligation bonds	\$ 152,239	\$ 3,955	\$ (18,678)	\$ 137,516	\$ 19,258
Revenue bonds	35,272	6,778	(1,960)	40,090	2,015
Claims and judgments	-	50	-	50	50
Compensated absences	312	311	(312)	311	311
Deferred amounts:					
For issuance premiums	939	-	(59)	880	59
On refunding	(919)	221	-	(698)	(220)
	<u>\$ 187,843</u>	<u>\$ 11,315</u>	<u>\$ (21,009)</u>	<u>\$ 178,149</u>	<u>\$ 21,473</u>

(9) Employee Benefits

Pension Plans

The Sewage Disposal Systems contributes to the Wayne County Employees' Retirement System (WCERS), a single-employer public employee retirement system, which is governed by the Wayne County Retirement Ordinance, as amended. The Retirement System provides five defined benefit retirement options, four of which are contributory (together, the Defined Benefit Plan) and a Defined Contribution Plan. The Retirement System provides retirement, survivor, and disability benefits to substantially all Sewage Disposal System employees. The Plan issues a publicly available financial report that is included in the Comprehensive Annual Financial Report for the County of Wayne, Michigan. Copies of financial statements for each plan can be obtained from the Wayne County Employees' Retirement System, 28 W. Adams, Suite 1900, Detroit, Michigan 48226.

The obligation to contribute to and maintain the System for these employees was established by the Wayne County Retirement Ordinance and by negotiation through collective bargaining agreements and requires a contribution from the employees of percent of gross wages contingent on the ordinance and/or collective bargaining agreements. The Sewage Disposal Systems are required to contribute to the Defined Benefit Plan at actuarially required rates, which is 39.68% for fiscal year 2012 for employees enrolled in the plan. At September 30, 2012, the Sewage Disposal Systems did not have an outstanding net pension obligation.

The Sewage Disposal Systems contribute to the Defined Contribution Plan based on matching contributions as a percent of wages specified by the Plan, ordinance and/or collective bargaining agreements for employees enrolled in the plan.

CHARTER COUNTY OF WAYNE, MICHIGAN
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For the year ended September 30, 2012

(9) Employee Benefits, concluded

The Sewage Disposal Systems contributions to the Defined Benefit and Defined Contribution Plans were approximately \$386,000 for fiscal year 2012.

(10) Other Post-employment Benefit Obligations

Plan Description. The County provides other post retirement benefits under a single-employer defined benefit plan. The plan provides hospitalization and other health insurance for Wayne County retirees under the age of 65 and their dependents, pursuant to agreements with various collective bargaining units or other actions of the Wayne County Commission or Wayne County Retirement Board. In addition, the County covers the cost of federal Medicare premiums and supplemental hospitalization for retirees over 65 and their eligible dependents. The County also pays the cost of basic retiree life insurance, up to \$5,000 per employee, on a pay as you go basis. Substantially all County employees may become eligible for benefits if they reach normal retirement age while employed by the County. This plan covers all retirees of Wayne County and Wayne County Airport Authority's pre-2002 retirees. The Plan has 3,749 employees in active service and 5,017 retired employees and beneficiaries currently receiving benefits as of September 30, 2012 with the results actuarially rolled back to October 1, 2011 on a "no gain/loss" basis. The plan does not issue separate financial statements.

In addition, the County pays for health care and insurance benefits for Airport Authority post-2002 retirees. The cost of these benefits is fully reimbursed by the Airport Authority and the County bears no responsibility for these costs. The Airport Authority funds these costs through a separate plan. The plan has 633 members (including 485 Airport Authority employees in active service and 148 retired Airport Authority employees and beneficiaries currently receiving benefits who retired after September 1, 2002).

Funding Policy. These benefits are funded on a pay-as-you-go basis. The County, including the Airport Authority, paid a total of approximately \$45.2 million for health care and retirees' life insurance benefits for the fiscal year ended September 30, 2012. There is no required contribution for the plan members.

In September 2008, the Airport Authority created an Act 149 Health Care Trust. This trust provides a funding mechanism for post-2002 retiree health, dental and life insurance coverage and other post employment benefits other than pensions. The Airport Authority began funding the trust and fully implemented GASB Statements No. 43 and No. 45 in September 2008. In September 2012 the Authority transferred these funds into a Municipal Employees Retirement System (MERS) Retiree Health Funding Vehicle, which is held in a separate reserve, but invested on a pooled basis by MERS with other governmental units. The balance as of September 30, 2012 in this restricted plan is \$16,616,007. Employees in Executive Service, GAA Executive, Local 502 and Local 3317 bargaining units are required to contribute 10 percent of the Blue Cross Blue Shield illustrative rate or 10 percent of the HAP premium. The Airport Authority has no obligation to make contributions in advance of when the costs are incurred; however, the Airport Authority's financial plan is to fund these obligations annually based upon the actuarial recommended contribution. Administrative costs of the trust are paid with employer contributions to the trust. The schedule of employer contributions for the Airport Authority as of October 1, 2010, which is the date of the most recent actuarial valuation, is presented following the notes to the basic financial statements.

CHARTER COUNTY OF WAYNE, MICHIGAN
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(10) Other Post-employment Benefit Obligations, continued

Annual OPEB Costs and Net OPEB Obligation. The County's annual other postemployment benefit (OPEB) costs (expense) is calculated based on the *annual required contribution* (ARC), an amount actuarially determined in accordance with the parameters of Governmental Accounting Standard's Board (GASB) Statement No. 45, "Accounting and financial Reporting by Employers for Postemployment Benefits Other Than Pensions". The ARC 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 (or funding excess) over a period not to exceed thirty years. The following table shows the component of the County's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the County's net OPEB obligation.

	Wayne County Pre and Post 2002 Retirees *	Airport Authority Post 2002 Retirees
Annual required contribution	\$ 86,676	\$ 5,533
Interest on net OPEB obligation (asset)	5,580	(141)
Adjustment to annual required contribution	<u>(5,544)</u>	<u>123</u>
Net OPEB cost (expense)	86,712	5,515
Contributions made		
Payments of current premiums	(45,220)	(2,248)
Advance funding	<u>-</u>	<u>(4,744)</u>
Increase (decrease) in net OPEB obligation (asset)	41,492	(1,477)
Net OPEB obligation (asset), beginning of year	<u>139,501</u>	<u>(1,768)</u>
Net OPEB obligation (asset), end of year	<u>\$ 180,993</u>	<u>\$ (3,245)</u>

Changes in the OPEB obligation for the year ended September 30, 2012 are as follows (in thousands):

	Beginning Balance	Additions	Reductions	Ending Balance
Downriver Sewage Disposal System	\$ 1,446	431	-	\$ 1,877
CSO Basins	<u>102</u>	<u>-</u>	<u>-</u>	<u>102</u>
Total OPEB Obligation	<u>\$ 1,548</u>	<u>431</u>	<u>-</u>	<u>\$ 1,979</u>

CHARTER COUNTY OF WAYNE, MICHIGAN
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(10) Other Post-employment Benefit Obligations, continued

The County's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2012 and prior years were as follows:

Three-Year Trend Information (Dollar amount in thousands)			
Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2010	\$ 87,856	44.6%	\$ 78,284
2011 ⁽¹⁾	90,504	32.4%	139,501
2012 ⁽²⁾	86,712	52.1%	180,993

(1) Excludes Airport Authority pre-2002 retirees

(2) Includes pre-2002 Airport Authority retirees

The OPEB cost attributable to the Sewage Disposal Systems for the year ended September 30, 2012 was \$430 thousand. The year-end net OPEB obligation recorded was \$1.9 million.

Annual required contributions made in fiscal year 2012 include \$141 thousand in interest earned on the prior year OPEB asset and \$154 thousand and \$80 thousand, respectively, for interest earned in 2011 and 2010.

Funding Status and Funding Progress

The funded status as of October 1, 2011 for the Wayne County plan, the date of the most recent actuarial valuation, was as follows (in thousands):

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll
10/1/2007	-	\$ 855,888	\$ 855,888	0.0%	N/A	N/A
10/1/2009	-	1,513,956	1,513,956	0.0%	N/A	N/A
10/1/2011	-	1,531,491	1,531,491	0.0%	N/A	N/A

Wayne County and the Airport Authority have a contractual agreement whereby the Airport Authority is responsible for 11.25 percent of the unfunded actuarial accrued liability in this plan. This percentage is for the coverage of the pre-2002 Airport Authority retirees.

CHARTER COUNTY OF WAYNE, MICHIGAN
SEWAGE DISPOSAL SYSTEMS
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(10) Other Post-employment Benefit Obligations, concluded

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. The schedule of funding progress, presented as required supplementary information following the notes to the basic financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

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

In the October 1, 2011 actuarial valuations for the Wayne County plan, the actuarial cost method used was the projected unit credit method with linear proration to decrement. The actuarial assumptions included a 4 percent investment rate of return, which is the rate of the expected long-term investment returns on the plans and a projected 3 percent salary increase. The plan used an annual healthcare cost trend rate of 9 percent initially, reduced to an ultimate rate of 5 percent after eight years, and a general inflation rate of 3 percent. The UAAL for the plan is being amortized on an open basis using the straight-line method (level percent of pay amortized annually) over thirty years.

(11) Commitments and Contingencies

Claims, litigation, and assessments asserted against the County, which are probable of loss and estimable in amount, are reflected in the government-wide and proprietary fund financial statements at September 30, 2012. In the governmental fund financial statements, liabilities are accrued when costs are settled and the amount is due and payable.

The County receives funds from other governmental units to finance County operations and certain grant projects. These amounts received or receivable are subject to audit and adjustment, based on compliance with applicable agreements and other regulatory requirements. Any disallowed amounts, including those already collected, may constitute a liability of the applicable fund. The amount, if any that may be disallowed by grantors or other governmental units cannot be determined at this time, although the County expects such amounts, if any, to be immaterial.

The County is a defendant in a number of other lawsuits, a party in other disputes, and subject to claims and property tax appeals, and other potential liabilities that have resulted from its activities in providing services to the citizens of Wayne County. The ultimate unrecorded effect on the County's financial statements of the resolution of these various matters is, in the opinion of management, not expected to be material.

CHARTER COUNTY OF WAYNE, MICHIGAN
SEWAGE DISPOSAL SYSTEMS
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(12) Employer Contributions

On September 20, 2010, Wayne County Commission introduced an amendment to Chapter 141 of the Wayne County Code of Ordinances, Sections 141-32 and 141-36, Inflation Equity Programs and Financial Objective, respectively. The amendment provided new guidelines for the distribution of excess funds from the Wayne County Retirement Systems' Inflation Equity Reserve (IEF) and to provide that the County's annual contribution requirement (ARC) may be reduced or eliminated for a fiscal year. The Wayne County Retirement System filed a lawsuit against the County stating that the amendment to the ordinance violated State of Michigan Constitution MCL 38.1140m.

On September 20, 2011, the State of Michigan Circuit Court for the County of Wayne, ruled in favor of the County that MCL 38.1140m does not address or prohibit the transfer of funds from the IEF reserve to meet the ARC and the amendment to the ordinance is legal as written.

For the fiscal year ended September 30, 2011, the County's required ARC obligation was \$39.7 million. As a result of the favorable ruling, the County's actual ARC payment was \$13.2 million and the remaining \$26.2 million was funded by the IEF. For the fiscal year ended September 30, 2012, the County's required ARC obligation was \$53.6 million. The County's actual ARC payment was \$47.7 million, and the remaining \$6.0 million was funded by the IEF.

(13) Subsequent Events

Management evaluated transactions and events for potential recognition and disclosure after the balance sheet date through the date of the issuance of the financial statements. No subsequent events were identified.

(14) Upcoming Reporting Changes

Statement No. 60, Accounting and Financial Reporting for Service Concession Arrangements

In November 2010, the GASB issued Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*. This Statement addresses financial reporting related to service concession arrangements (SCA) which are types of public-private or public-public partnership. An SCA is an arrangement between a transferor (a government) and an operator (whether a government or nongovernmental entity) in which the transferor conveys to an operator the right and related obligation to provide services through the use of infrastructure or another public asset in exchange for significant consideration and the operator collects and is compensated by fees from third parties. The provisions of Statement No. 60 are effective for fiscal years beginning after December 15, 2011. The County is currently evaluating the impact this standard.

Statement No. 61, The Financial Reporting Entity: Omnibus

In November 2010, the GASB issued Statement No. 61, *The Financial Reporting Entity: Omnibus, an amendment of GASB Statements No. 14 and No. 34*. The objective of this Statement is to improve financial reporting for a governmental financial reporting entity. The requirements of Statement No. 14, *The Financial Reporting Entity*, and the related financial reporting requirements of Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, were amended to better meet user needs and to address reporting entity issues that have arisen since the issuance of those statements.

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For the year ended September 30, 2012

(14) Upcoming Reporting Changes, continued

Statement No. 61 modifies certain requirements for inclusion of component units in the financial reporting entity. For organizations that previously were required to be included as component units by meeting the fiscal dependency criterion, a financial benefit or burden relationship also would need to be present between the primary government and that organization for it to be included in the reporting entity as a component unit. Further, for organizations that do not meet the financial accountability criteria, this Statement details the manner in which that determination should be made. This Statement also amends the criteria for reporting component units as if they were part of the primary government (i.e. blending) in certain circumstances. In addition, it clarifies the reporting of equity interests in legally separate organizations – by requiring a primary government to report its equity interest in a component unit as an asset. The provisions of Statement No. 61 are effective for fiscal years beginning after June 15, 2012. The County is currently evaluating the impact of this standard.

Statement No. 62, Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements

In December 2010, the GASB issued Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. This Statement incorporates into GASB literature certain accounting and financial reporting guidance issued on or before November 30, 1989 that is included in FASB Statements and Interpretation, APB Opinions, and Accounting Research Bulletins of the AICPA Committee on Accounting Procedure. The provisions of Statement No. 62 are effective for fiscal years beginning after December 15, 2011. The County is currently evaluating the impact of this standard.

Statement No. 63, Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position

In June 2011, the GASB issued Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. The Statement incorporates deferred outflows of resources and deferred inflows of resources, as defined by GASB Concepts Statement No. 4, into the definitions of the required components of the residual measure of net position, formerly net assets. This Statement also provides a new statement of net position format to report all assets, deferred outflows of resources, liabilities, deferred inflows or resources and net position. Once implemented, this Statement will impact the format and reporting of the balance sheet at the government-wide level and also at the fund level. The provisions of Statement No. 63 are effective for fiscal years beginning after December 15, 2011. The County is currently evaluating the impact of this standard.

Statement No. 65, Items Previously Reported as Assets and Liabilities

In March 2012, the GASB issued GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, which is required to be implemented for financial statements for periods beginning after December 15, 2012. Statement No. 65 establishes accounting and financial reporting standards that reclassify, as deferred outflows and inflows of resources, certain items that were previously reported as assets and liabilities. This Statement also provides other financial reporting guidance related to the impact of the financial statement elements deferred outflows of resources and deferred inflows of resources. Statement No. 65 will be implemented for the County beginning October 1, 2013.

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(14) Upcoming Reporting Changes , concluded

Statement No. 68, Accounting and Financial Reporting for Pensions

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, proprietary and discretely presented component units statements will be computed differently than the current unfunded actuarial accrued liability, using specific parameters set forth by the GASB. The Statement also enhances accountability and transparency through revised note disclosures and required supplementary information (RSI). The County 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 ended September 30, 2015.



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