

NEW ISSUE*Book-Entry-Only***Rating:** See "RATING" herein

In the opinion of Miller, Canfield, Paddock and Stone, P.L.C., Bond Counsel, under existing law, assuming compliance with certain covenants by the Issuer, (i) the interest on the Series 2018 Bonds is excludable from gross income for federal income tax purposes and (ii) the Series 2018 Bonds and the interest thereon are exempt from all taxation by the State of Michigan or by any taxing authority within the State of Michigan, except inheritance and estate taxes and taxes on gains realized from the sale, payment or other disposition thereof. See "TAX MATTERS" herein for a description of certain provisions of the Internal Revenue Code of 1986, as amended, which may affect the tax treatment of interest on the Series 2018 Bonds for certain Bondholders.



**KAREGNONDI WATER AUTHORITY
COUNTIES OF GENESEE, LAPEER AND SANILAC
STATE OF MICHIGAN**

\$65,735,000

**WATER SUPPLY SYSTEM BONDS
(KAREGNONDI WATER PIPELINE), SERIES 2018**

Dated: Date of Delivery**Principal Due: November 1, as shown on Inside Cover Page**

The Water Supply System Bonds (Karegnondi Water Pipeline), Series 2018 (the "Series 2018 Bonds") are issued under the provisions of Act 233, Public Acts of Michigan, 1955, as amended, Act 34, Public Acts of Michigan, 2001, as amended, a resolution adopted by the Board of Trustees of the Karegnondi Water Authority, Counties of Genesee, Lapeer and Sanilac, State of Michigan (the "Issuer") on December 18, 2017 and an order executed on March 22, 2018 by the Chief Executive Officer of the Issuer, approving the sale of the Series 2018 Bonds. The Series 2018 Bonds are being issued for the purpose of (i) refunding all of the Issuer's outstanding Water Supply System Bonds (Karegnondi Water Pipeline), Series 2016, (ii) paying or reimbursing the Issuer for the costs of completing the acquisition, construction and equipping of the Issuer's Water Supply System (the "KWA System"), and (iii) paying the costs of issuance of the Series 2018 Bonds. The Series 2018 Bonds are to be issued in anticipation of, and are payable as to principal and interest from, payments (the "Contractual Payments") to be made by the City of Flint and the County of Genesee (individually a "Local Unit" and collectively, the "Local Units") to the Issuer pursuant to a Financing Contract among the Issuer and the Local Units dated as of August 1, 2013, as supplemented by a First Supplement to the Financing Contract dated as of September 1, 2017 (the "KWA Financing Contract"). The Contractual Payments will be in installments that will equal the principal and interest payments on the Series 2018 Bonds and the Issuer's Water Supply System Bonds (Karegnondi Water Pipeline), Series 2014A, issued on April 16, 2014, in the principal amount of \$220,500,000 (the "Series 2014A Bonds"). The Series 2014A Bonds and the Series 2018 Bonds are equally and ratably secured by the Contractual Payments. Further, each Local Unit has pledged its limited tax full faith and credit for the payment of its Contractual Payments and is obligated, to the extent necessary, to levy ad valorem taxes on all taxable property within its boundaries for such purpose, subject to applicable constitutional, statutory and charter tax limitations. Each Local Unit is expected to make its Contractual Payments from revenues collected from charges imposed on the customers of its respective water supply system. The County of Genesee, pursuant to the terms of the KWA Financing Contract, has pledged to make all payments that the City of Flint fails to make to the Issuer under the KWA Financing Contract. The Issuer has irrevocably pledged the Contractual Payments for the payment of the principal of and interest on the Series 2018 Bonds and the Series 2014A Bonds. See "SECURITY" and "KAREGNONDI WATER AUTHORITY SYSTEM – Long-Term Water Supply Arrangements for Flint" herein.

The Series 2018 Bonds are issuable only as fully registered bonds without coupons, and when issued, will be registered in the name of Cede & Co., as Bondholder and nominee for The Depository Trust Company ("DTC"), New York, New York. DTC will act as securities depository for the Series 2018 Bonds. Purchases of beneficial interests in the Series 2018 Bonds will be made in book-entry-only form, in the denominations of \$5,000 or any integral multiple thereof. Purchasers will not receive certificates representing their beneficial interest in bonds purchased. So long as Cede & Co. is the Bondholder, as nominee of DTC, references herein to the Bondholders or registered owners shall mean Cede & Co., as aforesaid, and shall not mean the Beneficial Owners of the Series 2018 Bonds. See *APPENDIX H – BOOK-ENTRY-ONLY SYSTEM* herein.

Interest on the Series 2018 Bonds will be payable semiannually on May 1 and November 1 of each year commencing on November 1, 2018. The Series 2018 Bonds will be registered bonds, of the denomination of \$5,000 or multiples thereof not exceeding for each maturity the principal amount of such maturity. The principal and interest shall be payable at the corporate trust office of The Huntington National Bank, Grand Rapids, Michigan or such other transfer agent as the Issuer may hereafter designate by notice mailed to the registered owner not less than sixty (60) days prior to any interest payment date (the "Transfer Agent"). Interest shall be paid when due by check mailed to the registered owner as shown by the registration books as of the fifteenth day of the month preceding the payment date for each interest payment. Payment of principal and interest to Beneficial Owners shall be made as described in *APPENDIX H – BOOK-ENTRY-ONLY SYSTEM* herein.

The Series 2018 Bonds are subject to redemption prior to maturity, as described herein.

The Series 2018 Bonds are offered when, as and if issued by the Issuer and subject to receipt of the approving opinion of Miller, Canfield, Paddock and Stone, P.L.C., Detroit, Michigan, Bond Counsel. Certain legal matters will be passed upon for the City of Flint by its special counsel, Lewis & Munday, A Professional Corporation, Detroit, Michigan, and for the Underwriters by their counsel, Dickinson Wright PLLC, Troy and Lansing, Michigan. It is expected that delivery of the Series 2018 Bonds through DTC will be made in New York, New York on or about April 10, 2018.

THIS COVER PAGE CONTAINS CERTAIN INFORMATION FOR QUICK REFERENCE ONLY. IT IS NOT A SUMMARY OF THIS ISSUE. INVESTORS MUST READ THE ENTIRE OFFICIAL STATEMENT TO OBTAIN INFORMATION ESSENTIAL TO THE MAKING OF AN INFORMED INVESTMENT DECISION.

J.P. Morgan**Stifel, Nicolaus & Company, Incorporated**

Dated: March 22, 2018

MATURITY SCHEDULE

WATER SUPPLY SYSTEM BONDS (KAREGNONDI WATER PIPELINE), SERIES 2018

**SERIAL BONDS
(Base CUSIP[§]:48563U)**

<u>Year</u>	<u>Amount</u>	<u>Interest Rate</u>	<u>Yield</u>	<u>CUSIP[§]</u>	<u>Year</u>	<u>Amount</u>	<u>Interest Rate</u>	<u>Yield</u>	<u>CUSIP[§]</u>
2018	\$1,115,000	3.000%	1.820%	BD2	2028	\$1,835,000	5.000%	3.280%*	BP5
2019	\$1,195,000	4.000%	1.920%	BE0	2029	\$1,925,000	5.000%	3.370%*	BQ3
2020	\$1,240,000	5.000%	2.050%	BF7	2030	\$2,020,000	5.000%	3.440%*	BR1
2021	\$1,305,000	5.000%	2.250%	BG5	2031	\$2,120,000	5.000%	3.480%*	BS9
2022	\$1,370,000	5.000%	2.460%	BH3	2032	\$2,230,000	5.000%	3.510%*	BT7
2023	\$1,435,000	5.000%	2.630%	BJ9	2033	\$2,340,000	5.000%	3.560%*	BU4
2024	\$1,510,000	5.000%	2.790%	BK6	2034	\$2,455,000	5.000%	3.600%*	BV2
2025	\$1,585,000	5.000%	2.940%	BL4	2035	\$2,580,000	5.000%	3.640%*	BW0
2026	\$1,665,000	5.000%	3.060%	BM2	2036	\$2,710,000	5.000%	3.670%*	BX8
2027	\$1,745,000	5.000%	3.180%	BN0	2037	\$2,845,000	5.000%	3.700%*	BY6

TERM BONDS

<u>Year</u>	<u>Amount</u>	<u>Interest Rate</u>	<u>Yield</u>	<u>CUSIP[§]</u>
2041	\$12,870,000	5.000%	3.760%*	BZ3
2045	\$15,640,000	5.000%	3.790%*	CA7

*Yield to the November 1, 2027 first call date

[§] Registered trademark of American Bankers Association. CUSIP numbers are provided by CUSIP Global Services, which is managed on behalf of the American Bankers Association by S&P Capital IQ. The CUSIP numbers listed above are being provided solely for the convenience of Bondholders only at the time of issuance of the Series 2018 Bonds and the Issuer does not make any representation with respect to such number or undertake any responsibility for its accuracy now or at any time in the future. The CUSIP number for a specific maturity is subject to being changed after the issuance of the Series 2018 Bonds as a result of various subsequent actions including, but not limited to, a refunding in whole or in part of such maturity.

KAREGNONDI WATER AUTHORITY

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Jeffrey Wright

PROFESSIONAL SERVICES

TRANSFER AGENT *The Huntington National Bank*

BOND COUNSEL *Miller, Canfield, Paddock and Stone, P.L.C.*

SPECIAL COUNSEL TO THE CITY OF FLINT *Lewis & Munday, A Professional Corporation*

UNDERWRITERS' COUNSEL..... *Dickinson Wright PLLC*

MUNICIPAL ADVISOR *PFM Financial Advisors LLC*

* Kevin Sylvester replaced Marsha Binelli at the Board's December 18, 2017 meeting. Lisa Anderson will replace Kevin Sylvester, and Scott Bennett will replace Marilyn Hoffman, at the Board's next meeting on June 20, 2018.

No dealer, broker, salesman or other person has been authorized by the Issuer to give any information or to make any representations, other than those contained in this Official Statement, and, if given or made, such other information or representations must not be relied upon as having been authorized by the Issuer. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy, nor shall there be any sale of the Series 2018 Bonds by any person in any jurisdiction in which it is unlawful for such person to make such offer, solicitation or sale. The information set forth in this Official Statement has been obtained from the Issuer, the County of Genesee, the City of Flint and other sources which are believed to be reliable, including The Depository Trust Company with respect to the information contained in APPENDIX H – BOOK-ENTRY-ONLY SYSTEM, but is not guaranteed as to accuracy or completeness by, and is not to be construed as a representation by, the Issuer. The information and expressions of opinion in this Official Statement are subject to change without notice, and neither the delivery of this Official Statement nor any sale made under this Official Statement shall, under any circumstances, create any implication that there has been no change in the affairs of the parties referred to above or that the other information or opinions are correct as of any time subsequent to the date of this Official Statement. The Transfer Agent has not participated in the preparation of this Official Statement and assumes no responsibility for it.

The Underwriters have provided the following sentence for inclusion in this Official Statement. The Underwriters have reviewed the information in this Official Statement in accordance with, and as part of, their respective responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriters do not guarantee the accuracy or completeness of such information.

IN MAKING AN INVESTMENT DECISION INVESTORS MUST RELY ON THEIR OWN EXAMINATION OF THE ISSUER AND THE TERMS OF THE OFFERING, INCLUDING THE MERITS AND RISKS INVOLVED. THESE SECURITIES HAVE NOT BEEN RECOMMENDED BY ANY FEDERAL OR STATE SECURITIES COMMISSION OR REGULATORY AUTHORITY. FURTHERMORE, THE FOREGOING AUTHORITIES HAVE NOT CONFIRMED THE ACCURACY OR DETERMINED THE ADEQUACY OF THIS DOCUMENT. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

IN CONNECTION WITH THIS OFFERING, THE UNDERWRITERS MAY OVER-ALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF THE SERIES 2018 BONDS AT A LEVEL ABOVE THOSE WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

This Official Statement contains forward-looking statements, which can be identified by the use of the future tense or other forward-looking terms such as “may,” “intend,” “will,” “expect,” “anticipate,” “plan,” “management believes,” “estimate,” “continue,” “should,” “strategy,” or “position” or the negatives of those terms or other variations of them or by comparable terminology. In particular, any statements express or implied, concerning future revenues or the ability to generate cash flow to service indebtedness are forward-looking statements. Investors are cautioned that reliance on any of those forward-looking statements involves risks and uncertainties and that, although the Issuer’s management believes that the assumptions on which those forward-looking statements are based are reasonable, any of those assumptions could prove to be inaccurate. As a result, the forward-looking statements based on those assumptions also could be incorrect, and actual results may differ materially from any results indicated or suggested by those assumptions. In light of these and other uncertainties, the inclusion of a forward-looking statement in this Official Statement should not be regarded as a representation by the Issuer that its plans and objectives will be achieved. All forward-looking statements are expressly qualified by the cautionary statements contained in this paragraph. The Issuer undertakes no duty to update any forward-looking statements.

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OFFICIAL STATEMENT

KAREGNONDI WATER AUTHORITY COUNTIES OF GENESEE, LAPEER AND SANILAC STATE OF MICHIGAN

\$65,735,000 WATER SUPPLY SYSTEM BONDS (KAREGNONDI WATER PIPELINE) SERIES 2018

INTRODUCTION

The purpose of this Official Statement, which includes the cover page and Appendices, is to furnish information in connection with the issuance and sale by the Karegnondi Water Authority, Counties of Genesee, Lapeer and Sanilac, State of Michigan (the “Issuer”) of its Water Supply System Bonds (Karegnondi Water Pipeline), Series 2018 (the “Series 2018 Bonds”) in the aggregate principal amount of \$65,735,000.

The Issuer was incorporated in October, 2010 pursuant to the provisions of Act 233, Public Acts of Michigan, 1955, as amended (“Act 233”), by the County of Genesee (“Genesee”), the County of Lapeer, the County of Sanilac, the City of Flint (“Flint”) and the City of Lapeer for the purpose of acquiring, owning, operating and maintaining a new water supply system (the “KWA System”) to supply untreated water to the Issuer’s contracting members. In order to finance the costs of acquiring, constructing and equipping the KWA System, the Issuer has previously issued its Water Supply System Bonds (Karegnondi Water Pipeline), Series 2014A on April 14, 2014 in the principal amount of \$220,500,000 (the “Series 2014A Bonds”) and its Water Supply System Bonds (Karegnondi Water Pipeline), Series 2016 on June 10, 2016 in the principal amount of \$74,370,000 (the “Series 2016 Bonds”).

The Series 2018 Bonds are authorized and will be issued under the provisions of Act 233, Act 34, Public Acts of Michigan, 2001, as amended, a resolution adopted by the Board of Trustees of the Issuer on December 18, 2017 (the “Resolution”), and an order executed on March 22, 2018 by the Chief Executive Officer of the Issuer, approving the sale of the Series 2018 Bonds. The Series 2018 Bonds are being issued for the purpose of (i) refunding all of the Issuer’s outstanding Series 2016 Bonds, (ii) paying or reimbursing the Issuer for all remaining costs of completing the acquisition, construction and equipping of the KWA System, and (iii) paying the costs of issuance of the Series 2018 Bonds.

The Issuer has entered into two separate water purchase contracts to supply untreated water, each with an effective date of October 1, 2013. Under a contract with the Genesee County Drain Commissioner, as County Agency of Genesee, on behalf of Genesee (the “Genesee Water Purchase Contract”), Genesee has the right to the delivery and use of up to 42 million gallons per day of untreated water. The KWA System is currently providing untreated water to Genesee as its primary water source pursuant to the Genesee Water Purchase Contract. Under a contract with Flint (the “Flint Water Purchase Contract”), Flint has the right to the delivery and use of up to 18 million gallons per day of untreated water. Under a long-term water supply contract entered into by Flint and the Great Lakes Water Authority (“GLWA”) as of December 1, 2017

(the “GLWA Water Service Contract”), GLWA will supply Flint with treated water as its primary water source for an initial period of 30 years. Pursuant to the terms of the GLWA Water Service Contract, Flint has granted to GLWA certain rights of Flint under the Flint Water Purchase Contract to untreated water from the KWA System.

In the past, Genesee and Flint (individually a “Local Unit” and collectively, the “Local Units”) received finished water from GLWA pursuant to separate water supply arrangements. Genesee received its water from GLWA as a non-contract customer from January, 2016 to December, 2017. Flint had been a customer of Detroit Water and Sewerage Department (“DWSD”) from December, 1965 to May 1, 2014, when it ended its contractual relationship with DWSD and began pumping water from the Flint River and treating such water at its water treatment plant before distributing finished water to its customers. The water from the Flint River caused Flint to experience water quality problems, and in October, 2015, Flint entered into a short-term water supply contract with DWSD and began receiving finished water from DWSD’s water system again. This contract was assumed by GLWA as successor to DWSD as of January 1, 2016. Initially, the Local Units participated in the establishment of the Issuer in order to have a more reliable supply of water at rates that they expected ultimately to be less than what would otherwise be payable to DWSD. Genesee has completed its transition to the KWA System as planned and has received regulatory approval of certain essential facilities of the Genesee System (as hereinafter defined). As described above, Flint has recently entered into the GLWA Water Service Contract with GLWA that provides for GLWA to supply treated water to Flint for an initial 30-year period, and has granted to GLWA certain rights of Flint under the Flint Water Purchase Contract to untreated water from the KWA System. For a description of the KWA System and the arrangements for water supply for each Local Unit, see the heading “KAREGNONDI WATER AUTHORITY SYSTEM – Water Supply Arrangements for Genesee” and “– Long-Term Water Supply Arrangements for Flint” herein.

SECURITY

Contractual Payments

The Series 2018 Bonds are being issued in anticipation of, and are payable as to principal and interest from, payments (the “Contractual Payments”) to be made by the Local Units to the Issuer pursuant to the Karegnondi Water Authority Financing Contract among the Issuer and the Local Units dated as of August 1, 2013, as supplemented by a First Supplement to the Financing Contract dated as of September 1, 2017 (the “KWA Financing Contract”). The Contractual Payments will be in installments that will equal the principal and interest payments on the Series 2014A Bonds and the Series 2018 Bonds. The Series 2014A Bonds and the Series 2018 Bonds (collectively, the “KWA System Bonds”) are equally and ratably secured by the Contractual Payments. Further, each Local Unit has pledged its limited tax full faith and credit for the payment of its Contractual Payments and is obligated, to the extent necessary, to levy ad valorem taxes on all taxable property within its boundaries for such purpose, subject to applicable constitutional, statutory and charter tax limitations as to rate and amount. After credit is given to Genesee for payment of the principal of and interest on the Genesee Bonds (as described herein under the heading “KAREGNONDI WATER AUTHORITY SYSTEM – KWA System Facilities”), Genesee is responsible for paying approximately 65.8% of the principal of and interest due on the KWA System Bonds, including the Series 2018 Bonds, and Flint is responsible for paying approximately 34.2% of the principal of and interest on the KWA System

Bonds, including the Series 2018 Bonds. In addition, pursuant to the KWA Financing Contract, if Flint fails to make any of its Contractual Payments when due, Genesee is obligated to make such Contractual Payments within fifteen (15) days of being notified of Flint's failure to pay. Further, the KWA Financing Contract obligates the Issuer to undertake all legal action and make use of all remedies available under the KWA Financing Contract to enforce the payment obligations of Flint under the KWA Financing Contract. The Issuer has irrevocably pledged the Contractual Payments for the payment of the principal of and interest on the KWA System Bonds, including the Series 2018 Bonds.

Each Local Unit expects to make its Contractual Payments from revenues collected from charges imposed on the customers of its respective water supply system. The water supply system of Genesee is hereinafter referred to as the "Genesee System" and the water supply system of Flint is hereinafter referred to as the "Flint System."

The rights or remedies of Bondholders may be affected by bankruptcy, insolvency, fraudulent conveyance or other laws affecting creditors' rights generally, now existing or hereafter enacted, and by the application of general principles of equity, including those relating to equitable subordination.

A copy of the KWA Financing Contract is included as APPENDIX I. For additional information on Genesee, see APPENDIX B and APPENDIX C hereto, and for additional information on Flint, see APPENDIX D and APPENDIX E hereto.

Debt Retirement Fund and Debt Service Reserve Account

The Issuer has established a Debt Retirement Fund for the KWA System Bonds, and within the Debt Retirement Fund has established a Debt Service Reserve Account. All Contractual Payments as received are required to be deposited in the Debt Retirement Fund and used to pay the principal of and interest on the KWA System Bonds, including the Series 2018 Bonds. The Debt Service Reserve Account has been funded from the proceeds of the Series 2014A Bonds and the Series 2016 Bonds. Upon issuance of the Series 2018 Bonds, a portion of the funds on deposit in the Debt Service Reserve Account, together with a portion of the proceeds of the Series 2018 Bonds, will be used to effect the refunding of the Series 2016 Bonds, and the amount held in the Debt Service Reserve Account will be reduced to an amount equal to \$19,650,537.50. Such amount is equal to the lesser of (1) maximum annual principal and interest requirements during any calendar year on the KWA System Bonds then outstanding, (2) ten percent (10%) of the original principal amount of the KWA System Bonds, and (3) one hundred twenty-five percent (125%) of the average annual principal and interest requirements during any calendar year on the KWA System Bonds then outstanding (the "Reserve Account Requirement"). Moneys in the Debt Service Reserve Account shall be used solely for the payment of the principal of and interest on the KWA System Bonds, including the Series 2018 Bonds, when due whenever and to the extent that the Contractual Payments being held by the Issuer shall be insufficient for such purposes.

There shall be credited to the Debt Service Reserve Account beginning on the first day of the month following any month in which the amount in the Debt Service Reserve Account shall be less than an amount equal to the Reserve Account Requirement as a result of the failure of a Local Unit to pay its Contractual Payments, and continuing on the first day of each month

thereafter, an amount equal to one-thirty-sixth (1/36) of any deficit therein, until the amount on deposit is equal to the Reserve Account Requirement; however, if the amount on deposit in the Debt Service Reserve Account is less than 100% of the Reserve Account Requirement as a result of investment losses with respect to the Debt Service Reserve Account, commencing on the first day of the month following such evaluation, and continuing on the first day of each month thereafter, there shall be credited to the Debt Service Reserve Account an amount equal to one-fourth (1/4) of the amount necessary to restore the Debt Service Reserve Account to 100% of the Reserve Account Requirement, until the amount on deposit in the Debt Service Reserve Account shall equal 100% of the Reserve Account Requirement. Further, if a Local Unit fails to pay its Contractual Payment causing a shortfall and the Debt Service Reserve Account is drawn upon to pay the KWA System Bonds, including Series 2018 Bonds, the replenishment of such Debt Service Reserve Account shall be an obligation of the Local Unit that failed to pay such Contractual Payment, in the manner described in the preceding sentence; provided, however, if Flint fails to fulfill its obligation to replenish the Debt Service Reserve Account, as with the failure to make Contractual Payments under the KWA Financing Contract, Genesee has agreed in the KWA Financing Contract to make such payments.

PLAN OF FINANCE

Refunding of Series 2016 Bonds

The Series 2016 Bonds were issued for the purposes of financing a portion of the costs of acquiring, constructing and equipping the KWA System. A portion of the proceeds of the Series 2018 Bonds, together with funds to be released from the Debt Service Reserve Account upon issuance of the Series 2018 Bonds, will be used to currently refund the \$74,370,000 outstanding principal amount of the Series 2016 Bonds on the date of delivery of the Series 2018 Bonds. The Series 2016 Bonds will be redeemed at a redemption price equal to par, plus accrued interest to the redemption date.

New Money

A portion of the proceeds of the Series 2018 Bonds will be used to pay or reimburse the Issuer for all remaining costs of completing the acquisition, construction and equipping of the KWA System.

ESTIMATED SOURCES AND USES OF FUNDS

Sources of Funds

Par amount of Series 2018 Bonds	\$65,735,000.00
Original Issue Premium	6,983,918.70
Release of Funds from	
Debt Service Reserve Account	<u>5,224,828.81</u>
Total Sources	<u>\$77,943,747.51</u>

Use of Funds

Redemption of Series 2016 Bonds	\$74,370,000.00
Deposit to Construction Fund	3,000,000.00
Costs of Issuance	239,156.36
Underwriters' Discount	<u>334,591.15</u>
Total Uses	<u>\$77,943,747.51</u>

THE SERIES 2018 BONDS

The Series 2018 Bonds will be dated the date of delivery thereof, will bear interest from the date of delivery at the rates and will mature in the amounts and on the dates set forth on the inside cover page of this Official Statement and will be subject to redemption prior to maturity as described below. Interest on the Series 2018 Bonds will be payable semiannually on May 1 and November 1 of each year commencing on November 1, 2018. Interest on the Series 2018 Bonds shall be computed using a 360-day year and twelve 30-day months.

The Series 2018 Bonds will be issued as fully registered Bonds as described in APPENDIX H – BOOK-ENTRY-ONLY SYSTEM. Subject to the provisions for the book-entry system, the principal of and any redemption premium on the Series 2018 Bonds will be payable upon surrender thereof at the designated office of the Transfer Agent, and interest will be payable by check or draft mailed by the Transfer Agent to the registered owners of the Series 2018 Bonds as shown on the registration books of the Issuer maintained by the Transfer Agent as of the close of business on the fifteenth day of the calendar month preceding the month in which the interest payment is due. The Transfer Agent also may pay interest on Series 2018 Bonds by wire transfer or such other method as is acceptable to the Transfer Agent and the Bondholder to whom payment is being made.

PRIOR REDEMPTION OF SERIES 2018 BONDS

Optional Redemption

Series 2018 Bonds maturing in the years 2018 to 2027, inclusive, shall not be subject to redemption prior to maturity. Series 2018 Bonds or portions of Series 2018 Bonds in multiples of \$5,000 maturing in the year 2028 and thereafter shall be subject to redemption prior to maturity, at the option of the Issuer, in any order of maturity and by lot within any maturity, on

any date on or after November 1, 2027, at par and accrued interest to the date fixed for redemption.

Mandatory Redemption of Term Bonds

The Series 2018 Bonds maturing in the years 2041 and 2045 (the “Term Bonds”) shall be subject to annual mandatory redemption on November 1 of the following years and in the following amounts, at par, plus accrued interest to the date of mandatory redemption.

<u>Redemption Dates</u>	<u>Principal Amounts</u>
November 1, 2038	\$2,985,000
November 1, 2039	\$3,135,000
November 1, 2040	\$3,295,000
November 1, 2041 (Maturity)	<u>\$3,455,000</u>
TOTAL	12,870,000

<u>Redemption Dates</u>	<u>Principal Amounts</u>
November 1, 2042	\$3,630,000
November 1, 2043	\$3,810,000
November 1, 2044	\$4,000,000
November 1, 2045 (Maturity)	<u>\$4,200,000</u>
TOTAL	15,640,000

When Term Bonds of a maturity are purchased by the Issuer and delivered to the Transfer Agent for cancellation or are redeemed in a manner other than by mandatory redemption, the principal amount of Term Bonds of such maturity shall be reduced by the principal amount of the Term Bonds so purchased or redeemed in the order determined by the Issuer.

In case less than the full amount of an outstanding Series 2018 Bond is called for redemption, the Transfer Agent, upon presentation of the Series 2018 Bond called for redemption, shall register, authenticate and deliver to the registered owner of record a new Series 2018 Bond in the principal amount of the portion of the original Series 2018 Bond not called for redemption.

Notice of redemption shall be given to the registered owner of any Series 2018 Bond or portion thereof called for redemption by mailing of such notice not less than thirty (30) days prior to the date fixed for redemption to the registered address of the registered owner of record. A Series 2018 Bond or portion thereof so called for redemption shall not bear interest after the date fixed for redemption, whether presented for redemption or not, provided funds are on hand with the Transfer Agent to redeem said Series 2018 Bond or portion thereof.

DEBT SERVICE SCHEDULE

The following schedule sets forth the principal and interest payable with respect to the KWA System Bonds.

Year Ended 12/31	Series 2014A Bonds		Series 2018 Bonds		Total P&I
	Principal	Interest	Principal	Interest	
2018	\$4,275,000	\$10,962,237.50	\$1,115,000	\$1,815,979.17	\$18,168,216.67
2019	4,475,000	10,761,487.50	1,195,000	3,219,050.00	19,650,537.50
2020	4,655,000	10,577,737.50	1,240,000	3,171,250.00	19,643,987.50
2021	4,870,000	10,364,987.50	1,305,000	3,109,250.00	19,649,237.50
2022	5,075,000	10,161,487.50	1,370,000	3,044,000.00	19,650,487.50
2023	5,325,000	9,907,737.50	1,435,000	2,975,500.00	19,643,237.50
2024	5,595,000	9,641,487.50	1,510,000	2,903,750.00	19,650,237.50
2025	5,875,000	9,361,737.50	1,585,000	2,828,250.00	19,649,987.50
2026	6,165,000	9,067,987.50	1,665,000	2,749,000.00	19,646,987.50
2027	6,475,000	8,759,737.50	1,745,000	2,665,750.00	19,645,487.50
2028	6,815,000	8,419,800.00	1,835,000	2,578,500.00	19,648,300.00
2029	7,175,000	8,062,012.50	1,925,000	2,486,750.00	19,648,762.50
2030	7,550,000	7,685,325.00	2,020,000	2,390,500.00	19,645,825.00
2031	7,945,000	7,288,950.00	2,120,000	2,289,500.00	19,643,450.00
2032	8,365,000	6,871,837.50	2,230,000	2,183,500.00	19,650,337.50
2033	8,800,000	6,432,675.00	2,340,000	2,072,000.00	19,644,675.00
2034	9,200,000	6,036,675.00	2,455,000	1,955,000.00	19,646,675.00
2035	9,680,000	5,553,675.00	2,580,000	1,832,250.00	19,645,925.00
2036	10,190,000	5,045,475.00	2,710,000	1,703,250.00	19,648,725.00
2037	10,725,000	4,510,500.00	2,845,000	1,567,750.00	19,648,250.00
2038	11,290,000	3,947,437.50	2,985,000	1,425,500.00	19,647,937.50
2039	11,880,000	3,354,712.50	3,135,000	1,276,250.00	19,645,962.50
2040	12,505,000	2,731,012.50	3,295,000	1,119,500.00	19,650,512.50
2041	13,160,000	2,074,500.00	3,455,000	954,750.00	19,644,250.00
2042	13,820,000	1,416,500.00	3,630,000	782,000.00	19,648,500.00
2043	14,510,000	725,500.00	3,810,000	600,500.00	19,646,000.00
2044	--	--	4,000,000	410,000.00	4,410,000.00
2045	--	--	4,200,000	210,000.00	4,410,000.00
TOTAL	\$216,395,000	\$179,723,212.50	\$65,735,000	\$56,319,279.17	\$518,172,491.67

KAREGNONDI WATER AUTHORITY SYSTEM

KWA Water Purchase Contracts

The Issuer has agreed to supply metered, untreated water to each contracting member. The actual cost for appurtenances and maintenance of the KWA System will be allocated based on water sold and each contracting member will be responsible for its proportional share of the cost. Each contracting member will be responsible for treating and distributing treated water to its individual customers.

The Issuer has entered into two separate water purchase contracts to supply untreated water, each with an effective date of October 1, 2013. Under a contract with the Genesee County Drain Commissioner, as County Agency of Genesee under Act 342, Public Acts of Michigan, 1939, as amended (the "County Agency"), on behalf of Genesee (the "Genesee Water Purchase

Contract”), Genesee has the right to the delivery and use of up to 42 million gallons per day (“mgd”) of untreated water. Under a contract with Flint (the “Flint Water Purchase Contract”), Flint has the right to the delivery and use of up to 18 mgd of untreated water. The charges payable by the County Agency and Flint to the Issuer under the Genesee Water Purchase Contract and the Flint Water Purchase Contract, respectively, are broken down into two distinct portions: an annual fixed or capital fee and an annual commodity or operations and maintenance fee. Each contracting party is responsible for the annual fixed fee regardless of the amount of water taken. The County Agency and Flint expect to continue paying such charges from the revenues of their respective water supply systems as an operation and maintenance expense. While the Flint Water Purchase Contract remains in effect, the performance of the obligations thereunder by Flint has been impacted by a number of inter-related agreements entered into among the Issuer, Flint, the County Agency and GLWA in connection with the execution of the GLWA Water Service Contract for a long-term water supply for Flint, as described under the subheading “*Long-Term Water Supply Arrangements for Flint*” below. However, such agreements do not alter, modify or amend in any respect the terms of the KWA Financing Contract or the obligation of Flint to make Contractual Payments to the Issuer at the times and in the amounts required by the terms of the KWA Financing Contract, as described above under the heading “SECURITY.”

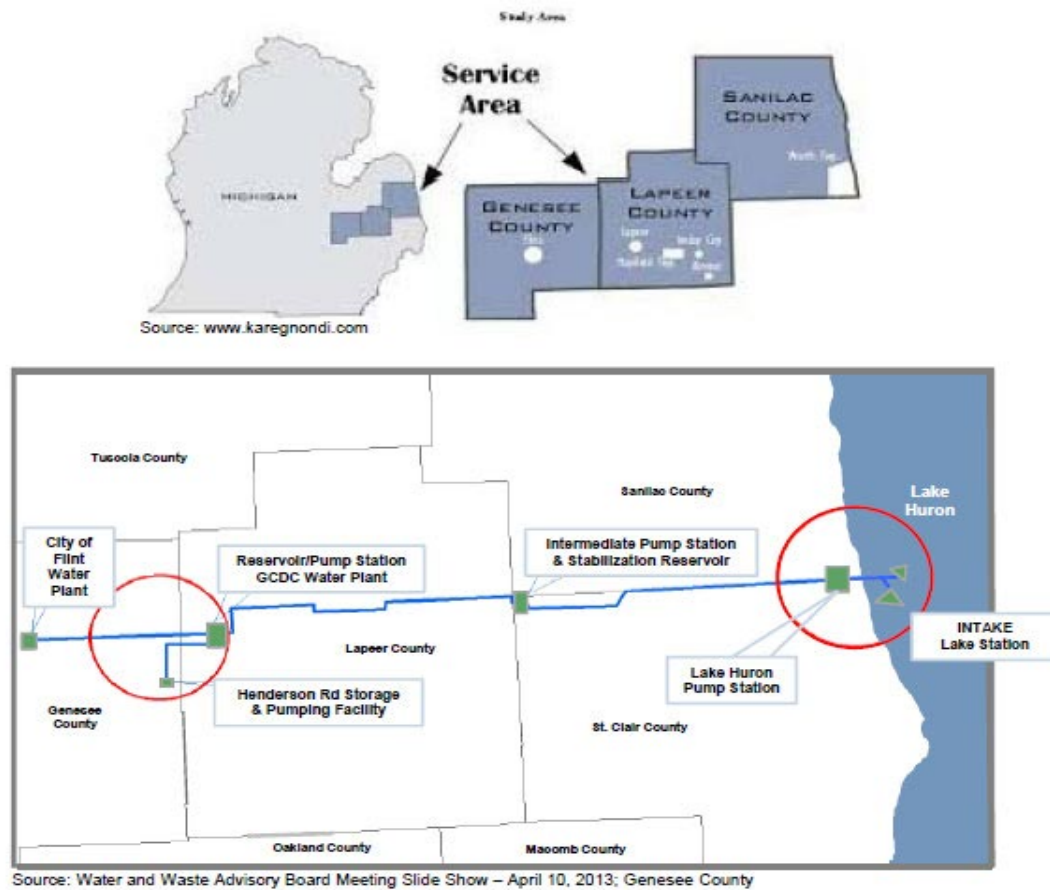
The size of the KWA System was based on the volumes of water identified in the Genesee Water Purchase Contract and the Flint Water Purchase Contract (collectively, the “KWA Water Purchase Contracts”), and any additional water purchase contracts entered into with additional parties, up to a maximum of 85 mgd, the Issuer’s permit limit. The other members of the Issuer had until October 16, 2013 to enter into a water purchase contract with the Issuer at the same rates set forth in the KWA Water Purchase Contracts. No additional water purchase contracts were entered into on or before such date, and as a result, any member of the Issuer electing to enter into a water purchase contract with the Issuer at a future date will pay any incremental costs associated with accommodating its water purchase contract.

KWA System Facilities

To supply water to its contracting members, the Issuer constructed a lake intake on Lake Huron, approximately 63 miles of pipe from the intake to Flint and 3 pump stations, one of which is located near the intake facility. Such facilities collectively constitute the KWA System, construction of which is complete. The KWA System became operational as of July 1, 2017, required testing has been completed, and the Issuer is delivering water to the County Agency pursuant to the Genesee Water Purchase Contract.

The KWA System withdraws water from Lake Huron and pumps it to a standpipe in Lynn Township in St. Clair County. From there, the water is pumped to a site in Oregon Township in Lapeer County, approximately 14 miles east of Flint. That site contains a 125 million gallon earthen impoundment and Genesee’s new water treatment plant (discussed below). The impoundment and water treatment plant are owned by Genesee and operated by the County Agency. A third pump station, also known as the “Westside Pump Station,” is capable of pumping untreated water to Flint. Figure 1 shows the location of the KWA System facilities and the Genesee treatment plant and impoundment.

Figure 1



The intake facility and the site therefor (the “Genesee Project”) were financed through the issuance of bonds by Genesee in the principal amount of \$35,000,000 in October, 2013 (the “Genesee Bonds”), with the understanding that Genesee would make the Genesee Project available to the Issuer for use by the Issuer as part of the KWA System. The lake intake is completed and operational. Genesee has made the Genesee Project available to the Issuer, and the Genesee Project is being used by the Issuer. Genesee is solely responsible for paying the principal of and interest on the Genesee Bonds from the net revenues derived from the users of the Genesee System and Genesee has pledged its limited tax full faith and credit as additional security for the Genesee Bonds.

The KWA System’s lake intake facility, including its Lake Huron Pump Station, is located on 40 acres of land with 100 feet of frontage on Lake Huron in Sanilac County. The KWA System’s standpipe and Intermediate Pump Station are located on another 40 acres of land on the northwest corner of Martin Road and Hull Road in Lynn Township in St. Clair County. Genesee’s new water treatment plant, impoundment, and the Westside Pump Station are located on approximately 80 acres of land on the northeast corner of Marathon Road and Stanley Road in Oregon Township in Lapeer County.

The County Agency holds a permit from the Michigan Department of Environmental Quality (“MDEQ”) authorizing the withdrawal of up to 85 mgd from Lake Huron. Such permit will not need to be renewed at any time while the KWA System Bonds are outstanding.

Construction of the Westside Pump Station and Genesee’s new water treatment plant are complete. Currently, the KWA System is delivering raw water to Genesee’s new treatment plant. Testing of Genesee’s new treatment plant was completed in November, 2017 and the treatment plant became fully operational at that time. The Westside Pump Station will be utilized as part of the KWA System and the Genesee System, and a portion of the costs to construct the Westside Pump Station has been allocated to both the KWA System and the Genesee System. The Westside Pump Station was brought online at the same time as Genesee’s water treatment plant.

The construction costs for the KWA System, including the Genesee Project, total \$290,000,000 and are consistent with original cost estimates that were based on KWA Water Purchase Contracts for 60 mgd. The Issuer and the Local Units entered into the KWA Financing Contract under Act 233 whereby the Issuer agreed to issue one or more series of bonds to finance KWA System facilities, other than the Genesee Project, in an aggregate par amount not to exceed \$300,000,000. To that end, the Issuer has previously issued the Series 2014A Bonds and the Series 2016 Bonds. The Series 2018 Bonds are expected to finance remaining costs of constructing and completing the KWA System, refund the Series 2016 Bonds, and pay issuance costs of the Series 2018 Bonds. No additional series of bonds are expected to be issued under the KWA Financing Contract.

The KWA Financing Contract is contemplated in the KWA Water Purchase Contracts and sets forth the manner in which the capital costs of the KWA System facilities will be allocated. Under the KWA Financing Contract, Flint and Genesee are responsible for paying approximately 34.2% and 65.8%, respectively, of the debt service on the KWA System Bonds. This allocation takes into account and credits Genesee for financing and being responsible for the payment of 100% of the costs of the Genesee Project. In addition, in the event and to the extent that Flint fails to pay its share of the debt service on the KWA System Bonds, Genesee will be responsible for making up the shortfall. Flint and Genesee each expects to make such payments from the revenues to be derived from the customers of the Flint System and the Genesee System, respectively. In addition, Flint and Genesee each has pledged its limited tax full faith and credit to making its respective Contractual Payments, as described under the heading “SECURITY” above.

Operation by County Agency

The Issuer retained the services of the County Agency for operation and maintenance of the KWA System. The County Agency has significant experience in planning, operating and managing water supply and wastewater systems, having been responsible for planning, operating and managing the Genesee System since 1972 and having been responsible for administering the design and construction of the KWA System. The County Agency currently employs approximately 148 people in connection with the operation and management of the Genesee System and the KWA System. Five full-time equivalent employees are involved in the operation

and maintenance of the KWA System. The Issuer is not expected to have any full-time employees.

Related Genesee Facilities

In order to provide finished water to Genesee's customers, and in addition to Genesee's new water treatment plant, impoundment, pump station and approximately 5 miles of watermain running from the new treatment plant to Genesee's main distribution facility at Henderson Road, an additional segment of 42-inch transmission line supporting water distribution to Genesee System customers was constructed and completed in November, 2017. The segment connected Henderson Road to Genesee Road, replacing a 9 mile segment of 72-inch watermain that Genesee will transfer to Flint in connection with the long-term water supply arrangements for Flint described under the subheading "--Long-Term Water Supply Arrangements for Flint" below and APPENDIX J hereto.

Water Supply Arrangements for Genesee

From December, 1965 to April, 2014, Flint purchased treated water from DWSD for distribution through the Flint System. During a portion of that period of time, Flint also purchased water from DWSD and provided that water under contract to the County Agency for distribution through the Genesee System. On May 1, 2014, Flint disconnected from DWSD and began supplying the Flint System with water from the Flint River that was treated at Flint's water treatment plant. Flint intended to use water from the Flint River as a temporary water source until completion of and connection to the KWA System.

When Flint discontinued its contract with DWSD as the source of Flint's finished water in 2014, the County Agency, which previously purchased water from DWSD through Flint, began purchasing treated water directly from DWSD. The County Agency and DWSD engaged in negotiations to establish a formal long-term service contract, but those negotiations were not successful. The County Agency continued to purchase water directly from DWSD without a formal written contract until GLWA assumed responsibility for supplying water to the County Agency in late 2015. Upon commencement of its operations, GLWA assumed responsibility for delivering water to the County Agency. Genesee discontinued purchasing water from GLWA in December, 2017, and 100% of Genesee System water is currently being supplied by KWA.

Long-Term Water Supply Arrangements for Flint

Flint had been a customer of DWSD from December, 1965 to May 1, 2014, when it ended its contractual relationship with DWSD and began pumping water from the Flint River and treating such water at its water treatment plant before distributing finished water to its customers. The water from the Flint River caused Flint to experience water quality problems, and, as a result, in October, 2015, Flint entered into a short-term water supply contract with DWSD, and on October 16, 2015, Flint reconnected to DWSD and began receiving finished water from DWSD again. This contract was assumed by GLWA as successor to DWSD as of January 1, 2016.

Effective December 1, 2017, Flint and GLWA entered into the GLWA Water Service Contract pursuant to which Flint purchases treated water from GLWA and GLWA provides a portion of Flint's backup source of finished water supply for an initial 30-year period. Under the GLWA Water Service Contract, Flint may receive credit from GLWA for the portion of the debt service on the KWA System Bonds that Flint pays to the Issuer as required under the KWA Financing Contract and the Flint Water Purchase Contract. In accordance with a Baseline and All Receipts Trust Agreement by and among GLWA, the County Agency, Flint, the Issuer and U.S. Bank National Association, as trustee, dated as of December 1, 2017 (the "Trust Agreement"), Flint is obligated to pay all amounts due and owing to the Issuer under the KWA Financing Contract and the Flint Water Purchase Contract, and all amounts due and owing to GLWA, through trust accounts established under the Trust Agreement. The GLWA Water Service Contract and the Trust Agreement are part of a series of inter-related transactions negotiated among the Issuer, the MDEQ, Flint, the County Agency and GLWA implementing the Statement of Principles for Long Term Water Delivery to the City of Flint, signed by the foregoing parties on April 18, 2017, which describes a structure for providing a primary and backup water supply for Flint and system improvements for all the parties. The MDEQ, Flint, the Issuer, the County Agency, and GLWA entered into a Master Agreement, effective as of December 1, 2017 (the "Master Agreement"), to which the GLWA Water Service Contract, the Trust Agreement, and various other documents are attached as exhibits, related to such transactions (collectively, the "Transaction Documents"). The MDEQ initiated litigation against Flint in connection with Flint City Council's delay in approving the Transaction Documents but subsequently filed jointly with Flint and the Flint City Council for dismissal of the litigation on January 16, 2018. For a description of the MDEQ litigation, see "LITIGATION – Pending Litigation – Flint – Water System Related Orders and Litigation – Long-Term Water Source Litigation." For a description of the Master Agreement, the GLWA Water Service Contract, the Trust Agreement and certain other Transaction Documents attached to the Master Agreement, see APPENDIX J hereto.

BONDHOLDERS' RISKS

The following discussion of some of the risk factors associated with the Series 2018 Bonds is not, and is not intended to be, exhaustive, and such risks are not necessarily presented in the order of their magnitude.

This Official Statement does not describe all of the risks of an investment in the Series 2018 Bonds and the Underwriters disclaim any responsibility to advise prospective investors of such risks as they exist at the date of this Official Statement or as they change from time to time. Prospective investors should consult their own legal and tax advisors as to the risks associated with an investment in the Series 2018 Bonds and the suitability of investing in the Series 2018 Bonds in light of their particular circumstances. Prospective investors should be able to bear the risks relating to an investment in the Series 2018 Bonds and should carefully consider, among other factors, the matters described below.

Assumptions With Regard to Local Unit Revenues

Certain assumptions have been made with regard to the ability of Genesee and Flint to charge and collect revenues from the customers of the Genesee System and the Flint System,

respectively, in amounts sufficient to pay their respective Contractual Payments. These assumptions are believed to be reasonable, but to the extent that such revenues are not sufficient to enable Genesee and/or Flint to pay their Contractual Payments, the Contractual Payments would nevertheless be required to be paid from the general fund of Genesee and/or Flint, which could strain such general fund. The assumptions are based on factors beyond Genesee's and Flint's control and there is no assurance that these projections will be achieved. Many factors may prevent the projections from being achieved. These include yearly changes in water consumption, population, population growth, household income, competitive facilities, accessibility, absorption, occupancy, vacancy and market penetration.

NO GUARANTEE CAN BE MADE THAT THE PROJECTIONS CONTAINED HEREIN WILL CORRESPOND WITH THE RESULTS ACTUALLY ACHIEVED IN THE FUTURE BECAUSE THERE IS NO ASSURANCE THAT ACTUAL EVENTS WILL CORRESPOND WITH THE ASSUMPTIONS MADE IN FORMULATING THE PROJECTIONS. ACTUAL OPERATING RESULTS MAY BE AFFECTED BY MANY FACTORS, INCLUDING, BUT NOT LIMITED TO, INCREASED COSTS, LOWER THAN ANTICIPATED REVENUES, CHANGES IN EMPLOYEE RELATIONS, APPLICABLE GOVERNMENTAL REGULATION, ECONOMIC AND DEMOGRAPHIC TRENDS, AND COMPETITION.

Sufficiency of Rates and Charges

Although it is expected that the rates and charges established by Genesee and Flint will generate revenues in amounts sufficient to pay debt service on the KWA System Bonds, including the Series 2018 Bonds, there can be no assurance that such rates and charges will produce revenues sufficient to pay debt service on the KWA System Bonds, including the Series 2018 Bonds. Future economic and other factors may adversely affect the Issuer's revenues and expenses, and, consequently, its ability to meet its operating expenses. Among the factors that could have such adverse effects are population, population growth, household income, competitive facilities, accessibility, absorption, occupancy, vacancy and market penetration.

NO GUARANTEE CAN BE MADE THAT THE PROJECTIONS CONTAINED HEREIN WILL CORRESPOND WITH THE RESULTS ACTUALLY ACHIEVED IN THE FUTURE BECAUSE THERE IS NO ASSURANCE THAT ACTUAL EVENTS WILL CORRESPOND WITH THE ASSUMPTIONS MADE BY THE ISSUER IN FORMULATING THE PROJECTIONS. ACTUAL OPERATING RESULTS MAY BE AFFECTED BY MANY FACTORS, INCLUDING, BUT NOT LIMITED TO, INCREASED COSTS, LOWER THAN ANTICIPATED NET REVENUES, CHANGES IN EMPLOYEE RELATIONS, APPLICABLE GOVERNMENTAL REGULATION, ECONOMIC AND DEMOGRAPHIC TRENDS, AND COMPETITION.

State and Federal Regulation

The KWA System is subject to numerous federal and State regulatory requirements. Those regulations are subject to change at any time. Failure to comply with regulatory requirements or changes therein, or the inability to comply with them in a timely manner, could cause portions of the KWA System to be unavailable for use by the Issuer. Any disruption of service could negatively impact the collection of revenues from rates and charges to customers of the Genesee System or the Flint System. The Issuer currently is in compliance with applicable

environmental requirements. Should any additional regulations applicable to the operation and maintenance of the KWA System become effective in the future, the Issuer will be required to take action to comply with them in a timely manner.

Local Units' General Fund Exposure and Financial Condition of Flint

In order to provide customers for the KWA System, the County Agency and Flint have entered into the KWA Water Purchase Contracts. Genesee and Flint also entered into the KWA Financing Contract, under which they are responsible for paying their respective share of the debt service for the KWA System Bonds issued to finance the costs of the KWA System. Genesee intends for its obligations with respect to the Genesee Bonds, the KWA System Bonds, and other outstanding obligations to be paid for by rates and charges from the users of the Genesee System. Flint intends for its obligations with respect to the KWA System Bonds and other outstanding obligations to the Issuer to be paid for by rates and charges from the users of the Flint System. If revenues from rates and charges for the Flint System prove insufficient for Flint to pay its share of the debt service on the KWA System Bonds, it is unclear whether Flint's general fund will have sufficient funds to fulfill its obligations under the KWA Financing Contract. If Flint fails to fulfill its payment obligation under the KWA Financing Contract for any reason, either from insufficient revenue collections from rates and charges to users of its water system or from its general fund, Genesee would be responsible for paying the entire debt service on the KWA System Bonds in addition to the debt service on the Genesee Bonds and other outstanding obligations. If Genesee's general fund is needed to pay a significant portion of the KWA System Bonds, it could cause significant financial strain on Genesee and significantly impact rates and charges to users of the Genesee System.

From November, 2011 to April, 2015, Flint operated under a State-appointed Emergency Manager pursuant to the Local Financial Stability and Choice Act, Act No. 436, Public Acts of Michigan, 2012 ("Act 436"). Since April, 2015, Flint has operated under a State-appointed Receivership Transition Advisory Board under Act 436. While many aspects of local control have been restored to Flint, its Mayor and its City Council, Flint's options to improve its fiscal health are restricted by various factors. The United States Bankruptcy Code, 11 U.S.C. Section 101, *et. seq.* (the "Bankruptcy Code") does not authorize municipalities to be subject to involuntary bankruptcy cases. Flint must be specifically authorized to be a debtor under chapter 9 of the Bankruptcy Code by State law or by a governmental officer or organization empowered by State law to authorize Flint to be a debtor under chapter 9 of the Bankruptcy Code. Act 436 provides such authorization after Flint first complies with certain requirements set forth therein. The effect of a Flint bankruptcy on its obligations to the Issuer is unknown at this time, including without limitation its obligations to continue to make payments to the Issuer under the Flint Water Purchase Contract with the Issuer and under the KWA Financing Contract. If Flint fails to fulfill its payment obligations under the KWA Financing Contract for any reason, including a bankruptcy filing by Flint, Genesee will be required to pay Flint's share of the debt service on the KWA System Bonds. Such additional debt burden and its associated debt service payments could cause significant financial strain on the general fund of Genesee and the net revenues of the KWA System and could require increases in the rates charged to customers of the Genesee System.

Additionally, Flint is named in numerous lawsuits arising out of water quality issues encountered after Flint began using the Flint River to supply water for the Flint System.

Damages claimed in the lawsuits are substantial and, if awarded, could have a material adverse effect on the financial position of Flint and its ability to meet its financial obligations pursuant to the KWA Financing Contract. Further, aggregate litigation fees and costs incurred in defending such proceedings could be substantial and could also have a material adverse effect on the financial position of Flint and its ability to meet its financial obligations pursuant to the KWA Financing Contract. See “LITIGATION – Pending Litigation – Flint.”

Although no Act 436 proceedings have ever occurred with respect to Genesee, nor has the Michigan Department of Treasury ever indicated the intent to begin such proceedings, if Genesee were to experience severe financial difficulties, Genesee might become subject to proceedings under Act 436. Further, in any such case of severe financial difficulties, it is unclear whether the County Agency or Genesee, respectively, would have sufficient funds to fulfill its obligations under the Genesee Water Purchase Contract and the KWA Financing Contract.

LITIGATION

Pending Litigation - Issuer

The Issuer has no litigation pending or, to its knowledge, threatened, wherein an unfavorable decision, ruling or finding would adversely affect the issuance of the Series 2018 Bonds or materially affect the Issuer’s ability to pay the principal of and interest on the Series 2018 Bonds.

Pending Litigation – Genesee

Genesee has no litigation pending or, to its knowledge, threatened, wherein an unfavorable decision, ruling or finding would adversely affect the issuance of the Series 2018 Bonds by the Issuer or materially affect Genesee’s ability to make its Contractual Payments in connection with the Series 2018 Bonds.

The County Agency has been named as a defendant in approximately 39 lawsuits arising out of the Flint water crisis pending in various federal and state courts, most of which have been consolidated in each court for motion practice and discovery. The plaintiffs in these cases have alleged that the County Agency, together with Michigan Governor Rick Snyder, former State Treasurer Andy Dillon and others, conspired, based on racial and economic animus, to deprive plaintiffs of constitutional rights to equal protection, federal statutory rights to equal privilege and immunities, and state statutory rights to equal enjoyment of goods, services and rights of public accommodation. The complaints in these cases seek unspecified compensatory and punitive damages and other declaratory and injunctive relief.

The County Agency has filed motions to dismiss these cases because the complaints do not state any specific facts to support their general allegations. Also, the County Agency had no jurisdiction over, or ability to control, Flint’s water system. Outside counsel to the County Agency has stated that he is confident the County Agency has a complete defense to plaintiffs’ claims in these cases and believes it is probable that the County Agency will prevail on the motions to dismiss. However, neither the Issuer nor the County Agency is able to predict the outcome of the litigation at this time.

Pending Litigation – Flint

Flint, its officers and employees are defendants in numerous lawsuits and administrative orders relating to the operations of Flint, and its water supply system. The fiscal impact of adverse judgments in the cases described below under the headings “Water System Related Orders and Litigation” and “Other Lawsuits” is not determinable at this time but could be significant.

Water System Related Orders and Litigation

Emergency Order

The United States Environmental Protection Agency (the “EPA”) issued an emergency administrative order (“EAO”) dated January 21, 2016 under the Safe Drinking Water Act (the “SDWA”) after the President of the United States declared a federal emergency in Flint due to the water crisis. The EAO addresses conditions that the EPA determined pose an imminent and substantial endangerment to the health of Flint’s residents and require Flint and the State of Michigan (together, the “Respondents”) to take the preventive measures specified therein. The EAO bars the Respondents from transitioning from the KWA System to a new long-term water source for Flint until such time as they have submitted a written plan demonstrating that Flint has the technical, managerial and financial capacity to operate its public water system in compliance with the SDWA and the national primary drinking water regulations (“NPDWRs”) and that necessary infrastructure upgrades, analysis, and testing have been completed to ensure a safe transition.

In an amended order (the “First Amended Order”) issued on November 17, 2016, the EPA noted that progress had been made in protecting public health with Flint providing increasingly reliable and safe drinking water to its citizens. The First Amended Order applied certain provisions of the EAO to any change in water source and establishes tasks and timeframes to make a water source switch in compliance with the provisions of the SDWA and the NPDWRs. However, the First Amended Order requires the Respondents to continue using GLWA as Flint’s source for drinking water, which Flint had returned to in October, 2015 as discussed above, until Flint demonstrates that certain requirements of the EAO have been met and the EPA concurs with the change. In December 2017, Flint entered into a water service contract for GLWA to supply treated water to Flint for an initial 30-year period. See the heading “KAREGNONDI WATER AUTHORITY SYSTEM – Long-Term Water Supply Arrangements for Flint” herein.

Flint Water Crisis Litigation

Flint continues to litigate approximately sixty cases arising out of the Flint water crisis in various courts in which the named defendants are Flint or its current and former employees, officials, and emergency managers.

Most of these cases are pending in the U.S. District Court of the Eastern District of Michigan, including 8 class actions that were formerly pending in the U.S. District Court for the Eastern District of Michigan that have been consolidated into a single consolidated class action,

and in the Circuit Court for Genesee County. There are four cases pending in the Michigan Court of Appeals, with an application for leave to appeal pending before the Michigan Supreme Court. In addition, a single case is pending before the Sixth Circuit Court of Appeals. Litigation will continue for some cases in the U.S. District Court for the Eastern District of Michigan following the denial on March 19, 2018 of a petition for certiorari to the United States Supreme Court in which there was an appeal of a decision of the Sixth Circuit Court of Appeals that the SDWA does not preclude federal civil rights claims. The plaintiffs in these cases have alleged violations of civil rights under various laws, violations of the SDWA and other federal and state environmental statutes, tort and personal injury claims, and claims based on various principles of contract law.

Additional lawsuits naming one or more of the Flint defendants may be filed in the future. Pending litigation in other courts may be subsequently amended to include Flint or its current and former employees, officials, and emergency managers as named defendants. Flint is unable to predict the outcome of the litigation or the financial impact of the litigation if an adverse decision were rendered against Flint.

Concerned Pastors, et al v. Khouri, et al, (16-cv-10277) is a civil case arising out of the Flint water crisis that is pending against the State Treasurer, the members of the Receivership Transition Advisory Board, Flint and the Flint City Administrator in the Eastern District of Michigan seeking declaratory and injunctive relief under the SDWA. A mediated settlement of the case was reached in March, 2017 which includes provisions for Flint to replace 18,000 lead service lines (“LSL”) within Flint within 3 years, subject to the provision of sufficient funding by the State and the State to provide \$87 million in funds for the LSL replacements. During 2017, Flint replaced more than 6,600 LSLs.

Long-Term Water Source Litigation

In *Michigan Department of Environmental Quality v. the City of Flint*, 17-cv-12107 (the “Complaint”), MDEQ filed a civil action on June 28, 2017 asserting the Flint City Council’s refusal to approve the Transaction Documents constitutes a violation of the settlement agreement in *Concerned Pastors v. Khouri* that violates the Michigan Safe Drinking Water Act, the federal Safe Drinking Water Act, the EAO and the First Amended Order. On November 21, 2017, the Flint City Council adopted a resolution approving the Transaction Documents thereby selecting GLWA as Flint’s long-term water source and authorizing the Mayor to execute such documents. Subsequently, the Transaction Documents were executed by the Mayor, on behalf of Flint, and by the various other parties to such documents. On January 16, 2018, the MDEQ, the City of Flint and the City Council, as intervenor, jointly filed a motion to dismiss the case with prejudice and withdrew all pleadings and other filings by all parties.

Other Lawsuits

The City of Flint is a defendant in a variety of lawsuits involving matters ranging from discrimination, retaliation, personal injury, rental code violations, tort, civil rights claims, sewer backups, pension, healthcare and other benefits for Flint retirees, and whistleblower protection act violations.

The action of *Ron Rutherford, et al v City of Flint, et al*, Genesee County, Michigan, Circuit Court Case No. 03-76113-NZ, was commenced by plaintiffs who were retirees of Flint, who sought relief in 2003 from actions of Flint in adjusting their pensions to recover overpayments that retirees had received. Flint reached a tentative settlement of the overpayment and interest charges to the plaintiff class, which involves an adjustment to the pension payments through the Municipal Employee's Retirement System of Michigan. The court gave preliminary approval to the settlement agreement under which Flint is anticipated to pay not more than \$310,000, and set procedures for approval of the class action settlement. A hearing is scheduled on April 5, 2018 for final approval, and to resolve any objections that may be filed.

Except as described above, there is no litigation pending in any court, or to the knowledge of the Flint City Attorney's Office, threatened, which would have a material adverse impact on Flint's ability to pay its obligations under the KWA Financing Contract or Flint's long-term financial condition.

TAX MATTERS

In the opinion of Miller, Canfield, Paddock and Stone, P.L.C., Bond Counsel, under existing law, the interest on the Series 2018 Bonds is excludable from gross income for federal income tax purposes and is not an item of tax preference for purposes of the federal alternative minimum tax, except that such interest is included in adjusted current earnings in calculating corporate alternative minimum taxable income for tax years beginning prior to January 1, 2018. Bond Counsel is also of the opinion that, under existing law, the Series 2018 Bonds and the interest thereon are exempt from all taxation by the State of Michigan or by any taxing authority within the State of Michigan, except inheritance and estate taxes and taxes on gains realized from the sale, payment or other disposition thereof. Bond Counsel will express no opinion regarding any other federal or state tax consequences arising with respect to the Series 2018 Bonds and the interest thereon.

The opinion on federal and State of Michigan tax matters is based on the accuracy of certain representations and certifications, and continuing compliance with certain covenants, of the Issuer contained in the transcript of proceedings and which are intended to evidence and assure the foregoing, including that the Series 2018 Bonds are and will remain obligations the interest on which is excludable from gross income for federal and State of Michigan income tax purposes. The Issuer has covenanted to take the actions required of it for the interest on the Series 2018 Bonds to be and to remain excludable from gross income for federal income tax purposes, and not to take any actions that would adversely affect that exclusion. Bond Counsel's opinion assumes the accuracy of the Issuer's certifications and representations and the continuing compliance with the Issuer's covenants. Noncompliance with these covenants by the Issuer may cause the interest on the Series 2018 Bonds to be included in gross income for federal and State of Michigan income tax purposes retroactively to the date of issuance of the Series 2018 Bonds. After the date of issuance of the Series 2018 Bonds, Bond Counsel will not undertake to determine (or to so inform any person) whether any actions taken or not taken, or any events occurring or not occurring, or any other matters coming to Bond Counsel's attention, may adversely affect the exclusion from gross income for federal and State of Michigan income tax purposes of interest on the Series 2018 Bonds or the market prices of the Series 2018 Bonds.

The opinion of Bond Counsel is based on current legal authority and covers certain matters not directly addressed by such authority. It represents Bond Counsel's legal judgment as to the excludability of interest on the Series 2018 Bonds from gross income for federal and State of Michigan income tax purposes but is not a guarantee of that conclusion. The opinion is not binding on the Internal Revenue Service ("IRS") or any court. Bond Counsel cannot give and has not given any opinion or assurance about the effect of future changes in the Internal Revenue Code of 1986, as amended (the "Code"), the applicable regulations, the interpretations thereof or the enforcement thereof by the IRS.

Ownership of the Series 2018 Bonds may result in collateral federal income tax consequences to certain taxpayers, including, without limitation, corporations subject to the branch profits tax, financial institutions, certain insurance companies, certain S corporations, individual recipients of Social Security or Railroad Retirement benefits and taxpayers who may be deemed to have incurred (or continued) indebtedness to purchase or carry the Series 2018 Bonds. Bond Counsel will express no opinion regarding any such consequences.

Tax Treatment of Accruals on Original Issue Discount Bonds

Under existing law, if the initial public offering price to the public (excluding bond houses and brokers) of a Series 2018 Bond is less than the stated redemption price of such Series 2018 Bonds at maturity, then such Series 2018 Bond is considered to have "original issue discount" equal to the difference between such initial offering price and the amount payable at maturity (such Series 2018 Bonds are referred to as "OID Bonds"). Such discount is treated as interest excludable from federal gross income to the extent properly allocable to each registered owner thereof. The original issue discount accrues over the term to maturity of each such OID Bond on the basis of a constant interest rate compounded at the end of each six-month period (or shorter period) from the date of original issue with straight-line interpolations between compounding dates. The amount of original issue discount accruing during each period is added to the adjusted basis of such OID Bonds to determine taxable gain upon disposition (including sale, redemption or payment on maturity) of such OID Bonds.

The Code contains certain provisions relating to the accrual of original issue discount in the case of purchasers of OID Bonds who purchase such OID Bonds after the initial offering of a substantial amount thereof. Owners who do not purchase such OID Bonds in the initial offering at the initial offering prices should consult their own tax advisors with respect to the tax consequences of ownership of such OID Bonds.

All holders of the OID Bonds should consult their own tax advisors with respect to the allowance of a deduction for any loss on a sale or other disposition of an OID Bond to the extent such loss is attributable to accrued original issue discount.

Amortizable Bond Premium

For federal income tax purposes, the excess of the initial offering price to the public (excluding bond houses and brokers) at which a Series 2018 Bond is sold over the amount payable at maturity thereof constitutes for the original purchasers of such Series 2018 Bonds (collectively, the "Original Premium Bonds") an amortizable bond premium. Series 2018 Bonds other than Original Premium Bonds may also be subject to an amortizable bond premium determined generally with regard to the taxpayer's basis (for purposes of determining loss on a

sale or exchange) and the amount payable on maturity or, in certain cases, on an earlier call date (such bonds being referred to herein collectively with the Original Premium Bonds as the “Premium Bonds”). Such amortizable bond premium is not deductible from gross income. The amount of amortizable bond premium allocable to each taxable year is generally determined on the basis of the taxpayer’s yield to maturity determined by using the taxpayer’s basis (for purposes of determining loss on sale or exchange) of such Premium Bonds and compounding at the close of each six-month accrual period. The amount of amortizable bond premium allocable to each taxable year is deducted from the taxpayer’s adjusted basis of such Premium Bonds to determine taxable gain upon disposition (including sale, redemption or payment at maturity) of such Premium Bonds.

All holders of the Premium Bonds should consult with their own tax advisors as to the amount and effect of the amortizable bond premium.

Market Discount

The “market discount rules” of the Code apply to the Series 2018 Bonds. Accordingly, holders acquiring Series 2018 Bonds subsequent to the initial issuance of the Series 2018 Bonds will generally be required to treat market discount recognized under the provisions of the Code as ordinary taxable income (as opposed to capital gain income). Holders should consult their own tax advisors regarding the application of the market discount provisions of the Code and the advisability of making any of the elections relating to market discount allowed by the Code.

Information Reporting and Backup Withholding

Information reporting requirements apply to interest paid after March 31, 2007 on tax-exempt obligations, including the Series 2018 Bonds. In general, such requirements are satisfied if the interest recipient completes, and provides the payor with, a Form W-9, “Request for Taxpayer Identification Number and Certification,” or unless the recipient is one of a limited class of exempt recipients, including corporations. A recipient not otherwise exempt from information reporting who fails to satisfy the information reporting requirements will be subject to “backup withholding,” which means that the payor is required to deduct and withhold a tax from the interest payment, calculated in the manner set forth in the Code. For the foregoing purpose, a “payor” generally refers to the person or entity from whom a recipient receives its payments of interest or who collects such payments on behalf of the recipient.

If an owner purchasing the Series 2018 Bonds through a brokerage account has executed a Form W-9 in connection with the establishment of such account no backup withholding should occur. In any event, backup withholding does not affect the excludability of the interest on the Series 2018 Bonds from gross income for federal income tax purposes. Any amounts withheld pursuant to backup withholding would be allowed as a refund or a credit against the owner’s federal income tax once the required information is furnished to the IRS.

Future Developments

Bond Counsel’s engagement with respect to the Series 2018 Bonds ends with the issuance of the Series 2018 Bonds and, unless separately engaged, bond counsel is not obligated to defend the Issuer in the event of an audit examination by the IRS. The IRS has a program to audit tax-exempt obligations to determine whether the interest thereon is includible in gross

income for federal income tax purposes. If the IRS does audit the Series 2018 Bonds, under current IRS procedures, the IRS will treat the Issuer as the taxpayer and the beneficial owners of the Series 2018 Bonds will have only limited rights, if any, to obtain and participate in judicial review of such audit.

No assurance can be given that any future legislation or clarifications or amendments to the Code, if enacted into law, will not contain proposals which could cause the interest on the Series 2018 Bonds to be subject directly or indirectly to federal or State of Michigan income taxation or otherwise prevent the holders from realizing the full current benefit of the status of the interest thereon. In addition, such legislation, whether currently proposed, proposed in the future or enacted, could adversely affect the market price or marketability of the Series 2018 Bonds. Bond Counsel expresses no opinion regarding any pending or proposed federal or State of Michigan tax legislation.

Further, no assurance can be given that any actions of the IRS, including, but not limited to, selection of the Series 2018 Bonds for audit examination, or the course or result of any examination of the Series 2018 Bonds, or other bonds which present similar tax issues, will not affect the market price of the Series 2018 Bonds.

Investors should consult with their tax advisors as to the tax consequences of their acquisition, holding or disposition of the Series 2018 Bonds, including the impact of any pending or proposed federal or State of Michigan tax legislation.

APPROVAL BY THE MICHIGAN DEPARTMENT OF TREASURY

The Issuer has received a letter from the Department of Treasury of the State of Michigan, dated March 1, 2018, approving the issuance of the Series 2018 Bonds as provided in the Revised Municipal Finance Act, Act No. 34, Public Acts of Michigan, 2001, as amended.

BOND COUNSEL'S RESPONSIBILITY

The fees of Miller, Canfield, Paddock and Stone, P.L.C. ("Bond Counsel") for services rendered in connection with its approving opinion are expected to be paid from Series 2018 Bond proceeds. Except to the extent necessary to issue its approving opinion as to the validity of the Series 2018 Bonds and tax matters relating to the Series 2018 Bonds and the interest thereon, and except as stated below, Bond Counsel has not been retained to examine or review, and has not examined or reviewed, any financial documents, statements or materials that have been or may be furnished in connection with the authorization, issuance or marketing of the Series 2018 Bonds and accordingly will not express any opinion with respect to the accuracy or completeness of any such financial documents, statements or materials.

Bond Counsel has reviewed the statements in this Official Statement under the headings entitled "SECURITY," "THE SERIES 2018 BONDS," "PRIOR REDEMPTION OF SERIES 2018 BONDS," "TAX MATTERS," "APPROVAL BY THE MICHIGAN DEPARTMENT OF TREASURY," "BOND COUNSEL'S RESPONSIBILITY," "CONTINUING DISCLOSURE" (first two paragraphs only) and in APPENDIX H "– Transfer Outside Book-Entry-Only System." Bond Counsel has not been retained to review and has not

reviewed any other portions of the Official Statement for accuracy or completeness, and has not made inquiry of any official or employee of the Issuer or any other person and has made no independent verification of such other portions hereof, and further has not expressed and will not express an opinion or belief as to any such other portions hereof.

CONTINUING DISCLOSURE

Prior to the delivery of the Series 2018 Bonds, the Issuer and each Local Unit will execute a Continuing Disclosure Undertaking (individually an “Undertaking” and collectively, the “Undertakings”) for the benefit of the holders of the Series 2018 Bonds or Beneficial Owners to provide certain information annually and to provide notice of certain events to the Municipal Securities Rulemaking Board pursuant to the requirements of Rule 15c2-12(b)(5) (the “Rule”) adopted by the Securities and Exchange Commission under the Securities Exchange Act of 1934. The information to be provided on an annual basis, the events which will be noticed on an occurrence basis, and the other terms of the Undertakings are set forth in APPENDIX F – FORMS OF CONTINUING DISCLOSURE UNDERTAKINGS to this Official Statement. Except as may be otherwise required by applicable federal securities law, neither the Issuer nor the Local Units are obligated to provide any additional disclosure beyond that specified in Appendix F.

A failure by the Issuer or a Local Unit to comply with its Undertaking will not constitute an event of default under the KWA Financing Contract or the Resolution authorizing the issuance of the Series 2018 Bonds and holders of the Series 2018 Bonds or Beneficial Owners are limited to the remedies described in the Undertakings.

The Issuer timely filed its audits for the fiscal years ended September 30, 2015 and September 30, 2016. However, the Issuer’s audit for the fiscal year ended September 30, 2014 was filed 318 days late on February 12, 2016 and notice of such late filing was given in accordance with the Rule.

During the previous five years, in general, Genesee has timely filed its audited financial information and annual disclosure filings on EMMA. However, some timely filed audits, updates of operating and financial data, and notices of underlying and insurer rating changes have not been properly linked on EMMA to all affected CUSIP numbers. Such filings have since been linked to the affected CUSIP numbers. Some notices of underlying rating changes pertaining to Genesee were filed between 3 and 8 business days late for some of Genesee’s outstanding issues. In addition, some notices of insurer rating changes pertaining to some of Genesee’s insured bonds were filed between 11 and 180 days after the posted effective date of such changes. Finally, in connection with its Sewage Disposal System No. 3 Revenue Bonds, Series 2007, Genesee’s annual filings for the fiscal years ended September 30, 2012 and September 30, 2013 did not include required updates pertaining to “The Sewage System – List of Users of the System,” “The Sewage System – Customer Communities and Usage,” “Sewage System Rates,” and “Historical Volume Treated for the Sewage System (CCFT).”

Pursuant to its Continuing Disclosure Undertaking in connection with the Issuer’s Series 2014A Bonds, Flint has timely filed its audits and annual disclosure filings for its fiscal years ended June 30, 2014, June 30, 2015, June 30, 2016, and June 30, 2017. However, Flint’s annual

disclosure filings for such years did not include required updates of information pertaining to “Per Capita Valuation” and “Tax Base Composition.” Such information has since been filed on EMMA. Further, Flint’s audits for such years included updates of information regarding the funding status and funding progress of Flint’s pension fund and other post-employment benefits, but such updated information was not provided separately on EMMA.

A failure by the Issuer or either Local Unit to comply with its Undertaking must be reported by the Issuer or such Local Unit in accordance with the Rule and must be considered by any broker, dealer or municipal securities dealer before recommending the purchase or sale of the Series 2018 Bonds in the secondary market. Consequently, such failure may adversely affect the transferability and liquidity of the Series 2018 Bonds and their market price.

LEGAL MATTERS

Legal matters incident to the authorization, issuance and sale of the Series 2018 Bonds are subject to the approval of Miller, Canfield, Paddock and Stone, P.L.C., attorneys of Detroit, Michigan, Bond Counsel. A copy of the opinion of Bond Counsel will be furnished with the Series 2018 Bonds, which opinion will be substantially in the form set forth in APPENDIX G. Certain legal matters will be passed upon for the City of Flint by its special counsel, Lewis & Munday, A Professional Corporation, Detroit, Michigan, and for the Underwriters by their counsel, Dickinson Wright PLLC, Troy and Lansing, Michigan.

MUNICIPAL ADVISOR

The Issuer has retained PFM Financial Advisors LLC, of Ann Arbor, Michigan as municipal financial advisor (the “Municipal Advisor”) in connection with the issuance of the Series 2018 Bonds. In preparing portions of the Official Statement, the Municipal Advisor has relied upon governmental officials and other sources which have access to relevant data, to provide accurate information for the Official Statement and the Municipal Advisor has not been engaged, nor has it undertaken, to independently verify the accuracy of such information. To the best of the Municipal Advisor’s knowledge and belief, the information contained in the Official Statement which it assisted in preparing, while it may be summarized, is complete and accurate. The Municipal Advisor is not a public accounting firm and has not been engaged by the Issuer to compile, review, examine or audit any information in the Official Statement in accordance with accounting standards.

The Municipal Advisor is an independent advisory firm and is not engaged in the business of underwriting, trading or distributing municipal securities or other public securities and therefore will not participate in the underwriting of the Series 2018 Bonds. PFM Financial Advisors LLC is registered with the Securities and Exchange Commission and the Municipal Securities Rulemaking Board as a municipal advisor.

Requests for information concerning the Issuer should be addressed to PFM Financial Advisors LLC, 555 Briarwood Circle, Suite 333, Ann Arbor, Michigan 48108, (734) 994-9700.

UNDERWRITING

The Series 2018 Bonds are being purchased by the Underwriters listed on the cover page of this Official Statement. The Underwriters have agreed, subject to certain conditions, to purchase all of the Series 2018 Bonds from the Issuer at an underwriters' discount of \$334,591.15 from the initial offering prices set forth in this Official Statement. The Underwriters are obligated to purchase all of the Series 2018 Bonds, if any are purchased, the obligation to make such purchase being subject to certain terms and conditions set forth in the Bond Purchase Agreement with respect to the Series 2018 Bonds, the approval of certain legal matters by counsel and certain other conditions. The initial public offering prices of the Series 2018 Bonds may be changed from time to time by the Underwriters. The Series 2018 Bonds may be offered and sold by the Underwriters to certain dealers (including dealers depositing the Series 2018 Bonds in unit investment trusts, some of which may be managed by the Underwriters) and certain dealer banks and banks acting as agents at prices lower than the public offering prices set forth in this Official Statement.

J.P. Morgan Securities LLC ("JPMS"), one of the Underwriters of the Series 2018 Bonds, has entered into negotiated dealer agreements (each, a "Dealer Agreement") with each of Charles Schwab & Co., Inc. ("CS&Co.") and LPL Financial LLC ("LPL") for the retail distribution of certain securities offerings at the original issue prices. Pursuant to each Dealer Agreement (if applicable to this transaction), each of CS&Co. and LPL may purchase Bonds from JPMS at the original issue price less a negotiated portion of the selling concession applicable to any Series 2018 Bonds that such firm sells.

JPMS and its affiliates together comprise a full service financial institution engaged in various activities, which may include securities trading, commercial and investment banking, financial advisory, investment management, principal investment, hedging, financing and brokerage activities. Such activities may involve or relate to assets, securities and/or instruments of the Issuer (whether directly, as collateral securing other obligations or otherwise) and/or persons and entities with relationships with (or that are otherwise involved with transactions by) the Issuer. JPMS and its affiliates may have, from time to time, engaged, and may in the future engage, in transactions with, and performed and may in the future perform, various investment banking services for the Issuer for which they received or will receive customary fees and expenses. Under certain circumstances, JPMS and its affiliates may have certain creditor and/or other rights against the Issuer and any affiliates thereof in connection with such transactions and/or services. In addition, JPMS and its affiliates may currently have and may in the future have investment and commercial banking, trust and other relationships with parties that may relate to assets of, or be involved in the issuance of securities and/or instruments by, the Issuer and any affiliates thereof. JPMS and its affiliates also may communicate independent investment recommendations, market advice or trading ideas and/or publish or express independent research views in respect of such assets, securities or instruments and at any time may hold, or recommend to clients that they should acquire, long and/or short positions in such assets, securities and instruments.

JPMorgan Chase Bank, N.A., an affiliate of JPMS, is the holder of a beneficial interest in a tender option bond trust used to finance the Series 2016 Bonds and will receive the portion of the proceeds of the Series 2018 Bonds that will be used to refund the Series 2016 Bonds.

RATING

S&P Global Ratings has assigned the Series 2018 Bonds a rating of “A”. No application was made to any other rating agency for the purpose of obtaining an additional rating on the Series 2018 Bonds. Any explanation of the significance of such rating may only be obtained from the rating agency. Generally, a rating agency bases its rating on such information and materials and on investigations, studies and assumptions by the rating agency. There is no assurance that such rating will continue for any given period of time or that it will not be revised downward or withdrawn entirely by such rating agency, if in the judgment of the rating agency, circumstances so warrant. Any such downward revision or withdrawal of such rating may have an adverse effect on the market price of the Series 2018 Bonds.

OTHER MATTERS

All information contained in this Official Statement is subject, in all respects, to the complete body of information contained in the original sources thereof. In particular, no opinion or representation is rendered as to whether any projection will approximate actual results, and all opinions, estimates and assumptions, whether or not expressly identified as such, should not be considered statements of fact.

KAREGNONDI WATER AUTHORITY

By: /s/ Jeffrey Wright
Jeffrey Wright, Chief Executive Officer

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APPENDIX A

KAREGNONDI WATER AUTHORITY

AUDITED FINANCIAL STATEMENTS

Attached are the audited financial statements for the Karegnondi Water Authority (the “Issuer”) for the fiscal year ended September 30, 2017. The auditors for the Issuer have not been asked to consent to the use of information from such financial statements in either the Preliminary Official Statement or the Official Statement and have not conducted any subsequent review of such financial statements.

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Independent Auditor's Report

To the Board of Directors
 Karegnondi Water Authority

Report on the Financial Statements

We have audited the accompanying basic financial statements of Karegnondi Water Authority (the "Authority"), a component unit of Genesee County Water and Waste Services, as of and for the years ended September 30, 2017 and 2016 and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

To the Board of Directors
 Karegnondi Water Authority

Opinion

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of Karegnondi Water Authority as of September 30, 2017 and 2016 and the changes in its financial position and its cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matter

Required Supplemental Information

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.

February 6, 2018

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Karegnondi Water Authority

Management's Discussion and Analysis

Karegnondi Water Authority (KWA or the "Authority") was incorporated in October 2010 pursuant to Act 233, Public Acts of Michigan, 1955, as amended, by the County of Genesee, Michigan (Genesee Co.), the County of Lapeer, Michigan, the County of Sanilac, Michigan, the City of Flint, Michigan (Flint), and the City of Lapeer, Michigan for the purpose of providing its member communities with a new source of water for treatment and distribution. This new water source comes from a Water Supply System (the "System") which has been recently completed. The System delivers Lake Huron water to its customers.

The System is currently providing untreated water to the Genesee County Drain Commissioner (the "County Agency") as its primary water source pursuant to the Genesee Water Purchase Contract. Under a contract with Flint (the "Flint Water Purchase Contract"), Flint has the right to the delivery and use of up to 18 million gallons per day of untreated water. Under a long-term water supply contract entered into by Flint and the Great Lakes Water Authority (GLWA) as of December 1, 2017 (the "GLWA Water Service Contract"), GLWA will supply Flint with treated water as its primary water source for an initial period of 30 years. Pursuant to the terms of the GLWA Water Service Contract, Flint has granted to GLWA certain rights of Flint under the Flint Water Purchase Contract to untreated water from the System.

The System

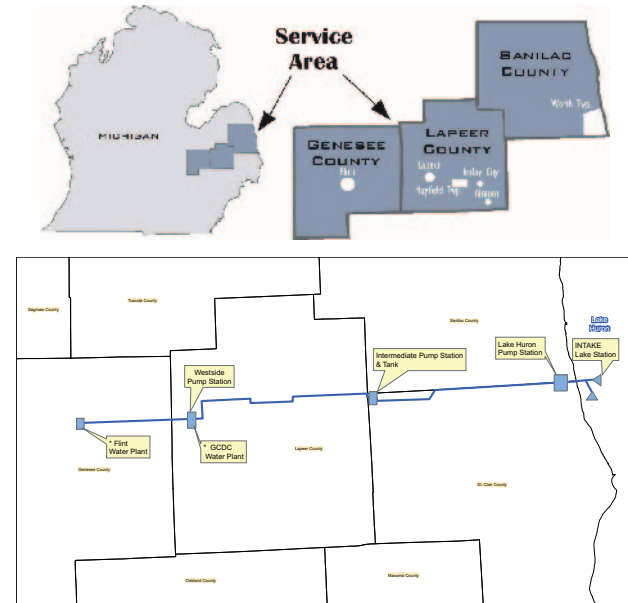
To supply water to its contracting members, KWA constructed two lake intakes in Lake Huron, approximately 63 miles of pipe from the intake to the City of Flint, and three pump stations. These facilities collectively constitute the System. The engineering design of the System was to withdraw water from Lake Huron and pump it to a standpipe in Lynn Township in St. Clair County, and from there, repump the water to a site in Oregon Township in Lapeer County, approximately 14 miles east of Flint. That site features a 125 million gallon reservoir (also known as an impoundment) which was completed in 2016, along with the County Agency's new water treatment plant which was completed in June 2017.

The impoundment and new treatment plant are owned and operated by the County Agency. A third pump station is capable to pump untreated water from the County Agency's site to Flint's water treatment plant. Figure 1 shows the location of the System's facilities, the Flint water treatment plant, and the County Agency treatment plant and impoundment.

Karegnondi Water Authority

Management's Discussion and Analysis (Continued)

Figure 1



The intake facility and property were financed through the issuance of bonds by the County Agency in the principal amount of \$35,000,000 in October 2013, with the understanding that the County Agency would make the intake and property available to KWA for use by KWA as part of the System. The County Agency is solely responsible for paying the principal of and interest on these bonds from the net revenue derived from its users. Genesee County has pledged its limited tax full faith and credit as additional security for the bonds.

The lake intake construction and testing were completed in 2016. The County Agency has entered into an agreement which calls for the ownership of the intake to be transferred to KWA once the intake debt has been retired.

Karegnondi Water Authority

Management's Discussion and Analysis (Continued)

KWA retained the services of the County Agency to administer the design and construction of the System. The County Agency provided these services at no cost to KWA since its inception through September 2014. In October 2014, KWA began paying the County Agency \$3,000.00 monthly for these services. Then in June 2017, after the system was completed and operational, KWA contracted with the County Agency for operation and maintenance of the System. The County Agency has significant experience in planning, operating, and managing water and wastewater systems, having been responsible for planning, operating, and managing its own system since 1966. The County Agency currently employs approximately 150 people in connection with the operation and management of its current system, and from this group, approximately five full-time-equivalent employees are involved in the operation and maintenance of the System. KWA does not have any employees.

Objectives

The main objectives of KWA were to build and maintain a high-quality water delivery system at rates which would be fair and cost effective to all concerned. And in accordance with its bylaws, KWA maintains a yearly budget of income and expenses. The budget is reviewed and approved by the KWA board.

Using this Annual Report

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

Karegnondi Water Authority

Management's Discussion and Analysis (Continued)

Condensed Financial Information

The following tables present condensed information about the Authority's financial position compared to the prior two years:

	September 30			(Decrease) Increase	Percent Change
	2015	2016	2017		
Assets					
Current assets	\$ 5,603,627	\$ 7,267,552	\$ 6,197,784	\$ (1,069,768)	-15%
Restricted assets	108,590,629	45,429,465	39,968,773	(5,460,692)	-12%
Capital assets	181,395,807	310,377,287	331,427,489	21,050,202	7%
Total assets	295,590,063	363,074,304	377,594,046	14,519,742	4%
Liabilities					
Current liabilities	10,031	18,575	68,943,071	68,924,496	371061%
Liabilities payable from restricted assets	21,954,798	12,573,368	21,105,256	8,531,888	68%
Other noncurrent liabilities	3,428,607	5,118,032	5,258,648	140,616	3%
Long-term debt	266,527,841	340,503,990	260,770,138	(79,733,852)	-23%
Total liabilities	291,921,277	358,213,965	356,077,113	(2,136,852)	-1%
Net Position					
Net investment in capital assets	1,059,404	1,778,879	14,802,771	13,023,892	732%
Restricted for debt service	497,893	950,515	7,514,028	6,563,513	691%
Unrestricted	2,111,489	2,130,945	(799,866)	(2,930,811)	-138%
Total net position	\$ 3,668,786	\$ 4,860,339	\$ 21,516,933	\$ 16,656,594	343%

	Year Ended September 30				Percent Change
	2015	2016	2017	Change	
Operating Revenue - Sale of water	\$ -	\$ -	\$ 441,074	\$ 441,074	100%
Operating Expenses					
Office supplies and insurance	4,792	4,186	69,222	65,036	1554%
Utilities	-	-	289,743	289,743	100%
Repairs and maintenance	-	-	17,002	17,002	100%
Contractual and professional services	136,192	190,313	1,216,017	1,025,704	539%
Other expenses	-	-	4,854	4,854	100%
Total operating expenses	140,984	194,499	1,596,838	1,402,339	721%
Operating Loss	(140,984)	(194,499)	(1,155,764)	(961,265)	494%
Nonoperating Revenue (Expenses)					
Water supply contract operating subsidy	1,938,000	1,938,000	-	(1,938,000)	-100%
Capacity/Debt service fee	-	-	17,760,242	17,760,242	100%
Investment income	4,813	11,270	52,116	40,846	362%
Bond issuance costs	-	(563,218)	-	563,218	-100%
Total nonoperating revenue	1,942,813	1,386,052	17,812,358	16,426,306	1185%
Change in Net Position	\$ 1,801,829	\$ 1,191,553	\$ 16,656,594	\$ 15,465,041	1298%

Karegnondi Water Authority

Management's Discussion and Analysis (Continued)

Major Capital Assets and Debt Activity

KWA and the local units entered into a contract whereby KWA was authorized to issue bonds with a total par value not to exceed \$300,000,000 (collectively, the "System Bonds") to finance the facilities for the System in anticipation of the contractual payments to be made by the local units as provided therein. The contract is contemplated in the water purchase contracts and sets forth the manner in which the capital costs of the System's facilities would be allocated. Under the contracts, Flint and the County Agency are responsible for paying approximately 34 percent and 66 percent, respectively, of the debt service on the System Bonds. This allocation takes into account and credits the County Agency for financing and being responsible for the payment of 100 percent of the costs of the intake. In addition, Genesee County, Michigan pledged its limited tax full faith and credit to 100 percent of the debt service on the System Bonds.

KWA sold \$220,500,000 par value in water system supply bonds in April 2014. Sources and uses of funds were as follows:

Sources of Funds

Par amount of bonds - \$220,500,000.00
Net original issue premium/discount - \$11,815,544.05
Total sources - \$232,315,544.05

Use of Funds

Deposit to construction fund - Initial - \$187,137,367.59
Deposit to construction fund - Subsequent - \$8,606.00
Capitalized interest - \$28,282,364.06
Deposit to debt service reserve account - \$15,237,437.50
Costs of issuance - \$703,394.00
Underwriters' discount - \$946,374.90
Total uses - \$232,315,544.05

KWA sold \$74,370,000 par value in water system supply bonds in June 2016.

Sources and uses of funds were as follows:

Sources of Funds

Par amount of bonds - \$74,370,000
Net original issue premium/discount - \$0.00
Total sources - \$74,370,000.00

Karegnondi Water Authority

Management's Discussion and Analysis (Continued)

Use of Funds

Deposit to construction fund - \$61,999,332.18
Capitalized interest - \$4,878,159.88
Deposit to debt service reserve account - \$6,954,939.94
Costs of issuance - \$223,680.50
Purchaser's fee - \$313,887.50
Total uses - \$74,370,000.00

KWA anticipates refinancing the 2016 \$74,370,000 par value bonds in 2018.

Financial Review

A discussion of the significant financial activity during the current year is as follows:

Statement of Net Position

- Cash and cash equivalents decreased from \$7,159,901 to \$5,877,667 primarily due to the increase in total operating expenses in the current year.
- Capital assets increased \$21,050,202 due to additional construction in progress related to the pipeline plus the year's capitalized interest cost.
- Payable from restricted assets increased by \$8,531,888 due to debt service payable from restricted assets becoming due and payable.
- Net position increased \$16,656,594. This increase is the result of KWA collecting the capacity/debt service fee from the County Agency and Flint to fund the capital-related debt service.

Statement of Revenue, Expenses, and Changes in Net Position

- Operating revenue was \$441,074 due to water sales beginning in July 2017. KWA began selling raw water to the County Agency so that the County Agency could begin testing of its new water treatment plant. Subsequent to year end, in November 2017, the County Agency began full operations of its water treatment plant and thereby increased purchases of raw water from KWA. Water sales are budgeted at approximately \$3,360,000 in 2018.
- Operating expenses increased \$1,402,339 due to KWA operating the system at a higher capacity for testing purposes as noted above. Operating expenses are budgeted at approximately \$2,950,000 in fiscal year 2018.
- KWA began invoicing the County Agency and Flint for debt service in fiscal year 2017, resulting in \$17,760,242 of nonoperating capacity/debt service fee revenue.
- Bond issuance costs decreased \$563,218 due to no new debt being issued during the year.

Karegnondi Water Authority

Management's Discussion and Analysis (Continued)

Contacting Management

This financial report is intended to provide our constituents, future water users, and bondholders with a general overview of Karegnondi Water Authority's accountability for the money it receives. If there are questions about this report or if additional information is needed, we welcome anyone to contact the CEO.

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Karegnondi Water Authority

Statement of Net Position

	September 30, 2017	September 30, 2016
Assets		
Current assets:		
Cash and cash equivalents (Note 2)	\$ 5,877,667	\$ 7,159,901
Receivables:		
Accrued interest receivable	-	74,117
Other construction receivables (refunds)	81,409	-
Due from other governmental units	238,708	33,534
Total current assets	6,197,784	7,267,552
Noncurrent assets:		
Restricted assets (Note 3)	39,968,773	45,429,465
Capital assets - Assets not subject to depreciation (Note 4)	331,427,489	310,377,287
Total noncurrent assets	371,396,262	355,806,752
Total assets	377,594,046	363,074,304
Liabilities		
Current liabilities:		
Accounts payable - Operations	119,751	18,575
Accounts payable - Construction	1,537,842	-
Current portion of long-term debt	67,285,478	-
Total current liabilities	68,943,071	18,575
Noncurrent liabilities:		
Payable from restricted assets (Note 1)	21,105,256	12,573,368
Lease interest payable	5,258,648	5,118,032
Long-term debt (Note 5)	260,770,138	340,503,990
Total noncurrent liabilities	287,134,042	358,195,390
Total liabilities	356,077,113	358,213,965
Equity - Net position		
Net investment in capital assets	14,802,771	1,778,879
Restricted for debt service	7,514,028	950,515
Unrestricted	(799,866)	2,130,945
Total net position	\$ 21,516,933	\$ 4,860,339

Karegnondi Water Authority

Statement of Revenue, Expenses, and Changes in Net Position

	Years Ended	
	September 30, 2017	September 30, 2016
Operating Revenue - Changes for sales and services - Sale of water	\$ 441,074	\$ -
Operating Expenses		
Insurance expense	69,222	4,186
Repairs and maintenance	17,002	-
Utilities	289,743	-
Contractual and professional services	1,216,017	190,313
Other expenses	4,854	-
Total operating expenses	<u>1,596,838</u>	<u>194,499</u>
Operating Loss	(1,155,764)	(194,499)
Nonoperating Revenue (Expenses)		
Capacity/Debt service fee	17,760,242	-
Water supply contract operating subsidy	-	1,938,000
Bond issuance costs	-	(563,218)
Investment income	52,116	11,270
Total nonoperating revenue	<u>17,812,358</u>	<u>1,386,052</u>
Change in Net Position	16,656,594	1,191,553
Net Position - Beginning of year	4,860,339	3,668,786
Net Position - End of year	<u>\$ 21,516,933</u>	<u>\$ 4,860,339</u>

The Notes to Financial Statements are an Integral Part of this Statement.

Karegnondi Water Authority

Statement of Cash Flows

	Years Ended	
	September 30, 2017	September 30, 2016
Cash Flows from Operating Activities		
Receipts from customers	\$ 202,366	\$ -
Payments to suppliers	(1,495,662)	(185,955)
Net cash used in operating activities	(1,293,296)	(185,955)
Cash Flows from Noncapital Financing Activities - Water supply contract operating subsidy	-	1,938,000
Cash Flows from Capital and Related Financing Activities		
Bond proceeds received	-	74,370,000
Capacity/Debt service fee	17,760,242	-
Purchase of capital assets	(9,353,924)	(126,489,885)
Interest paid on capital debt	(14,422,572)	(11,036,205)
Bond issuance costs	-	(563,218)
Net cash used in capital and related financing activities	(6,016,254)	(63,719,308)
Cash Flows from Investing Activities		
Investment income	566,624	569,415
Purchase of investment securities	(3,964,103)	-
Proceeds from sale and maturities of investment securities	-	68,908,919
Net cash (used in) provided by investing activities	(3,397,479)	69,478,334
Net (Decrease) Increase in Cash and Cash Equivalents	(10,707,029)	7,511,071
Cash and Cash Equivalents - Beginning of year	18,969,730	11,458,659
Cash and Cash Equivalents - End of year	<u>\$ 8,262,701</u>	<u>\$ 18,969,730</u>
Statement of Net Position Classification of Cash and Cash Equivalents		
Cash and cash equivalents	\$ 5,877,667	\$ 7,159,901
Restricted assets	39,968,773	45,429,465
Less amounts classified as investments	(37,583,739)	(33,619,636)
Total cash and cash equivalents	<u>\$ 8,262,701</u>	<u>\$ 18,969,730</u>
Reconciliation of Operating Loss to Net Cash from Operating Activities		
Operating loss	\$ (1,155,764)	\$ (194,499)
Changes in assets and liabilities:		
Due from other governmental units	(238,708)	-
Accounts payable	101,176	8,544
Net cash used in operating activities	<u>\$ (1,293,296)</u>	<u>\$ (185,955)</u>

Noncash Investing, Capital, and Financing Activities - During the years ended September 30, 2017 and 2016, there were no noncash activities.

The Notes to Financial Statements are an Integral Part of this Statement.

Karegnondi Water Authority

Notes to Financial Statements September 30, 2017 and 2016

Note I - Summary of Significant Accounting Policies

The following is a summary of the significant accounting policies used by Karegnondi Water Authority (KWA or the "Authority"):

Reporting Entity

Karegnondi Water Authority is governed by an appointed 15-member board and was created pursuant to Act 233, *Michigan Public Acts of 1955*. Its purpose is to acquire and operate a water pipeline that provides water to its customers. The Genesee County Drain Commissioner has financial accountability for KWA. This is subject to change based upon redistribution of capacity units. KWA began full operations in November 2017.

Accounting and Reporting Principles

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

Fund Accounting

The Authority accounts for its various activities in an enterprise fund in order to demonstrate accountability for how we have spent certain resources.

Proprietary Fund - The proprietary fund includes an enterprise fund, which provides goods or services to users in exchange for charges or fees. The Authority only has one fund, the Water Fund, which provides water to customers through a pipeline constructed from Lake Huron. All activities necessary to provide such services are accounted for in this fund, including, but not limited to, administration, maintenance, billing, and collection.

Basis of Accounting

Proprietary funds use the economic resources measurement focus and the full accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

Report Presentation

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

Karegnondi Water Authority

Notes to Financial Statements September 30, 2017 and 2016

Note I - Summary of Significant Accounting Policies (Continued)

Specific Balances and Transactions

Cash and Cash Equivalents - Cash and cash equivalents include cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired.

Investments - Investments are reported at fair value or estimated fair value. Short-term investments are reported at cost, which approximates fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates.

Prepaid Items - Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items in the fund financial statements.

Restricted Assets - The Authority's bond indenture requires amounts to be set aside in a construction account and in debt service reserve accounts. These amounts have been classified as restricted assets, as well as amounts on deposit at the county being held for the construction or debt service of Karegnondi Water Authority water lines.

Liabilities Payable from Restricted Assets - The current accrued interest due and principal due on the capital lease, 2014A Water Supply System Bonds, and the 2016 Water Supply System Bonds will be paid from these restricted assets and, therefore, has been reported as a noncurrent liability to the extent of restricted assets available. The construction accounts payable will be liquidated from unspent bond proceeds and have also been reported in this category to the extent of restricted assets available.

Capital Assets - Capital assets are defined by the Authority as assets with an initial individual cost of more than \$10,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at acquisition value at the date of donation. The water transmission line costs from Lake Huron are being reported as construction in progress until the asset is fully placed in service during fiscal year 2018, after which time they will be depreciated over their estimated useful lives.

Interest incurred during the construction of capital assets of business-type activities is included as part of the capitalized value of the assets constructed. Interest expense (net of interest income) of \$14,903,686 and \$13,349,049 was capitalized as part of the cost of assets under construction for the years ended September 30, 2017 and 2016, respectively.

Long-term Obligations - Bond premiums are deferred and amortized over the life of the bonds using the effective interest method; bonds payable are reported net of the applicable bond premium. Bond issuance costs are expensed at the time they are incurred.

Karegnondi Water Authority

**Notes to Financial Statements
September 30, 2017 and 2016**

Note 1 - Summary of Significant Accounting Policies (Continued)

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

Proprietary Funds Operating Classification - Proprietary funds distinguish operating revenue and expenses from nonoperating items. Operating revenue and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of the Water Fund is charges to customers for sales and services. Operating expenses for the enterprise fund include the cost of sales and services and administrative expenses. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

Use of Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

Reclassifications - Certain amounts presented in the prior year data have been reclassified in order to be consistent with the current year's presentation.

Note 2 - Deposits and Investments

Deposits and investments are reported in the financial statements as of September 30, 2017 and 2016 as follows:

	2017	2016
Cash and cash equivalents	\$ 5,877,667	\$ 7,159,901
Restricted assets	39,968,773	45,429,465
Total	<u>\$ 45,846,440</u>	<u>\$ 52,589,366</u>

Karegnondi Water Authority

**Notes to Financial Statements
September 30, 2017 and 2016**

Note 2 - Deposits and Investments (Continued)

These amounts are classified into the following deposits and investment categories:

	Primary Government 2017	Primary Government 2016
Cash deposits with financial institutions	\$ 8,262,702	\$ 18,969,730
Investments - Certificates of deposit (with maturities in excess of 90 days)	11,406,457	5,563,744
Investments - Money markets	<u>26,177,281</u>	<u>28,055,892</u>
Total	<u>\$ 45,846,440</u>	<u>\$ 52,589,366</u>

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

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

The Authority's cash and investments are subject to several types of risk, which are examined in more detail below:

Custodial Credit Risk of Bank Deposits - Custodial credit risk is the risk that in the event of a bank failure, the Authority's deposits may not be returned to it. The Authority does not have a deposit policy for custodial credit risk. For the years ended September 30, 2017 and 2016, the Authority had \$7,234,078 and \$17,942,717, respectively, (checking and savings accounts) that were not fully insured or collateralized.

Karegnondi Water Authority

Notes to Financial Statements September 30, 2017 and 2016

Note 2 - Deposits and Investments (Continued)

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 Authority's investment policy does not restrict investment maturities, other than commercial paper, which can only be purchased with a 270-day maturity. During the year ended September 30, 2016, the Authority liquidated all repurchase agreement investments.

The Authority categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets, Level 2 inputs are significant other observable inputs, and Level 3 inputs are significant unobservable inputs. Investments that are measured at fair value using the net asset value per share (or its equivalent) as a practical expedient are not classified in the fair value hierarchy. As of September 30, 2017 and 2016, all cash and investments owned by the Authority are properly valued at cost; therefore, there is no fair value hierarchy applicable.

Note 3 - Restricted Assets

The restricted assets are restricted for the following purposes:

	2017	2016
Unspent bond proceeds and related interest	\$ 1,856,411	\$ 10,909,829
County construction deposits	528,624	900,000
General obligation bond restrictions:		
Debt reserve	26,177,281	33,619,636
Capacity/Debt service fee for debt service	11,406,457	-
Total restricted assets	\$ 39,968,773	\$ 45,429,465

The general obligation bond debt reserve is restricted for debt service per the bond agreement. The capacity/debt service fee is restricted per the bond agreement for current principal and interest payments on general obligation bonds and the capital lease.

Net position has been restricted at September 30, 2017 and 2016 for \$7,514,028 and \$950,515, respectively, related to the restricted assets held for debt service net of the related payable.

Karegnondi Water Authority

Notes to Financial Statements September 30, 2017 and 2016

Note 4 - Capital Assets

Capital asset activity of the Authority's business-type activities for the years ended September 30, 2017 and 2016 was as follows:

Business-type Activities	Balance October 1, 2016	Additions	Disposals	Balance September 30, 2017
Capital assets not being depreciated - Construction in progress	<u>\$ 310,377,287</u>	<u>\$ 21,050,202</u>	<u>\$ -</u>	<u>\$ 331,427,489</u>
	Balance October 1, 2015	Additions	Disposals	Balance September 1, 2016
Capital assets not being depreciated - Construction in progress	<u>\$ 181,395,807</u>	<u>\$ 128,981,480</u>	<u>\$ -</u>	<u>\$ 310,377,287</u>

Construction Commitments - The Authority has an active construction project at year end. The project is to complete the water pipeline. At year end, the Authority's commitment with contractors is as follows:

	Spent to Date	Remaining Commitment
Water pipeline	<u>\$ 257,489,982</u>	<u>\$ 3,920,204</u>

Note 5 - Long-term Debt

The Authority issues bonds to provide for the acquisition and construction of major capital facilities. General obligation bonds are direct obligations and pledge the full faith and credit of the Authority.

Description	Amount
Business-type Activities	
2014A Water Supply System Bond, used to construct water pipeline, bearing interest from 3 percent to 5.25 percent, maturing in 2043	\$ 220,500,000
2016 Water Supply System Bond, used to construct water pipeline, bearing interest on the first of each month at a variable annual rate of 3.15 percent plus 70 percent of the 30-day LIBOR, maturing in 2018	<u>74,370,000</u>
Total	\$ 294,870,000

Karegnondi Water Authority

Notes to Financial Statements September 30, 2017 and 2016

Note 5 - Long-term Debt (Continued)

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Business-type Activities - 2017					
Bonds	\$ 294,870,000	\$ -	\$ -	\$ 294,870,000	\$ 78,475,000
Plus deferred amounts - Issuance premiums	10,633,990	-	393,852	10,240,138	-
Total bonds payable	305,503,990	-	393,852	305,110,138	78,475,000
Capital lease (Note 6)	35,000,000	-	-	35,000,000	865,000
Total business-type activities - 2017	\$ 340,503,990	\$ -	\$ 393,852	\$ 340,110,138	\$ 79,340,000
Business-type Activities - 2016					
Bonds	\$ 220,500,000	\$ 74,370,000	\$ -	\$ 294,870,000	\$ -
Plus deferred amounts - Issuance premiums	11,027,841	-	393,851	10,633,990	-
Total bonds payable	231,527,841	74,370,000	393,851	305,503,990	-
Capital lease (Note 6)	35,000,000	-	-	35,000,000	-
Total business-type activities - 2016	\$ 266,527,841	\$ 74,370,000	\$ 393,851	\$ 340,503,990	\$ -

A total of \$12,054,522 of the \$79,340,000 due within one year is included in payable from restricted assets on the statement of net position.

Total interest expense for the years ended September 30, 2017 and 2016 was \$15,418,194, of which \$14,903,686 (interest expense net of interest income) was capitalized, and \$13,907,194, of which \$13,349,049 (interest expense net of interest income) was capitalized, respectively.

Management is currently in the process of refinancing the 2016 Water Supply System Bond that matures in 2018. See Note 9 for further information.

Karegnondi Water Authority

Notes to Financial Statements September 30, 2017 and 2016

Note 5 - Long-term Debt (Continued)

Annual debt service requirements to maturity for the above bonds and note obligations are as follows:

Years Ending September 30	Business-type Activities		
	Principal	Interest	Total
2018	\$ 78,475,000	\$ 14,476,840	\$ 92,951,840
2019	4,275,000	10,861,863	15,136,863
2020	4,475,000	10,669,612	15,144,612
2021	4,655,000	10,471,362	15,126,362
2022	4,870,000	10,263,238	15,133,238
2023-2027	28,035,000	47,439,563	75,474,563
2028-2032	35,960,000	39,271,875	75,231,875
2033-2037	46,235,000	28,759,669	74,994,669
2038-2042	59,560,000	15,071,162	74,631,162
2043-2044	28,330,000	1,433,750	29,763,750
Total	\$ 294,870,000	\$ 188,718,934	\$ 483,588,934

Note 6 - Capital Lease

Capital Leases - The Authority has entered into a lease agreement as lessee for financing the purchase of the intake pump station. This lease agreement qualifies as a capital lease for accounting purposes and, therefore, has been recorded at the present value of the future minimum lease payments as of the inception date. The future minimum lease obligations and the net present value are as follows:

Years Ending September 30	Amount
2018	\$ 2,509,887
2019	2,509,887
2020	2,507,587
2021	2,504,813
2022	2,499,938
2023-2027	12,488,056
2028-2032	12,441,513
2033-2037	12,378,191
2038-2042	12,513,288
Total minimum lease payments	62,353,160
Less amount representing interest	(27,353,160)
Present value	\$ 35,000,000

Karegnondi Water Authority

Notes to Financial Statements September 30, 2017 and 2016

Note 6 - Capital Lease (Continued)

Interest has been accruing on the capital lease since inception. As of September 30, 2017, \$692,578 is current accrued interest payable and \$5,258,648 is long-term accrued interest payable. The current interest payable is included in noncurrent liabilities - payable from restricted assets.

Note 7 - Capacity/Debt Service Fee

KWA entered into two separate water purchase contracts to supply untreated water, each with an effective date of October 1, 2013. A contract with the Genesee County Drain Commissioner provides the right to the delivery and use of up to 42 million gallons per day of untreated water. In July 2017, the System began providing untreated water to the Genesee County Drain Commissioner for testing purposes. A contract with the City of Flint, Michigan provides the right to the delivery and use of up to 18 million gallons per day of untreated water.

Under a long-term water supply contract entered into by the City of Flint, Michigan (Flint) and the Great Lakes Water Authority (GLWA) as of December 1, 2017 (the "GLWA Water Service Contract"), GLWA will supply Flint with treated water as its primary water source for an initial period of 30 years. Pursuant to the terms of the GLWA Water Service Contract, Flint has granted to GLWA certain rights of Flint under the Flint Water Purchase Contract to untreated water from the System. A KWA Financing Contract is included in the KWA Water Purchase Contracts and sets forth the manner in which the capital costs of the System facilities will be allocated. Under the KWA Financing Contract, the City of Flint, Michigan and the Genesee County Drain Commissioner are responsible for paying approximately 34 percent and 66 percent, respectively, of the debt service on the KWA System Bonds. (This allocation takes into account and credits the Genesee County Drain Commissioner for financing and being responsible for the payment of 100 percent of the costs of the Intake portion of the project.) These debt service payments by the City of Flint, Michigan and the Genesee County Drain Commissioner constitute the 2017 Capacity/Debt Service Fee collected in the amount of \$17,760,242 as of September 30, 2017.

Note 8 - Related Party Transactions

The 2014A and 2016 Water Supply System Bonds of Karegnondi Water Authority are guaranteed through 2043 by both Genesee County and the City of Flint, Michigan in the amounts of approximately 66 percent and 34 percent, respectively, in accordance with the Karegnondi Water Authority Financing Contract. The Genesee County Division of Water and Waste Services provides management of the day-to-day operations of Karegnondi Water Authority, for which it allocates a portion of the costs to the Authority. Water and Waste Services has also issued \$35 million of bonds that it used to construct the water intake and related pumps for KWA. Once the bonds are redeemed, the title to the water intake and related pumps will be transferred to KWA.

Karegnondi Water Authority

Notes to Financial Statements September 30, 2017 and 2016

Note 9 - Subsequent Events

In late November, 2017, KWA and the County Agency began providing water to many of the Genesee County communities.

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APPENDIX B

**COUNTY OF GENESEE
GENERAL FINANCIAL, ECONOMIC AND STATISTICAL INFORMATION**

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APPENDIX B*
COUNTY OF GENESEE
GENERAL FINANCIAL, ECONOMIC & STATISTICAL INFORMATION

LOCATION AND DESCRIPTION

The County of Genesee (the “County”) is located in the central-eastern portion of Michigan’s Lower Peninsula, and encompasses an area of 643 square miles.

POPULATION

The U.S. Census reported historical populations and U.S. Census 2016 estimated population for the County as follows:

2016 Estimate	413,090
2010 U.S. Census	425,790
2000 U.S. Census	436,141
1990 U.S. Census	430,459

Source: U.S. Census Bureau via American FactFinder website

FISCAL YEAR

The County’s fiscal year begins on October 1st and ends on September 30th.

FORM OF GOVERNMENT

The County is governed by a legislative body consisting of nine members forming the County Board of Commissioners, each of whom is elected for terms of two years from districts of approximately equal population. County officials include the County Treasurer, County Clerk/Register, Prosecuting Attorney, Drain Commissioner, and Sheriff. These officials are elected at large for four-year terms.

PROPERTY VALUATIONS

Article IX, Section 3, of the Michigan Constitution provides that the proportion of true cash value at which property shall be assessed shall not exceed 50% of true cash value. The Michigan Legislature by statute has provided that property shall be assessed at 50% of its true cash value, except as described below. The Michigan Legislature or the electorate may at some future time reduce the percentage below 50% of true cash value.

On March 15, 1994, the electors of the State approved an amendment to the Michigan Constitution permitting the Legislature to authorize ad valorem taxes on a non-uniform basis. The legislation implementing this constitutional amendment added a new measure of property value known as “Taxable Value.” Since 1995, taxable property has had two valuations—state equalized valuation (“SEV”) and Taxable Value. Property taxes are levied on Taxable Value. Generally, the Taxable Value of property is the lesser of: (a) the property’s Taxable Value in the immediately preceding year minus any losses, multiplied by the lesser of 5% or the inflation rate, plus all additions, or (b) the property’s current SEV. Under certain circumstances, therefore, the Taxable Value of property may be different from the same property’s SEV.

When property is sold or transferred, Taxable Value is adjusted to the SEV, which under existing law is 50% of the current true cash value. The Taxable Value of new construction is equal to current SEV. The Taxable Value and SEV of existing property are also adjusted annually for additions and losses.

*Information included in Appendix B of this Official Statement was obtained from the County unless otherwise noted.

Responsibility for assessing taxable property rests with the local assessing officer of each township and city. Any property owner may appeal the assessment to the local assessor, to the local board of review and ultimately to the Michigan Tax Tribunal.

In addition to limiting the annual increase in Taxable Value, the Michigan Constitution mandates a system of equalization of assessments. Although the assessor for each local unit of government within a county is responsible for actually assessing at 50% of true cash value, adjusted for Taxable Value purposes, the final SEV and Taxable Value are arrived at through several steps. Assessments are established initially by the municipal assessor.

Municipal assessments are then equalized to the 50% levels as determined by the County Department of Equalization. Thereafter, the State equalizes the various counties in relation to each other. SEV is important, aside from its use in determining Taxable Value for the purpose of levying ad valorem property taxes, because of its role in the spreading of taxes between overlapping jurisdictions, the distribution of various State aid programs, State revenue sharing and in the calculation of debt limits.

Property that is exempt from property taxes (e.g., churches, government property, public schools) is not included in the SEV or Taxable Value data in this Appendix B. Property granted tax abatements under Act 198, Public Acts of Michigan, 1974, as amended, is recorded on a separate tax roll while subject to tax abatement. The valuation of tax abated property is based upon SEV but is not included in either the SEV or Taxable Value data in this Appendix B except as noted.

History of Valuations

A history of the property valuations in the County is shown below:

Property Value as of 12/31	Levy/Valuation Year	Total Taxable Value	Percent Change	State Equalized Value	Percent Change
2016	2017	\$8,962,065,523	2.16%	\$10,821,071,491	5.32%
2015	2016	8,772,245,705	0.73	10,274,301,002	5.38
2014	2015	8,708,327,172	1.74	9,749,581,995	5.51
2013	2014	8,559,521,911	-0.37	9,240,392,881	2.71
2012	2013	8,591,144,574	-2.43	8,996,549,108	-2.04

A summary of the 2017 valuation subject to taxation is as follows:

2017 Taxable Value	\$8,962,065,523
Plus: 2017 Equivalent IFT Taxable Value ¹	28,667,212
Total 2017 Equivalent Taxable Value	\$8,990,732,735

¹See "INDUSTRIAL FACILITY TAX ABATEMENTS" herein.

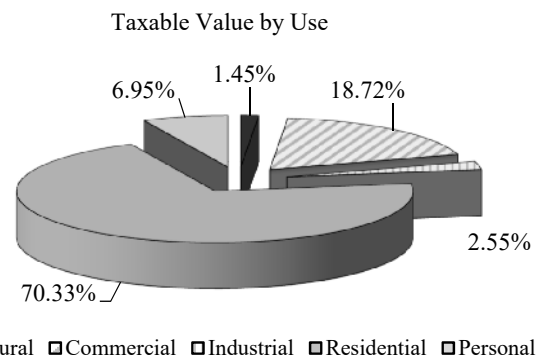
Source: Genesee County Equalization Department

Valuation Composition

A breakdown of the County's 2017 Taxable Value by class and use and municipality is as follows:

By Class:	2017 Taxable Value	Percent of Total
Real Property	\$8,339,489,564	93.05%
Personal Property	622,575,959	6.95
TOTAL	\$8,962,065,523	100.00%

By Use:	2017 Taxable Value	Percent of Total
Agricultural	\$129,780,959	1.45%
Commercial	1,677,687,876	18.72
Industrial	228,927,663	2.55
Residential	6,303,093,066	70.33
Personal	622,575,959	6.95
TOTAL	\$8,962,065,523	100.00%



A breakdown of the County's 2017 Taxable Value by municipality is as follows:

By Municipality:			By Municipality:		
<i>Townships</i>			<i>Townships</i>		
Argentine	\$222,742,849	2.49%	Thetford	\$156,393,540	1.75%
Atlas	305,502,746	3.41	Vienna	334,116,574	3.73
Clayton	201,853,333	2.25	<i>Cities</i>		
Davison	511,209,395	5.70	Burton	549,985,057	6.14%
Fenton	760,411,796	8.48	Clio	40,869,682	0.46
Flint	788,657,432	8.80	Davison	104,578,193	1.17
Flushing	271,427,372	3.03	Fenton	392,250,885	4.38
Forest	122,384,725	1.37	Flint	714,582,817	7.97
Gaines	176,963,868	1.97	Flushing	180,209,230	2.01
Genesee	294,246,715	3.28	Grand Blanc	220,679,527	2.46
Grand Blanc	1,214,622,207	13.55	Linden	101,982,499	1.14
Montrose	127,219,434	1.42	Montrose	23,467,566	0.26
Mount Morris	295,152,377	3.29	Mount Morris	27,557,432	0.31
Mundy	462,664,406	5.16	Swartz Creek	145,856,238	1.63
Richfield	214,477,628	2.39	TOTAL	\$8,962,065,523	100.00%

Source: Genesee County Equalization Department.

INDUSTRIAL FACILITY TAX ABATEMENTS

Under the provisions of Act 198 of the Public Acts of Michigan, 1978, as amended (“Act 198”), plant rehabilitation districts and/or industrial development districts may be established. Businesses in these districts are offered certain property tax incentives to encourage restoration or replacement of obsolete facilities and to attract new facilities in the area. The industrial facilities tax (“IFT”) is paid, at a lesser effective rate and in lieu of ad valorem property taxes, on such facilities for a period of up to 12 years. Qualifying facilities are issued abatement certificates for this period.

After expiration of the abatement certificate, the then-current SEV of the facility is returned to the ad valorem tax roll. The owner of such facility may obtain a new certificate, provided it has complied with the provisions of Act 198.

The County has several IFT abatements outstanding with a total 2017 Taxable Value of \$57,334,424, all of which is taxed at half rate. For purposes of computing “Equivalent” Taxable Value, it has been shown in the “History of Valuations” table above as 50% of the 2017 Taxable Value.

Source: Genesee County Equalization Department

TAX INCREMENT AUTHORITIES

Act 450 of the Public Acts of Michigan, 1980, as amended (the “TIFA Act”), Act 197 of the Public Acts of Michigan, 1975, as amended (the “DDA Act”), Act 281 of the Public Acts of Michigan, 1986, as amended (the “LDFA Act”) and Act 381 of the Public Acts of Michigan, 1996, as amended (the “Brownfield Act”) (together the “TIF Acts”) authorize the designation of specific districts known as Tax Increment Finance Authority (“TIFA”) Districts, Downtown Development Authority (“DDA”) Districts, Local Development Finance Authority (“LDFA”) Districts or Brownfield Redevelopment Authority (“BRDA”) Districts, authorized to formulate tax increment financing plans for public improvements, economic development, neighborhood revitalization, historic preservation and environmental cleanup with the district.

Tax increment financing permits the TIFA, DDA, LDFA, and BRDA to capture tax revenues attributable to increases in value (“TIF Captured Value”) of real and personal property located within an approved development area while any tax increment financing plans by an established district are in place. These captured revenues are used by the Districts and are not passed on to the local taxing jurisdictions.

PROPERTY TAX REFORM

The voters of the State approved enactment of Michigan Public Acts 153 and 154 of 2013 and Acts 80 and 86 through 93 of 2014 by referendum on August 5, 2014 (collectively, the “PPT Reform Acts”), which significantly reformed Personal Property tax in Michigan.

Under the PPT Reform Acts, owners of industrial and commercial Personal Property with a total true cash value of \$80,000 or less may file an affidavit claiming a Personal Property tax exemption. To be eligible for the exemption, all of the commercial or industrial Personal Property within a city or township that is owned by, leased to, or controlled by the claimant has to have an accumulated true cash value of \$80,000 or less. Beginning in calendar year 2016, owners of certain manufacturing Personal Property that was either purchased after December 31, 2012, or that is at least 10 years old may claim an exemption from Personal Property tax. By 2022, all eligible manufacturing Personal Property will be at least 10 years old or purchased after December 31, 2012, so that it could be exempted from Personal Property tax.

To replace personal property tax revenues lost by local governments, including cities, the PPT Reform Acts divided the existing state use tax into two components, a “state share tax” and a “local community stabilization share tax,” and established the Local Community Stabilization Authority (the “LCSA”) to administer distribution of the local community stabilization share. The Michigan Department of Treasury collects the local community stabilization share tax on behalf of the LCSA. The local community stabilization share tax revenues are not subject to the annual appropriations process and are provided to the LCSA for distribution pursuant to a statutory formula. The statutory formula is anticipated to provide 100% reimbursement to local governments for losses due to the new personal property tax exemptions.

The ultimate nature, extent and impact of other tax and revenue measures, which are from time to time considered, cannot currently be predicted. No assurance can be given that any future legislation or administrative action, if enacted or implemented, will not adversely affect the market price or marketability of the Bonds, or otherwise prevent Bondholders from realizing the full current benefit of an investment therein. Purchasers of the Bonds should be alert to the potential effect of such measures upon the Bonds, the security therefor, and the operations of the County.

MAJOR TAXPAYERS

The County’s top ten taxpayers and their 2017 Taxable Values are as follows:

Taxpayer	Product/Service	Taxable Value	"Equivalent" IFT Value ¹	Total Valuation
Consumers Energy Company	Utility	\$282,111,750	\$0	\$282,111,750
General Motors Corporation	Automotive	84,483,493	10,218,243	94,701,736
Wal-Mart/Sam's Club	Retail/Grocery	34,124,941	0	34,124,941
Meijer, Inc./Goodwill Co., Inc. ²	Retail/Grocery	26,784,946	0	26,784,946
Edward Rose Assoc.	Construction	26,613,609	0	26,613,609
Comcast Cablevision	Telecommunications	21,713,507	0	21,713,507
Genesys Regional Medical	Office Space	21,508,408	0	21,508,408
Lsref3 Spartan LLC	Shopping Center	20,178,000	0	20,178,000
Tobin Group/Distinctive Land	Commercial/Apartment Complex	18,496,084	0	18,496,084
Michigan Electric Transmission	Utility	18,254,700	0	18,254,700
TOTALS		\$554,269,438	\$10,218,243	\$564,487,681
Total 2017 Value		\$8,962,065,523		\$8,962,065,523
Top 10 Taxpayers as a % of 2017 Total Value		6.18%		6.30%

¹Represents 50% of the actual Taxable Value. See “INDUSTRIAL FACILITY TAX ABATEMENTS,” herein.

²Appealing its taxes with the Michigan Tax Tribunal.

Source: Genesee County Equalization Department

CONSTITUTIONAL ROLLBACK AND ASSESSMENT CAPS

Article IX, Section 31 of the Michigan Constitution requires that if the total value of existing taxable property in a local taxing unit, exclusive of new construction and improvements, increases faster than the U.S. Consumer Price

Index from one year to the next, the maximum authorized tax rate for that local taxing unit must be reduced through a Millage Reduction Fraction (“Headlee Amendment”) unless reversed by a vote of the electorate of the local taxing unit.

TAX RATES - (Per \$1,000 of Valuation)

The following table shows the total County tax rates for the past five years.

Genesee County	2017	2016	2015	2014	2013
County Operating	5.5072	5.5072	5.5072	5.5072	5.5072
County Parks & Recreation	0.7500	0.7500	0.7500	0.7500	0.4847
County Paramedics	0.4847	0.4847	0.4847	0.4847	0.4847
Senior Services	0.7000	0.7000	0.7000	0.7000	0.7000
Uninsured Health Care	1.0000	1.0000	1.0000	1.0000	1.0000
Veterans	0.1000	0.1000	0.1000	0.1000	0.1000
MSU Extension	0.0400	0.0400	0.0400	0.0400	0.0000
Animal Control	0.2000	0.2000	0.2000	0.2000	0.0000
Total County	8.7819	8.7819	8.7819	8.7819	8.2766
Airport Authority	0.4847	0.4847	0.4847	0.4847	0.4847
District Library	0.9980	0.9977	0.9981	0.9984	0.9981
Genesee ISD	3.7826	3.7826	3.5341	3.5341	3.5341
Mott Community College	2.8096	2.8096	2.8596	2.8593	2.8596

Source: Genesee County Equalization Department

TAX RATE LIMITATIONS

Article IX, Section 6, Michigan Constitution of 1963 provides, in part:

“Except as otherwise provided in this Constitution, the total amount of general ad valorem taxes imposed upon real and tangible personal property for all purposes in any one year shall not exceed 15 mills on each dollar of the assessed valuation of property as finally equalized.”

Section 6 further provides that by a majority vote of qualified electors of the County, the 15 mill limitation may be increased to a total of not to exceed 18 mills, and the millage of the local units involved shall then permanently be fixed within that greater millage limitation.

Act 62, Public Acts of Michigan, 1933, as amended, defines local units as counties, townships, villages, cities, school districts, community college districts, intermediate school districts, and all other divisions, districts, and organizations of government that are or may be established with the power to levy taxes, except villages and cities for which there are provisions in their charters or general law fixing maximum limits on the power to levy taxes against property.

The current millage rates are as follows:

Purpose	Millage Authorized	2017	Expiration Date of Levy
		Maximum Allowable Millage after Rollback ¹	
County Operating	5.6800	5.5072	N/A
County Parks & Recreation	0.7500	0.7500	December 2023
County Paramedics	0.4847	0.4847	December 2026
Senior Services	0.7000	0.7000	December 2025
Uninsured Health Care	1.0000	1.0000	December 2019
Veterans	0.1000	0.1000	December 2021
MSU Extension	0.0400	0.0400	December 2017
Animal Control	0.2000	0.2000	December 2020

¹See “CONSTITUTIONAL ROLLBACK AND ASSESSMENT CAPS” herein.

In addition, Article IX, Section 6, permits the levy of millage in excess of the above for:

1. All debt service on tax supported bonds issued prior to December 23, 1978 or tax supported issues which have been approved by the voters for which the County has pledged its full faith and credit.
2. Operating purposes for a specified period of time provided that such increased millage approved by a majority of the qualified electors of the local unit.

TAX LEVIES AND COLLECTIONS

The County’s fiscal year begins October 1 and ends September 30. The County’s property taxes are due July 1 and December 1 of each fiscal year and are payable without penalty or interest on or before the following September 14 and February 14, respectively. All real property taxes remaining unpaid on March 1 of the year following the levy are turned over to the County Treasurer for collection. Genesee County annually pays from its 100% Tax Payment Fund delinquent taxes on real property to all taxing units in the County, including the County’s, shortly after the date delinquent taxes are returned to the County Treasurer for collection. The payments from this fund have resulted in collections of taxes approaching 100% for all taxing units. Delinquent personal property taxes are negligible.

A history of tax levies and collections for the County is as follows:

Tax Levy Year	Fiscal Year	Total Tax Levy	Collections to March 1, of Following Year		Collections Plus Funding to September 30, of Following Year	
2017	2018	\$77,806,699*	(In process of collection)		N/A	
2016	2017	77,806,999	\$69,898,913	89.84%	\$77,806,999	100.00%
2015	2016	75,950,262	69,400,618	91.38	75,950,262	100.00
2014	2015	75,273,713	68,312,762	90.75	75,273,713	100.00
2013	2014	71,229,062	67,541,004	94.82	71,229,062	100.00

*Estimated.

Source: Genesee County Treasurer’s Office

The 100% Tax Payment Fund is financed through the issuance of General Obligation Limited Tax Notes (GOLTNs) by the County. The ability of the County to issue such GOLTNs is subject to market conditions at the time of offering. In addition, Act 206, Public Acts of Michigan, 1893, as amended, provides in part that: “The primary obligation to pay to the county the amount of taxes and interest thereon shall rest with the local taxing units, and if the delinquent taxes which are due and payable to the county are not received by the county for any reason, the county has full right of recourse against the taxing unit to recover the amount thereof and interest thereon...” Each year, a tax sale is held by the County at which lands delinquent for taxes assessed in the third year preceding the sale, or in a prior year, are sold for the total of the unpaid taxes of those years.

REVENUES FROM THE STATE OF MICHIGAN

The County receives revenue sharing payments from the State of Michigan under the State Revenue Sharing Act of 1971, as amended (the “Revenue Sharing Act”). Under the Revenue Sharing Act the County receives its pro rata share of State revenue sharing distributions on a per capita basis. The County’s receipts could vary depending on the population of the County compared to the population of the State as a whole. The County’s revenue sharing distribution is subject to annual legislative appropriation and may be reduced or delayed by Executive Order during any State fiscal year in which the Governor, with the approval of the State Legislature’s appropriation committees, determines that actual revenues will be less than the revenue estimates on which appropriations were based.

The State’s ability to make revenue sharing payments to the County in the amounts and at the times specified in the Revenue Sharing Act is subject to the State’s overall financial condition and its ability to finance any temporary cash flow deficiencies. Act 357, Public Acts of Michigan, 2004 (“Act 357”) amended the General Property Tax Act to temporarily eliminate statutory revenue sharing payments to counties by creating a reserve fund, against which counties could draw in lieu of annual revenue sharing payments, paid for by the permanent advancement of the counties’ property tax levy from December to July each year, beginning in 2005. Under Act 357, a county would resume receiving state revenue sharing payments in the first year in which the county’s property tax revenue reserve was less than the amount the county would have otherwise received in state revenue sharing payments. The County resumed receiving State revenue sharing payments during its fiscal year ending September 30, 2013.

Under the fiscal year 2018 budget, signed into law on July 14, 2017 by Governor Snyder, a portion of county revenue sharing payment distributions are made pursuant to the Revenue Sharing Act and a portion are distributed through an incentive-based program called the county incentive program (“CIP”). For fiscal year 2018, the county revenue sharing program has an appropriation of \$220 million, an increase over the fiscal year 2017 amount of \$217.2 million, with \$174.2 million being distributed pursuant to the Revenue Sharing Act and \$43 million being distributed through the CIP. The CIP provides eligible counties distributions for complying with “best practices” to increase transparency. Eligible counties are those that would be eligible to resume receiving state revenue sharing payments under Act 357.

Under the fiscal year 2018 CIP, an eligible county can receive CIP payments if it meets requirements for accountability and transparency, including making a citizen’s guide to its finances, a performance dashboard, a debt service report and a two-year budget projection available for public viewing. There can be no assurance of what amount, if any, the County would receive under CIP.

General Fund Revenues from the State

The County exhausted its Revenue Sharing Reserve Fund during the 2011/2012 fiscal year and resumed receiving State Revenue Sharing payments during its fiscal year ending September 30, 2013. The County will rely on the State of Michigan for future Revenue Sharing payments.

Fiscal Year Ended September 30th	Revenue Sharing Payments ¹
2017	\$9,979,090
2016	9,882,658
2015	9,865,339
2014	7,909,913
2013	7,541,499
2012	7,487,510

¹Amounts do not include State gas and weight tax distributions.

Source: *County of Genesee*

Purchasers of the Bonds should be alerted to further modifications to revenue sharing payments to Michigan local governmental units, to potential consequent impact on the County’s general fund condition, and to the potential impact upon the market price or marketability of the Bonds resulting from changes in revenues received by the County from the State.

LABOR FORCE

A breakdown of the number of employees of the County and their affiliation with organized groups follows:

Bargaining Unit	No. of Employees	Exp. Date of Contract
AFSCME		
496-00 Clerical	269	12/31/18
496-01 Technical	172	09/30/18
496-02 GVRC Workers	26	03/31/18
496-03 Drain Service	6	12/31/18
496-10 Mobile Meals	23	12/31/10*
916-05 & 916-06 Sheriff Supervisory	30	12/31/17*
916-01, 02, 03, 04, 08, 09, 10 Supervisors	51	06/30/18
POAM - Police Officers & Jail Security	206	11/05/17*
Teamsters - Local 214 (Park Maintenance)	7	06/30/18
Teamsters - Local 214 (Friend of the Court)	5	12/31/16*
Professional Court Officers Association	40	12/31/18
Judicial Secretary's Association	8	12/31/18
Non-Union		
Full-Time Employees	59	N/A
Seasonal Employees	359	N/A
Elected Officials	34	N/A
TOTAL	1,295	

*In negotiations.

Source: County of Genesee

RETIREMENT PLAN

Defined Benefit Plan

The County administers a contributory agent multi-employer defined benefit pension plan known as the Genesee County Employees Retirement System (GCERS or the "System"). The plan is included as a pension trust fund in the County's Comprehensive Annual Financial Report. GCERS issues a publicly available annual financial report that includes financial statements and required supplementary information for the system as a whole. This report can be obtained from the Retirement Coordinator at the County's administrative offices, located at 1101 Beach Street, Flint, MI 48502 or on the State of Michigan's website.

GCERS was organized pursuant to Section 12a of Act 156, State of Michigan Public Acts of 1851 (MSA 5.33(1); MCLA 46.12a) as amended. GCERS was established by ordinance in 1946, beginning with general County employees and the County Road Commission. Genesee County Water and Waste Services joined the System in 1956, Genesee County Community Mental Health joined in 1966, the City of Mt. Morris in 1969, and the Genesee District Library in 1980. GCERS is regulated under the Genesee County Employees' Retirement System Ordinance, the sections of which have been approved by the State of Michigan Pension Commission. All new-hire general County and Community Mental Health employees hired after November 20, 2017 may only join the defined contribution plan.

The plan provides for vesting of benefits after eight years of service. Generally, participants may elect normal retirement with 20 to 25 years of credited service, regardless of age, or at age 60 with eight or more years of credited service. Retirement benefits vary by employer group, and are payable monthly. Generally, the retirement benefit is equal to the employee's final average compensation times the sum of 2.4 - 2.5 percent for each year of credited service. All employers allow members to elect a deferred annuity providing a lifetime benefit. The length of service required to elect the deferred annuity is either 8 or 15 years, depending on the date of employment and employer group.

At December 31, 2016, membership consisted of 1,005 inactive plan members currently receiving benefits, 26 inactive plan members entitled to benefits but not yet receiving them, and 170 current active plan members.

Schedule of Funding Progress

Actuarial Valuation 31-Dec	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Total Unfunded Actuarial Accrued Liability (UAAL)	Actuarial Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
2016	\$416,923,172	\$598,795,199	\$181,872,027	69.6%	\$39,466,036	460.8%
2015	428,816,188	576,905,433	148,089,245	74.3	41,687,051	355.2
2014	426,294,429	569,836,295	143,541,866	74.8	43,723,698	328.3
2013	409,675,263	548,195,654	138,520,391	74.7	47,627,546	290.8
2012	387,979,375	559,390,939	171,411,564	69.4	49,736,813	344.6

Schedule of Employer Contributions

Fiscal Year Ended 30-Sep	Employer Contributions
2017	\$18,269,647
2016	17,112,858
2015	15,656,672
2014	16,047,170
2013	14,736,420
2012	12,232,054

For further information on the County's Defined Benefit Plan, refer to Note 9 in the County's fiscal year ended September 30, 2017 audited financial statements.

Source: Genesee County Audited Financial Statements

Defined Contribution Plan

The County offers a defined contribution pension plan as an alternative to the defined benefit pension plan. The International City Managers Association (ICMA) Retirement Corporation administers the plan, and the County Board of Commissioners has authority over plan provisions and contribution requirements. All employees are eligible to participate in this plan, if not participating in the defined benefit plan.

The County is required to contribute 8 percent to 10 percent of eligible employees' annual covered payroll, and employees are required to contribute either 3 percent or 7 percent of covered payroll. Employees are fully vested after five years of service.

Schedule of Employer Contributions

Fiscal Year Ended 30-Sep	Employer Contributions
2017	\$3,339,795
2016	3,137,217
2015	2,939,371
2014	2,759,434
2013	2,705,916
2012	2,963,297

For further information on the County's Defined Contribution Plan, refer to Note 10 in the County's fiscal year ended September 30, 2017 audited financial statements.

Source: Genesee County Audited Financial Statements

OTHER POST-EMPLOYMENT BENEFITS

Genesee County provides other postemployment benefits (medical, optical, dental, and life insurance) to County retirees who meet eligibility requirements. This is a single employer defined benefit plan administered by the County. The benefits are provided under collective bargaining agreements to union employees and by resolution of the County Board of Commissioners for employees not covered under collective bargaining agreements. The valuation for this benefit plan has been conducted in accordance with generally accepted actuarial principles and practices. Data concerning active members, retirees, and beneficiaries was provided by Genesee County. This plan does not issue separate stand-alone financial statements.

Schedule of Funding Progress

Actuarial Valuation 30-Sept	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Total Unfunded Actuarial Accrued Liability (UAAL)	Actuarial Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
2016	\$32,821,620	\$341,629,201	\$308,807,581	9.6%	\$25,167,676	1,227.0%
2014	41,485,721	344,160,043	302,674,322	12.0	33,343,864	907.7
2012	43,313,587	308,208,023	264,894,436	14.1	36,987,137	716.2
2010	41,579,396	286,696,396	245,117,000	14.5	58,028,000	422.4

Schedule of Employer Contributions

Fiscal Year Ended 30-Sep	Employer Contributions
2017	\$18,883,352
2016	18,883,352
2015	19,066,021
2014	19,066,021
2013	18,549,049
2012	18,549,049

For further information on the County's Other Post-employment Benefits, refer to Note 11 in the County's fiscal year ended September 30, 2017 audited financial statements.

Source: Genesee County Audited Financial Statements

DEBT STATEMENT - (As of 03/22/18 – including the Bonds described herein)

Each series of bonds marked “LT” is payable in the first instance from a specified source and is payable from the general funds of the County in the event of insufficiency of the specified source. The County is not authorized to levy taxes beyond constitutional and statutory tax rate limitations with respect to the bonds marked “LT.”

DIRECT DEBT

	Dated Date	Outstanding Gross Amount	Unit Share Amount	County's Share
<i>General Obligation Bonds</i>				
Capital Improvement, LT	11/01/04	\$1,565,000	\$0	\$1,565,000
Building Authority, Refunding, LT	06/23/05	3,080,000	0	3,080,000
Sewer Refunding, Mt. Morris, LT	12/22/05	615,000	615,000	0
Sewer, Western Trunk No. 1, LT	09/01/06	755,000	755,000	0
Sewer Refunding No. 3, LT	11/16/07	1,820,000	1,820,000	0
Qual. Energy Conservation Bonds, LT	12/01/10	5,915,784	0	5,915,784
Water, Fenton Rd. Watermain Project, LT	04/08/11	699,000	699,000	0
Capital Improvement, LT	11/01/11	320,000	0	320,000
Gilkey Creek and Branch Drain Drainage District, LT	12/01/11	1,205,000	1,178,972	26,028
Refunding, LT	04/12/12	2,600,000	0	2,600,000
Water, Mt. Morris Twp, LT	09/17/15	970,000	970,000	0
Subtotal General Obligation Bonds		\$19,544,784	\$6,037,972	\$13,506,812
<i>Authority Bonds</i>				
Brownfield Redev. Ref., LT	12/13/17	\$11,040,000	\$0	\$11,040,000
Subtotal Authority Bonds		\$11,040,000	\$0	\$11,040,000
<i>Revenue Bonds with LT Pledge</i>				
NE Sewer, Series 2005A - SRF	06/23/05	\$10,860,000	\$0	\$10,860,000
NE Sewer, Series 2005B - SRF	09/22/05	7,600,000	0	7,600,000
NE Sewer, Series 2006A - SRF	09/21/06	1,525,000	0	1,525,000
NE Sewer, Series 2006B - SRF	12/14/06	4,160,000	0	4,160,000
NE Sewer, Series 2006C - SRF	12/14/06	2,340,000	0	2,340,000
Sewer, Northeast Ext., 2007A	09/20/07	6,190,000	0	6,190,000
Sewer, Sewage Disposal	02/12/09	675,000	0	675,000
Sewer No. 3	01/22/10	765,000	0	765,000
NE Sewer	01/22/10	10,240,000	0	10,240,000
Sewer, Interceptors and Treatment Facilities (Ser A)	04/08/11	1,085,000	0	1,085,000
Sewer, Interceptors and Treatment Facilities (Ser B)	07/28/11	4,460,000	0	4,460,000
Water Supply System Revenue Bonds	10/03/13	31,810,000	0	31,810,000
Water and Sewer Revenue Refunding Bonds	08/04/14	26,540,000	0	26,540,000
Water Supply System Revenue Bonds	04/30/15	59,395,000	0	59,395,000
Water Supply System Revenue Bonds, Series 2016A	06/24/16	5,680,000	0	5,680,000
Water Supply System Revenue Bonds, Series 2016B	09/14/16	56,150,000	0	56,150,000
Water Supply System Revenue Bonds, Series 2017A	07/19/17	10,500,000	0	10,500,000
Sewage Disposal System Refunding	10/30/17	15,890,000	0	15,890,000
Sewage Disposal System No. 3 Revenue	11/30/17	3,905,000	0	3,905,000
Subtotal Revenue Bonds with LT Pledge		\$259,770,000	\$0	\$259,770,000

Source: Municipal Advisory Council of Michigan

	Dated Date	Outstanding Gross Amount	Unit Share Amount	County's Share
<i>Michigan Transportation Fund Bonds</i>				
MTF Notes, NO COUNTY CREDIT	08/01/08	\$515,000	\$0	\$515,000
MTF Notes, NO COUNTY CREDIT	09/01/09	745,000	0	745,000
MTF Notes, NO COUNTY CREDIT	09/16/10	1,940,000	0	1,940,000
Subtotal Michigan Transportation Fund Bonds		\$3,200,000	\$0	\$3,200,000
<i>Share of County or Authority Issued Bonds</i>				
Beecher Metropolitan District	09/17/13	\$1,220,000	\$1,220,000	\$0
Water Supply System Bonds (KWA), Series 2014A	04/16/14	216,395,000	73,574,300	142,820,700
Beecher Metropolitan District	09/17/14	600,000	600,000	0
Water Supply System Bonds (KWA), Series 2016	06/03/16	74,370,000	25,434,540	48,935,460
Beecher Metropolitan District	12/02/16	2,778,000	2,778,000	0
Water Supply System Bonds (KWA), Series 2018	04/10/18	65,735,000	19,720,500	46,014,500
Subtotal Share of County or Authority Issued Bonds		\$361,098,000	\$123,327,340	\$237,770,660
SUB TOTAL DIRECT DEBT		\$654,652,784	\$129,365,312	\$525,287,472
Less: Refunded Bonds		(74,370,000)	(25,434,540)	(48,935,460)
TOTAL DIRECT DEBT		\$580,282,784	\$103,930,772	\$476,352,012
Less: Revenue Bonds		(259,770,000)	0	(259,770,000)
KWA (Karegnondi Water Authority) Bonds		(282,130,000)	(93,294,800)	(188,835,200)
NET DIRECT DEBT		\$35,182,784	\$10,635,972	\$24,546,812
OVERLAPPING DEBT				
Cities				\$68,737,136
Townships				37,253,405
Villages				1,809,344
School Districts				308,455,214
Intermediate School Districts				7,003,546
Community Colleges				66,691,416
Flint Public Library				0
Bishop Airport Authority				9,355,000
TOTAL OVERLAPPING DEBT				\$499,305,061
NET DIRECT AND OVERLAPPING DEBT				\$523,851,873

Source: Municipal Advisory Council of Michigan

DEBT RATIOS

County's Estimated Population	413,090
2017 Taxable Value	\$8,962,065,523
2017 State Equalized Value (SEV)	\$10,821,071,491
2017 True Cash Value (TCV)	\$21,642,142,982
Per Capita 2017 Taxable Value	\$21,695.19
Per Capita 2017 State Equalized Value	\$26,195.43
Per Capita 2017 True Cash Value	\$52,390.87
Per Capita Net Direct Debt	\$59.42
Per Capita Net Direct and Overlapping Debt	\$1,268.32
Percent of Net Direct Debt of 2017 Taxable Value	0.27%
Percent of Net Direct and Overlapping Debt of 2017 Taxable Value	5.85%
Percent of Net Direct Debt of 2017 SEV	0.23%
Percent of Net Direct and Overlapping Debt of 2017 SEV	4.84%
Percent of Net Direct Debt of 2017 TCV	0.11%
Percent of Net Direct and Overlapping Debt of 2017 TCV	2.42%

LEGAL DEBT MARGIN - (As of 03/22/18 – including the Bonds described herein)

2017 State Equalized Value (SEV)	\$10,821,071,491
Legal Debt Limit - 10% of SEV	\$1,082,107,149
Total Bonded Debt Outstanding	\$580,282,784
Less: No County Credit Pledge MTF Bonds	<u>(3,200,000)</u>
Net Amount Subject to Legal Debt Limit	<u>577,082,784</u>
LEGAL DEBT MARGIN AVAILABLE	<u><u>\$505,024,365</u></u>

DEBT HISTORY

The County has no record of default on its obligations.

FUTURE FINANCING

The County anticipates issuing approximately \$15 million of Capital Improvement Bonds for animal control and parking facilities within the next 12 months.

COMPENSATED ABSENCES

As of September 30, 2017, the County's government-wide activities statement of net position included a liability for vacation and other employee compensated absences of \$3,760,648.

SHORT-TERM BORROWING

The County has in the years 1974 through 2017 issued short-term notes in order to establish the 100% Tax Payment Fund. Notes issued in each of the above years have been in a face amount which has been less than the actual real property tax delinquency. The primary security for these notes is the collection of the delinquent taxes pledged to the payment of principal of and interest on the notes issued. The County has pledged its full faith and credit and limited taxing power to the payment of the principal and interest on notes issued since 1975. Notes in the amount of \$33.4 million were issued by the County during the fiscal year ended September 30, 2017.

The County Landbank Authority has entered into a \$3,000,000 line of credit with a bank and the County has pledged its limited tax full faith and credit on the line. The outstanding balance on the Line of Credit as of September 30, 2017 was \$0.

SCHEDULE OF LONG-TERM BOND MATURITIES – (As of 03/22/18 – including the Bonds described herein)

Fiscal Year End 30-Sep	General Obligation Bonds	GO Utility Bonds	Tax Increment Authority Bonds	Revenue Bonds	MTF Bonds	Karegnondi Water Auth. Bonds	Beecher Metropolitan Bonds	TOTAL	Percent Repaid
2018	\$2,630,000	\$1,500,000	\$0	\$2,255,000	\$1,510,000	\$5,390,000	\$0	\$13,285,000	
2019	2,760,000	1,640,000	480,000	9,945,000	1,025,000	5,670,000	149,000	21,669,000	
2020	1,240,000	425,000	525,000	10,255,000	665,000	5,895,000	150,000	19,155,000	
2021	1,300,000	430,000	550,000	10,575,000	0	6,175,000	156,000	19,186,000	
2022	1,280,000	435,000	565,000	10,935,000	0	6,445,000	157,000	19,817,000	16%
2023	775,000	200,000	575,000	11,240,000	0	6,760,000	157,000	19,707,000	
2024	820,000	215,000	590,000	11,615,000	0	7,105,000	158,000	20,503,000	
2025	865,000	220,000	605,000	12,015,000	0	7,460,000	169,000	21,334,000	
2026	885,784	130,000	620,000	12,415,000	0	7,830,000	170,000	22,050,784	
2027	95,000	105,000	640,000	11,910,000	0	8,220,000	171,000	21,141,000	34%
2028	100,000	110,000	655,000	10,540,000	0	8,650,000	176,000	20,231,000	
2029	105,000	110,000	680,000	9,400,000	0	9,100,000	177,000	19,572,000	
2030	110,000	110,000	700,000	9,250,000	0	9,570,000	183,000	19,923,000	
2031	120,000	119,000	720,000	9,600,000	0	10,065,000	189,000	20,813,000	
2032	125,000	60,000	745,000	7,505,000	0	10,595,000	190,000	19,220,000	51%
2033	130,000	60,000	770,000	7,735,000	0	11,140,000	191,000	20,026,000	
2034	140,000	65,000	795,000	8,555,000	0	11,655,000	197,000	21,407,000	
2035	0	65,000	825,000	7,760,000	0	12,260,000	113,000	21,023,000	
2036	0	65,000	0	8,095,000	0	12,900,000	69,000	21,129,000	
2037	0	0	0	8,465,000	0	13,570,000	69,000	22,104,000	69%
2038	0	0	0	8,135,000	0	14,275,000	70,000	22,480,000	
2039	0	0	0	9,225,000	0	15,015,000	71,000	24,311,000	
2040	0	0	0	7,155,000	0	15,800,000	72,000	23,027,000	
2041	0	0	0	7,470,000	0	16,615,000	73,000	24,158,000	
2042	0	0	0	7,795,000	0	17,450,000	74,000	25,319,000	90%
2043	0	0	0	8,150,000	0	18,320,000	75,000	26,545,000	
2044	0	0	0	8,520,000	0	4,000,000	76,000	12,596,000	
2045	0	0	0	8,885,000	0	4,200,000	77,000	13,162,000	
2046	0	0	0	4,370,000	0	0	79,000	4,449,000	
2047	0	0	0	0	0	0	80,000	80,000	99%
2048	0	0	0	0	0	0	81,000	81,000	
2049	0	0	0	0	0	0	82,000	82,000	
2050	0	0	0	0	0	0	83,000	83,000	
2051	0	0	0	0	0	0	84,000	84,000	99%
2052	0	0	0	0	0	0	85,000	85,000	
2053	0	0	0	0	0	0	86,000	86,000	
2054	0	0	0	0	0	0	88,000	88,000	
2055	0	0	0	0	0	0	89,000	89,000	
2056	0	0	0	0	0	0	90,000	90,000	
2057	0	0	0	0	0	0	92,000	92,000	100%
Total	\$13,480,784	\$6,064,000	\$11,040,000	\$259,770,000	\$3,200,000	\$282,130,000	\$4,598,000	\$580,282,784	

MAJOR EMPLOYERS

Listed below are the largest employers that are located within the County of Genesee:

Employer	Product or Service	Approx. No. of Employees
<i>Within the County (1,000 + employees)</i>		
Genesys Health Care System	Health Care	3,265
General Motors Corp.	Automotive Parts & Bodies	3,263
McLaren Health Care Corporation	Hospital & Other Health Care	3,014
Hurley Medical Center	Medical Center	2,811
Baker College	Higher Education	2,800
Square D	Computer Programming Services	2,500
Flint Metal Center, Vehicle Mfg. Operating Div.	Metal Fabrication	2,180
A1 Flint LLC	Car Parts and Accessories	1,500
General Motors Corp. (stamping facility)	Stamping Plant	1,415
United States Postal Service	Postal Service	1,200
Delphi Corp.	Spark Plugs & Odometers	1,000
Meijer, Inc.	Retail	1,000

Source: 2017 Michigan Manufacturers Directory, Manta Intelligence Company via www.manta.com, the Michigan Economic Development Council (MEDC), and individual employers

EMPLOYMENT BREAKDOWN

The U.S. Census Bureau, 2012-2016 American Community Survey estimates the occupational breakdown of persons 16 years and over for the County of Genesee as follows:

PERSONS BY OCCUPATION	County of Genesee	
	Number	Percent
	163,752	100.00%
Management, Business, Science & Arts	50,634	30.92
Service	32,197	19.66
Sales & Office	40,182	24.54
Natural Resources, Construction & Maintenance	13,848	8.46
Production, Transportation & Material Moving	26,891	16.42

The U.S. Census Bureau, 2012-2016 American Community Survey estimates the breakdown by industry for persons 16 years and over in the County of Genesee as follows:

PERSONS BY INDUSTRY	County of Genesee	
	Number	Percent
	163,752	100.00%
Agriculture, Forestry, Fishing, Hunting & Mining	747	0.46
Construction	9,053	5.53
Manufacturing	26,341	16.09
Wholesale Trade	3,561	2.17
Retail Trade	21,724	13.27
Transportation	6,914	4.22
Information	2,180	1.33
Finance, Insurance & Real Estate	8,023	4.90
Professional & Management Services	13,422	8.20
Educational, Health & Social Services	42,735	26.09
Arts, Entertainment, Recreation & Food Services	15,477	9.45
Other Professional & Related Services	8,345	5.10
Public Administration	5,230	3.19

UNEMPLOYMENT RATES

The U.S. Department of Labor, Bureau of Labor Statistics, reports unemployment averages for the County of Genesee as compared to the State of Michigan are as follows:

<u>Annual Average</u>	<u>County of Genesee</u>	<u>State of Michigan</u>
January, 2018	6.6%	5.3%
December, 2017	5.7	4.4
2016	5.4	5.0
2015	6.1	5.4
2014	7.9	7.2

POPULATION BY AGE

The 2010 U.S. Census estimate of population by age for the County of Genesee is as follows:

	<u>County of Genesee</u>	
	<u>Number</u>	<u>Percent</u>
Total Population	425,790	100.00%
0 through 19 years	118,971	27.94
20 through 64 years	248,630	58.39
65 years and over	58,189	13.67
Median Age	38.5 years	

INCOME

The U.S. Census Bureau, 2012-2016 American Community Survey estimate of household income for the County of Genesee is as follows

	<u>County of Genesee</u>	
	<u>Number</u>	<u>Percent</u>
HOUSEHOLDS BY INCOME	166,244	100.00%
Less than \$ 10,000	15,998	9.62
\$ 10,000 to \$ 14,999	10,602	6.38
\$ 15,000 to \$ 24,999	20,627	12.41
\$ 25,000 to \$ 34,999	20,299	12.21
\$ 35,000 to \$ 49,999	26,557	15.97
\$ 50,000 to \$ 74,999	29,635	17.83
\$ 75,000 to \$ 99,999	17,994	10.82
\$100,000 to \$149,999	15,967	9.60
\$150,000 to \$199,999	4,981	3.00
\$200,000 or MORE	3,584	2.16
Median Income	\$43,246	

County of Genesee
General Fund Budget Summary

	<u>As Adopted 2017/18</u>
Revenues:	
Taxes	\$46,770,752
Licenses & Permits	563,475
Intergovernmental Revenues	17,441,831
Charges for Services	9,557,201
Fines & Forfeits	1,481,960
Operating Transfers	8,071,014
Miscellaneous Revenue	<u>6,597,107</u>
Total Revenues	<u>\$90,483,340</u>
 Expenditures:	
Management and Planning	\$13,929,819
Administration of Justice	30,158,109
Law Enforcement and Community Protection	20,503,876
Human Services	11,818,635
General Support and Other	<u>14,072,901</u>
Total Expenditures	<u>\$90,483,340</u>
 Excess of Revenues over Expenditures	 \$0
 Fund Balance - October 1	 <u>\$33,752,706</u>
 Projected Fund Balance - September 30	 <u><u>\$33,752,706</u></u>

Source: County of Genesee

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APPENDIX C

COUNTY OF GENESEE AUDITED FINANCIAL STATEMENTS

GENESEE COUNTY DRAIN COMMISSIONER DIVISION OF WATER AND WASTE SERVICES AUDITED FINANCIAL STATEMENTS

Attached are the audited financial statements for the County of Genesee (the "County") for the fiscal year ended September 30, 2017, and the audited financial statements for the Genesee County Drain Commissioner, Division of Water and Waste Services (the "Division") for the fiscal year ended December 31, 2016. The auditors for the County and the Division have not been asked to consent to the use of information from such financial statements in either the Preliminary Official Statement or the Official Statement and have not conducted any subsequent review of such financial statements.

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Independent Auditor's Report

To the Board of Commissioners
 Genesee County, Michigan

Report on the Financial Statements

We have audited the accompanying 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 Genesee County, Michigan (the "County") as of and for the year ended September 30, 2017 and the related notes to the financial statements, which collectively comprise Genesee County's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of Genesee County Planning Commission, a nonmajor governmental fund of the County, which represents less than 1 percent and 1.4 percent of the assets and revenue, respectively, of the aggregate remaining fund information. Those financial statements were audited by other auditors, whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for Genesee County Planning Commission, is based solely on the report of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. The financial statements of the following entities were not audited in accordance with *Government Auditing Standards*: Genesee County Road Commission, Genesee County Drain Commissioner Division of Water and Waste Services, and Genesee County Storm Water Management System.

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

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

Opinions

To the Board of Commissioners
 Genesee County, Michigan

In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Genesee County, Michigan as of September 30, 2017 and the respective changes in its financial position and, where applicable, cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As explained in Note 2, the Genesee Health Systems Authority was previously included as component unit of the County. During the year, it was determined that this entity no longer meets the component unit criteria and was removed from the reporting entity. The beginning net position has been adjusted to reflect this change. Our opinion is not modified with respect to this matter.

As explained in Note 4, the financial statements include investments valued at \$162,196,212 (33 percent of total investments for the aggregate remaining funds) at September 30, 2017, whose fair values have been estimated by management in the absence of readily determinable market values. Management's estimates are based on information provided by fund managers and the partnership general partners. Our opinion has not been modified with respect to this matter.

Other Matters

Required Supplemental Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, the major fund budgetary comparison schedules, schedule of changes in the net pension liability and related ratios, schedule of pension contributions, schedule of changes in the net OPEB liability and related ratios, schedule of OPEB contributions, and OPEB system schedule, as identified in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the 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.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Genesee County, Michigan's basic financial statements. The other supplemental information, introductory section, and statistical section, as identified on the table of contents, are presented for the purpose of additional analysis and are not a required part of the basic financial statements.

To the Board of Commissioners
Genesee County, Michigan

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

The introductory section and statistical section have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 12, 2018 on our consideration of Genesee County, Michigan's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Genesee County, Michigan's internal control over financial reporting and compliance.

March 12, 2018

March 12, 2018

Genesee County, Michigan

Management's Discussion and Analysis

As management of Genesee County, Michigan (Genesee County or the "County"), we offer readers of Genesee County's financial statements this narrative overview and analysis of the financial activities of Genesee County for the fiscal year ended September 30, 2017. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our letter of transmittal, which can be found at the beginning of this report.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to Genesee County's basic financial statements. Genesee County's basic financial statements included three components: (1) government-wide financial statements, (2) fund financial statements, and (3) notes to the financial statements. This report also contains other supplemental information in addition to the basic financial statements.

Government-wide Financial Statements - The government-wide financial statements are designed to provide readers with a broad overview of Genesee County's finances, in a manner similar to a private sector business.

The statement of net position presents information on all of Genesee County's assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of Genesee County is improving or deteriorating.

The statement of activities presents information showing how the government's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenue and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of Genesee County that are principally supported by taxes and intergovernmental revenue (government activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of Genesee County include legislative, management and planning, administration of justice, law enforcement, human services, community enrichment, general support, and other. The business-type activities of Genesee County include Parks and Recreation System, Jail Commissary, Parking Meter, and Delinquent Tax Revolving Funds.

The government-wide financial statements include not only Genesee County itself (known as the primary government), but also seven legally separated component units for which Genesee County is financially accountable. Financial information for these component units is reported separately from the financial information presented for the primary government itself.

The government-wide financial statements can be found on pages 14-17 of this report.

Genesee County, Michigan

Management's Discussion and Analysis (Continued)

Fund Financial Statements - A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. Genesee County, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of Genesee County can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

Governmental Funds - Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenue, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

Genesee County maintains individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenue, expenditures, and changes in fund balances for the General Fund and three special revenue funds, all of which are considered to be major funds. Data from the other governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of combining statements elsewhere in this report.

Genesee County adopts an annual appropriated budget for its General Fund. A budgetary comparison statement has been provided for the General Fund to demonstrate compliance with this budget.

The basic governmental fund financial statements can be found on pages 18-22 of this report.

Proprietary Funds - Genesee County maintains two different types of proprietary funds. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. Genesee County uses enterprise funds to account for its Parks and Recreation System, Jail Commissary, Parking Meter, and Delinquent Tax Revolving Funds. Internal service funds are an accounting device used to accumulate and allocate costs internally among Genesee County's various functions. Genesee County uses internal service funds to account for its fleet of vehicles, self-insured medicals, property and casualty, and other administrative services. Because all of these services predominantly benefit governmental rather than business-type functions, they have been included within governmental activities in the government-wide financial statements.

Genesee County, Michigan

Management's Discussion and Analysis (Continued)

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the Parks and Recreation System, Jail Commissary, Parking Meter, and Delinquent Tax Revolving Funds. Conversely, all internal service funds are combined into a single, aggregated presentation in the proprietary fund financial statements. Individual fund data for the internal service funds is provided in the form of combining statements elsewhere in this report.

The basic proprietary fund financial statements can be found on pages 23-26 of this report.

Fiduciary Funds - Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support Genesee County's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

The basic fiduciary fund financial statements can be found on pages 27-28 of this report.

Component Units Presented - The government-wide financial statements include not only Genesee County itself (known as the primary government), but also seven legally separated component units for which Genesee County is financially accountable. Financial information for these component units is reported separately from the financial information presented for the primary government itself.

The basic component unit financial statements can be found on pages 29-32 of this report.

Notes to the Financial Statements - The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 33-93 of this report.

Other Information - In addition to the basic financial statements and accompanying notes, this report also presents certain required supplemental information concerning Genesee County's progress in funding its obligation to provide pension benefits to its employees. Required supplemental information can be found on pages 94-106 of this report.

The combining statements for nonmajor governmental funds, nonmajor enterprise funds, internal service funds, and fiduciary funds are presented as other supplemental information beginning on page 107 of this report.

Genesee County, Michigan

Management's Discussion and Analysis (Continued)

Financial Highlights

- The County's total net position decreased by \$3,353,383. Governmental activities decreased by \$4,692,299, while business-type activities increased by \$1,338,916. The decrease in the County's net position was due to cost escalation throughout the County's government operations. Business-type activities improved due to collections from delinquent tax receipts.
- As of the close of the current fiscal year, Genesee County's governmental funds reported combined ending fund balances of \$51,924,708, an increase of \$10,934,063 in comparison with the prior year. A significant portion of this increase can be traced to property taxes, charges for services, state-shared revenue, and nonrecurring revenue related to a one-time transaction with a related party. Approximately 55 percent of this total amount, \$28,387,868, is available for spending at the government's discretion (unassigned fund balance).
- At the end of the current fiscal year, unassigned fund balance for the General Fund was \$32,223,782, 46 percent of total General Fund expenditures.
- Genesee County's total governmental activities long-term debt, including compensated absences, was \$16,640,213, a decrease of \$3,746,673 from the prior year. Business-type activities debt was \$39,990,000, an increase of \$2,620,000 from the prior year. The County issued delinquent tax notes in the amount of \$34,990,000 during the current fiscal year, offset by total payments of \$32,370,000.

Government-wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. As shown in the schedule below, Genesee County's liabilities exceeded assets by \$53,023,705 at the close of the most recent fiscal. This compares to a net position deficit of \$49,670,322 at the close of the prior fiscal year, a net deficit increase of \$3,353,383. This increase was due primarily to growth in general government operational expenses, pension and OPEB obligation expenses that were offset by property tax receipts, state revenue sharing, and Delinquent Property operational net revenue.

Genesee County, Michigan

Management's Discussion and Analysis (Continued)

A significant portion of Genesee County's total net position, \$71,438,842, reflects its investment in capital assets (e.g., land, buildings, machinery, and equipment), less any related debt used to acquire those assets that is still outstanding. Genesee County uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although Genesee County's investments in its capital assets are reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

	Genesee County Net Position						Change	Percent Change
	Governmental Activities		Business-type Activities		Total			
	2016	2017	2016	2017	2016	2017		
Other assets	\$ 94,009,633	\$ 106,476,983	\$ 59,804,961	\$ 64,946,868	\$ 153,814,594	\$ 171,423,851	\$ 17,609,257	10%
Capital assets	81,524,091	81,204,650	4,000,509	3,944,976	85,524,600	85,149,626	(374,974)	0%
Total assets	175,533,724	187,681,633	63,805,470	68,891,844	239,339,194	256,573,477	17,234,283	7%
Deferred outflows of resources	38,252,921	9,460,767	233,246	65,401	38,486,167	9,526,168	(28,959,999)	
Current liabilities	16,769,415	18,393,061	462,323	1,282,803	17,231,738	19,675,864	2,444,126	12%
Long-term liabilities	271,244,876	253,800,642	39,019,069	41,751,709	310,263,945	295,552,351	(14,711,594)	-5%
Total liabilities	288,014,291	272,193,703	39,481,392	43,034,512	327,495,683	315,228,215	(12,267,468)	-4%
Deferred inflows of resources	-	3,868,642	-	26,493	-	3,895,135	3,895,135	
Net position								
Net investment in capital assets	65,043,569	67,493,866	4,000,509	3,944,976	69,044,078	71,438,842	2,394,764	3%
Restricted	20,667,188	20,717,511	12,100,057	8,726,160	32,767,245	29,443,671	(3,323,574)	-11%
Unrestricted	(159,938,403)	(167,131,322)	8,456,758	13,225,104	(151,481,645)	(153,906,218)	(2,424,573)	2%
Total net position	\$ (74,227,646)	\$ (78,919,945)	\$ 24,557,324	\$ 25,896,240	\$ (49,670,322)	\$ (53,023,705)	\$ (3,353,383)	6%

An additional portion of Genesee County's total net position, \$29,443,671, represents resources that are subject to external restrictions on how they may be used.

As shown in the schedule below, the deficit net position of the County's governmental activities increased by \$4,692,299 in the current year compared to a deficit increase of \$54,091,019 in the prior year. When compared to the prior year, this change is mostly attributable to increases in OPEB and pension costs and restructuring of government operations. Compared to the prior year, revenue increased by \$12,071,332, expenses decreased by \$39,608,887, and transfers decreased by \$2,281,499.

Genesee County, Michigan

Management's Discussion and Analysis (Continued)

	Governmental Activities			Percent Change
	2016	2017	Change	
Revenue				
Program revenue:				
Charges for services	\$ 22,969,551	\$ 24,296,065	\$ 1,326,514	6%
Operating grants	60,451,243	62,305,939	1,854,696	3%
Capital grants	54,538	37,121	(17,417)	0%
General revenue:				
Property taxes	76,254,203	78,154,852	1,900,649	2%
State liquor and cigarette tax	2,021,920	1,989,816	(32,104)	-2%
State-shared revenue	9,982,658	12,337,006	2,354,348	24%
Investment earnings	1,198,970	354,545	(844,425)	-70%
Other revenue	<u>6,695,018</u>	<u>12,224,089</u>	<u>5,529,071</u>	<u>83%</u>
Total revenue	179,628,101	191,699,433	12,071,332	7%
Program Expenses				
Management and planning	21,992,843	19,346,863	(2,645,980)	-12%
Administration of justice	51,834,819	41,466,325	(10,368,494)	-20%
Law enforcement and community protection	62,526,245	43,375,756	(19,150,489)	-31%
Human service	84,712,302	80,240,646	(4,471,656)	-5%
Legislative	3,856,292	2,179,410	(1,676,882)	-43%
Community enrichment and development	12,097,053	10,921,499	(1,175,554)	-10%
Interest on long-term debt	<u>902,668</u>	<u>782,836</u>	<u>(119,832)</u>	<u>-13%</u>
Total expenses	237,922,222	198,313,335	(39,608,887)	-17%
Transfers	<u>4,203,102</u>	<u>1,921,603</u>	<u>(2,281,499)</u>	<u>-54%</u>
Change in Net Position	\$ (54,091,019)	\$ (4,692,299)	\$ 49,398,720	-91%
	Business-type Activities			Percent Change
	2016	2017	Change	
Program revenue - Charges for services:				
Delinquent taxes	\$ 11,370,175	\$ 10,119,272	\$ (1,250,903)	-11%
Commissary	242,563	183,873	(58,690)	-24%
Parks and recreation - Enterprise	393,676	398,825	5,149	1%
Parking meter fund	190,661	127,919	(62,742)	-33%
Operating expenses, other than depreciation	6,204,562	5,696,466	(508,096)	-8%
Depreciation and amortization	<u>67,869</u>	<u>55,532</u>	<u>(12,337)</u>	<u>-18%</u>
Operating Income	5,924,644	5,077,891	(846,753)	-14%
Interest income	74,845	199,606	124,761	167%
Interest expense	987,803	1,216,978	229,175	23%
Nonoperating expenses	750,000	800,000	50,000	7%
Transfers In	801,000	1,313,850	512,850	64%
Transfers Out	<u>5,004,102</u>	<u>3,235,453</u>	<u>(1,768,649)</u>	<u>-35%</u>
Change in Net Position	\$ 58,584	\$ 1,338,916	\$ 1,280,332	2185%

Genesee County, Michigan

Management's Discussion and Analysis (Continued)

Financial Analysis of the Government's Funds

As noted earlier, Genesee County uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

The following table shows the total governmental fund activity on a modified accrual basis:

	Governmental Funds			Percent Change
	2016	2017	Change	
Revenue				
Property taxes	\$ 76,647,744	\$ 80,729,101	\$ 4,081,357	5%
Charges for services	18,514,458	19,738,774	1,224,316	7%
Licenses and permits	1,819,346	1,774,842	(44,504)	-2%
State-shared revenue	9,882,658	11,599,940	1,717,282	17%
Federal, state, and local grants	60,453,021	64,009,849	3,556,828	6%
Fines and forfeitures	1,659,790	1,682,245	22,455	1%
Interest and rentals	2,089,898	1,398,937	(690,961)	-33%
Other	<u>7,383,624</u>	<u>12,354,057</u>	<u>4,970,433</u>	<u>67%</u>
Total revenue	178,450,539	193,287,745	14,837,206	8%
Expenditures				
Current:				
Management and planning	15,079,134	18,320,564	3,241,430	21%
Administration of justice	34,833,859	35,010,351	176,492	1%
Law enforcement and community protection	35,062,843	36,714,507	1,651,664	5%
Human service	74,892,870	76,851,459	1,958,589	3%
Legislative	489,402	513,468	24,066	5%
Community enrichment and development	12,379,565	11,912,959	(466,606)	-4%
Capital outlay	2,141,777	1,078,888	(1,062,889)	-50%
Debt service	<u>3,392,668</u>	<u>3,397,836</u>	<u>5,168</u>	<u>0%</u>
Total expenditures	178,272,118	183,800,032	5,527,914	3%
Excess of Revenue Over Expenditures	178,421	9,487,713	9,309,292	5218%
Other Financing Sources				
Proceeds from sales of capital assets	1,000	-	(1,000)	-100%
Transfers - Net	<u>5,041,843</u>	<u>1,446,350</u>	<u>(3,595,493)</u>	<u>-71%</u>
Total other financing sources	<u>5,042,843</u>	<u>1,446,350</u>	<u>(3,596,493)</u>	<u>-71%</u>
Net Change in Fund Balances	5,221,264	10,934,063	5,712,799	109%
Fund Balances - Beginning of year	<u>35,769,381</u>	<u>40,990,645</u>	<u>5,221,264</u>	<u>15%</u>
Fund Balances - End of year	\$ 40,990,645	\$ 51,924,708	\$ 10,934,063	27%

Genesee County, Michigan

Management's Discussion and Analysis (Continued)

Governmental Funds - The focus of Genesee County's governmental funds is to provide information on near-term inflows, outflows, and balances of available resources. Such information is useful in assessing Genesee County's financing requirements. In particular, unassigned fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, Genesee County's governmental funds reported combined ending fund balances of \$51,924,708, an increase of \$10,934,063 over the prior year. The increase over the prior year was due primarily to enhanced control over spending. Approximately 55 percent of the ending fund balance, \$28,387,868, constitutes unassigned fund balance, which is available for spending at the government's discretion.

The General Fund unassigned fund balance totaled \$32,223,782, an increase of \$8,688,852 from fiscal year 2016 operations. Major successes can be associated to budgetary controls to manage and monitor expenditures, together with the implementation of purchasing best practices, employees' attrition, and contractual givebacks. In addition, we experienced an upward tick in the economy and benefitted from increased revenue collections from all major sources, i.e., property taxes, grants, and state-shared revenue. As a measure of the General Fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total fund expenditures. Unassigned fund balance represents 46 percent of total General Fund expenditures, while total fund balance represents 48 percent of that same amount.

At the end of the current fiscal year, the total fund balance of the County Health Fund was \$4,350,696. The fund balance represents 28 percent of total county health expenditures. The County Health Fund saw an increase in fund balance in the current year of approximately \$952,000. This increase relates to increased activity surrounding grants related to the Flint Water Crisis.

The increase in the fund balances of Genesee County's governmental funds was primarily the result of the following:

- General Fund - The ability to collect more property tax revenue within the period of availability and controlled spending increased the General Fund's fund balance.
- Community Action Resource Department - Additional grants for the water crisis and the Head Start program increased fund balance.

Proprietary Funds - Genesee County's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail.

Unrestricted net position at the end of the year amounted to \$13,225,104. The total increase in net position for all proprietary funds was \$1,338,916.

Genesee County, Michigan

Management's Discussion and Analysis (Continued)

General Fund Budgetary Highlights

During the year, the fiscal year budget was amended to provide resources to meet the needs in the areas of public safety, court operations, social services, and capital replacements. In most cases, incoming revenue was paired as not to effect the General Fund. During the year, the General Fund revenue was more than the amended budgetary expenditures, which resulted in a \$9,678,747 increase in fund balance.

Capital Asset and Debt Administration

Capital Assets - Genesee County's investment in capital assets for its governmental and business-type activities as of September 30, 2017 amounts to \$85,149,626 (net of accumulated depreciation). This investment in capital assets included land, buildings and system improvements, machinery and equipment, and park facilities.

The County has preliminary plans for infrastructure capital projects. Accordingly, capital expenditures at this time are limited to those needed to maintain the structural integrity of the County's property, plant, and equipment. Additional information on Genesee County's capital assets can be found in Note 5 to this report.

Debt - At the end of the current fiscal year, Genesee County had total debt outstanding of \$299,632,276. Of this amount, \$201,969,652 comprises debt backed by the full faith and credit of the government, \$674,039 is special assessment debt for which the government is liable in the event of default by the property owners subject to the assessment, and \$1,260,000 is Michigan Transportation bonds, which are payable with Act 51 money.

Genesee County's total debt, including component units, increased by \$41,992,736 during the current fiscal year primarily due to the funding of water supply improvements. Genesee County maintained its "A" rating from Standard & Poor's and "A2" rating from Moody's for general obligation debt.

State statutes limit the amount of general obligation debt a governmental entity may issue to 10 percent of its total state equalized valuation. The current debt limitation for Genesee County is \$1,082,107,149, which is approximately \$1,011,453,799 higher than Genesee County's outstanding general obligation debt subject to the 10 percent limit.

Additional information on Genesee County's long-term debt can be found in Note 7 to this report.

Economic Factors and Next Year's Budgets and Rates

- The unemployment rate for Genesee County decreased to 4.7 percent. Due to improved performance in the local economy, this rate is paring closer to the national trend.
- The government expects minimal increases in property tax revenue due to a nominal increase in taxable property values in 2017 and 2018. Inflationary trends in the region compare favorably to national indices.

Genesee County, Michigan

Management's Discussion and Analysis (Continued)

- Goals to monitor expenditures and adhere to and improve new purchasing policies will continue.
- Continuation of the instituted hiring freeze

All of these factors were considered in preparing Genesee County's budgets for the 2016/2017 and 2017/2018 fiscal year.

Requests for Information

The financial report is designed to provide a general overview of Genesee County's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Office of the Controller, County of Genesee, 1101 Beach Street, Flint, MI 48502.

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Genesee County, Michigan

**Statement of Net Position
September 30, 2017**

	Primary Government			Component Units
	Governmental Activities	Business-type Activities	Total	
Assets				
Cash and cash equivalents	\$ 14,843,974	\$ 1,672,207	\$ 16,516,181	\$ 48,203,878
Investments	44,718,801	18,078,857	62,797,658	203,330
Receivables:				
Current and delinquent taxes receivable	14,167,121	39,526,372	53,693,493	-
Land contract receivable	-	-	-	792,742
Interest and accounts receivable (net of allowance of \$1,527,853)	14,302,118	4,486,807	18,788,925	14,941,325
Lease receivable	-	-	-	2,420,000
Loan receivables	-	791,400	791,400	-
Due from other governmental units	14,915,563	965,941	15,881,504	19,612,893
Loan receivable	-	-	-	1,975,387
Special assessments receivable	-	-	-	2,772,951
Due from component unit	63,649	-	63,649	-
Due from primary government	-	-	-	10,859
Internal balances	574,716	(574,716)	-	-
Inventory	969,496	-	969,496	1,250,774
Prepays and other assets	81,626	-	81,626	1,460,864
Restricted cash and cash equivalents	125,000	-	125,000	118,797,391
Investment in joint ventures	-	-	-	1,939,000
Net OPEB asset	-	-	-	9,340,905
Deposits and advances	149,919	-	149,919	-
Long-term advance to component unit	1,565,000	-	1,565,000	-
Capital assets:				
Assets not subject to depreciation	12,652,392	3,523,844	16,176,236	396,577,423
Assets subject to depreciation	68,552,258	421,132	68,973,390	494,862,271
Loan receivable	-	-	-	1,287,537
Lease receivable	-	-	-	40,305,400
Land contract receivable	-	-	-	4,639,042
Total assets	187,681,633	68,891,844	256,573,477	1,161,393,972
Deferred Outflows of Resources				
Deferred charge on refunding	-	-	-	19,281
Deferred outflows related to pensions	9,460,767	65,401	9,526,168	32,388,148
Total deferred outflows of resources	9,460,767	65,401	9,526,168	32,407,429
Liabilities				
Accounts payable	10,457,019	926,851	11,383,870	10,267,484
Due to other governmental units	794,341	38	794,379	674,198
Due to component units	10,859	-	10,859	-
Due to primary government	-	-	-	63,649
Accrued liabilities and other	5,043,048	248,289	5,291,337	6,389,384
Unearned revenue	2,087,794	-	2,087,794	16,493,069
Claims liability - Pharmaceutical and medical	-	107,625	107,625	-
Noncurrent liabilities:				
Due within one year:				
Compensated absences	2,434,175	-	2,434,175	195,490
Current portion of long-term debt	2,745,000	9,000,000	11,745,000	13,733,180

The Notes to Financial Statements are an Integral Part of this Statement.

Genesee County, Michigan

**Statement of Net Position (Continued)
September 30, 2017**

	Primary Government			Component Units
	Governmental Activities	Business-type Activities	Total	
Liabilities (Continued)				
Noncurrent liabilities (continued):				
Due in more than one year:				
Payable from restricted assets	\$ -	\$ -	\$ -	\$ 28,011,190
Compensated absences	495,254	-	495,254	1,052,177
General, workers' compensation claim, and IBNR liability	4,019,421	-	4,019,421	-
Funds held in escrow	-	-	-	225,000
Long-term advance from primary government	-	-	-	1,565,000
Net OPEB obligation	75,160,767	662,529	75,823,296	5,147,853
Net pension liability	157,980,241	1,099,180	159,079,421	69,572,846
Long-term debt	10,965,784	30,990,000	41,955,784	620,004,367
Total liabilities	272,193,703	43,034,512	315,228,215	773,394,887
Deferred Inflows of Resources - Pensions	3,868,642	26,493	3,895,135	6,068,956
Net Position				
Net investment in capital assets	67,493,866	3,944,976	71,438,842	386,514,553
Restricted for:				
County health	693,020	-	693,020	-
Community development	14,017,828	-	14,017,828	-
Flint city lockup	73,778	-	73,778	-
Drug forfeiture	126,007	-	126,007	-
Emergency medical services	529,918	-	529,918	-
Healthcare services	1,620,031	-	1,620,031	-
Retirement of delinquent tax notes payable	-	7,710,193	7,710,193	-
Parks and recreation nonexpendable	-	1,015,967	1,015,967	-
Social services	92,044	-	92,044	-
Veterans millage	1,255,616	-	1,255,616	-
Debt service	-	-	-	894,951
Programs	50,003	-	50,003	6,513,665
Animal control	310,177	-	310,177	-
Senior services	1,485,102	-	1,485,102	-
Solid waste planning activities	464,287	-	464,287	-
Unrestricted	(167,131,622)	13,225,104	(153,906,518)	20,414,389
Total net position	\$ (78,919,945)	\$ 25,896,240	\$ (53,023,705)	\$ 414,337,558

The Notes to Financial Statements are an Integral Part of this Statement.

Genesee County, Michigan

Statement of Activities Year Ended September 30, 2017

Functions/Programs	Expenses	Program Revenue		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary government:				
Governmental activities:				
Management and planning	\$ 19,346,863	\$ 5,308,178	\$ 1,112,399	\$ -
Administration of justice	41,466,325	6,584,719	13,253,242	-
Law enforcement and community protection	43,375,756	2,487,439	6,716,143	-
Human services	80,240,646	4,582,052	37,934,584	-
Legislative	2,179,410	-	-	-
Community enrichment and development	10,921,499	5,333,677	3,289,571	37,121
Interest on long-term debt	782,836	-	-	-
Total governmental activities	198,313,335	24,296,065	62,305,939	37,121
Business-type activities:				
Commissary	27,536	183,873	-	-
Delinquent taxes	5,725,366	10,119,272	-	-
Parks and recreation - Enterprise	1,142,420	398,825	-	-
Parking meter fund	873,654	127,919	-	-
Total business-type activities	7,768,976	10,829,889	-	-
Total primary government	\$ 206,082,311	\$ 35,125,954	\$ 62,305,939	\$ 37,121
Component units:				
Road commission	\$ 50,329,959	\$ 6,515,241	\$ 27,985,232	\$ 14,980,211
Water and waste services	67,319,534	70,203,757	-	750,000
Economic development corporation	7,251	-	-	-
Drains	4,165,519	964,516	-	-
Land bank authority	14,804,995	4,607,945	10,662,758	-
Brownfield authority	531,922	531,922	-	-
Storm water management system	298,867	-	323,322	-
Total component units	\$ 137,458,047	\$ 82,823,381	\$ 38,971,312	\$ 15,730,211
General revenue:				
Property taxes				78,154,852
State liquor tax				1,989,816
State-shared revenue				12,337,006
Unrestricted - Investment income				354,545
Unrestricted - Other				12,224,089
Total general revenue				105,060,308
Transfers				1,921,603
Change in Net Position				(4,692,299)
Net Position - Beginning of year - As restated (Note 2)				(74,227,646)
Net Position - End of year				\$ (78,919,945)

Net (Expense) Revenue and Changes in Net Position			
Primary Government		Total	Component Units
Governmental Activities	Business-type Activities		
\$ (12,926,286)	\$ -	\$ (12,926,286)	\$ -
(21,628,364)	-	(21,628,364)	-
(34,172,174)	-	(34,172,174)	-
(37,724,010)	-	(37,724,010)	-
(2,179,410)	-	(2,179,410)	-
(2,261,130)	-	(2,261,130)	-
(782,836)	-	(782,836)	-
(111,674,210)	-	(111,674,210)	-
	156,337	156,337	-
	4,393,906	4,393,906	-
	(743,595)	(743,595)	-
	(745,735)	(745,735)	-
-	3,060,913	3,060,913	-
(111,674,210)	3,060,913	(108,613,297)	-
			(849,275)
			3,634,223
			(7,251)
			(3,201,003)
			465,708
			-
			24,455
			66,857
			1,466,225
			-
			-
			2,238,195
			3,443,017
105,060,308	199,606	105,259,914	7,147,437
1,921,603	(1,921,603)	-	-
(4,692,299)	1,338,916	(3,353,383)	7,214,294
(74,227,646)	24,557,324	(49,670,322)	407,123,264
\$ (78,919,945)	\$ 25,896,240	\$ (53,023,705)	\$ 414,337,558

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Genesee County, Michigan

**Governmental Funds
Balance Sheet
September 30, 2017**

	General Fund	County Health	Community Action Resource Department	Community Development	Nonmajor Funds	Total
Assets						
Cash and cash equivalents (Note 4)	\$ 6,519,160	\$ 401,548	\$ 18,774	\$ 197,059	\$ 6,071,599	\$ 13,208,140
Investments	29,556,435	-	-	-	9,000,000	38,556,435
Receivables:						
Current and delinquent taxes receivable	14,167,121	-	-	-	-	14,167,121
Interest and accounts receivable	8,167	76,452	-	13,650,427	503,943	14,238,989
Due from other governmental units	2,472,225	359,839	5,644,792	545,778	5,892,929	14,915,563
Due from component unit	50,000	-	-	-	-	50,000
Due from other county funds	4,806,060	4,461,926	118,709	-	11,969,059	21,355,754
Long-term advances	515,181	-	-	-	-	515,181
Inventory	-	-	461,040	367,400	86,868	915,308
Prepays and other assets	13,743	5,786	100	-	-	19,629
Restricted cash and cash equivalents	-	-	-	-	125,000	125,000
Deposits and advances	-	-	149,919	-	-	149,919
Long-term advance to component unit	-	-	-	-	1,565,000	1,565,000
Total assets	\$ 58,108,092	\$ 5,305,551	\$ 6,393,334	\$ 14,760,664	\$ 35,214,398	\$ 119,782,039
Liabilities						
Accounts payable	\$ 2,126,676	\$ 288,551	\$ 1,458,337	\$ 469,587	\$ 4,074,618	\$ 8,417,769
Due to other governmental units	22,254	279,002	-	184,720	26,920	512,896
Due to component units	-	-	-	10,859	-	10,859
Due to other funds	17,182,970	-	3,150,000	63,971	6,509,705	26,906,646
Accrued liabilities and other	2,230,527	345,085	157,616	13,699	1,501,066	4,247,993
Unearned revenue	-	-	-	-	2,087,794	2,087,794
Total liabilities	21,562,427	912,638	4,765,953	742,836	14,200,103	42,183,957
Deferred Inflows of Resources -						
Unavailable revenue (Note 14)	2,792,959	42,217	4,885,456	13,714,398	4,238,344	25,673,374
Fund Balances (Deficits)						
Nonspendable:						
Inventory	-	-	461,040	367,400	86,868	915,308
Prepays	13,743	5,786	100	-	-	19,629
Long-term receivable	515,181	-	-	-	-	515,181
Restricted:						
Health department	-	693,020	-	-	-	693,020
Drug forfeiture	-	-	-	-	126,007	126,007
Emergency medical services	-	-	-	-	529,918	529,918
Animal control	-	-	-	-	310,177	310,177
Social services	-	-	-	-	92,044	92,044
Senior services	-	-	-	-	1,485,102	1,485,102
Health services plan	-	-	-	-	1,620,031	1,620,031
Veterans millage	-	-	-	-	1,255,616	1,255,616
Debt service	-	-	-	-	73,778	73,778
Capital improvements	-	-	-	-	67,396	67,396
Solid waste planning activities	-	-	-	-	464,287	464,287
Committed	-	-	-	-	180,000	180,000

The Notes to Financial Statements are an Integral Part of this Statement.

Genesee County, Michigan

**Governmental Funds
Balance Sheet (Continued)
September 30, 2017**

	General Fund	County Health	Community Action Resource Department	Community Development	Nonmajor Fund	Total
Fund Balances (Deficits) (Continued)						
Assigned:						
Debt service	\$ -	\$ -	\$ -	\$ -	\$ 349,463	\$ 349,463
Costs and settlements of contractual disallowances, claims, and litigation	1,000,000	-	-	-	32,876	1,032,876
Child care	-	-	-	-	4,314,214	4,314,214
Parks and recreation	-	-	-	-	1,708,097	1,708,097
Animal control	-	-	-	-	530,035	530,035
Health department	-	3,651,890	-	-	-	3,651,890
Administration of justice	-	-	-	-	3,038,608	3,038,608
Community enrichment and development	-	-	-	-	27,615	27,615
Law enforcement	-	-	-	-	536,548	536,548
Unassigned	32,223,782	-	(3,719,215)	(63,970)	(52,729)	28,387,868
Total fund balances (deficits)	33,752,706	4,350,696	(3,258,075)	303,430	16,775,951	51,924,708
Total liabilities, deferred inflows of resources, and fund balances (deficits)	\$ 58,108,092	\$ 5,305,551	\$ 6,393,334	\$ 14,760,664	\$ 35,214,398	\$ 119,782,039

The Notes to Financial Statements are an Integral Part of this Statement.

Genesee County, Michigan

**Governmental Funds
Reconciliation of the Balance Sheet to the Statement of
Net Position
September 30, 2017**

Fund Balance Reported in Governmental Funds	\$ 51,924,708
Amounts reported for governmental activities in the statement of net position are different because:	
Capital assets used in governmental activities are not financial resources and are not reported in the funds	79,085,145
Deferred outflows of resources - Pension difference between projected and actual investment earnings, change in actuarial assumptions, and contributions made to the plan after the measurement date	9,389,611
Property taxes, grants, and other receivables that are collected after year end, such that they are not available to pay bills outstanding as of year end, are not recognized in the funds	25,673,374
Bonds payable and capital lease obligations are not due and payable in the current period and are not reported in the funds	(13,710,784)
Accrued interest is not due and payable in the current period and is not reported in the funds	(441,214)
Employee compensated absences are payable over a long period of years and do not represent a claim on current financial resources; therefore, they are not reported as fund liabilities	(12,631)
Obligations for other postemployment benefits are not due and payable in the current period and are not reported in the funds	(73,958,480)
Net pension liability does not present a claim on current financial resources and is not reported as a fund liability	(156,456,612)
Deferred inflows of resources - Pensions	(3,622,764)
Internal Service Funds are included as part of governmental activities	<u>3,209,702</u>
Net Position of Governmental Activities	<u>\$ (78,919,945)</u>

Genesee County, Michigan

**Governmental Funds
Statement of Revenue, Expenditures, and Changes in Fund Balances
Year Ended September 30, 2017**

	General Fund	County Health	Community Action Resource Department	Community Development	Nonmajor Funds	Total
Revenue						
Property taxes	\$ 51,531,659	\$ -	\$ -	\$ -	\$ 29,197,442	\$ 80,729,101
Licenses and permits	509,362	1,045,489	-	-	219,991	1,774,842
Federal grants	556,386	4,673,974	17,535,365	2,590,124	8,080,589	33,436,438
Other intergovernmental revenue	17,238,108	7,066,906	3,241,909	-	14,626,428	42,173,351
Charges for services	13,605,443	406,533	-	-	5,726,798	19,738,774
Fines and forfeitures	1,663,228	-	-	-	19,017	1,682,245
Interest income	193,347	-	-	-	158,160	351,507
Rental income	-	-	886,067	-	161,363	1,047,430
Other	5,876,028	360,554	1,933,803	-	4,183,672	12,354,057
Total revenue	91,173,561	13,553,456	23,597,144	2,590,124	62,373,460	193,287,745
Expenditures						
Current:						
Management and planning	18,320,564	-	-	-	-	18,320,564
Administration of justice	22,400,805	-	-	-	12,609,546	35,010,351
Law enforcement and community protection	23,088,956	-	-	-	13,625,551	36,714,507
Human services	4,771,567	15,791,412	23,116,042	-	33,172,438	76,851,459
Legislative	513,468	-	-	-	-	513,468
Community enrichment and development	581,495	-	-	2,774,592	8,556,872	11,912,959
Capital outlay	164,823	21,427	-	-	892,638	1,078,888
Debt service	-	-	-	-	3,397,836	3,397,836
Total expenditures	69,841,678	15,812,839	23,116,042	2,774,592	72,254,881	183,800,032
Excess of Revenue Over (Under) Expenditures	21,331,883	(2,259,383)	481,102	(184,468)	(9,881,421)	9,487,713
Other Financing Sources (Uses)						
Transfers in	6,414,376	3,211,158	700,000	-	16,723,619	27,049,153
Transfers out	(19,057,407)	-	(337,160)	-	(6,208,236)	(25,602,803)
Total other financing (uses) sources	(12,643,031)	3,211,158	362,840	-	10,515,383	1,446,350
Net Change in Fund Balances	8,688,852	951,775	843,942	(184,468)	633,962	10,934,063
Fund Balances (Deficit) - Beginning of year	25,063,854	3,398,921	(4,102,017)	487,898	16,141,989	40,990,645
Fund Balances (Deficit) - End of year	\$ 33,752,706	\$ 4,350,696	\$ (3,258,075)	\$ 303,430	\$ 16,775,951	\$ 51,924,708

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Genesee County, Michigan

**Governmental Funds
Reconciliation of the Statement of Revenue, Expenditures,
and Changes in Fund Balances of Governmental Funds
to the Statement of Activities
Year Ended September 30, 2017**

Net Change in Fund Balances - Total Governmental Funds	\$ 10,934,063
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital outlays as expenditures; however, in the statement of activities, these costs are allocated over their estimated useful lives as depreciation:	
Capital outlay	2,080,998
Depreciation expense	(4,378,212)
Contribution of capital assets	2,081,399
Revenue is recorded in the statement of activities when earned; it is not reported in the funds until collected or collectible within 60 days of year end	(939,963)
Repayment of bond principal is an expenditure in the governmental funds, but not in the statement of activities (where it reduces long-term debt)	2,615,000
Increases in the obligation for other postemployment benefits are recorded when earned in the statement of activities	(12,139,291)
Change in the net pension liability is recorded when incurred in the statement of activities	25,693,368
Deferred outflows related to pensions	(28,067,369)
Deferred inflows related to pensions	(3,622,764)
Internal Service Funds are included as part of governmental activities	<u>1,050,472</u>
Change in Net Position of Governmental Activities	<u>\$ (4,692,299)</u>

The Notes to Financial Statements are an Integral Part of this Statement.

Genesee County, Michigan

**Proprietary Funds
Statement of Net Position
September 30, 2017**

	Enterprise Funds		Governmental Activities	
	Delinquent Taxes	Enterprise Funds	Total	Internal Service Funds
Assets				
Current assets:				
Cash and cash equivalents (Note 4)	\$ -	\$ 1,672,207	\$ 1,672,207	\$ 1,635,834
Investments (Note 4)	16,936,473	1,142,384	18,078,857	6,162,366
Receivables:				
Current and delinquent taxes receivable	39,526,372	-	39,526,372	-
Interest and accounts receivable	4,486,807	-	4,486,807	63,129
Loan receivables	791,400	-	791,400	-
Due from other governmental units	965,941	-	965,941	-
Due from component unit	-	-	-	13,649
Due from other county funds	2,256,036	-	2,256,036	11,027,604
Inventory	-	-	-	54,188
Prepays and other assets	-	-	-	61,997
Total current assets	<u>64,963,029</u>	<u>2,814,591</u>	<u>67,777,620</u>	<u>19,018,767</u>
Noncurrent assets - Capital assets:				
Assets not subject to depreciation	2,812,109	711,735	3,523,844	131,033
Assets subject to depreciation	-	421,132	421,132	1,988,472
Total assets	<u>67,775,138</u>	<u>3,947,458</u>	<u>71,722,596</u>	<u>21,138,272</u>
Deferred Outflows of Resources - Deferred outflows related to pensions (Note 9)	65,401	-	65,401	71,156
Liabilities				
Current liabilities:				
Accounts payable	464,832	462,019	926,851	2,039,250
Due to other governmental units	38	-	38	281,445
Due to other funds (Note 6)	2,813,600	17,152	2,830,752	4,901,996
Accrued liabilities and other	167,098	81,191	248,289	353,841
Claims liability - Pharmaceutical and medical (Note 8)	107,625	-	107,625	-
Compensated absences	-	-	-	2,421,544
Current portion of long-term debt	9,000,000	-	9,000,000	-
Total current liabilities	<u>12,553,193</u>	<u>560,362</u>	<u>13,113,555</u>	<u>9,998,076</u>
Noncurrent liabilities:				
Long-term advance	-	-	-	515,181
Compensated absences	-	-	-	495,254
General, workers' compensation claim, and IBNR liability (Note 8)	-	-	-	4,019,421
Net OPEB obligation (Note 11)	323,591	338,938	662,529	1,202,287
Net pension liability (Note 9)	1,099,180	-	1,099,180	1,523,629
Long-term debt (Note 7)	30,990,000	-	30,990,000	-
Total noncurrent liabilities	<u>32,412,771</u>	<u>338,938</u>	<u>32,751,709</u>	<u>7,755,772</u>
Total liabilities	<u>44,965,964</u>	<u>899,300</u>	<u>45,865,264</u>	<u>17,753,848</u>
Deferred Inflows of Resources - Deferred inflows related to pensions	26,493	-	26,493	245,878
Net Position				
Net investment in capital assets	2,812,109	1,132,867	3,944,976	2,119,505
Restricted:				
Retirement of delinquent tax notes payable	7,710,193	-	7,710,193	-
Parks and recreation nonexpendable	-	1,015,967	1,015,967	-
Unrestricted	<u>12,325,780</u>	<u>899,324</u>	<u>13,225,104</u>	<u>1,090,197</u>
Total net position	<u>\$ 22,848,082</u>	<u>\$ 3,048,158</u>	<u>25,896,240</u>	<u>\$ 3,209,702</u>
Net Position of Business-type Activities			<u>\$ 25,896,240</u>	

The Notes to Financial Statements are an Integral Part of this Statement.

Genesee County, Michigan

**Proprietary Funds
Statement of Revenue, Expenses, and Changes in Net Position
Year Ended September 30, 2017**

	Enterprise Funds			Governmental
	Nonmajor		Total	Internal Service
	Delinquent Taxes	Enterprise Funds		Funds
Operating Revenue				
Other sales to customers	\$ -	\$ 311,792	\$ 311,792	\$ -
Charges for sales and services	10,119,272	398,825	10,518,097	6,085
Charges to other funds	-	-	-	21,751,897
Total operating revenue	10,119,272	710,617	10,829,889	21,757,982
Operating Expenses				
Salaries and fringe benefits	608,949	769,803	1,378,752	3,188,477
Supplies and other operating expenses	3,099,439	1,218,275	4,317,714	17,605,954
Depreciation	-	55,532	55,532	777,175
Total operating expenses	3,708,388	2,043,610	5,751,998	21,571,606
Operating Income (Loss)	6,410,884	(1,332,993)	5,077,891	186,376
Nonoperating Revenue (Expenses)				
Investment earnings	73,114	126,492	199,606	108,907
Interest expense	(1,216,978)	-	(1,216,978)	(2,208)
Other nonoperating expenses	(800,000)	-	(800,000)	-
Gain on sale of assets	-	-	-	282,144
Total nonoperating (expenses) revenue	(1,943,864)	126,492	(1,817,372)	388,843
Income (Loss) - Before transfers	4,467,020	(1,206,501)	3,260,519	575,219
Transfers In	-	1,313,850	1,313,850	475,253
Transfers Out	(3,000,000)	(235,453)	(3,235,453)	-
Change in Net Position	1,467,020	(128,104)	1,338,916	1,050,472
Net Position - Beginning of year	21,381,062	3,176,262	24,557,324	2,159,230
Net Position - End of year	\$ 22,848,082	\$ 3,048,158	\$ 25,896,240	\$ 3,209,702

Genesee County, Michigan

**Proprietary Funds
Statement of Cash Flows
Year Ended September 30, 2017**

	Enterprise Funds			Governmental
	Nonmajor		Total	Internal Service
	Delinquent Taxes	Enterprise Funds		Funds
Cash Flows from Operating Activities				
Receipts from users	\$ 8,446,577	\$ 723,183	\$ 9,169,760	\$ 17,968,805
Receipts from interfund services and reimbursements	-	-	-	1,136,600
Payments for interfund services and reimbursements	(516,474)	-	(516,474)	(1,268,498)
Payments to suppliers	(1,739,078)	(827,923)	(2,567,001)	(15,620,424)
Payments to employees	(1,273,850)	(714,072)	(1,987,922)	(3,194,971)
Internal activity - Receipts from (payments to) other funds	2,719,144	2,274	2,721,418	(2,248,789)
Claims paid	-	-	-	(107,959)
Other receipts (payments)	3,122,344	-	3,122,344	(42,208)
Net cash provided by (used in) operating activities	10,758,663	(816,538)	9,942,125	(3,377,444)
Cash Flows from Noncapital Financing Activities				
Issuance of short-term borrowings	34,990,000	-	34,990,000	-
Transfers from other funds	-	1,313,850	1,313,850	475,253
Principal and interest on short-term borrowings	(33,586,978)	-	(33,586,978)	-
Contributions to component units	(800,000)	-	(800,000)	-
Transfers to other funds	(3,000,000)	(235,453)	(3,235,453)	-
Repayments of loans from other funds	-	-	-	(310,870)
Net cash (used in) provided by noncapital financing activities	(2,396,978)	1,078,397	(1,318,581)	164,383
Cash Flows from Capital and Related Financing Activities				
Proceeds from sales of capital assets	-	-	-	282,144
Purchase of capital assets	-	-	-	(673,548)
Principal and interest paid on capital debt	-	-	-	(156,947)
Net cash used in capital and related financing activities	-	-	-	(548,351)
Cash Flows from Investing Activities				
Interest received on investments	73,114	126,492	199,606	109,042
Proceeds from sale and (purchases) maturities of investment securities	(11,674,495)	(126,416)	(11,800,911)	884,227
Net cash (used in) provided by investing activities	(11,601,381)	76	(11,601,305)	993,269
Net (Decrease) Increase in Cash and Cash Equivalents	(3,239,696)	261,935	(2,977,761)	(2,768,143)
Cash and Cash Equivalents - Beginning of year	3,239,696	1,410,272	4,649,968	4,403,977
Cash and Cash Equivalents - End of year	\$ -	\$ 1,672,207	\$ 1,672,207	\$ 1,635,834
Statement of Net Position Classification of Cash and Cash Equivalents				
Cash and investments	\$ 16,936,473	\$ 2,814,591	\$ 19,751,064	\$ 7,798,200
Less amounts classified as investments	(16,936,473)	(1,142,384)	(18,078,857)	(6,162,366)
Total cash and cash equivalents	\$ -	\$ 1,672,207	\$ 1,672,207	\$ 1,635,834

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Genesee County, Michigan

**Proprietary Funds
Statement of Cash Flows (Continued)
Year Ended September 30, 2017**

	Enterprise Funds			Governmental
	Nonmajor		Total	Internal Service
	Delinquent Taxes	Enterprise Funds		Funds
Reconciliation of Operating Income (Loss) to Net Cash from Operating Activities				
Operating income (loss)	\$ 6,410,884	\$ (1,332,993)	\$ 5,077,891	\$ 186,376
Adjustments to reconcile operating income (loss) to net cash from operating activities:				
Depreciation and amortization	-	55,532	55,532	777,175
Changes in assets and liabilities:				
Receivables	1,449,649	12,566	1,462,215	(42,208)
Due from others	(516,474)	-	(516,474)	(3,914,142)
Inventories	-	-	-	(25,894)
Prepaid and other assets	-	-	-	1,438,673
Accounts payable	391,941	390,267	782,208	565,818
Due to others	2,719,144	2,274	2,721,418	(2,248,789)
Estimated claims liability	-	-	-	(107,959)
Accrued and other liabilities	303,519	55,816	359,335	(6,494)
Net cash provided by (used in) operating activities	\$ 10,758,663	\$ (816,538)	\$ 9,942,125	\$ (3,377,444)

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Genesee County, Michigan

**Fiduciary Funds
Statement of Fiduciary Net Position
September 30, 2017**

	Total Pension and Employee Fringe Benefit (VEBA) Trust	
	Funds	Agency Funds
Assets		
Cash and cash equivalents	\$ 10,821,624	\$ 12,238,471
Investments:		
Money market	-	9,300,038
Investment pool - MI CLASS	-	9,003,368
Negotiable CDs	3,595,997	-
U.S. government securities	50,487,932	-
Foreign governments and agencies	1,496,809	-
Foreign equity	106,285,358	-
Partnerships publicly traded	2,676,767	-
Common stock	134,974,384	-
Corporate bonds	44,651,632	-
Real estate limited partnerships	94,536,587	-
Mutual funds	4,460,781	-
Hedge fund-of-funds	1,022,949	-
Cash and investments held as collateral for securities lending	11,218,014	-
Receivables:		
Interest and accounts receivable	945,900	-
Contributions receivable	1,865,361	3,144
Accounts receivable - Pending trades	967,437	-
Prepays and other assets	250,486	-
Total assets	470,258,018	\$ 30,545,021
Liabilities		
Accounts payable	794,565	\$ 30,440,832
Due to other governmental units	-	104,189
IBNR liability	902,015	-
Obligations under securities lending agreements	11,218,014	-
Accounts payable - Pending trades	140,731	-
Total liabilities	13,055,325	\$ 30,545,021
Net Position Held in Trust for Pension and Other Employee Benefits	\$ 457,202,693	

Genesee County, Michigan

**Fiduciary Funds
Statement of Changes in Fiduciary Net Position
Year Ended September 30, 2017**

	Total Pension and Employee Fringe Benefit (VEBA) Trust Funds
Additions	
Investment income (loss):	
Interest and dividends	\$ 8,572,607
Net increase in fair value of investments	27,702,775
Investment-related expenses	(1,370,891)
Net investment income	34,904,491
Securities lending income - Interest and dividends	82,255
Contributions:	
Employer	25,799,947
Plan members	3,466,702
Total contributions	29,266,649
Total additions	64,253,395
Deductions	
Benefits	60,942,600
Refunds of contributions	80,955
Transfer to other pension plans	468,980
Administrative expenses	421,448
Total deductions	61,913,983
Net Increase in Net Position Held in Trust	2,339,412
Net Position Held in Trust for Pension and Other Employee Benefits - Beginning of year	454,863,281
Net Position Held in Trust for Pension and Other Employee Benefits - End of year	\$ 457,202,693

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Genesee County, Michigan

	Road Commission September 30, 2017	Water and Waste Services December 31, 2016	Economic Development Corp September 30, 2017	Drains September 30, 2017
Assets				
Cash and cash equivalents	\$ 17,932,660	\$ 22,150,739	\$ 150,937	\$ 2,332,581
Investments	-	-	-	203,330
Receivables:				
Land contract receivable	-	-	-	-
Interest and accounts receivable	1,930,904	12,097,607	2,109	-
Lease receivable	-	2,420,000	-	-
Due from other governmental units	5,327,982	7,024,778	-	-
Loan receivable	-	-	62,887	-
Special assessments receivable	728,380	-	-	2,044,571
Due from primary government	-	-	-	-
Inventory	705,404	-	-	47,598
Prepays and other assets	169,984	1,129,502	-	-
Restricted cash and cash equivalents	11,960,276	106,250,323	586,792	-
Investment in joint ventures	-	-	-	-
Net OPEB asset	9,340,905	-	-	-
Capital assets	185,904,269	687,061,551	-	15,531,581
Loan receivable	-	1,287,537	-	-
Lease receivable	-	40,305,400	-	-
Land contract receivable	-	-	-	-
Total assets	234,000,764	879,727,437	802,725	20,159,661
Deferred Outflows of Resources				
Deferred charge on refunding	-	19,281	-	-
Deferred outflows related to pensions	17,389,210	14,998,938	-	-
Total deferred outflows of resources	17,389,210	15,018,219	-	-
Liabilities				
Accounts payable	2,894,071	4,405,913	923	300,107
Due to other governmental units	643,982	-	30,216	-
Due to primary government	-	-	-	63,649
Accrued liabilities and other:				
Accrued payroll	-	-	-	19,724
Accrued interest payable	-	5,118,032	-	25,078
Other accrued liabilities and deposits	888,303	-	-	11,680
Unearned revenue	15,216,934	1,276,135	-	-
Due within one year:				
Compensated absences	135,552	-	-	-
Current portion of long-term debt	1,510,000	11,155,032	-	497,727
Due in more than one year:				
Payable from restricted assets	837,234	27,173,956	-	-
Compensated absences	1,052,177	-	-	-
Funds held in escrow	-	-	-	-
Long-term advance from primary government	-	-	-	-
Net OPEB obligation	-	5,147,853	-	-
Net pension liability	37,391,284	32,181,562	-	-
Long-term debt	1,690,000	605,220,336	-	1,621,312
Total liabilities	62,259,537	691,678,819	31,139	2,539,277
Deferred Inflows of Resources - Pensions	4,943,898	1,125,058	-	-
Net Position				
Net investment in capital assets	182,704,269	187,960,080	-	13,412,542
Restricted:				
Debt service	894,951	-	-	-
Programs	-	5,494,572	768,024	-
Unrestricted	587,319	8,487,127	3,562	4,207,842
Total net position	\$ 184,186,539	\$ 201,941,779	\$ 771,586	\$ 17,620,384

The Notes to Financial Statements are an Integral Part of this Statement.

Component Units Statement of Net Position September 30, 2017

	Land Bank Authority September 30, 2017	Brownfield Authority September 30, 2017	Storm Water Management System September 30, 2017	Total
	\$ 5,362,552	\$ -	\$ 274,409	\$ 48,203,878
	-	-	-	203,330
	792,742	-	-	792,742
	910,705	-	-	14,941,325
	-	-	-	2,420,000
	7,170,018	-	90,115	19,612,893
	-	1,912,500	-	1,975,387
	-	-	-	2,772,951
	10,859	-	-	10,859
	497,772	-	-	1,250,774
	161,378	-	-	1,460,864
	-	-	-	118,797,391
	1,939,000	-	-	1,939,000
	-	-	-	9,340,905
	2,942,293	-	-	891,439,694
	-	-	-	1,287,537
	-	-	-	40,305,400
	4,639,042	-	-	4,639,042
Total assets	24,426,361	1,912,500	364,524	1,161,393,972
Deferred Outflows of Resources				
Deferred charge on refunding	-	-	-	19,281
Deferred outflows related to pensions	-	-	-	32,388,148
Total deferred outflows of resources	-	-	-	32,407,429
Liabilities				
Accounts payable	2,434,157	118,858	113,455	10,267,484
Due to other governmental units	-	-	-	674,198
Due to primary government	-	-	-	63,649
Accrued liabilities and other:				
Accrued payroll	-	-	-	19,724
Accrued interest payable	-	228,250	-	5,371,360
Other accrued liabilities and deposits	-	-	-	998,300
Unearned revenue	98,317	-	-	16,493,069
Due within one year:				
Compensated absences	59,938	-	-	195,490
Current portion of long-term debt	212,726	357,695	-	13,733,180
Due in more than one year:				
Payable from restricted assets	-	-	-	28,011,190
Compensated absences	-	-	-	1,052,177
Funds held in escrow	-	225,000	-	225,000
Long-term advance from primary government	1,565,000	-	-	1,565,000
Net OPEB obligation	-	-	-	5,147,853
Net pension liability	-	-	-	69,572,846
Long-term debt	291,905	11,180,814	-	620,004,367
Total liabilities	4,662,043	12,110,617	113,455	773,394,887
Deferred Inflows of Resources - Pensions	-	-	-	6,068,956
Net Position				
Net investment in capital assets	2,437,662	-	-	386,514,553
Restricted:				
Debt service	-	-	-	894,951
Programs	-	-	251,069	6,513,665
Unrestricted	17,326,656	(10,198,117)	-	20,414,389
Total net position	\$ 19,764,318	\$ (10,198,117)	\$ 251,069	\$ 414,337,558

Genesee County, Michigan

	Program Revenue			Net (Expense) Revenue and Changes in Net Position		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Road Commission	Water and Waste Services
Component units:						
Road Commission	\$ 50,329,959	\$ 6,515,241	\$ 27,985,232	\$ 14,980,211	\$ (849,275)	\$ -
Water and Waste Services	67,319,534	70,203,757	-	750,000	-	3,634,223
Economic Development Corporation	7,251	-	-	-	-	-
Drains	4,165,519	964,516	-	-	-	-
Land Bank Authority	14,804,995	4,607,945	10,662,758	-	-	-
Brownfield Authority	531,922	531,922	-	-	-	-
Storm Water Management System	298,867	-	323,322	-	-	-
Total component units	\$ 137,458,047	\$ 82,823,381	\$ 38,971,312	\$ 15,730,211	(849,275)	3,634,223
General revenue:						
Property taxes and special assessments					-	-
Interest income					204,059	2,031,712
Other					-	3,253,756
Total general revenue					204,059	5,285,468
Change in Net Position					(645,216)	8,919,691
Net Position - Beginning of year (Note 2)					184,831,755	193,022,088
Net Position - End of year					\$ 184,186,539	\$ 201,941,779

Component Units Statement of Activities Year Ended September 30, 2017

Net (Expense) Revenue and Changes in Net Position					
Economic Development Corporation	Drains	Land Bank Authority	Brownfield Authority	Storm Water Management System	Total
\$ -	\$ -	\$ -	\$ -	\$ -	\$ (849,275)
-	-	-	-	-	3,634,223
(7,251)	-	-	-	-	(7,251)
-	(3,201,003)	-	-	-	(3,201,003)
-	-	465,708	-	-	465,708
-	-	-	-	-	-
-	-	-	-	24,455	24,455
(7,251)	(3,201,003)	465,708	-	24,455	66,857
-	1,466,225	-	-	-	1,466,225
-	1,200	1,142	-	82	2,238,195
10,295	178,966	-	-	-	3,443,017
10,295	1,646,391	1,142	-	82	7,147,437
3,044	(1,554,612)	466,850	-	24,537	7,214,294
768,542	19,174,996	19,297,468	(10,198,117)	226,532	407,123,264
\$ 771,586	\$ 17,620,384	\$ 19,764,318	\$ (10,198,117)	\$ 251,069	\$ 414,337,558

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Genesee County, Michigan

Notes to Financial Statements September 30, 2017

Note I - Summary of Significant Accounting Policies

The following is a summary of the significant accounting policies used by Genesee County, Michigan (the "County"):

Reporting Entity

The County of Genesee, Michigan was incorporated on March 18, 1835 and covers an area of approximately 642 square miles with the county seat located in the city of Flint. The County operates under an elected Board of Commissioners (nine members) and provides services to its more than 425,000 residents in many areas, including law enforcement, administration of justice, community enrichment and development, and human services. Education services are provided to citizens through more than 198 schools in 21 local school districts, five colleges, and a district library; such districts, colleges, and the library are separate governmental entities whose financial statements are not included herein, in accordance with the Governmental Accounting Standards Board Codification Section 2100.

As required by generally accepted accounting principles, these financial statements represent Genesee County, Michigan (the primary government) and its component units. The component units discussed below are included in the County's reporting entity because of the significance of their operational or financial relationships with the County.

Blended Component Units

Genesee County Building Authority - Legally separate entity established for the sole purpose of issuing bonded debt to finance construction of county buildings. The entire Building Authority is appointed by the County Board of Commissioners. There was no activity in the current year.

Genesee County Employees' Retirement System - Legally separate entity established to account for employee and employer contributions, investment income, accumulated assets, and payments to beneficiaries. The pension board has five ex-officio commissioners due to their positions held in the county and four elected employee commissioners, with services provided almost exclusively for the County and its employees. The retirement system has a calendar fiscal year end. It was determined by the County that it would be extremely impractical for the retirement system to change to a September 30 fiscal year end. The retirement system is a blended component unit of the County shown as a fiduciary fund.

Discretely Presented Component Units

Genesee County Road Commission - An entity responsible for constructing and maintaining the primary and local road system within the County. Its five-member board is appointed by the County Board. The County Board can significantly influence the operations of the Road Commission Board.

Genesee County, Michigan

Notes to Financial Statements September 30, 2017

Note I - Summary of Significant Accounting Policies (Continued)

Water and Waste Services - An entity established by the County pursuant to State law to provide for water and waste management services. The County appoints the lone board member/member-director and has the ability to remove the manager-director if it so chooses. The County approves and would be secondarily liable for any debt issuances. Water and waste services have a calendar year. The County has determined that it would be impractical for water and waste services to change to a September 30 fiscal year end.

Economic Development Corporation - An entity responsible for the administration of the revolving loan program. This loan program makes low-interest loans available to businesses located within Genesee County. The Board of the Economic Development Corporation (EDC) is appointed by the Board of Commissioners. The Board of Commissioners can remove board members of the EDC if they so choose.

Drains - These separate legal entities represent drainage districts established pursuant to Act 40, P.A. 1956, as amended, the Michigan Drain Code. The oversight of these districts is the responsibility of the Genesee County Drain Commissioner, an elected position that is funded by Genesee County, Michigan. The County lends its full faith and credit toward payment of the special assessment bonds issued for the projects. The County can significantly influence the operations of the Drain Commission since the County Board of Commissioners approves the drains budgets.

Genesee County Land Bank Authority - An entity which accounts for the activities of the authority consisting of acquisition of properties via the delinquent tax state statute sales of property to individuals, commercial entities, and nonprofit organizations; rental of properties to individuals; and rehabilitation and demolition of properties in preparation for sale or future development. The entity is composed of seven members appointed by the County Board. The County Board can significantly influence the operations of the Land Bank Authority Board.

Brownfield Authority - An entity governed by a nine-member board. The Board is appointed by each member of the County Board. The Brownfield Authority was created to provide a means for financing remediation of Brownfield (environmentally contaminated) sites within the County. The County issued bonds to provide capital for the revitalization of environmentally distressed, blighted, and functionally obsolete properties within the County. The County approves and would be secondarily liable for any debt issuances.

Genesee County, Michigan

Notes to Financial Statements September 30, 2017

Note I - Summary of Significant Accounting Policies (Continued)

Storm Water Management System - An entity established by the County pursuant to Act 342, Public Acts of Michigan, 1939. Genesee County Storm Water Management System is responsible for administration services necessary to enable the County and the cities, villages, townships, and charter townships located within the County to comply with the Phase II Regulations established by the United States Environmental Protection Agency (EPA) in the Federal Register on December 8, 1999. The Drain Commissioner's Office was designated and appointed as the "County Agency" for the system to manage and operate the system.

Complete financial statements of the individual component units (excluding Drains, Brownfield Authority, Economic Development Corporation of Genesee County, and Building Authority, which are included in this financial report) can be obtained from their respective administrative offices.

Accounting and Reporting Principles

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

Report Presentation

Governmental accounting principles require that financial reports include two different perspectives: the government-wide perspective and the fund-based perspective. The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component units. The government-wide financial statements are presented on the economic resources measurement focus and the full accrual basis of accounting. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. The statements also present a schedule reconciling these amounts to the modified accrual-based presentation found in the fund-based statements.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenue. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenue includes (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenue are reported instead as general revenue.

Genesee County, Michigan

Notes to Financial Statements September 30, 2017

Note I - Summary of Significant Accounting Policies (Continued)

Separate financial statements are provided for governmental funds, proprietary funds, fiduciary funds, and the component units even though the fiduciary fund statements are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

Fund Accounting

The County accounts for its various activities in several different funds in order to demonstrate accountability for how we have spent certain resources; separate funds allow us to show the particular expenditures for which specific revenue was used. The various funds are aggregated into three broad fund types:

Governmental Funds include all activities that provide general governmental services that are not business-type activities. This includes the General Fund, special revenue funds, debt service funds, capital project funds, and permanent funds. The County reports the following funds as major governmental funds:

- The General Fund is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.
- The County Health Fund accounts for the operations of providing health protection and health services; the main revenue sources are federal and state grants.
- The Community Action Resource Department Fund accounts for the programs designed to provide health and human services to low-income individuals; the main revenue source is federal grants.
- The Community Development Fund accounts for Housing and Urban Development grant awards that are allocated to all local units of government (excluding City of Flint, Michigan) for projects benefiting low- and moderate-income persons or projects defined as having an urgent need.

Note I - Summary of Significant Accounting Policies (Continued)

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

- The Delinquent Tax Revolving Enterprise Fund accounts for the activities of the delinquent real property tax purchase program whereby the County purchases the outstanding taxes from each local taxing unit. The County in turn collects those delinquent taxes along with penalties and interest.

The County's internal service funds account for various services, such as data processing, purchasing, and other administrative services; fleet management; buildings and grounds maintenance; the self-funded property/casualty program; and the self-funded prescription drug and medical program. These services are provided to other county departments on a cost-reimbursement basis.

Fiduciary Funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support Genesee County, Michigan's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds. The government reports the following fiduciary funds:

- The Pension Trust Fund accounts for employee and employer pension contributions, investment income, accumulated assets, and payments to beneficiaries.
- The Employees' Fringe Benefits (VEBA) Fund accounts for employee and employer contributions, investment income, and accumulated assets set aside with the intent to accumulate adequate funds to defray part of the cost of retiree medical benefits in future years.
- The Trust and Agency Funds account for assets held by the County as an agent for individuals, private organizations, other governments, and other funds.

Agency Funds account for assets held by the County in an agency capacity.

Note I - Summary of Significant Accounting Policies (Continued)

Interfund Activity - During the course of operations, the government has activity between funds for various purposes. Any residual balances outstanding at year end are reported as due from/to other funds and advances to/from other funds. While these balances are reported in fund financial statements, certain eliminations are made in the preparation of the government-wide financial statements. Balances between the funds included in governmental activities (i.e., the governmental and internal service funds) are eliminated so that only the net amount is included as internal balances in the governmental activities column. Similarly, balances between the funds included in business-type activities (i.e., the enterprise funds) are eliminated so that only the net amount is included as internal balances in the business-type activities column.

Furthermore, certain activity occurs during the year involving transfers of resources between funds. In fund financial statements, these amounts are reported at gross amounts as transfers in/out. While reported in fund financial statements, certain eliminations are made in the preparation of the government-wide financial statements. Transfers between the funds included in governmental activities are eliminated so that only the net amount is included as transfers in the governmental activities column. Similarly, balances between the funds included in business-type activities are eliminated so that only the net amount is included as transfers in the business-type activities column.

Basis of Accounting

The governmental funds use the current financial resources measurement focus and the modified accrual basis of accounting. This basis of accounting is intended to better demonstrate accountability for how the County has spent its resources.

Expenditures are reported when the goods are received or the services are rendered. Capital outlays are reported as expenditures (rather than as capital assets) because they reduce the ability to spend resources in the future; conversely, employee benefit costs that will be funded in the future (such as pension and retiree healthcare-related costs or sick and vacation pay) are not counted until they come due for payment. In addition, debt service expenditures, claims, and judgments are recorded only when payment is due.

Revenue is not recognized until it is collected, or collected soon enough after the end of the year that it is available to pay for obligations outstanding at the end of the year. For this purpose, the County considers revenue to be available if it is collected within 60 days of the end of the current fiscal period. The following major revenue sources meet the availability criterion: state-shared revenue, property tax revenue, court fines, and interest associated with the current fiscal period. Conversely, property taxes and federal grant reimbursements will be collected after the period of availability; receivables have been recorded for these, along with a "deferred inflow of resources."

Genesee County, Michigan

**Notes to Financial Statements
September 30, 2017**

Note I - Summary of Significant Accounting Policies (Continued)

Proprietary funds and fiduciary funds use the economic resources measurement focus and the full accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

Specific Balances and Transactions

Cash and Cash Equivalents - The County considers cash equivalents as short-term highly liquid investments that are both readily convertible to cash and have maturities of 90 days or less when purchased to minimize the risk of changes in value due to interest rate changes.

Investments - Investments are stated at fair values. Fair value is determined based on quoted market prices except for money market funds, which are valued at amortized cost. Unrealized appreciation or depreciation on investments due to changes in market value are recognized in fund operations each year.

Inventories and Prepaid Items - Inventories are stated at cost on a first-in, first-out basis for governmental funds and the lower of cost on a first-in, first-out basis or market for proprietary funds. The cost of inventory items in governmental funds is recorded as an expenditure at the time of purchase, except for certain Special Revenue Funds and the Water and Waste Services component unit, whereby inventories are expensed when used. Inventory in the Land Bank Authority represents land inventory held for resale.

Capital Assets - Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial individual cost ranging from \$1,500 for equipment to \$100,000 for infrastructure and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at acquisition value at the date of donation.

Interest incurred during the construction of capital assets of business-type activities is included as part of the capitalized value of the assets constructed. During the current year, no interest expense was capitalized as part of the cost of assets under construction.

Genesee County, Michigan

**Notes to Financial Statements
September 30, 2017**

Note I - Summary of Significant Accounting Policies (Continued)

Capital assets are depreciated using the straight-line method over the estimated useful lives of the related assets. The estimated useful lives are as follows:

Capital Asset Class	Lives
Land improvements	10 years
Buildings and improvements	25-50 years
Equipment	3-20 years
Infrastructure	20-50 years

Long-term Obligations - In the government-wide financial statements and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund-type statement of net position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are expensed at the time they are incurred. In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts are reported as other financing uses. Issuance costs are reported as debt service expenditures.

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of net position and/or balance sheet will sometimes report a separate section for deferred outflows of resources. This separate financial statement element represents a consumption of net position that applies to future periods and so will not be recognized as an outflow of resources (expense/expenditure) until then. At September 30, 2017, the County reported deferred outflows of resources related to pensions for governmental activities and business-type activities. See the table in Note 9 for governmental and business-type activities and Note 20 for component units for amounts and when they will be recognized in pension expense. In the component units, Water and Waste Services, a deferred outflow of resources related to bond refunding loss that is being amortized.

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element represents an acquisition of net position that applies to future periods and so will not be recognized as an inflow of resources (revenue) until that time. There are also deferred inflows in the governmental funds for unavailable grant revenue and property tax revenue and in the component units, Brownfield Authority and Economic Development Corporation, for unavailable loans and Drains for unavailable special assessments revenue.

Note I - Summary of Significant Accounting Policies (Continued)

Net Position Flow Assumption

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

Fund Balance Flow Assumption

Sometimes the County will fund outlays for a particular purpose from both restricted and unrestricted resources (the total of committed, assigned, and unassigned fund balance). In order to calculate the amounts to report as restricted, committed, assigned, and unassigned fund balance in the governmental fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the County's policy to consider restricted fund balance to have been depleted before using any of the components of unrestricted fund balance. Furthermore, when an expense is incurred for a purpose for which amounts in any of the unrestricted fund balance classifications could be used, it is the County's policy to spend funds in this order: committed, assigned, and unassigned.

Fund Balance Policies

In the fund financial statements, governmental funds report the following components of fund balance:

- Nonspendable - Amounts that are not in spendable form or are legally or contractually required to be maintained intact
- Restricted - Reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties, constitutional provisions, or enabling legislation for use for a specific purpose
- Committed - Amounts that have been formally set aside by the Board of Commissioners for use for specific purposes. Commitments are made and can be rescinded only via resolution of the Board
- Assigned - Intent to spend resources on specific purposes expressed by the Board of Commissioners

Note I - Summary of Significant Accounting Policies (Continued)

- Unassigned - Amounts that do not fall into any other category above. This is the residual classification for amounts in the General Fund and represents fund balance that has not been assigned to other funds and has not been restricted, committed, or assigned to specific purposes in the General Fund. In other governmental funds, only negative unassigned amounts are reported, if any, and represent expenditures incurred for specific purposes exceeding the amounts previously restricted, committed, or assigned to those purposes.

Property Taxes

The County's property tax is levied each July 1 for operations and each December 1 for all others on the assessed valuation of property located in the County as of the preceding December 31. On December 1, the property tax attachment is an enforceable lien on property and is payable by the last day of the next February following. Assessed values are established annually by the County and are equalized by the State at an estimated 50 percent of current market value. Real and personal property in Genesee County for the 2017 levy was assessed at \$10,821,071,491 and equalized at \$10,821,071,491, representing 50 percent of estimated current market value. The County's operating tax rate is currently 5.5072 mills with an additional 0.75 mills voted for parks, 0.4847 mills for paramedics, 0.7 mills for senior services, 1.0 mill for health services, 0.1 mills for veterans, 0.04 mills for the MSU extension, and 0.2 mills for animal control.

By agreement with various taxing authorities, the County purchases at face value the real property taxes receivable returned delinquent each March 1. These receivables (\$44,013,179 at September 30, 2017) are pledged to a bank for payment of notes payable, the proceeds of which were used to liquidate the amounts due to the General Fund and various other funds and governmental agencies for purchase of the receivables and to provide funds for current operations. Subsequent collections on delinquent taxes receivable, plus interest and collection fees thereon and investment earnings, are used to extinguish the debt.

Collections of delinquent taxes, which include interest, penalties, fees, and investment earnings, amounting to \$35,792,588 in 2017, are used to service the notes payable. Principal and interest paid on the notes payable in 2017 amounted to \$30,511,293.

Genesee County, Michigan

**Notes to Financial Statements
September 30, 2017**

Note 1 - Summary of Significant Accounting Policies (Continued)

Pension - Genesee County, Michigan offers a defined benefit pension plan to its employees. The County records a net pension liability for the difference between the total pension liability calculated by the actuary and the pension plan's fiduciary net position. For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the GCERS Pension Plan and additions to/deductions from the pension plan's fiduciary net position have been determined on the same basis as they are reported by the pension plan. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value. The General, Special Revenue, DTR, and Internal Service funds will be used to liquidate the net pension liability, based on whichever fund an employee or retiree is assigned and to which the employee's pension costs are charged.

Other Postemployment Benefit Costs - The County offers retiree healthcare 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. In the governmental funds, OPEB costs are recognized as contributions are made. For the government-wide statements and proprietary funds, the County reports the full accrual cost equal to the current year required contribution, adjusted for interest and "adjustment to the ARC" on the beginning of year underpaid amount, if any. The General, Special Revenue, DTR, and Internal Service funds will be used to liquidate the other postemployment benefit obligation, based on whichever fund an employee or retiree is assigned and to which the employee's other postemployment benefit costs are charged.

Compensated Absences (Vacation and Sick Leave) - It is the County's policy to permit employees to accumulate earned but unused sick and vacation pay benefits. Vacation pay is accrued and fully vested when earned; upon termination, with a few bargaining unit exceptions, employees are paid accumulated vacation at full rates to a limit of 150 percent of their current annual earned vacation. There is no liability for unpaid accumulated sick leave since the County does not have a policy to pay any amounts when employees separate from service with the County. All vacation pay is accrued when incurred in the government-wide, proprietary, and fiduciary fund financial statements. A liability for these amounts is reported in governmental funds only for employee terminations as of year end. All other accrued compensated absences are reported in the government-wide financial statements; generally the funds that report each employee's compensation (the General Fund, Major Special Revenue Funds, Internal Services Funds, and Delinquent Tax Revolving Fund, primarily) are used to liquidate the obligation.

Genesee County, Michigan

**Notes to Financial Statements
September 30, 2017**

Note 1 - Summary of Significant Accounting Policies (Continued)

Use of Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

Note 2 - Prior Period Adjustment

The financial statements for the year ended September 30, 2016 have been restated in order to reflect the removal of the Genesee Health System Authority (GHS) from presentation within the Genesee County, Michigan component units as it no longer meets the requirement to be reported as a component unit. Genesee County, Michigan recorded a prior period adjustment to properly reflect the removal of GHS.

The effect of this change on prior year net position is as follows:

	Component Units
Net position - September 30, 2016 - As previously reported	\$ 382,448,716
Adjustment to remove GHS net position	<u>24,674,548</u>
Net position - September 30, 2016 - As restated	<u>\$ 407,123,264</u>

The effect of this change on the prior year change in net position is as follows:

	Component Units
Change in net position - September 30, 2016 - As previously reported	\$ (11,214,266)
Adjustment to remove GHS change in net position	<u>8,876,893</u>
Change in net position - September 30, 2016 - As restated	<u>\$ (2,337,373)</u>

Genesee County, Michigan

**Notes to Financial Statements
September 30, 2017**

Note 3 - Stewardship, Compliance, and Accountability

Fund Deficits - As of September 30, 2017, the following funds were in a deficit at year end:

Component unit - Brownfield Authority	\$ 10,198,117
Enterprise funds - Parking Meter Fund	3,279
Internal service funds:	
Administrative services	6,615,730
Vehicles and equipment	134,849
Special revenue funds:	
GCCARD	3,258,075
Sheriff Contracted Services	52,729

The deficits in GCCARD and Sheriff Contracted Services Development are caused by deferred inflows for unavailable revenue; therefore, this is not a deficit under the State's definition, as defined by numbered letter 2016-1.

During the year, Genesee County, Michigan adopted a budget in which revenue less expenditures exceeded available fund balance for the Sheriff Contracted Services Fund and, therefore, it was not in compliance with Public Act 2 of 1968.

Note 4 - Deposits and Investments

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

The Pension Trust Fund is also authorized by Michigan Public Act 314 of 1965, as amended, to invest in certain reverse repurchase agreements, stocks, diversified investment companies, annuity investment contracts, real estate leased to public entities, mortgages, real estate, debt or equity of certain small businesses, certain state and local government obligations, and certain other specified investment vehicles. The Employees' Fringe Benefit (VEBA) Fund is authorized by Michigan Public Act 149 of 1999 to invest in similar types of investments as the pension fund.

Genesee County, Michigan

**Notes to Financial Statements
September 30, 2017**

Note 4 - Deposits and Investments (Continued)

State statutes as they relate to group self-insurance pools (Public Act 218 of 1956, as amended) authorize the Self Funded Property/Casualty Program Fund to invest in obligations of the U.S. Treasury and U.S. agencies, deposit agreements with federally insured financial institutions within the state of Michigan, commercial paper, common stocks, real estate, repurchase obligations of the U.S. government and U.S. agencies, bankers' acceptances of U.S. banks, common stocks, and mutual funds composed of the above authorized investments. The pool has adopted the above as its investment policy and has authorized the following depositories: Huntington Bank and Beacon Investment Company.

The County has designated five banks for the deposit of its funds. The investment policy adopted by the board in accordance with Public Act 196 of 1997 has authorized investments as allowed under state statutory authority as listed above. The County's cash and investments are subject to several types of risk, which are examined in more detail as follows:

Custodial Credit Risk of Bank Deposits - Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The government does not have a deposit policy for custodial credit risk. At year end, the County had \$33,270,732 of bank deposits (certificates of deposit and checking and savings accounts) that were uninsured and uncollateralized. The County believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. Insuring or collateralizing all cash deposits would also result in a significant decrease in the investment returns for the County. Consistent with the investment policy that is prepared by the County Treasurer's Office and approved by the County Board of Commissioners, the County evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

Custodial Credit Risk of Investments - 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. The County does not have a policy for custodial credit risk. At year end, \$461,569,576 of investment securities was uninsured and unregistered, with securities held by the counterparty or by its trust department or agent but not in the County's name.

Genesee County, Michigan

**Notes to Financial Statements
September 30, 2017**

Note 4 - Deposits and Investments (Continued)

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 does not restrict investment maturities, other than commercial paper, which can only be purchased with a 270-day maturity. At year end, the average maturities of investments are as follows:

Type of Investment	Fair Value	Less than 1 year	1-10 Years	More than 10 Years
U.S. gov. or agency bond or notes (primary government)	\$ 1,328,317	\$ 926,151	\$ 402,166	\$ -
Corporate bonds (primary government)	1,426,972	-	1,426,972	-
U.S. gov. mortgage-backed (primary government)	7,982,970	7,982,970	-	-
Bank investment pools (primary government)	8,056,754	8,056,754	-	-
U.S. gov. or agency bond or notes (VEBA)	302,883	-	302,883	-
Private placement (VEBA)	100,447	-	100,447	-
Corporate bonds (VEBA)	3,819,549	-	3,819,549	-
Foreign bonds (VEBA)	418,896	300,096	118,800	-
Asset-backed (pension)	2,840,885	-	2,351,231	489,654
U.S. gov. collateralized mortgage obligation (pension)	3,620,008	-	588,238	3,031,770
U.S. gov. mortgage-backed (pension)	13,895,171	-	4,897	13,890,274
U.S. gov. treasuries, notes, and bonds (pension)	30,268,870	5,075,821	25,193,049	-
Corporate collateralized mortgage obligation (pension)	2,400,999	-	370,433	2,030,566
Corporate bonds (pension)	29,364,807	179,566	27,793,364	1,388,877
Foreign corporate (pension)	1,077,913	-	1,077,913	-
Municipal (pension)	4,514,188	-	1,695,194	2,818,994
Private placement (pension)	4,112,204	-	4,112,204	-
Bank investment pools (fiduciary - trust)	9,003,368	9,003,368	-	-
Total	\$ 124,535,201	\$ 31,524,726	\$ 69,357,340	\$ 23,650,135

Genesee County, Michigan

**Notes to Financial Statements
September 30, 2017**

Note 4 - Deposits and Investments (Continued)

Credit Risk - Credit risk is the risk that the government will not be able to recover the value of its securities. The County follows state law which limits investments in commercial paper to the top two ratings issued by nationally recognized statistical rating organizations. The County has no investment policy that would further limit its investment choices for general county funds. The pension funds are allowed to invest in longer maturity corporate bonds in accordance with state law. As of year end, the credit quality ratings of debt securities not explicitly guaranteed by the U.S. government are as follows:

Investment	Fair Value	Rating	Rating Organization
U.S. gov. agency securities (primary government)	\$ 1,053,596	AA+	S&P
U.S. gov. agency securities (primary government)	274,721	AAA	S&P
U.S. government mortgage-backed (primary government)	7,982,970	Not Rated	N/A
Money market (primary government)	322,172	AA M	S&P
Money market funds (primary government)	25,624,239	Not Rated	N/A
Corporate bonds (primary government)	367,474	BBB+	S&P
Corporate bonds (primary government)	720,447	BBB	S&P
Corporate bonds (primary government)	339,052	BBB-	S&P
Bank investment pools (primary government)	8,056,754	AI + PI	S&P
Corporate bonds (VEBA)	205,516	AA	S&P
Corporate bonds (VEBA)	2,017,184	BBB	S&P
Corporate bonds (VEBA)	1,333,724	BB	S&P
Corporate bonds (VEBA)	263,125	B	S&P
Private placement (VEBA)	100,447	BBB	S&P
Foreign government bonds (VEBA)	118,800	BB	S&P
Foreign government bonds (VEBA)	300,096	Not Rated	N/A
U.S. gov. agency securities (VEBA)	302,883	Not Rated	N/A
Asset-backed (pension)	277,362	AA	S&P
Asset-backed (pension)	1,058,177	A	S&P
Asset-backed (pension)	213,181	BBB	S&P
Asset-backed (pension)	1,292,165	Not Rated	N/A
Corporate bonds (pension)	600,670	AAA	S&P
Corporate bonds (pension)	5,026,473	AA	S&P
Corporate bonds (pension)	12,498,394	A	S&P
Corporate bonds (pension)	10,943,338	BBB	S&P

Genesee County, Michigan

Notes to Financial Statements September 30, 2017

Note 4 - Deposits and Investments (Continued)

Investment	Fair Value	Rating	Rating Organization
Corporate bonds (pension)	\$ 295,931	Not Rated	N/A
Corporate CMO (pension)	238,590	AAA	S&P
Corporate CMO (pension)	195,295	AA	S&P
Corporate CMO (pension)	1,967,113	Not Rated	N/A
Private placements (pension)	490,895	AA	S&P
Private placements (pension)	587,513	A	S&P
Private placements (pension)	2,522,618	BBB	S&P
Private placements (pension)	511,178	Not Rated	S&P
Foreign corporate bonds (pension)	1,077,913	BBB	S&P
Municipal bonds (pension)	516,350	AAA	S&P
Municipal bonds (pension)	1,342,769	AA	S&P
Municipal bonds (pension)	256,504	A	S&P
Municipal bonds (pension)	2,398,564	Not Rated	N/A
U.S. government CMO (pension)	3,620,009	Not Rated	N/A
U.S. government mortgage-backed (pension)	13,895,171	Not Rated	N/A
U.S. government treasuries, notes, and bonds (pension)	30,268,870	Not Rated	N/A
Bank investment pools (fiduciary - trust)	9,003,368	AI + PI	S&P
Money market funds (fiduciary - trust)	9,316,613	Not Rated	N/A
Total	\$ 159,798,224		

Foreign Currency Risk - Foreign currency risk is the risk that an investment denominated in the currency of a foreign country could reduce its U.S. dollar value as a result of changes in foreign currency exchange rates. The pension system does not restrict the amount of investments in foreign currency. At December 31, 2016, the System did not hold any securities that are subject to foreign currency risk.

Securities Lending - As permitted by state statutes and under the provisions of a securities lending authorization agreement, the System lends securities to broker-dealers and banks for collateral that will be returned for the same securities in the future. The System's custodial bank manages the securities lending program and receives cash as collateral. Borrowers are required to deliver collateral for each loan equal to not less than 100 percent of the market value of the loaned securities. During the year ended December 31, 2016, only United States currency was received as collateral.

The System did not impose any restrictions during the fiscal year on the amount of loans made on its behalf by the custodial bank. The System presently owns \$206,930 of Sigma Finance Medium Term Note, which is a defaulted investment. The System elected to repay the liability over a five-year period. There were no other failures by any borrowers to return loaned securities or pay distributions thereon during the fiscal year.

Genesee County, Michigan

Notes to Financial Statements September 30, 2017

Note 4 - Deposits and Investments (Continued)

The Genesee County Employees' Retirement System (the "System") and the borrower maintain the right to terminate all securities lending transactions on demand. The cash collateral received on each loan was invested, together with the cash collateral of other lenders, in an investment pool. The average duration of the investments in the cash collateral pool is deemed to mature on the cash collateral pool's next business day as per the reinvestment guidelines, with the exception of the Sigma Medium Term Note (impaired). Because the loans are terminable on demand, their duration did not generally match the duration of the investments made with cash collateral. On December 31, 2016, the System had no credit risk exposure to borrowers with the exception of Sigma Finance. The collateral based on cost and the fair market value of the underlying securities on loan for the System as of December 31, 2016 was \$11,218,014 and \$10,938,965, respectively, which consisted of short-term money market mutual funds and Sigma Finance Term Note commercial paper.

The County categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. Investments that are measured at fair value using the net asset value per share (or its equivalent) as a practical expedient are not classified in the fair value hierarchy below.

In instances whereby inputs used to measure fair value fall into different levels in the above fair value hierarchy, fair value measurements in their entirety are categorized based on the lowest level input that is significant to the valuation. The County's assessment of the significance of particular inputs to these fair value measurements requires judgment and considers factors specific to each asset or liability.

Genesee County, Michigan

**Notes to Financial Statements
September 30, 2017**

Note 4 - Deposits and Investments (Continued)

The County has the following recurring fair value measurements as of September 30, 2017:

Assets Measured at Fair Value on a Recurring Basis

	Balance at September 30, 2017	Fair Value Measurement Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investments by Fair Value Level				
Debt securities:				
U.S. gov. or agency bond or note (self-insurance)	\$ 1,328,317	\$ -	\$ 1,328,317	\$ -
U.S. gov. or agency bond or note (VEBA)	302,883	302,883	-	-
U.S. gov. or agency bond or note (pension)	50,185,049	30,268,870	18,861,534	1,054,645
Foreign government bonds (VEBA)	418,896	-	418,896	-
Foreign government bonds (pension)	1,077,913	-	1,077,913	-
Corporate bonds (self-insurance)	1,426,972	-	1,426,972	-
Corporate bonds (VEBA)	3,819,549	-	3,819,549	-
Corporate bonds (pension)	40,832,083	-	40,183,913	648,170
Total debt securities	99,391,662	30,571,753	67,117,094	1,702,815
Equity securities:				
Common stocks (self-insurance)	1,780,320	1,780,320	-	-
Mutual funds (self-insurance)	1,304,585	1,304,585	-	-
Common stocks (VEBA)	10,248,803	10,248,803	-	-
Mutual funds (VEBA)	4,085,065	4,085,065	-	-
Partnerships publicly traded (VEBA)	1,347,012	-	1,347,012	-
Common stocks (pension)	124,725,581	124,725,581	-	-
Mutual funds (pension)	11,522,750	11,522,750	-	-
Total equity securities	155,014,116	153,667,104	1,347,012	-
Money market funds:				
Money market funds (self-insurance)	322,172	-	322,172	-
Money market funds (VEBA)	3,595,997	-	3,595,997	-
Total venture capital investments	3,918,169	-	3,918,169	-
Commercial real estate - Real estate investment trusts (pension)				
	61,929,948	-	6,143,859	55,786,089
Total investments by fair value level	320,253,895	\$ 184,238,857	\$ 78,526,134	\$ 57,488,904

Investments Measured at Net Asset Value (NAV)

Mutual funds - Open end (VEBA)	70,980
Real estate limited partnerships (VEBA)	2,676,767
Investment pools - MI CLASS (primary government)	8,056,754
Investment pools - MI CLASS (fiduciary - trust)	9,003,368
Foreign equity (pension)	106,285,358
Real estate investment trusts (pension)	31,259,627
Partnership alt. investments (pension)	1,022,949
Total investments measured at NAV	158,375,803
Total investments measured at fair value	\$ 478,629,698

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Genesee County, Michigan

**Notes to Financial Statements
September 30, 2017**

Note 4 - Deposits and Investments (Continued)

Debt and equity securities classified in Level 1 are valued using prices quoted in active markets for those securities.

The fair value of debt securities, mutual funds, and money market funds at September 30, 2017 was determined primarily based on Level 2 inputs. The County estimates the fair value of these investments using quoted prices for similar assets and other inputs such as interest rates and yield curves that are observable at commonly quoted intervals.

The fair value of closely held commercial real estate funds was determined primarily based on Level 3 inputs. The System estimates the fair value of these investments using investment managers' estimates calculated from pricing models, discounted cash flow methodologies, or similar techniques taking into account the characteristics of the asset.

The valuation method for investments measured at net asset value (NAV) per share (or its equivalent) is presented on the following table.

Investments in Entities that Calculate Net Asset Value per Share

The County holds shares or interests in investment companies whereby the fair value of the investments is measured on a recurring basis using net asset value per share (or its equivalent) of the investment companies as a practical expedient.

At September 30, 2017, the fair value, unfunded commitments, and redemption rules of those investments are as follows:

	Fair Value	Unfunded Commitments	Redemption Frequency, if Eligible	Redemption Notice Period
Mutual funds - Open ended	\$ 70,980	\$ -		None
Limited partnerships	2,676,767	-	Quarterly	30 days
Michigan CLASS investment pool	17,060,122	-		None
Foreign equity	106,285,358	-	Monthly	30 days
Real estate investment trusts	31,259,627	-	Quarterly	90 days
Partnership alt. investments	1,022,949	-	Annually	60-90 days
Total investments measured at NAV	\$ 158,375,803	\$ -		

The mutual funds - open ended include investments whose objective is to seek to maximize total return. The funds invest mainly in mortgage-backed securities actively allocating between agency and nonagency securities to provide high income while maintaining neutral duration scenario to diversify risks within the portfolio.

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Genesee County, Michigan

**Notes to Financial Statements
September 30, 2017**

Note 4 - Deposits and Investments (Continued)

The limited partnerships include investments in other limited liability companies and limited partnerships that specialize in a wide array of real estate investments established to act as real estate investment vehicles. The partnerships acquire ownership in underlying investments either through direct real estate ownership or ownership in real estate companies or the equity of real estate investment companies or trusts. The fair values of the investments in this class have been estimated using the net asset value per share of the investments.

The Michigan CLASS investment pool invests in U.S. Treasury obligations, federal agency obligations for the U.S. government, high-grade commercial paper (rate "A1" or better), collateralized bank deposits, repurchase agreements (collateralized at 102 percent by treasuries and agencies), and approved money market funds. The program is designed to meet the needs of Michigan public sector investors. It purchases securities that are legally permissible under state statutes and are available for investment by Michigan counties, cities, townships, school districts, authorities, and other public agencies.

The foreign equity funds class includes investments in funds that invest predominantly in equity securities of non-U.S. companies. The funds invest in developed and emerging market countries and utilize investments across the capitalization spectrum from large to small companies. The fair values of the investments in this class have been estimated using the net asset value per share of the investments.

The real estate investment trust funds class includes investments in funds whose objective is to operate a core portfolio of real estate investments predominately located in the U.S. The funds acquire ownership in underlying investments either through direct real estate ownership or ownership in real estate companies or the equity of real estate investment trusts. The funds predominantly target purchases in office, industrial, retail, or multifamily real estate classes. The fair value of the investments in this class have been estimated using the net asset value per share of the investments.

Genesee County, Michigan

**Notes to Financial Statements
September 30, 2017**

Note 5 - Capital Assets

Capital asset activity at September 30, 2017 is summarized as follows:

	Balance October 1, 2016	Reclassifications	Additions	Disposals	Balance September 30, 2017
Governmental Activities					
Capital assets not being depreciated:					
Land	\$ 11,355,190	\$ -	\$ 56	\$ -	\$ 11,355,246
Construction in progress	516,565	-	780,581	-	1,297,146
Subtotal	11,871,755	-	780,637	-	12,652,392
Capital assets being depreciated:					
Buildings and improvements	120,621,919	-	908,038	-	121,529,957
Machinery and equipment	23,681,775	73,319	3,074,958	(51,173)	26,778,879
Land improvements	8,711,746	-	-	-	8,711,746
Subtotal	153,015,440	73,319	3,982,996	(51,173)	157,020,582
Accumulated depreciation:					
Buildings and improvements	64,846,213	-	3,307,332	-	68,153,545
Machinery and equipment	18,464,675	-	1,848,055	(50,167)	20,262,563
Land improvements	52,216	-	-	-	52,216
Subtotal	83,363,104	-	5,155,387	(50,167)	88,468,324
Net capital assets being depreciated	69,652,336	73,319	(1,172,391)	(1,006)	68,552,258
Net capital assets	\$ 81,524,091	\$ 73,319	\$ (391,754)	\$ (1,006)	\$ 81,204,650
Business-type Activities					
Capital assets not being depreciated:					
- Land	\$ 3,523,844	\$ -	\$ -	\$ -	\$ 3,523,844
Capital assets being depreciated:					
Buildings and improvements	1,181,215	-	-	-	1,181,215
Machinery and equipment	4,291,769	-	-	(170,191)	4,121,578
Land improvements	3,608,535	-	283	-	3,608,818
Subtotal	9,081,519	-	283	(170,191)	8,911,611
Accumulated depreciation:					
Buildings and improvements	1,169,940	9,232	282	-	1,179,454
Machinery and equipment	4,291,858	(9,232)	3,025	(169,906)	4,115,745
Land improvements	3,143,055	-	52,225	-	3,195,280
Subtotal	8,604,853	-	55,532	(169,906)	8,490,479
Net capital assets being depreciated	476,666	-	(55,249)	(285)	421,132
Net capital assets	\$ 4,000,510	\$ -	\$ (55,249)	\$ (285)	\$ 3,944,976

Genesee County, Michigan

**Notes to Financial Statements
September 30, 2017**

Note 5 - Capital Assets (Continued)

Depreciation expense was charged to programs of the primary government as follows:

Governmental activities:	
Administration of Justice	\$ 1,273,515
Law Enforcement and Community Protection	773,525
Human Services	393,173
Community Enrichment and Development	296,185
General Support Services	100,333
Other	1,541,481
Internal service fund depreciation is charged to the various functions based on their usage of the assets	<u>777,175</u>
Total governmental activities	<u>\$ 5,155,387</u>
Business-type activities - Parks and Recreation	\$ 55,532

In addition, land with an approximate value of \$5,000,000 used by Parks and Recreation is leased at nominal costs from the Nature Conservatory and the City of Flint, Michigan under long-term arrangements.

Genesee County, Michigan

**Notes to Financial Statements
September 30, 2017**

Note 6 - Interfund Receivables, Payables, and Transfers

The composition of interfund balances is as follows:

Receivable Fund	Payable Fund	Amount
Due to/from Other Funds		
General Fund	Delinquent taxes	\$ 2,762,659
	Nonmajor governmental funds	<u>2,043,401</u>
	Total General Fund	4,806,060
County Health	General Fund	4,000,000
	Nonmajor governmental funds	<u>461,926</u>
	Total County Health	4,461,926
Genesee County Community Action Resource Department	Nonmajor governmental funds	118,709
Nonmajor governmental funds	General Fund	9,999,251
	Community Development	63,971
	Delinquent taxes	28,970
	Nonmajor enterprise funds	2,274
	Nonmajor governmental funds	<u>1,874,593</u>
	Total nonmajor governmental funds	11,969,059
Delinquent Taxes	General Fund	742,479
	Nonmajor governmental funds	<u>1,513,557</u>
	Total Delinquent Taxes	2,256,036
Internal Service Funds	General Fund	2,441,240
	Genesee County Community Action Resource Department	3,150,000
	Nonmajor governmental funds	497,519
	Delinquent Taxes	21,971
	Nonmajor enterprise funds	14,878
	Internal Service Funds	<u>4,901,996</u>
	Total Internal Service Funds	<u>11,027,604</u>
	Total	<u>\$ 34,639,394</u>

Genesee County, Michigan

**Notes to Financial Statements
September 30, 2017**

Note 6 - Interfund Receivables, Payables, and Transfers (Continued)

Receivable Fund	Payable Fund	Amount
Advances from/to Other Funds		
Primary government - General Fund	Primary government - Internal Service Fund - Vehicles and equipment	\$ 515,181
Receivable Fund	Payable Fund	Amount
Due to/from Primary Government and Component Units		
Primary government	Component unit - Drains	\$ 63,649
Primary government - Hughes & Hatcher Debt Service Fund	Component unit - Land Bank Authority	1,565,000
Component unit - Land Bank Authority	Primary government - Community Development	10,859

Note - The interfund receivables/payables exist due to the fact that the County uses a pooled cash management account for substantially all funds.

Long-term Advances: Long-term advances from the General Fund to other funds are commonly made to finance new activities during their initial operations. General Fund fund balance is reserved for such advances to reflect the amount of fund balance not currently available for expenditure.

The due to Hughes & Hatcher from Genesee County Land Bank was for improvements of the Land Bank Center and will mature on October 1, 2024 and is paid in yearly principal and interest installments with interest at rates ranging from 4.75 percent to 5.75 percent.

The due to Genesee County Land Bank Authority from Community Development is related to payments owed to the authority as of year end.

Genesee County, Michigan

**Notes to Financial Statements
September 30, 2017**

Note 6 - Interfund Receivables, Payables, and Transfers (Continued)

Interfund transfers reported in the fund financial statements are composed of the following:

Transfers In	Transfers Out	Amount
General Fund	Nonmajor governmental funds	\$ 3,189,376
	Delinquent taxes	3,000,000
	Nonmajor enterprise funds	<u>225,000</u>
	Total General Fund	6,414,376
County Health	General Fund	2,749,232
	Nonmajor governmental funds	<u>461,926</u>
	Total County Health	3,211,158
Genesee County Community Action Resource Department (GCCARD)	General Fund	700,000
Nonmajor governmental funds	General Fund	14,947,922
	Genesee County Community Action Resource Department (GCCARD)	337,160
	Nonmajor enterprise funds	10,453
	Nonmajor governmental funds	<u>1,428,084</u>
	Total nonmajor governmental funds	16,723,619
Nonmajor enterprise funds	General Fund	660,000
	Nonmajor governmental funds	<u>653,850</u>
	Total nonmajor enterprise funds	1,313,850
Internal Service Funds	General Fund	253
	Nonmajor governmental funds	<u>475,000</u>
	Total Internal Service Funds	<u>475,253</u>
	Total	<u>\$ 28,838,256</u>

Transfers between funds were primarily for operating purposes.

Genesee County, Michigan

**Notes to Financial Statements
September 30, 2017**

Note 7 - Long-term Debt

Long-term debt of the County is as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental Activities					
Internal Service Fund Equipment Notes	\$ 154,739	\$ -	\$ (154,739)	\$ -	\$ -
Capital Improvement Bonds 2011, Proceeds were used to renovate various County buildings	400,000	-	(80,000)	320,000	80,000
2.9% Genesee County Refunding Bonds; Bonds maturing on or prior to May 1, 2022 shall not be subject to redemption prior to maturity. Bonds maturing on or after May 1, 2022 may be subject to prior redemption	3,075,000	-	(475,000)	2,600,000	500,000
JCI Energy Bonds 2010; Debt was issued to perform numerous energy efficiency improvements on most county buildings	6,375,784	-	(460,000)	5,915,784	490,000
4.75% to 5.7% Genesee County Bonds Series 2004-B Capital Improvement Bonds; Bonds maturing before April 1, 2014 not subject to redemption prior to maturity	1,620,000	-	(55,000)	1,565,000	55,000
3.00% to 5.00% Genesee County Refunding Bonds; Bonds maturing on or prior to May 1, 2015 shall not be subject to redemption prior to maturity. Bonds maturing on or after May 1, 2016 may be subject to prior redemption	4,510,000	-	(1,430,000)	3,080,000	1,505,000
6.34% Capital Improvement Bonds, Series 2008; Bonds maturing on or prior to November 1, 2018 may not be subject to redemption prior to maturity	345,000	-	(115,000)	230,000	115,000
Total	16,480,523	-	(2,769,739)	13,710,784	2,745,000
Compensated absences	3,906,363	2,474,794	(3,451,728)	2,929,429	2,434,175
Total governmental activities	\$ 20,386,886	\$ 2,474,794	\$ (6,221,467)	\$ 16,640,213	\$ 5,179,175
Business-type Activities					
Delinquent Tax Fund - Variable rate delinquent tax notes	\$ 37,370,000	\$ 34,990,000	\$ (32,370,000)	\$ 39,990,000	\$ 9,000,000

Genesee County, Michigan

**Notes to Financial Statements
September 30, 2017**

Note 7 - Long-term Debt (Continued)

Genesee County, Michigan lends its full faith and credit for bond issues that are repaid through special assessments. The County is not obligated in any manner for special assessment debt. The amount of special assessment debt is detailed within the notes for the component unit under which the projects originated.

Delinquent property taxes receivable are pledged as collateral for the repayment of the outstanding delinquent tax notes (see Note 1).

Typically, the General Fund and all Special Revenue Funds liquidate liability for compensated absences and governmental debt.

The annual requirements to pay principal and interest on the obligations outstanding at September 30, 2017 are as follows:

Years Ending September 30	Governmental Activities			Business-type Activities		
	Principal	Interest	Total	Principal	Interest	Total
2018	\$ 2,745,000	\$ 657,725	\$ 3,402,725	\$ 9,000,000	\$ -	\$ 9,000,000
2019	2,875,000	525,694	3,400,694	30,990,000	-	30,990,000
2020	1,240,000	391,022	1,631,022	-	-	-
2021	1,300,000	236,154	1,536,154	-	-	-
2022	1,280,000	278,335	1,558,335	-	-	-
2023-2027	3,345,784	605,492	3,951,276	-	-	-
2028-2032	530,000	206,625	736,625	-	-	-
2033-2036	395,000	45,885	440,885	-	-	-
Total	\$ 13,710,784	\$ 2,946,932	\$ 16,657,716	\$ 39,990,000	\$ -	\$ 39,990,000

By statute, the County's general obligation debt is restricted to 10 percent of the equalized value of all property in the County. Certain obligations, such as special assessment notes, are not subject to this limitation. At September 30, 2017, the County's debt limit amounted to \$1,082,107,149 and indebtedness subject to the limitation aggregated \$155,803,951.

Genesee County, Michigan

**Notes to Financial Statements
September 30, 2017**

Note 8 - Contingencies, Claims, Risk Management, and Litigation

There are various legal actions pending against the County. Management has evaluated the likely outcome of various actions and has concluded that it is not appropriate to record any amount as a liability at September 30, 2016.

The County is totally self-insured for workers' compensation for all losses, up to \$500,000 each occurrence, and self-insured for property and liability insurance claims up to \$50,000 and \$350,000, respectively, for specific losses. The County is insured for the amount of claims in excess of such limitation to a maximum of replacement cost for property and \$20,000,000 for liability claims. The County is self-insured for claims in excess of these insurance coverages. The County is also self-insured for the first \$50,000 of catastrophic coverage for auto physical damage per location. 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 paid losses within its self-insured retention through an Internal Service Fund. Net position for this fund as of September 30, 2017 was \$7,931,108, with \$4,019,421 accrued as a liability for incurred losses and expenses. An actuarial study projected a required reserve of \$0.0 million for 2017. The County's risk manager provides employee accident prevention training and various risk-control techniques through a continuing education program. There were no reductions in reinsurance coverage or settlements in excess of insurance coverage over the past three years.

A reconciliation of the claims liability for the years ended September 30, 2017 and 2016 is as follows:

	2017	2016
Claims liability (beginning of year)	\$ 4,127,380	\$ 3,912,816
Claims incurred during the period	2,138,182	1,857,239
Changes in estimate for claims of prior periods	(517,792)	364,434
Payments on claims	<u>(1,728,349)</u>	<u>(2,007,109)</u>
Claims liability (end of year)	<u>\$ 4,019,421</u>	<u>\$ 4,127,380</u>

Several complaints for alleged discriminatory employment practices have also been filed against the County.

A portion of the fund balance of the General Fund has been assigned to provide for a possible loss resulting from the unfavorable outcome of any claims and litigation. See the General Fund balance sheet.

Genesee County, Michigan

**Notes to Financial Statements
September 30, 2017**

**Note 8 - Contingencies, Claims, Risk Management, and Litigation
(Continued)**

The County provides a funding mechanism for the payment of the costs of pharmaceuticals and medical insurance for employees. The County contracts with a third-party administrator to provide claims processing with the cost of the claims reimbursed from these funds. Net position for this fund as of September 30, 2017 was \$2,029,173, with \$278,208 accrued as a liability for incurred losses and expenses.

A reconciliation of the claims liability for the years ended September 30, 2017 and 2016 is as follows:

	2017		
	Medical	Pharmacy	Total Insurance
Claims liability (beginning of year)	\$ 115,700	\$ 25,500	\$ 141,200
Claims incurred during the period	(1,646,141)	(2,568,250)	(4,214,391)
Payments on claims	<u>1,784,624</u>	<u>2,566,775</u>	<u>4,351,399</u>
Claims liability (end of year)	<u>\$ 254,183</u>	<u>\$ 24,025</u>	<u>\$ 278,208</u>
	2016		
	Medical	Pharmacy	Total Insurance
Claims liability (beginning of year)	\$ 112,600	\$ 21,200	\$ 133,800
Claims incurred during the period	(799,901)	(2,100,496)	(2,900,397)
Payments on claims	<u>803,001</u>	<u>2,104,796</u>	<u>2,907,797</u>
Claims liability (end of year)	<u>\$ 115,700</u>	<u>\$ 25,500</u>	<u>\$ 141,200</u>

Note 9 - Retirement Plans - Defined Benefit Plan

Plan Description - The County administers a contributory agent multiemployer defined benefit pension plan known as the Genesee County Employees' Retirement System (GCERS or the "System"). The plan is included as a pension trust fund in the County's Comprehensive Annual Financial Report. GCERS issues a publicly available annual financial report that includes financial statements and required supplementary information for the System as a whole. This report can be obtained from the retirement coordinator at the County's administrative offices, located at 1101 Beach Street, Flint, MI 48502 or on the State of Michigan's website.

Genesee County, Michigan

Notes to Financial Statements September 30, 2017

Note 9 - Retirement Plans - Defined Benefit Plan (Continued)

GCERS was organized pursuant to Section 12a of Act 156, State of Michigan Public Acts of 1851 (MSA 5.33(1); MCLA 46.12a), as amended. GCERS was established by ordinance in 1946, beginning with general county employees and the County Road Commission. Genesee County Water and Waste Services joined the System in 1956, Genesee County Community Mental Health joined in 1966, the City of Mt. Morris, Michigan in 1969, and the Genesee District Library in 1980. GCERS is regulated under the Genesee County Employees' Retirement System Ordinance, the sections of which have been approved by the State of Michigan Pension Commission. All new-hire general County and Community Mental Health employees hired after November 20, 2017 may only join the defined contribution plan.

Benefits Provided - The System provides certain retirement, disability, and death benefits to plan members and beneficiaries. PA 427 of 1984, as amended, established and amends the benefit provisions of the participants in GCERS.

The GCERS plan covers union and nonunion county employees.

The plan provides for vesting of benefits after eight years of service. Generally, participants may elect normal retirement with 20 to 25 years of credited service, regardless of age, or at age 60 with eight or more years of credited service. Retirement benefits vary by employer group and are payable monthly. Generally, the retirement benefit is equal to the employee's final average compensation times the sum of 2.4 - 2.5 percent for each year of credited service. All employers allow members to elect a deferred annuity providing a lifetime benefit. The length of service required to elect the deferred annuity is either 8 or 15 years, depending on the date of employment and employer group.

Benefit terms provide for annual cost-of-living adjustments to each employee's retirement allowance subsequent to the employee's retirement date. The annual adjustments are between 1.75 and 3 percent, noncompounding.

Benefit terms, within the parameters established by GCERS, are generally established and amended by authority of the County Commissioners, generally after negotiations of these terms with the affected unions. The covered employees' benefit terms may be subject to binding arbitration in certain circumstances.

Employees Covered by Benefit Terms - At the December 31, 2016 measurement date, the following employees were covered by the benefit terms:

Inactive plan members or beneficiaries currently receiving benefits	1,005
Inactive plan members entitled to but not yet receiving benefits	26
Active plan members	<u>170</u>
Total employees covered by GCERS	<u>1,201</u>

Genesee County, Michigan

Notes to Financial Statements September 30, 2017

Note 9 - Retirement Plans - Defined Benefit Plan (Continued)

Contributions - Article 9, Section 24 of the State of Michigan constitution requires that financial benefits arising on account of employee service rendered in each year be funded during that year. Accordingly, GCERS retains an independent actuary to determine the annual contribution. The employer is required to contribute amounts at least equal to the actuarially determined rate, as established by the GCERS retirement board. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by plan members during the year, with an additional amount to finance any unfunded accrued liability. The employer may establish contribution rates to be paid by its covered employees.

For the year ended September 30, 2017, the active employee contribution rate was between 5.0 and 9.0 percent of annual pay, and the County's level dollar contribution was \$9,042,317.

Net Pension Liability

The net pension liability reported at September 30, 2017 was determined using a measure of the total pension liability and the pension net position as of December 31, 2016. The December 31, 2016 total pension liability was determined by an actuarial valuation performed as of that date.

Changes in the net pension liability during the measurement year were as follows:

Changes in Net Pension Liability	Increase (Decrease)		
	Total Pension Liability	Plan Net Position	Net Pension Liability
Balance at December 31, 2015	\$ 412,628,621	\$ 227,521,358	\$ 185,107,263
Service cost	3,462,442	-	3,462,442
Interest	22,270,704	-	22,270,704
Differences between expected and actual experience	(13,052,891)	-	(13,052,891)
Changes in assumptions	(10,317,917)	-	(10,317,917)
Contributions - Employer	-	9,635,562	(9,635,562)
Contributions - Employee	-	962,642	(962,642)
Net investment income	-	17,999,919	(17,999,919)
Benefit payments, including refunds	(27,615,228)	(27,615,228)	-
Administrative expenses	-	(214,399)	214,399
Miscellaneous other charges	-	6,456	(6,456)
Net changes	<u>(25,252,890)</u>	<u>774,952</u>	<u>(26,027,842)</u>
Balance at December 31, 2016	<u>\$ 387,375,731</u>	<u>\$ 228,296,310</u>	<u>\$ 159,079,421</u>

Net pension liabilities related to the component units are disclosed in Note 20.

Genesee County, Michigan

**Notes to Financial Statements
September 30, 2017**

Note 9 - Retirement Plans - Defined Benefit Plan (Continued)

Assumption Changes - As of the measurement date, December 31, 2016, the discount rate used by GCERS was updated to 6.07 percent. This change in assumptions changed the total pension liability as noted in the table above.

Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

For the year ended September 30, 2017, the County recognized pension expense of \$15,877,084. At September 30, 2017, the County reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ -	\$ (2,175,482)
Changes in assumptions	-	(1,719,653)
Net difference between projected and actual earnings on pension plan investments	3,395,350	-
Employer contributions to the plan subsequent to the measurement date	6,130,818	-
Total	<u>\$ 9,526,168</u>	<u>\$ (3,895,135)</u>

Amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows. These amounts are exclusive of the employer contributions to the plan made subsequent to the measurement date of \$6,130,818, which will impact the net pension liability in fiscal year 2017, rather than pension expense.

Years Ending September 30	Amount
2018	\$ (2,374,378)
2019	1,520,756
2020	1,519,519
2021	(1,165,682)

Genesee County, Michigan

**Notes to Financial Statements
September 30, 2017**

Note 9 - Retirement Plans - Defined Benefit Plan (Continued)

Actuarial Assumptions - The total pension liability in the December 31, 2016 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.0%	
Salary increases	3%-7.03%	Across the board increases along with merit and longevity increases that range from .17 percent up to 4.03 percent
Discount rate	6.07%	

Mortality rates were based on the RP 2000 Combined Healthy Mortality Table projected to 2014.

Discount Rate - The discount rate used to measure the total pension liability was 6.07 percent. The projection of cash flows used to determine the discount rate assumes that employee contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the difference between actuarially determined contribution rates and the employee rate.

Projected Cash Flows

Based on those assumptions, the pension plan's fiduciary net position was not projected to be available to make all projected future benefit payments of current active and inactive employees; therefore, the discount rate incorporates both the assumed rate of return of 8.0 percent and a municipal bond rate, which was 3.71 percent. The source of that bond rate was the S&P Muni Bond 20-year high-grade index.

The long-term expected rate of return on pension plan investments was determined using a model in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The nominal long-term expected rate of return for the plan as a whole was 8.0 percent. The target allocation by class is as follows:

Asset Class	Target Allocation (%)
U.S. equities active or passive	37 %
Non-U.S. equities	18
Domestic fixed income	25
Commercial real estate	18
Cash equivalents	2

Genesee County, Michigan

**Notes to Financial Statements
September 30, 2017**

Note 9 - Retirement Plans - Defined Benefit Plan (Continued)

Sensitivity of the Net Pension Liability to Changes in the Discount Rate - The following presents the net pension liability of the County, calculated using the discount rate of 6.07 percent, as well as what the County's net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower (5.07 percent) or 1 percentage point higher (7.07 percent) than the current rate:

	1 Percent Decrease (5.07%)	Current Discount Rate (6.07%)	1 Percent Increase (7.07%)
Net pension liability of the County	\$ 201,015,890	\$ 159,079,421	\$ 123,701,857

Pension Plan Fiduciary Net Position - Detailed information about the plan's fiduciary net position is available in the separately issued financial report. For the purpose of measuring the net pension liability, deferred outflows of resources and deferred inflows or resources related to pension, and pension expense, information about the plan's fiduciary net position and addition, to/deductions from fiduciary net position has been determined on the same basis as they are reported by the plan. The plan uses the economic resources measurement focus and the full accrual basis of accounting. Investments are stated at fair value. Contribution revenue is recorded as contributions are due pursuant to legal requirements. Benefit payments and refunds of employee contributions are recognized as expense when due and payable in accordance with the benefit terms.

Note 10 - Defined Contribution Pension Plan

The County offers a defined contribution pension plan as an alternative to the defined benefit pension plan. The International City Managers Association (ICMA) Retirement Corporation administers the plan, and the County Board of Commissioners has authority over plan provisions and contribution requirements. All employees are eligible to participate in this plan, if not participating in the defined benefit plan.

The County is required to contribute 8 percent to 10 percent of eligible employees' annual covered payroll, and employees are required to contribute either 3 percent or 7 percent of covered payroll. Employees are fully vested after five years of service. During the year ended September 30, 2017, employer and employee contributions to the plan were \$3,339,795 and \$1,958,985, respectively.

Genesee County, Michigan

**Notes to Financial Statements
September 30, 2017**

Note 11 - Other Postemployment Benefits

Plan Description - Genesee County, Michigan provides other postemployment benefits (medical, optical, dental, and life insurance) to County retirees who meet eligibility requirements. This is a single-employer defined benefit plan administered by the County. The benefits are provided under collective bargaining agreements to union employees and by resolution of the County Board of Commissioners for employees not covered under collective bargaining agreements. The valuation for this benefit plan has been conducted in accordance with generally accepted actuarial principles and practices. Data concerning active members, retirees, and beneficiaries was provided by Genesee County, Michigan. This plan does not issue separate stand-alone financial statements.

Funding Policy - The County performed an actuarial valuation of the other postemployment benefits liability for the year ended September 30, 2016. At that time, the liability was determined to be \$341,629,201 with the computed contribution as a percentage of payroll (based on 30-year amortization of the unfunded liability) to be 75.06 percent or \$18,883,352.

Funding Progress - For the year ended September 30, 2017, the County has estimated the cost of providing retiree healthcare benefits through an actuarial valuation as of September 30, 2016. The valuation computes an annual required contribution, which represents a level of funding that, if paid on an ongoing basis, is projected to cover normal costs each year and amortize any unfunded actuarial liabilities over a period not to exceed 30 years. This valuation's computed contribution and actual funding are summarized as follows:

Annual required contribution (recommended)	\$ 18,883,352
Interest on the prior year's net OPEB obligation	3,796,345
Less adjustment to the annual required contribution	<u>(3,191,757)</u>
Annual OPEB cost	19,487,940
Amounts contributed:	
Payments of current premiums	(6,937,061)
Advance funding	<u>-</u>
Increase in net OPEB obligation	12,550,879
OPEB obligation - Beginning of year	<u>63,272,417</u>
OPEB obligation - End of year	<u>\$ 75,823,296</u>

Genesee County, Michigan

**Notes to Financial Statements
September 30, 2017**

Note 11 - Other Postemployment Benefits (Continued)

Employer contributions and annual OPEB cost data for the current and two preceding years were as follows:

Fiscal Year Ended	Actuarial Valuation Date	Annual Required Contribution	Annual OPEB Costs	Employer Contributions		Net OPEB Obligation
				Percentage of ARC Contributed	Percentage OPEB Costs Contributed	
9/30/17	9/30/16	\$ 18,883,352	\$ 19,487,940	36.7 %	35.6 %	\$ 75,823,296
9/30/16	9/30/16	18,883,352	19,374,179	39.5	38.5	63,272,417
9/30/15	9/30/14	19,066,021	19,449,474	43.1	42.2	51,366,964

The funding progress of the plan is as follows:

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (Percent) (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll
9/30/16	\$ 32,821,620	\$ 341,629,201	\$ 308,807,581	9.6 %	\$ 25,157,676	1,227.5 %
9/30/14	41,485,721	344,160,043	302,674,322	12.1	33,343,864	907.7
9/30/13	43,313,587	308,208,023	264,894,436	14.1	36,987,137	716.2

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

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members), which is formally detailed in the collective bargaining agreements and County Board resolutions. These collective bargaining agreements and resolutions 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 perspectives of the calculations.

Genesee County, Michigan

**Notes to Financial Statements
September 30, 2017**

Note 11 - Other Postemployment Benefits (Continued)

In the September 30, 2016 actuarial valuation, the individual entry age actuarial cost method was used. The actuarial assumptions included a 6 percent investment rate of return (net of expenses), which is the expected long-term investment return on plan assets, and an annual healthcare cost trend rate of 8 percent in year one, decreasing by 0.5 percent annually until year nine, and then remaining at 4 percent. The UAAL is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at September 30, 2017 was 30 years.

Note 12 - OPEB Plan

Plan Administration - The County administers the Genesee County OPEB Plan (the "Plan") a single-employer defined benefit OPEB plan that is used to provide postemployment benefits other than pensions (OPEB) for various classes of employees.

Plan Membership - At September 30, 2017, plan membership consisted of the following:

Inactive plan members or beneficiaries currently receiving benefits	1,158
Active plan members	568
Total	1,726

Benefits Provided - The County provides retiree medical, optical, dental, and life insurance benefits to county retirees who meet eligibility requirements. The benefits are provided under collective bargaining agreements to union employees and by resolution of the County Board of Commissioners for employees not covered under collective bargaining agreements.

Contributions - The board retains an independent actuary to determine the annual contribution. For the year ended September 30, 2017, the County contributed \$7,834,649.

Genesee County, Michigan

**Notes to Financial Statements
September 30, 2017**

Note 12 - OPEB Plan (Continued)

OPEB Plan Investments

Investment Policy - The Plan's policy in regard to the allocation of invested assets is established and may be amended by the board by a majority vote of its members. It is the policy of the board to pursue an investment strategy that reduces risk through the prudent diversification of the portfolio across a broad selection of distinct asset classes. The Plan's investment policy discourages the use of cash equivalents, except for liquidity purposes, and aims to refrain from dramatically shifting asset class allocations over short time spans. The following was the board's adopted asset allocation policy as of September 30, 2017:

Asset Class	Target Allocation (%)
Domestic equity	40.00 %
Domestic bonds	35.00
Real estate	10.00
Alternative assets	15.00

Net OPEB Liability

The County reports OPEB expense based on funding requirements, as directed by GASB Statement No. 45. Beginning next year, the County will adopt GASB Statement No. 75, which will require the measurement of OPEB expense as it is earned, rather than as it is funded.

The components of the net OPEB liability at September 30, 2017 (based on information as of September 30, 2016 rolled forward to September 30, 2017) were as follows:

Total OPEB liability	\$ 545,797,591
Plan fiduciary net position	<u>25,510,597</u>
Net OPEB liability	<u>\$ 520,286,994</u>
Plan fiduciary net position as a percentage of the total OPEB liability	5 %

Genesee County, Michigan

**Notes to Financial Statements
September 30, 2017**

Note 12 - OPEB Plan (Continued)

Actuarial Assumptions

The total OPEB liability was determined by an actuarial valuation as of September 30, 2017. The valuation used the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

Inflation	1.75 %	
Healthcare cost trend rate	7.50 %	Graded to 4.5 percent over six years
Salary increases	1.75 %	
Investment rate of return	7.50 %	Net of OPEB plan investment expense, including inflation

Mortality rates were based on the RPH-2017 Total Dataset Mortality Table projected fully generationally using Scale MP-2017.

Assumption Changes - As of the measurement date, the discount rate used was updated to 3.6 percent and the mortality tables were updated to the RPH-2017 tables. This change in assumptions changed the total OPEB liability as noted in the table above.

Actuarial Assumptions - The total OPEB liability was determined by utilizing an actuary as of September 30, 2017, using the following assumptions, applied to all periods included in the measurement, unless otherwise specified:

Expected Point in Time at Which Benefit Payments Will Begin to be Made - Based on the historical average retirement age for the covered group, active plan members were assumed to retire at age 62, or at the first subsequent year in which the member would qualify for benefits.

Marital Status and Dependency Status - Marital status of members at the calculation date was assumed to continue throughout retirement.

Mortality - Mortality rates were based on the RPH-2017 Total Dataset Mortality Table projected fully generationally using Scale MP-2017.

Turnover - Nongroup-specific age-based turnover data from GASB Statement No. 74 were used as the basis for assigning active members a probability of remaining employed until the assumed retirement age and for developing an expected future working lifetime assumption for the purpose of allocating to periods the present value of total benefits to be paid.

Genesee County, Michigan

**Notes to Financial Statements
September 30, 2017**

Note 12 - OPEB Plan (Continued)

Healthcare Cost Trend Rate - The initial trend rate was based on a combination of employer history, national trend surveys, and professional judgment. The ultimate trend rate was selected based on historical medical CPI information. A rate of 7.5 percent initially, reduced to an ultimate rate of 4.5 percent after seven years, was used.

Health Insurance Premiums - 2017 health insurance premiums for retirees were used as the basis for calculation of the present value of total benefits to be paid.

Inflation Rate - The expected long-term inflation assumption was 1.75 percent.

Payroll Growth Rate - The expected long-term payroll growth rate was assumed to equal the rate of inflation.

Investment Rate of Return - The investment rate of return was assumed to be 7.5 percent, net of OPEB plan investment expense, including inflation.

Rate of Return

The long-term expected rate of return on OPEB plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of OPEB plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return as of September 30, 2017 for each major asset class included in the target asset allocation are summarized in the following table.

Asset Class	Long-term Expected Real Rate of Return
Domestic equity	7.50 %
Domestic bonds	2.50
Real estate	4.50
Alternative assets	5.09

Discount Rate - The discount rate used to measure the total OPEB liability was 3.60 percent. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current contribution rate and employer contributions will be made at rates equal to 20 percent of eligible employee's payroll.

The discount rate used on the beginning of year balance was 3.10 percent. All other assumptions were the same for the beginning of the year and end of the year net OPEB liability.

Genesee County, Michigan

**Notes to Financial Statements
September 30, 2017**

Note 12 - OPEB Plan (Continued)

Projected Cash Flows

Based on those assumptions, the pension plan's fiduciary net position was not projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the discount rate incorporates a municipal bond rate, which was between 3.06 percent and 3.50 percent. The source of that bond rate was Bond Buyer Go 20-Bond Municipal Bond Index, S&P Municipal Bond 20-Year High Grade Rate Index, and Fidelity 20-Year Go Municipal Bond Index. The long-term expected rate of return was applied to projected benefit payments from 2018-2047 and the municipal bond rate was applied to the remaining periods.

Sensitivity of the Net OPEB Liability to Changes in the Discount Rate - The following presents the net OPEB liability, calculated using the discount rate of 3.6 percent, as well as what the net OPEB liability would be if it were calculated using a discount rate that is 1 percentage point lower (2.6 percent) or 1 percentage point higher (4.6 percent) than the current rate:

	1 Percent Decrease (2.6%)	Current Discount Rate (3.6%)	1 Percent Increase (4.6%)
Net OPEB liability of the County	\$622,087,891	\$520,286,994	\$440,986,790

Sensitivity of the Net OPEB Liability to Changes in the Healthcare Cost Trend Rates - The following presents the net OPEB liability, calculated using the healthcare cost trend rate of 7.5 percent, as well as what the net OPEB liability would be if it were calculated using a healthcare cost trend rate that is 1 percentage point lower (6.5 percent, decreasing to 3.5 percent) or 1 percentage point higher (8.5 percent, decreasing to 5.5 percent) than the current rate:

	1 Percent Decrease (6.5%) Decreasing to 3.5%)	Current Healthcare Cost Trend Rate (7.5%) Decreasing to 4.5%)	1 Percent Increase (8.5%) Decreasing to 5.5%)
Net OPEB liability of the County	\$436,530,922	\$520,286,994	\$627,858,232

Genesee County, Michigan

**Notes to Financial Statements
September 30, 2017**

Note 13 - Pension and Employees' Fringe Benefit (VEBA) Trust Funds

	General Employees Retirement System	Employees' Fringe Benefit (VEBA)	Total
Statement of net position:			
Cash and investments	\$ 439,510,547	\$ 26,718,287	\$ 466,228,834
Other assets	3,684,787	344,397	4,029,184
Liabilities	<u>(11,503,237)</u>	<u>(1,552,088)</u>	<u>(13,055,325)</u>
Net position	<u>\$ 431,692,097</u>	<u>\$ 25,510,596</u>	<u>\$ 457,202,693</u>
Statement of changes in net position:			
Investment income	\$ 33,714,027	\$ 1,272,719	\$ 34,986,746
Contributions	20,838,761	8,427,888	29,266,649
Benefit payments	(45,134,255)	(15,913,779)	(61,048,034)
Other (decreases) increases	<u>(912,665)</u>	<u>46,716</u>	<u>(865,949)</u>
Change in net position	<u>\$ 8,505,868</u>	<u>\$ (6,166,456)</u>	<u>\$ 2,339,412</u>

Note 14 - Deferred Inflows/Outflows of Resources

At the end of the current fiscal year, the various components of deferred inflows of resources are as follows:

	Governmental Funds
Property taxes unavailable	\$ 1,887,675
Long-term receivable	1,609,299
Revenue in grant funds not collected in allotted time period	<u>22,176,400</u>
Total governmental funds deferred inflows	<u>\$ 25,673,374</u>

Genesee County, Michigan

**Notes to Financial Statements
September 30, 2017**

Note 15 - Karegnondi Water Authority

Karegnondi Water Authority (KWA) was formed in 2013 for the purpose of constructing a new raw water supply system (the "System"). Effective August 1, 2013, the County entered into an agreement with KWA and the City of Flint, Michigan (the "Agreement") to issue debt to acquire, construct, and operate the System, which is expected to be operational in 2018. The debt will not exceed \$300,000,000. The County's share of the debt is 65.8 percent or an amount not to exceed \$197,400,000, and the City of Flint, Michigan's (Flint) share of the debt is 34.2 percent or an amount not to exceed \$102,600,000. As of September 30, 2015 and 2016, the KWA debt outstanding was as follows:

County's share	\$ 194,024,460
Flint's share	<u>100,845,540</u>
Total	<u>\$ 294,870,000</u>

The County and the City of Flint, Michigan expect to make their respective payments of principal and interest on the bonds from revenue collected from charges imposed on the customers of their respective water supply systems. The County and the City of Flint, Michigan have each pledged their limited tax full faith and credit for the payment of their respective bond obligations and are obligated to levy ad valorem taxes on all taxable property within their boundaries for such purpose, subject to applicable constitutional, statutory, and charter tax limitations as to rate and amount.

If Flint fails to pay any of its obligations on the bonds, the County is obligated under its contract with KWA to make such payments within one day of being notified of Flint's failure to pay. If the County is required to make a payment for Flint under the Agreement and KWA recovers any funds from the pursuit of its remedies under its raw water supply contract with Flint, KWA shall reimburse the County from such funds for any payments made. Also, to the extent permitted by law, the capacity that Flint acquired in the System pursuant to its raw water supply contract shall be transferred to the County until Flint has repaid the County for any additional payments made by the County for each month or fraction thereof that the payments remain unpaid after the due date of the amount paid by the County as a result of Flint to fulfill its payment obligations under the Agreement.

KWA has retained the services of Water and Waste Services Division (the "Division") to administer the design and construction of the raw water supply system. In addition, it is expected that KWA will contract with the Division for operation and maintenance of the raw water supply system after the system is completed and operational. KWA has no employees of its own, with all current and future services expected to be rendered by the Division's employees.

Genesee County, Michigan

Notes to Financial Statements September 30, 2017

Note 15 - Karegnondi Water Authority (Continued)

The Division has entered into certain contracts with the Authority as a local unit so as to acquire a supply of raw water. This raw water supply system is expected to come on line in 2018 and will allow the Division to cease purchasing finished water from the Detroit Water and Sewerage Department (DWSD), currently done so via contract with the City of Flint, Michigan.

In August 2013, the Division entered into a Water Purchase Contract with KWA which provides the Division with 42 million gallons per day of capacity, out of a total KWA capacity of 60 million gallons per day. This arrangement in effect means the Division will provide KWA with 70 percent of its total operating revenue over the coming years.

The County is also a voting member of KWA. The County joined KWA in 2013 based on the expectation that the purchase of water for the County will be more economical in the future than continuing to purchase water from the DWSD.

Complete financial statements of KWA can be obtained from the Division's administrative office.

Note 16 - Nonexchange Financial Guarantees

In September 2016, the County guaranteed the 30-year \$56,895,000 revenue bond issuance of the Water Treatment Facility (16-03) through the Genesee County Drain Commission Division of the Water and Waste Services, a legally separate district located within Genesee County, Michigan. The bonds mature annually in December with annual interest payments. In the event that the Genesee County Drain Commission Division of the Water and Waste Services is unable to make a payment, the County will be required to make that payment. As of September 30, 2017, Genesee County Drain Commission Division of the Water and Waste Services expects to pay principal payments on bonds from revenue collected from charges imposed on the customers of the water supply system, and no liability is reported on the County's financial statements.

Note 17 - Upcoming Accounting Pronouncements

In June 2015, the GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, which addresses reporting by governments that provide postemployment benefits other than pensions (OPEB) to their employees and for governments that finance OPEB for employees of other governments. This OPEB standard will require the County to recognize on the face of the financial statements its net OPEB liability related to its participation in the plan. The statement also enhances accountability and transparency through revised note disclosures and required supplemental 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 the County's financial statements for the year ending September 30, 2018.

Genesee County, Michigan

Notes to Financial Statements September 30, 2017

Note 17 - Upcoming Accounting Pronouncements (Continued)

In November 2016, the Governmental Accounting Standards Board issued Statement No. 83, *Certain Asset Retirement Obligations*, which establishes criteria for determining the timing and pattern of recognition of a liability and a corresponding deferred outflow of resources for asset retirement obligations. 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 the County's financial statements for the year ending September 30, 2019.

In January 2017, the Governmental Accounting Standards Board issued Statement No. 84, *Fiduciary Activities*, which establishes criteria for identifying fiduciary activities of governments and improves guidance for accounting and financial reporting related to how these activities should be reported. 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 the County's financial statements for the year ending September 30, 2020.

In March 2017, the Governmental Accounting Standards Board issued Statement No. 85, *Omnibus 2017*, which addresses practice issues that have been identified during implementation and application of certain GASB Statements. The statement addresses a variety of topics, including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pension and other postemployment benefits (OPEB)). 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 the County's financial statements for the year ending September 30, 2018.

In May 2017, the Governmental Accounting Standards Board issued Statement No. 86, *Certain Debt Extinguishment Issues*, which improves consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources - resources other than the proceeds of refunding debt - are placed in an irrevocable trust for the sole purpose of extinguishing debt. This statement also improves accounting and financial reporting for prepaid insurance on debt that is extinguished and notes to financial statements for debt that is defeased in substance. 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 the County's financial statements for the year ending September 30, 2018.

Genesee County, Michigan

Notes to Financial Statements September 30, 2017

Note 17 - Upcoming Accounting Pronouncements (Continued)

In June 2017, the Governmental Accounting Standards Board issued Statement No. 87, *Leases*, which improves accounting and financial reporting for leases by governments. This statement requires recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources. 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 the County's financial statements for the year ending September 30, 2021.

Note 18 - Tax Abatements

The County receives reduced property tax revenue as a result of Industrial Facilities Tax exemptions (PA 198 of 1974) and Brownfield Redevelopment Agreements granted by cities, villages, and townships within the County. Industrial facility exemptions are intended to promote construction of new industrial facilities, or to rehabilitate historical facilities; Brownfield redevelopment agreements are intended to reimburse taxpayers that remediate environmental contamination on their properties.

For the fiscal year ended September 30, 2017, the County's property tax revenue was reduced by \$475,680 under these programs.

There are no significant abatements made by other governments that reduce the County's tax revenue.

Note 19 - Related Party Transactions

The Genesee County Board of Commissioners appoints a voting majority of Genesee Health Services which is a separate legal entity. The County is not financially accountable for the organization, but did provide support in the amount of \$106,276 in the current fiscal year.

NOTE 20 - COMPONENT UNIT DISCLOSURES

Deposits and Investments:

All of the County's component unit deposits and investments are governed by the following:

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

The Road Commission has designated two banks for the deposit of its funds. The investment policy adopted by the board of each component unit is in accordance with Public Act 196 of 1997. All component unit deposits and investment policies are in accordance with statutory authority. The cash and investments of component units are subject to the same types of risks as detailed in Note 4. These risks are examined in more detail below:

Custodial credit risk of bank deposits - None of the component units have a deposit policy for custodial credit risk. At year end, the Road Commission had \$31,884,493 of bank deposits (checking and high balance savings accounts) that were uninsured and uncollateralized. At year end, the Economic Development Corporation had \$336,792 of bank deposits (checking and high balance savings accounts) that were uninsured and uncollateralized. At year end, the Water and Waste Services Division had \$25,990,177 of bank deposits (checking and high balance savings accounts) that were uninsured and uncollateralized. At year end, the Drain Commission had no bank deposits (checking and high balance savings accounts) that were uninsured and uncollateralized. At year end, the Land Bank Authority had \$5,268,104 of bank deposits (checking and savings accounts) that were uninsured and uncollateralized. At year end, the Brownfield Authority did not have any bank deposits (checking and savings accounts) that were uninsured and uncollateralized. At year end, the Storm Water Management System had \$25,346 of bank deposits (checking and savings accounts) that were uninsured and uncollateralized.

KWA (component unit of Water and Waste Services) had \$17,942,717 of bank deposits subject to custodial credit risk (uninsured and uncollateralized).

NOTE 20 - COMPONENT UNIT DISCLOSURES (Continued)

ROAD COMMISSION:

Restricted Assets: Cash and cash equivalents are restricted for escrow deposits in the amount of \$837,234 and for Priority Roads Investment Program of \$11,123,042. The Priority Roads Investment Program funds are monies received in advance of expenditures that are restricted for specific projects based on contract language. Therefore, they are reported as restricted assets and unearned revenue at year end.

Long-term Debt: The long-term debt for the Genesee County Road Commission is presented below:

	Balance October 1, 2016	Additions	Reductions	Balance September 30, 2017
MTF notes	\$ 2,620,000	\$	\$(1,360,000)	\$ 1,260,000
Recovery Zone Bond	2,555,000		(615,000)	1,940,000
Total notes and leases	5,175,000		(1,975,000)	3,200,000
Compensated absences	1,135,775	584,620	(532,666)	1,187,729
Total long-term debt	<u>\$ 6,310,775</u>	<u>\$ 584,620</u>	<u>\$(2,507,666)</u>	<u>\$ 4,387,729</u>

The outstanding bonds and notes payable at September 30, 2017, and matured interest thereon, are payable to the State of Michigan from the proceeds of state-collected taxes returned to the Road Commission as Act 51 monies. In the case of default, the state treasurer is authorized to withhold future disbursements of Act 51 monies due the Road Commission until the defaulted payments are recovered by the State.

For certain outstanding notes, special assessments have also been levied on specific properties abutting certain road improvements. The collection of the assessments has been pledged as additional security for the payment of the bonds. The detail of general obligation bonds and loans payable is shown below:

Obligation Payables	Final Payment Due	Interest Rate or Range	Principal Payment or Range	Annual Outstanding Balance Sept. 30, 2017	Due Within One Year
Michigan Transportation Fund notes:					
2007 Issue	September 30, 2017	4.00	\$500,000-525,000	\$ 515,000	\$ 515,000
2008 Issue	August 1, 2018	3.75-4.00	\$460,000-515,000	745,000	365,000
2009 Issue	August 1, 2019	2.50-3.30	\$340,000-380,000	1,260,000	680,000
Total Notes				1,940,000	630,000
Recovery Zone Bond 2010 Issue	August 1, 2020	4.34	\$600,000-665,000	1,187,729	135,552
Compensated absences				<u>\$4,387,729</u>	<u>\$1,645,552</u>

Annual requirements to pay principal and interest on the outstanding obligations at September 30, 2017 are as follows:

	Long-term debt
Year Ending 9-30-2018	\$1,639,016
9-30-2019	1,094,394
9-30-2020	693,861
Amount representing interest	(227,271)
	<u>\$ 3,200,000</u>

Act 143, Public Acts of State 1943, provides that total bonds and notes outstanding under this Act cannot exceed 40 percent of the sum of the revenues derived from state collected taxes returned to the County for county road purposes for the last preceding five calendar years and not specifically allocated for other purposes. As of September 30, 2017, the Road Commission is within the statutory limit of Act 143.

Future Revenues Pledged for Debt Payment: The Road Commission Board has irrevocably appropriated and pledged the money received and to be received by the County from the Michigan Transportation Fund (the "Transportation Fund") for highway and road purposes pursuant to Act 51, Public Acts of Michigan, 1951, as amended (Act 51) to the extent necessary to pay the above principal of and interest on the Michigan Transportation Notes. Proceeds from the bonds provided financing for the construction of the road projects. During the current year, Act 51 revenues were \$27,985,432 compared to the annual debt requirements of \$2,109,883.

NOTE 20 - COMPONENT UNIT DISCLOSURES (Continued)

Property and Equipment: The following table summarizes the changes in the components of the Road Commission's capital assets:

	Balance October 1, 2016	Adjustments	Additions	Disposals	Balance September 30, 2017
Capital assets not being depreciated:					
Land	\$ 478,816	\$ -	\$ 255,131	\$ -	\$ 733,947
Construction in progress	1,101,170	(1,072,853)	96,817	-	125,134
Other nondepreciable assets	1,210	-	-	-	1,210
Subtotal	1,581,196	(1,072,853)	351,948	-	860,291
Capital assets being depreciated:					
Infrastructure - Roads	402,343,445	-	16,569,989	-	418,913,434
Infrastructure - Bridges	39,317,151	-	1,661,291	-	40,978,442
Buildings and improvements	11,922,157	811,698	411,249	-	13,145,104
Road equipment	29,136,254	239,550	1,856,230	(1,287,088)	29,944,946
Shop equipment	681,197	-	10,460	-	691,657
Office equipment	1,499,306	21,605	27,785	(49,224)	1,499,472
Engineering equipment	170,869	-	32,150	-	203,019
Land improvements	2,423,868	-	55,858	-	2,479,726
Yard and storage equipment	605,041	-	-	-	605,041
Subtotal	488,099,288	1,072,853	20,625,012	(1,336,312)	508,460,841
Accumulated depreciation:					
Infrastructure - Roads	260,588,133	-	13,734,703	-	274,322,836
Infrastructure - Bridges	11,064,104	-	1,148,315	-	12,212,419
Buildings and improvements	7,964,146	-	650,259	-	8,614,405
Road equipment	23,894,630	-	2,009,769	(1,266,998)	24,637,401
Shop equipment	463,653	-	31,940	-	495,593
Office equipment	1,265,441	-	121,486	(49,224)	1,337,703
Engineering equipment	111,920	-	10,639	-	122,559
Land improvements	1,000,618	-	123,153	-	1,123,771
Yard and storage equipment	539,568	-	10,608	-	550,176
Subtotal	306,892,213	-	17,840,872	(1,316,222)	323,416,863
Net capital assets being depreciated	181,207,075	1,072,853	2,784,140	(20,090)	185,043,978
Net capital assets	<u>\$ 182,788,271</u>	<u>\$ -</u>	<u>\$ 3,136,088</u>	<u>\$ (20,090)</u>	<u>\$ 185,904,269</u>

DEFINED BENEFIT PENSION PLAN -

PLAN DESCRIPTION

The Road Commission participates in an agent multiple-employer defined benefit pension plan (Genesee County Employees Retirement System, also known as GCERS). The complete plan description is included in Note 9.

BENEFITS PROVIDED

The provided benefits are included in Note 9.

EMPLOYEES COVERED BY BENEFIT TERMS

At the December 31, 2016 measurement date, the following Road Commission employees were covered by the benefit terms:

Inactive plan members or beneficiaries currently receiving benefits	201
Inactive plan members entitled to but not yet receiving benefits	8
Active plan members	131
Total employees covered by GCERS	<u>340</u>

CONTRIBUTION REQUIREMENTS

Details of contribution requirements are included in Note 9.

For the year ended September 30, 2017, the Road Commission's actuarially determined contribution rate was 23.57 percent of annual covered payroll. Road Commission employees are required to contribute 1 to 6 percent of their annual covered payroll.

NET PENSION LIABILITY

The net pension liability reported at September 30, 2017 was determined using a measure of the total pension liability and the pension net position as of December 31, 2016. The December 31, 2016 total pension liability was determined by an actuarial valuation performed as of that date.

NOTE 20 - COMPONENT UNIT DISCLOSURES (Continued)

Changes in the net pension liability during the year were as follows:

Changes in Net Pension Liability	Increase (Decrease)		
	Total Pension Liability	Plan Net Position	Net Pension Liability
Balance at December 31, 2015	\$ 94,102,258	\$ 54,850,833	\$ 39,251,425
Service cost	1,797,650	-	1,797,650
Interest	5,130,417	-	5,130,417
Differences between expected and actual experience	(4,029,098)	-	(4,029,098)
Changes in assumptions	1,792,422	-	1,792,422
Contributions - Employer	-	1,899,063	(1,899,063)
Contributions - Employee	-	365,156	(365,156)
Net investment income	-	4,338,995	(4,338,995)
Benefit payments	(5,453,401)	(5,453,401)	-
Administrative expenses	-	(51,682)	51,682
Miscellaneous other charges	(1,404)	(1,404)	-
Net changes	(763,414)	1,096,727	(1,860,141)
Balance at December 31, 2016	<u>\$ 93,338,844</u>	<u>\$ 55,947,560</u>	<u>\$ 37,391,284</u>

PENSION EXPENSE AND DEFERRED OUTFLOWS OF RESOURCES RELATED TO PENSIONS

During the year, the Road Commission recognized pension expense of \$8,692,784. At September 30, 2017, the Road Commission reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ 3,140,435	\$ 4,943,898
Changes in assumptions	11,905,764	-
Net difference between projected and actual earnings on pension plan investments	1,016,375	-
Employer contributions to the plan subsequent to the measurement date	1,326,636	-
Total	<u>\$ 17,389,210</u>	<u>\$ 4,943,898</u>

The amounts reported as deferred outflows of resources related to pensions, excluding the employer contributions to the plan made subsequent to the measurement date of \$1,326,636, will be recognized as pension expense as follows:

Year Ending September 30	Amount
2018	\$ 5,037,762
2019	4,465,510
2020	1,891,289
2021	(275,885)

The amount reported as deferred outflows of resources related to employer contributions to the plan made subsequent to the measurement date of \$1,326,636 will impact the net pension liability in fiscal year 2017/2018, as opposed to being amortized to pension expense over a period of years.

ACTUARIAL ASSUMPTIONS

Details of actuarial assumptions are included in Note 9.

SENSITIVITY OF THE NET PENSION LIABILITY TO CHANGES IN THE DISCOUNT RATE

The following presents the Road Commission's net pension liability, calculated using the discount rate of 6.07%, as well as what the net pension liability would be if it were calculated using a discount rate that is 1% lower (5.07%) or 1% higher (7.07%) than the current rate:

	1 Percent Decrease (5.07%)	Current Discount Rate (6.07%)	1 Percent Increase (7.07%)
Net pension liability of the Road Commission	\$ 47,965,701	\$ 37,391,284	\$ 28,400,702

NOTE 20 - COMPONENT UNIT DISCLOSURES (Continued)

PENSION PLAN FIDUCIARY NET POSITION

Details of the pension plan fiduciary net position are included in Note 9.

POSTEMPLOYMENT BENEFITS -

PLAN DESCRIPTION

The Road Commission provides retiree healthcare benefits to eligible employees and their spouses. This is a single-employer defined benefit plan administered by the Road Commission. The benefits are provided under collective bargaining agreements.

FUND POLICY

The collective bargaining agreements require the Road Commission to pay the insurance premium/claim costs of the retiree and spouse until death. The Road Commission obtains healthcare coverage for retirees through private insurers. Upon eligibility for Medicare, the Road Commission will pay the difference between the plan costs and the amount covered by Medicare. The Road Commission has no obligation to make contributions in advance of when the insurance premiums or claims are due for payment (in other words, this may be financed on a "pay-as-you-go" basis).

FUNDING PROGRESS

For the year ended September 30, 2017, the Road Commission has estimated the cost of providing retiree healthcare benefits through an actuarial valuation as of September 30, 2016. The valuation computes an annual required contribution, which represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed 30 years. This valuation's computed contribution and actual funding are summarized as follows:

	Fiscal Year Ended September 30		
	2015	2016	2017
Annual OPEB Costs	\$ 2,659,054	\$ 2,271,553	\$ 2,129,826
Percentage contributed	200%	193%	223%
Net OPEB obligation (asset)	\$ (4,615,654)	\$ (6,725,058)	\$ (9,340,905)

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

	Fiscal Year Ended September 30		
	2014	2015	2016
Unfunded AAL	\$ (42,584,913)	\$ (23,953,496)	\$ (16,668,489)
Actuarial value of plan assets	14,074,339	24,519,778	30,753,116
Actuarial accrued liability	56,659,252	48,473,274	47,421,405
Funded	25%	51%	65%
Annual covered payroll - September 30	8,713,876	8,866,075	8,346,912
Ratio of UAAL to covered payroll	-489%	-270%	-200%

	Fiscal Year Ended September 30		
	2015	2016	2017
Annual required contribution (recommended)	\$ 2,633,346	\$ 2,213,323	\$ 2,033,459
Interest on the prior year's net OPEB obligation	(174,022)	(346,174)	(504,379)
Less adjustment to the annual required contribution	199,730	404,404	600,746
Annual OPEB cost	2,659,054	2,271,553	2,129,826
Amount contributed:			
Payments of current premiums	(3,031,334)	(2,380,957)	(2,745,673)
Advance funding	(1,923,077)	(2,000,000)	(2,000,000)
Decrease in net OPEB obligation	(2,295,357)	(2,109,404)	(2,615,847)
OPEB asset - Beginning of year	(2,320,297)	(4,615,654)	(6,725,058)
OPEB asset - End of year	\$ (4,615,654)	\$ (6,725,058)	\$ (9,340,905)

ACTUARIAL METHODS AND ASSUMPTIONS

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

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

NOTE 20 - COMPONENT UNIT DISCLOSURES (Continued)

In the September 30, 2016, actuarial valuation, the projected unit credit actuarial cost method was used. The actuarial assumptions included a 7.5 percent investment rate of return (net of administrative expenses), which is a blended rate of the expected long-term investment returns on plan assets and on the employer's own investments calculated based on the funded level of the plan at the valuation date, and an annual healthcare cost trend rate of 8.0 percent initially, reduced by decrements to an ultimate rate of 4.5 percent after ten years. Both rates included a 4.5 percent inflation assumption. At the point in time that the Road Commission begins funding the plan, the actuarial value of assets will be determined using techniques that spread the effects of short-term volatility in the market value of investments over a multiple-year period. The UAAL is being amortized as a level percentage of projected payroll on a closed basis. The remaining amortization period at September 30, 2017 was 21 years.

WATER AND WASTE SERVICES:

Restricted Assets: The restricted assets are restricted for the following purposes:

	Component Unit -	
	Enterprise Fund	KWA
Unspent bond proceeds and related interest	\$ 49,818,153	\$ 10,909,829
County deposits	100,000	900,000
General obligation bond restrictions:		
Debt reserve	-	16,187,952
Debt retirement	10,902,705	17,431,684
Total restricted assets	\$ 60,820,858	\$ 45,429,465

Total restricted cash in the Water Supply System Fund of \$60,820,858 related to unspent bond proceeds and restriction by bond ordinance. Restricted cash of \$532,713 in District No. 3 and \$3,871,978 in Interceptor and Treatment Facilities related to restriction by bond ordinance. The liabilities payable from restricted assets are for construction accounts payable and accrued interest in the amount of \$14,600,588.

KWA's bond indenture required amounts to be set aside in a construction account and a debt service reserve. These amounts have been classified as restricted assets, as well as amounts on deposit at the County being held for the construction or debt service of KWA water lines.

Long-term Debt: The summary of long-term debt transactions for the Water and Waste Services for the year ended December 31, 2016 is presented below:

	Beginning	Additions		Ending Balance	Due Within One Year
	Balance	(Reductions)			
1.625% to 5.00% Interceptor and treatment facilities	\$ 81,296,023	\$ (6,835,000)	\$ 74,461,023	\$ 7,020,000	
2.50% to 4.50% District No. 3	10,120,000	(2,345,000)	7,775,000	1,350,000	
2.50% to 5.375% Water supply system	128,796,006	53,973,955	182,769,961	2,375,000	
Subtotal	220,212,029	44,793,955	265,005,984	10,745,000	
Unamortized note premium	4,572,862	6,292,532	10,865,394	410,032	
	\$ 224,784,891	\$ 51,086,487	\$ 275,871,378	\$ 11,155,032	

Component Unit - KWA

	Beginning	Additions		Ending Balance	Due Within One Year
	Balance	(Reductions)			
Bonds	\$ 220,500,000	\$ 74,370,000	\$ 294,870,000	\$ -	
Capital lease	35,000,000	-	35,000,000	-	
Subtotal	255,500,000	74,370,000	329,870,000	-	
Unamortized note premium	11,027,841	(393,851)	10,633,990	-	
	\$ 266,527,841	\$ 73,976,149	\$ 340,503,990	\$ -	

NOTE 20 - COMPONENT UNIT DISCLOSURES (Continued)

The annual requirements to pay principal and interest on the outstanding obligations for Water and Waste Services at December 31, 2016 are as follows:

	Business-type Activities		
	Principal	Interest	Total
2017	\$ 10,745,000	\$ 10,235,375	\$ 20,980,375
2018	11,045,000	10,210,307	21,255,307
2019	10,930,000	9,839,434	20,769,434
2020	10,045,000	9,488,589	19,533,589
2021	10,425,000	9,136,866	19,561,866
2022-2026	58,050,000	39,772,294	97,822,294
2027-2031	43,230,288	29,479,603	72,709,891
2032-2036	35,471,135	20,327,759	55,798,894
2037-2040	37,344,561	12,735,096	50,079,657
2041-2045	37,720,000	4,036,225	41,756,225
Total	\$ 265,005,984	\$ 155,261,548	\$ 420,267,532

	Component Unit Activities - KWA		
	Principal	Interest	Total
2017	\$ -	\$ 14,361,491	\$ 14,361,491
2018	78,475,000	14,928,113	93,403,113
2019	4,275,000	10,861,863	15,136,863
2020	4,475,000	10,669,613	15,144,613
2021	4,655,000	10,471,363	15,126,363
2022-2026	26,740,000	48,788,938	75,528,938
2027-2031	34,180,000	41,105,344	75,285,344
2032-2036	43,990,000	31,062,075	75,052,075
2037-2040	56,590,000	18,103,650	74,693,650
2041-2045	41,490,000	3,179,250	44,669,250
Total	\$ 294,870,000	\$ 203,531,700	\$ 498,401,700

Future Revenues Pledged for Debt Payment: The Water and Waste Services Division has pledged substantially all revenue of the Water and Sewer Fund, net of operating expenses, to repay the above Genesee County Drain Commissioner water and sewer revenue bonds. Proceeds from the bonds provided financing for the construction of the water and waste systems described above. The bonds are payable solely from the net revenues of the water and sewer system. The remaining principal and interest to be paid on the bonds total \$352,507,133. For the year ended December 31, 2016, net revenues of the system were \$18,612,758 compared to the annual debt requirements of \$12,279,393. Of the annual debt requirement, \$2,668,818 is interest expense funded by capitalized interest from bond proceeds.

Karegnondi Water Authority - See Note 15.

Related Party: During fiscal year 2013, the Karegnondi Water Authority (the "Authority") was formed. The Authority has retained the services of the Division to administer the design and construction of the raw water supply system. In addition, it is expected that the Authority will contract with the Division for operation and maintenance of the raw water supply system after the system is completed and operational. The Authority has no employees of its own, with all current and future services expected to be rendered by division employees.

The Division has entered into certain contracts with the Authority as a local unit so as to acquire a supply of raw water. This new raw water supply system is expected to be utilized by the Division in late 2017, at which time the Division will cease purchasing finished water from the Detroit Water and Sewerage Department.

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

In the previous year, the Division recorded a lease receivable related to the Division's \$35 million bond issuance in 2013 for construction of an intake facility and two pump stations. Recording of the receivable was a result of modification of a supply contract with KWA in April 2014, effectively stating the Division is to turn over title to the aforementioned facilities to KWA upon redemption of the bonds. Based on contract terms, GASB Statement No. 62, paragraph 213 requires KWA to treat facilities as a capital lease and record as construction in progress the cost of land and other construction costs previously incurred by the Division. The Division reports a lease receivable, and KWA reports long-term debt.

NOTE 20 - COMPONENT UNIT DISCLOSURES (Continued)

The lease agreement qualifies as a capital lease for accounting purposes and, therefore, has been recorded as a present value of the future minimum lease payments as of the inception date. The future minimum lease obligations (for KWA) and the net present value are as follows:

2017	\$2,527,188
2018	2,527,588
2019	2,526,588
2020	2,527,188
2021	2,527,437
2022-2026	12,637,937
2027-2031	12,635,288
2032-2036	12,636,112
2037-2041	<u>12,638,928</u>
Total	<u>63,184,254</u>
Less amount representing interest	<u>(28,184,254)</u>
Present value	<u>\$35,000,000</u>

Capital Assets - The summary of capital assets for Water and Waste Services at December 31, 2016 is displayed below:

	Balance		Balance	
	January 1, 2016	Additions	Disposals	December 31, 2016
Enterprise Fund:				
Capital assets not being depreciated:				
Land	\$ 2,313,197	\$ -	\$ -	\$ 2,313,197
Construction in progress	<u>22,151,656</u>	<u>61,666,013</u>	<u>(1,199,255)</u>	<u>82,618,414</u>
Subtotal	24,464,853	61,666,013	(1,199,255)	84,931,611
Capital assets being depreciated:				
Distribution and collections system	366,642,152	-	-	366,642,152
Buildings and equipment	13,471,582	1,233,714	(82,527)	14,622,769
Vehicles	<u>912,047</u>	<u>315,349</u>	<u>(20,439)</u>	<u>1,206,957</u>
Subtotal	381,025,781	1,549,063	(102,966)	382,471,878
Accumulated depreciation:				
Distribution and collections system	(77,941,140)	(7,745,965)	-	(85,687,105)
Buildings and equipment	(5,551,861)	(604,753)	82,527	(6,074,087)
Vehicles	<u>(635,228)</u>	<u>(104,899)</u>	<u>20,439</u>	<u>(719,688)</u>
Subtotal	<u>(84,128,229)</u>	<u>(8,455,617)</u>	<u>102,966</u>	<u>(92,480,880)</u>
Net capital assets being depreciated	<u>296,897,552</u>	<u>(6,906,554)</u>	<u>-</u>	<u>289,990,998</u>
Net capital assets	<u>\$ 321,362,405</u>	<u>\$ 54,759,459</u>	<u>\$ (1,199,255)</u>	<u>\$ 374,922,609</u>
Internal Service Fund:				
Capital assets being depreciated - Buildings and equipment				
Accumulated depreciation - Buildings and improvements	<u>(6,864,289)</u>	<u>(374,734)</u>	<u>1,060,993</u>	<u>(6,178,030)</u>
Net capital assets	<u>\$ 1,981,581</u>	<u>\$ (192,064)</u>	<u>\$ (27,862)</u>	<u>\$ 1,761,655</u>
Total proprietary funds capital assets	<u>\$ 323,343,986</u>	<u>\$ 54,567,395</u>	<u>\$ (1,227,117)</u>	<u>\$ 376,684,264</u>
Component unit - KWA - Capital assets not being depreciated - Construction in progress				
	Balance January 1, 2016	Additions	Disposals	Balance December 31, 2016
	<u>\$ 181,395,807</u>	<u>\$ 128,981,480</u>	<u>\$ -</u>	<u>\$ 310,377,287</u>

NOTE 20 - COMPONENT UNIT DISCLOSURES (Continued)

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

Water supply system	<u>Spent to Date</u>	<u>Remaining Commitment</u>
	<u>\$ 110,415,179</u>	<u>\$ 30,635,350</u>

KWA had the water pipeline project in progress during the year. At year end, KWA's commitments with contractors are as follows:

Water pipeline project.....	<u>Spent to Date</u>	<u>Remaining Commitment</u>
	<u>\$248,189,580</u>	<u>\$12,381,633</u>

DEFINED BENEFIT PENSION PLAN -

PLAN DESCRIPTION

The Water and Waste Division participates in an agent multiple-employer defined benefit pension plan (Genesee County Employees Retirement System, also known as GCERS). The complete plan description is included in Note 9.

BENEFITS PROVIDED

The provided benefits are included in Note 9.

EMPLOYEES COVERED BY BENEFIT TERMS

At the December 31, 2015 measurement date, the following Water and Waste Division employees were covered by the benefit terms:

Inactive plan members or beneficiaries currently receiving benefits	102
Inactive plan members entitled to but not yet receiving benefits	7
Active plan members	<u>130</u>
Total employees covered by GCERS	<u>239</u>

CONTRIBUTION REQUIREMENTS

Details of contribution requirements are included in Note 9.

For the year ended September 30, 2017, the Water and Waste Division's actuarially determined contribution rate was 20.0 percent of annual covered payroll. The Water and Waste Division employees are required to contribute 5 to 7 percent of their annual covered payroll.

NET PENSION LIABILITY

The net pension liability reported at September 30, 2017 was determined using a measure of the total pension liability and the pension net position as of December 31, 2015. The December 31, 2015 total pension liability was determined by an actuarial valuation performed as of that date.

Changes in the net pension liability during the year were as follows:

Changes in Net Pension Liability	Increase (Decrease)		
	Total Pension Liability	Plan Net Position	Net Pension Liability
Balance at December 31, 2014	\$ 59,485,648	\$ 41,775,976	\$ 17,709,672
Service cost	879,564	-	879,564
Interest	4,017,471	-	4,017,471
Differences between expected and actual experience	(50,724)	-	(50,724)
Changes in assumptions	12,131,977	-	12,131,977
Contributions - Employer	-	1,665,567	(1,665,567)
Contributions - Employee	-	573,221	(573,221)
Net investment income	-	519,442	(519,442)
Benefit payments, including refunds	(3,474,956)	(3,474,956)	-
Administrative expenses	-	(46,313)	46,313
Miscellaneous other charges	<u>205,519</u>	<u>-</u>	<u>205,519</u>
Net changes	<u>13,708,851</u>	<u>(763,039)</u>	<u>14,471,890</u>
Balance at December 31, 2015	<u>\$ 73,194,499</u>	<u>\$ 41,012,937</u>	<u>\$ 32,181,562</u>

NOTE 20 - COMPONENT UNIT DISCLOSURES (Continued)

PENSION EXPENSE AND DEFERRED OUTFLOWS OF RESOURCES RELATED TO PENSIONS

During the year, the Water and Waste Division recognized pension expense of \$3,940,140. At December 31, 2016, the Water and Waste Division reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ -	\$ (1,125,058)
Changes in assumptions	11,547,084	-
Net difference between projected and actual earnings on pension plan investments	1,809,478	-
Employer contributions to the plan subsequent to the measurement date	1,642,376	-
Total	\$ 14,998,938	\$ (1,125,058)

The amounts reported as deferred outflows of resources related to pensions, excluding the employer contributions to the plan made subsequent to the measurement date of \$1,642,376, will be recognized as pension expense as follows:

Years Ending December 31	Amount
2017	\$ 2,251,300
2018	2,251,300
2019	2,251,300
2020	2,264,308
2021	1,791,971
Thereafter	1,421,325

The amount reported as deferred outflows of resources related to employer contributions to the plan made subsequent to the measurement date of \$1,642,376 will impact the net pension liability in fiscal year 2017, as opposed to being amortized to pension expense over a period of years.

ACTUARIAL ASSUMPTIONS

Details of actuarial assumptions are included in Note 9.

SENSITIVITY OF THE NET PENSION LIABILITY TO CHANGES IN THE DISCOUNT RATE

The following presents the Water and Waste Division's net pension liability, calculated using the discount rate of 5.56%, as well as what the net pension liability would be if it were calculated using a discount rate that is 1% lower (4.56%) or 1% higher (6.56%) than the current rate:

	1 Percent Decrease (4.56%)	Current Discount Rate (5.56%)	1 Percent Increase (6.56%)
Net pension liability of the Water and Waste Division	\$ 41,998,396	\$ 32,181,562	\$ 24,445,831

POSTEMPLOYMENT BENEFITS -

PLAN DESCRIPTION

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

FUND POLICY

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

NOTE 20 - COMPONENT UNIT DISCLOSURES (Continued)

FUNDING PROGRESS

For the year ended December 31, 2016, the Division has estimated the cost of providing retiree healthcare benefits through an actuarial valuation as of December 31, 2016. The valuation computes an annual required contribution, which represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed 30 years. This valuation's computed contribution and actual funding are summarized as follows:

	Fiscal Year Ended December 31		
	2014	2015	2016
Annual required contribution (recommended)	\$ 3,554,246	\$ 2,715,562	\$ 2,845,372
Interest on the prior year's net OPEB obligation	311,824	389,441	387,216
Less adjustment to the annual required contribution	(127,980)	(127,867)	(160,024)
Annual OPEB cost	3,738,090	2,977,136	3,072,564
Amount contributed:			
Payments of current premiums	(1,522,617)	(1,506,763)	(1,587,627)
Advance funding	(2,220,000)	(1,500,000)	(1,500,000)
Decrease in net OPEB obligation	(4,527)	(29,627)	(15,063)
OPEB obligation – Beginning of year	5,197,070	5,192,543	5,162,916
OPEB obligation – End of year	<u>\$ 5,192,543</u>	<u>\$ 5,162,916</u>	<u>\$ 5,147,853</u>

	Fiscal Year Ended December 31		
	2014	2015	2016
Annual OPEB costs	\$ 3,738,090	\$ 2,977,136	\$ 3,072,564
Percentage contributed	100%	101%	101%
Net OPEB obligation	\$ 5,192,543	\$ 5,162,916	\$ 5,147,353

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

	Fiscal Year Ended December 31		
	2014	2015	2016
Unfunded AAL	\$ 48,045,278	\$ 32,664,986	\$ 33,499,676
Actuarial value of plan assets	4,580,978	9,101,281	11,648,845
Actuarial accrued liability	52,626,256	41,766,267	45,148,521
Funded	9%	22%	26%
Annual covered payroll - September 30	\$ 7,092,691	\$ 8,163,418	\$ 8,244,365
Ratio of UAAL to covered payroll	677%	400%	406%

ACTUARIAL METHOD AND ASSUMPTIONS

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

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

In the December 31, 2016 actuarial valuation, the individual entry age actuarial cost method was used. The actuarial assumptions included a 7.5 percent investment rate of return (net of administrative expenses) and an annual healthcare cost trend rate of 8.0 percent declining over seven years in 0.5 percent increments. Thereafter, it is assumed to be 5.0 percent per year. The UAAL is being amortized as a level percentage of projected payroll over 30 years on an open basis.

NOTE 20 - COMPONENT UNIT DISCLOSURES (Continued)

DRAIN COMMISSION:

The summary of long-term debt transactions for the Drain funds for the year ended September 30, 2017 is presented below:

	Balance Oct. 1, 2016	Additions (Reductions)	Balance Sept. 30, 2017	Due in One Year
3.69% to 6.85% Genesee County Special Assessment debt with governmental commitment.....	\$ 916,756	\$(242,717)	\$ 674,039	\$ 197,727
3.25% to 5.00% Genesee County Special Assessment debt with governmental commitment.....	300,000	(60,000)	240,000	60,000
2.0% to 3.15% Genesee County Drainage District Bonds #0017 Series 2011 Bonds.....	1,445,000	(240,000)	1,205,000	240,000
	<u>\$2,661,756</u>	<u>\$(542,717)</u>	<u>\$ 2,119,039</u>	<u>\$ 497,727</u>

The annual requirements to pay principal and interest on the outstanding obligations for the Drain funds at September 30, 2017 are as follows:

2018.....	533,044
2019.....	524,685
2020.....	447,320
2021.....	438,032
2022-2023.....	313,744
	<u>2,256,825</u>
Amount representing interest.....	<u>(137,786)</u>
	<u>\$ 2,119,039</u>

The following is a summary of capital assets for the Drain fund at September 30, 2017:

	Balance Oct. 1, 2016	Additions	Deletions	Balance Sept. 30, 2017
Capital assets not being depreciated:				
Land.....	\$ 168,890	\$ -	\$ -	\$ 168,890
Construction in Progress.....	155,036	-	-	155,036
Subtotal.....	<u>323,926</u>	<u>-</u>	<u>-</u>	<u>323,926</u>
Capital assets being depreciated:				
Equipment.....	1,580,457	75,989	-	1,656,446
Infrastructure.....	26,880,474	-	-	26,880,474
Drain System Retrospective.....	29,446,441	470,161	-	29,916,602
Subtotal.....	<u>57,907,372</u>	<u>546,150</u>	<u>-</u>	<u>58,453,522</u>
Less Allowance for Depreciation...:				
Equipment.....	(1,327,454)	(88,394)	-	(1,415,848)
Infrastructure.....	(18,292,392)	(1,031,512)	-	(19,323,904)
Drain System Retrospective.....	(21,295,210)	(1,210,906)	-	(22,506,116)
Subtotal.....	<u>(40,915,056)</u>	<u>(2,330,812)</u>	<u>-</u>	<u>(43,245,868)</u>
Net capital assets being depreciated	<u>16,992,316</u>	<u>(1,784,662)</u>	<u>-</u>	<u>15,207,654</u>
Total Capital Assets	<u>\$17,316,242</u>	<u>\$ (1,784,662)</u>	<u>\$ -</u>	<u>\$ 15,531,580</u>
Net of depreciation.....				

During 2006, the Drain Commission complied with the provisions of GASB Statement 34 relative to the retroactive adjustment to capitalize infrastructure back to 1980.

LAND BANK AUTHORITY:

The summary of long-term debt transactions for the Genesee County Land Bank Authority for the year ended September 30, 2017 is presented below:

	Balance Oct. 1, 2016	Additions	(Reductions)	Balance Sept. 30, 2017	Due in One Year
GCLB-Berridge Place, LLC LISC note payable....	\$ 649,876	\$ -	\$(145,245)	\$ 504,631	\$ 157,726
Bond payable - Land Bank Center.....	1,620,000	-	(55,000)	1,565,000	55,000
Total note/ leases.....	<u>2,269,876</u>	<u>-</u>	<u>(200,245)</u>	<u>2,069,631</u>	<u>212,726</u>
Compensated absences.....	49,506	100,890	(90,458)	59,938	59,938
Total long-term.....	<u>\$ 1,669,506</u>	<u>\$ 100,890</u>	<u>\$(145,458)</u>	<u>\$ 1,624,938</u>	<u>\$ 114,938</u>

NOTE 20 - COMPONENT UNIT DISCLOSURES (Continued)

Years Ending September 30	Principal	Interest	Total
2018.....	\$ 55,000	\$ 88,598	\$ 143,598
2019.....	60,000	85,628	145,628
2020.....	60,000	82,388	142,388
2021.....	65,000	79,017	144,017
2022.....	70,000	75,356	145,356
2023-2027.....	425,000	311,936	736,936
2028-2032.....	560,000	175,755	735,755
2033-2034.....	270,000	23,587	293,587
Total	<u>\$ 1,565,000</u>	<u>\$ 922,265</u>	<u>\$ 2,487,265</u>

The annual requirements to pay principal and interest on the above note obligation at September 30, 2017, are as follows:

	Principal	Interest	Total
2017.....	\$157,726	\$24,854	\$182,580
2018.....	167,454	15,191	182,645
2019.....	<u>179,451</u>	<u>4,933</u>	<u>184,384</u>
Total.....	<u>\$504,631</u>	<u>\$44,978</u>	<u>\$549,609</u>

The line of credit is capped at \$3,000,000. The County has pledged its limited tax full faith and credit on the line and is obligated to levy ad valorem taxes on all taxable property within its boundaries for such purpose, subject to applicable constitutional, statutory and charter limitations as to rate and amount.

The following is a summary of capital assets for the Genesee County Land Bank Authority at September 30, 2017:

	Balance Oct. 1, 2016	Additions	Disposals	Balance Sept. 30, 2017
Capital assets not being depreciated:				
Land.....	\$ 84,308	\$ -	\$ -	\$ 84,308
Capital assets being depreciated:				
Buildings and improvements.....	3,842,232	13,891	-	3,856,123
Machinery and equipment.....	197,022	-	-	197,022
Office equipment.....	171,612	-	-	171,612
Vehicles.....	210,013	12,315	-	222,328
Subtotal.....	<u>4,420,879</u>	<u>26,206</u>	<u>-</u>	<u>4,447,085</u>
Less Accumulated depreciation:				
Buildings and improvements.....	(918,138)	(148,946)	-	(1,067,084)
Machinery and equipment.....	(175,911)	(7,150)	-	(183,061)
Office equipment.....	(128,637)	(10,050)	-	(138,687)
Vehicles.....	(183,720)	(16,548)	-	(200,268)
Subtotal.....	<u>(1,406,406)</u>	<u>(182,694)</u>	<u>-</u>	<u>(1,589,100)</u>
Net capital assets being depreciated.....	<u>3,014,473</u>	<u>(156,488)</u>	<u>-</u>	<u>2,857,985</u>
Total capital assets - Net of depreciation	<u>\$ 3,098,781</u>	<u>\$ (156,488)</u>	<u>\$ -</u>	<u>\$ 2,942,293</u>

The Authority's 1 percent ownership interest in 607 East Second Avenue, LLC (LLC) is accounted for in the statement of net position as an equity investment. 607 East Second Avenue, LLC was created to account for the redevelopment of the old Durant Hotel. The total projected cost of the development was approximately \$35,590,000, with a total contribution of \$18,380,819 from the Authority. The Authority's capital contributions sources were from grants, Brownfield TIF bonds, and sale of state historic and state Brownfield tax credits. In previous years, the Authority has recorded a loss on impairment of the fair value of its investment below cost in the amount of \$16,441,819 to bring the investment balance to \$1,939,000. As of September 30, 2017, the investment balance in 607 East Second Avenue, LLC remained unchanged.

NOTE 20 - COMPONENT UNIT DISCLOSURES (Continued)

BROWNFIELD AUTHORITY:

The summary of long-term debt transactions for the Genesee County Brownfield Authority for the year ended September 30, 2017 is presented below:

	<u>Balance</u> <u>Oct. 1, 2016</u>	<u>Additions</u>	<u>(Reductions)</u>	<u>Balance</u> <u>Sept. 30, 2017</u>	<u>Due in</u> <u>One Year</u>
Unamortized note premium	\$ 336,204	\$ -	(\$ 17,695)	\$ 318,509	\$17,695
3.0% to 5.0% Genesee County Brownfield Authority Series 2005 Tax Increment Bonds, Subject to redemption prior to maturity	<u>11,540,000</u>	<u>-</u>	<u>(320,000)</u>	<u>11,220,000</u>	<u>340,000</u>
Total	<u>\$ 11,876,204</u>	<u>\$ -</u>	<u>(\$ 337,695)</u>	<u>\$11,538,509</u>	<u>\$357,695</u>

The annual requirements to pay principal and interest on the outstanding obligations at September 30, 2017 are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	\$340,000	\$540,575	\$880,575
2019	360,000	525,700	885,700
2020	385,000	510,350	895,350
2021	410,000	494,450	904,450
2022	435,000	475,375	910,375
2023-2027	2,705,000	2,001,895	4,706,895
2028-2032	3,730,000	1,203,000	4,933,000
2033-2035	<u>2,855,000</u>	<u>219,875</u>	<u>3,074,875</u>
Total	<u>\$ 11,220,000</u>	<u>\$ 5,971,220</u>	<u>\$ 17,191,220</u>

Required Supplemental Information

Genesee County, Michigan

**Required Supplemental Information
Budgetary Comparison Schedule - General Fund
Year Ended September 30, 2017**

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
Revenue				
Property taxes	\$ 46,720,926	\$ 46,720,926	\$ 51,531,659	\$ 4,810,733
Licenses and permits	585,700	585,700	509,362	(76,338)
Federal grants	230,000	230,000	556,386	326,386
Other intergovernmental revenue	16,461,603	16,461,603	17,238,108	776,505
Charges for services	14,296,163	13,377,283	13,409,196	31,913
Fines and forfeitures	2,188,923	3,224,190	1,663,228	(1,560,962)
Interest income	110,000	110,000	193,347	83,347
Other	1,021,635	1,021,635	5,613,081	4,591,446
Total revenue	81,614,950	81,731,337	90,714,367	8,983,030
Expenditures - Current				
Management and planning:				
Board coordinator	326,587	337,087	312,287	24,800
Corporation counsel	402,062	417,062	566,382	(149,320)
Controller administration	1,521,043	1,634,419	1,543,622	90,797
Human resources	977,090	985,072	823,943	161,129
County treasurer	1,206,550	1,208,279	1,088,289	119,990
County clerk	6,222,287	6,229,906	5,872,070	357,836
Elections clerk	785,526	820,953	747,617	73,336
Drain commission	5,450,610	5,720,759	5,320,985	399,774
Equalization	907,613	907,613	852,776	54,837
GIS	189,365	198,365	188,885	9,480
Retirement	-	-	25	(25)
Register of deeds	592,950	634,654	618,863	15,791
Other general government	318,186	318,186	384,820	(66,634)
Total management and planning	18,899,869	19,412,355	18,320,564	1,091,791
Administration of justice:				
District court costs	7,348,785	7,498,550	6,604,618	893,932
Circuit court	10,086,488	10,090,108	9,172,576	917,532
Adult probation, jury board, and court services	321,846	321,846	287,559	34,287
Probate court	1,944,981	1,947,772	1,824,881	122,891
Prosecutor	5,108,704	5,109,774	4,511,171	598,603
Total administration of justice	24,810,804	24,968,050	22,400,805	2,567,245
Law enforcement and community protection:				
Sheriff security	17,914,902	18,313,073	17,742,745	570,328
Detective division	822,492	837,925	928,660	(90,735)
Sheriff marine division	23,000	23,000	28,733	(5,733)
Sheriff administration	2,617,249	2,620,337	4,227,042	(1,606,705)
Office of emergency preparedness	169,657	169,773	161,776	7,997
Total law enforcement and community protection	21,547,300	21,964,108	23,088,956	(1,124,848)
Human services	2,000,000	2,000,000	2,106,276	(106,276)

Genesee County, Michigan

**Required Supplemental Information
Budgetary Comparison Schedule - General Fund (Continued)
Year Ended September 30, 2017**

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
Expenditures - Current (continued)				
Legislative - Board of Commissioners	\$ 508,337	\$ 508,337	\$ 513,468	\$ (5,131)
Community enrichment and development	2,619,815	1,944,359	581,495	1,362,864
Capital outlay	58,500	262,000	164,823	97,177
Total expenditures	70,444,625	71,059,209	67,176,387	3,882,822
Excess of Revenue Over Expenditures	11,170,325	10,672,128	23,537,980	12,865,852
Other Financing Sources (Uses)				
Transfers in	7,421,159	7,317,159	5,198,174	(2,118,985)
Transfers out	(18,528,954)	(19,888,954)	(19,057,407)	831,547
Total other financing uses	(11,107,795)	(12,571,795)	(13,859,233)	(1,287,438)
Net Change in Fund Balance	62,530	(1,899,667)	9,678,747	11,578,414
Fund Balance - Beginning of year	24,403,417	24,403,417	24,403,417	-
Fund Balance - End of year	\$ 24,465,947	\$ 22,503,750	\$ 34,082,164	\$ 11,578,414

Genesee County, Michigan

**Required Supplemental Information
Budgetary Comparison Schedule - Major Special Revenue Funds
County Health
Year Ended September 30, 2017**

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
Revenue				
Licenses and permits	\$ 1,095,455	\$ 1,095,455	\$ 1,045,489	\$ (49,966)
Federal grants	1,221,714	1,221,714	4,673,974	3,452,260
Other intergovernmental revenue	10,795,619	10,795,619	7,066,906	(3,728,713)
Charges for services	244,006	244,006	406,533	162,527
Other	563,219	563,219	360,554	(202,665)
Total revenue	13,920,013	13,920,013	13,553,456	(366,557)
Expenditures - Current				
Human services	17,196,510	17,196,510	15,791,412	1,405,098
Capital outlay	-	-	21,427	(21,427)
Total expenditures	17,196,510	17,196,510	15,812,839	1,383,671
Excess of Expenditures Over Revenue	(3,276,497)	(3,276,497)	(2,259,383)	1,017,114
Other Financing Sources -				
Transfers in	3,165,808	3,165,808	3,211,158	45,350
Net Change in Fund Balance	(110,689)	(110,689)	951,775	1,062,464
Fund Balance - Beginning of year	3,398,921	3,398,921	3,398,921	-
Fund Balance - End of year	\$ 3,288,232	\$ 3,288,232	\$ 4,350,696	\$ 1,062,464

Genesee County, Michigan

**Required Supplemental Information
Budgetary Comparison Schedule - Major Special Revenue Funds
Community Action Resource Department
Year Ended September 30, 2017**

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
Revenue				
Federal grants	\$ 16,919,332	\$ 21,841,560	\$ 17,535,365	\$ (4,306,195)
Other intergovernmental revenue	1,737,077	4,715,721	3,941,909	(773,812)
Rental income	750,000	750,000	886,067	136,067
Other	4,120,915	-	1,933,803	1,933,803
Total revenue	23,527,324	27,307,281	24,297,144	(3,010,137)
Expenditures - Current				
Human services	23,958,092	26,105,903	23,116,042	2,989,861
Capital outlay	94,332	149,400	-	149,400
Total expenditures	24,052,424	26,255,303	23,116,042	3,139,261
Other Financing Uses - Transfers out	(351,978)	(351,978)	(337,160)	14,818
Net Change in Fund Balance	(877,078)	700,000	843,942	143,942
Fund Balance - Beginning of year	(4,102,017)	(4,102,017)	(4,102,017)	-
Fund Balance - End of year	\$ (4,979,095)	\$ (3,402,017)	\$ (3,258,075)	\$ 143,942

Genesee County, Michigan

**Required Supplemental Information
Budgetary Comparison Schedule - Major Special Revenue Funds
Community Development
Year Ended September 30, 2017**

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
Revenue				
Federal grants	\$ 28,833,902	\$ 28,833,902	\$ 2,590,124	\$ (26,243,778)
Interest income	100	100	-	(100)
Other	30,000	30,000	-	(30,000)
Total revenue	28,864,002	28,864,002	2,590,124	(26,273,878)
Expenditures - Current - Community enrichment and development	28,866,594	28,866,594	2,774,592	26,092,002
Net Change in Fund Balance	(2,592)	(2,592)	(184,468)	(181,876)
Fund Balance - Beginning of year	487,898	487,898	487,898	-
Fund Balance - End of year	\$ 485,306	\$ 485,306	\$ 303,430	\$ (181,876)

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Genesee County, Michigan

**Required Supplemental Information
Schedule of Changes in the County Net Pension Liability and
Related Ratios
Last Three Fiscal Years**

	2017	2016	2015
Total Pension Liability			
Service cost	\$ 3,462,442	\$ 2,092,850	\$ 2,441,909
Interest	22,270,704	23,309,874	22,786,858
Differences between expected and actual experience	(13,052,891)	3,447,036	3,421,029
Changes in assumptions	(10,317,917)	59,608,793	5,189,777
Benefit payments, including refunds	(27,615,228)	(27,179,618)	(26,514,618)
Miscellaneous other	-	784,042	-
Net Change in Total Pension Liability	(25,252,890)	62,062,977	7,324,955
Total Pension Liability - Beginning of year	412,628,621	350,565,644	343,240,689
Total Pension Liability - End of year	\$ 387,375,731	\$ 412,628,621	\$ 350,565,644
Plan Fiduciary Net Position			
Contributions - Employer	\$ 9,635,562	\$ 9,060,276	\$ 7,679,505
Contributions - Member	962,642	1,099,739	1,144,877
Net investment income	17,999,919	2,902,513	16,143,654
Administrative expenses	(214,399)	(258,787)	(261,859)
Benefit payments, including refunds	(27,615,228)	(27,179,618)	(26,514,618)
Other	6,456	(6,455)	-
Net Change in Plan Fiduciary Net Position	774,952	(14,382,332)	(1,808,441)
Plan Fiduciary Net Position - Beginning of year	227,521,358	241,903,690	243,712,131
Plan Fiduciary Net Position - End of year	\$ 228,296,310	\$ 227,521,358	\$ 241,903,690
County's Net Pension Liability - Ending	\$ 159,079,421	\$ 185,107,263	\$ 108,661,954
Plan Fiduciary Net Position as a Percentage of Total Pension Liability	58.93 %	55.14 %	69.00 %
Covered Employee Payroll	\$ 10,990,135	\$ 12,730,024	\$ 13,706,964
County's Net Pension Liability as a Percentage of Covered Employee Payroll	1,447.5 %	1,454.1 %	792.7 %

Genesee County, Michigan

**Required Supplemental Information
Schedule of County Contributions
Last Three Fiscal Years**

	2017	2016	2015
Actuarially determined contribution	\$ 9,041,206	\$ 8,816,860	\$ 8,852,715
Contributions in relation to the actuarially determined contribution	9,042,317	8,816,154	8,852,715
Contribution (Excess) Deficiency	\$ (1,111)	\$ 706	\$ -
Covered Employee Payroll	\$ 10,990,135	\$ 12,730,024	\$ 13,706,964
Contributions as a Percentage of Covered Employee Payroll	82.3 %	69.3 %	64.6 %

Notes to Schedule of County Contributions

Actuarial valuation information relative to the determination of contributions:

Valuation date

Actuarially determined contribution rates are calculated as of December 31, two years prior to the end of the fiscal year in which the contributions are reported. Contributions for the County's fiscal year ended September 30, 2017 were determined based on the actuarial valuation as of December 31, 2015. The most recent valuation is as of December 31, 2016.

Methods and assumptions used to determine contribution rates:

Actuarial cost method

Entry age

Amortization method

Level dollar

Remaining amortization period

25 years, open

Asset valuation method

Four years smoothed market

Inflation

3.00 percent

Salary increases

3.0 - 7.03 percent, including inflation

Investment rate of return

7.85 percent, net of pension plan investment expense, including inflation

Retirement age

60

Mortality

RP 2000 Combined Healthy Mortality Table projected to 2014

Other information

Pension schedules (schedule of changes in the net pension liability and related ratios and schedule of county contributions) are intended to show information for 10 years. Additional years' information will be displayed as it becomes available.

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Genesee County, Michigan

**Required Supplemental Information
OPEB System Schedule
Year Ended September 30, 2017**

The schedule of funding progress is as follows:

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (Percent) (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll
9/30/07	\$ 30,427,079	\$179,150,908	\$148,723,829	17.0 %	\$ 58,387,145	254.7 %
9/30/10	41,579,396	286,696,396	245,117,000	14.5	58,028,000	422.4
9/30/12	43,313,587	308,208,023	264,894,436	14.1	36,987,137	716.2
9/30/14	41,485,721	344,160,043	302,674,322	12.1	33,343,864	907.7
9/30/16	32,821,620	341,629,201	308,807,581	9.6	25,157,676	1,227.5

The schedule of employer contributions is as follows:

Fiscal Year Ended	Actuarial Valuation Date	Annual Required Contribution	Percentage Contributed
9/30/11	9/30/10	\$ 18,708,000	52.0 %
9/30/12	9/30/12	18,549,049	64.0
9/30/13	9/30/12	18,549,049	64.7
9/30/14	9/30/14	19,066,021	45.2
9/30/15	9/30/14	19,066,021	43.1
9/30/16	9/30/16	18,883,352	39.5

The information presented above was determined as part of the actuarial valuations at the dates indicated. Additional information as of September 30, 2016, the latest actuarial valuation, follows:

Amortization method	Level percent-of-payroll
Amortization period (perpetual)	30 years
Actuarial assumptions:	
Investment rate of return	6 percent
Projected salary increases	3 percent
Medical inflation rate	8 percent, graded down to 4 percent in 0.5 percent increments over nine years
Cost-of-living adjustments	None

Genesee County, Michigan

**Required Supplemental Information
OPEB Plan
Schedule of Changes in the County Net OPEB Liability and Related Ratios
Last Ten Fiscal Years**

(Schedule is built prospectively upon implementation of GASB No. 74)

	2017
Total OPEB liability	
Service cost	\$ 6,845,712
Interest	16,459,162
Differences between expected and actual experience	(13,022,059)
Changes in assumptions	12,591,686
Benefit payments, including refunds	(15,913,780)
Net Change in Total OPEB Liability	6,960,721
Total OPEB Liability - Beginning of year	538,836,870
Total OPEB Liability - End of year	\$ 545,797,591
Plan Fiduciary Net Position	
Contributions - Employer	\$ 7,834,649
Contributions - Active and inactive plan members not yet receiving benefits	593,239
Net investment income	1,490,451
Administrative expenses	(171,015)
Benefit payments, including refunds	(15,913,780)
Other	-
Net Change in Plan Fiduciary Net Position	(6,166,456)
Plan Fiduciary Net Position - Beginning of year	31,677,053
Plan Fiduciary Net Position - End of year	\$ 25,510,597
Net OPEB Liability - Ending	\$ 520,286,994
Plan Fiduciary Net Position as a Percentage of Total OPEB Liability	4.67 %
Covered Employee Payroll	\$ 38,702,758
Net OPEB Liability as a Percentage of Covered Employee Payroll	1,344.3 %

Genesee County, Michigan

Required Supplemental Information OPEB Plan Schedule of OPEB Contributions Last Ten Fiscal Years

	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
Actuarially determined contribution	\$ 18,883,352	\$ 18,883,352	\$ 19,066,021	\$ 19,066,021	\$ 18,549,049	\$ 18,549,049	\$ 18,708,000	\$ 18,708,000	\$ 12,992,638	\$ 12,992,638
Contributions in relation to the actuarially determined contribution	6,937,061	7,468,726	8,212,389	8,626,867	9,524,252	12,009,195	9,698,547	13,512,778	14,430,467	12,756,826
Contribution Deficiency (Excess)	\$ 11,946,291	\$ 11,414,626	\$ 10,853,632	\$ 10,439,154	\$ 9,024,797	\$ 6,539,854	\$ 9,009,453	\$ 5,195,222	\$ (1,437,829)	\$ 235,812
Covered Employee Payroll	\$ 25,157,676	\$ 25,157,676	\$ 33,343,864	\$ 33,343,864	\$ 36,987,137	\$ 36,987,137	\$ 58,028,000	\$ 58,028,000	\$ 50,668,000	\$ 48,245,963
Contributions as a Percentage of Covered Employee Payroll	27.6 %	29.7 %	24.6 %	25.9 %	25.8 %	32.5 %	16.7 %	23.3 %	28.5 %	26.4 %

Notes to Schedule of County Contributions

Actuarial valuation information relative to the determination of contributions:

Valuation date	Actuarially determined contribution rates are calculated as of September 30, two years prior to the end of the fiscal year in which the contributions are reported.
Methods and assumptions used to determine contribution rates:	
Actuarial cost method	Entry age normal (level percent of payroll)
Amortization method	Level percent of payroll
Remaining amortization period	30 years
Asset valuation method	Equal to market value of assets
Inflation	1.75 percent
Healthcare cost trend rates	7.5 percent graded to 4.5 percent over six years
Salary increases	1.75 percent
Investment rate of return	7.5 percent net of OPEB plan investment expense, including inflation
Retirement age	62
Mortality	Mortality rates were based on the RPH-2017 Total Dataset Mortality Table projected fully generationally using Scale MP-2017.
Other information	None

Genesee County, Michigan

**Note to Required Supplemental Information
Year Ended September 30, 2017**

Budgetary Information - Budgets shown in the financial statements were prepared on the same modified accrual basis used to reflect actual results. The County employs the following procedures in establishing the budgetary data reflected in the financial statements:

- Prior to July 1, county departments, in conjunction with the Controller's Office, prepare and submit their proposed operating budgets for the fiscal year commencing October 1. The operating budget includes proposed expenditures and resources to finance them.
- A public hearing is conducted to obtain taxpayers' comments.
- Prior to September 30, the budget is legally enacted through passage of a resolution.
- After the budget is adopted, the Finance Committee of the Board of Commissioners is authorized to transfer budgeted amounts between accounts within a department. However, any revisions that alter the total expenditures of a department or fund must be approved by the Board of Commissioners.
- Formal budgetary integration is employed as a management control device during the year for the General Fund and the Special Revenue Funds. Formal budgetary integration is not employed for other governmental-type funds as effective management control is achieved through alternative procedures.
- Budgets for the General and Special Revenue funds are adopted on a basis consistent with generally accepted accounting principles (GAAP). Budgeted amounts are as originally adopted, or as amended by the Board of Commissioners during the year. Individual amendments were not material in relation to the original appropriations, which were amended. Appropriations unused at September 30 are not carried forward to the following year. The budgets for the General and Special Revenue funds are adopted at the departmental level and total fund level, respectively.

	Total	
	<u>Total Revenue</u>	<u>Expenditures</u>
General Fund:		
Amounts per operating statement	\$ 91,173,561	\$ 69,841,678
Medical Examiner Fund budgeted separately from the General Fund	<u>(459,194)</u>	<u>(2,665,291)</u>
Amounts per budget statement	<u>\$ 90,714,367</u>	<u>\$ 67,176,387</u>

Genesee County, Michigan

**Note to Required Supplemental Information (Continued)
Year Ended September 30, 2017**

Excesses of expenditures over appropriations in individual funds are presented below:

	Amended Budget	Actual	Variance
General Fund:			
Corporation counsel	\$ 417,062	\$ 566,382	\$ (149,320)
Retirement	-	25	(25)
Other general government	318,186	384,820	(66,634)
Detective division	837,925	928,660	(90,735)
Sheriff marine division	23,000	28,733	(5,733)
Sheriff administration	2,620,337	4,227,042	(1,606,705)
Contribution to Genesee Health System Authority	-	106,276	(106,276)
Legislative - Board of Commissioners	508,337	513,468	(5,131)
Other major governmental funds - County Health - Capital outlay	-	21,427	(21,427)

The cause of the budget overruns were unanticipated expenditures.



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Independent Auditor's Report

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

Report on the Financial Statements

We have audited the accompanying financial statements of the Enterprise Fund, Internal Service Funds, business-type activities, and discretely presented component unit of Genesee County Drain Commissioner Division of Water and Waste Services, a component unit of Genesee County (the "Division"), as of and for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise Genesee County Drain Commissioner Division of Water and Waste Services' basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Enterprise Fund, Internal Service Funds, business-type activities, and discretely presented component unit of Genesee County Drain Commissioner Division of Water and Waste Services as of December 31, 2016, and the respective changes in its financial position and, where applicable, cash flows for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplemental Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and pension and other postemployment benefit schedules of funding progress and employer contributions, as identified 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.

Other Information

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

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

Report on Summarized Comparative Information

We have previously audited Genesee County Drain Commissioner Division of Water and Waste Services' December 31, 2015 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated June 15, 2016. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2015 is consistent, in all material respects, with the audited financial statements from which it has been derived.

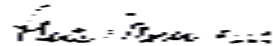
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To the Board of Directors
Genesee County Drain Commissioner
Division of Water and Waste Services

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated June 15, 2017 on our consideration of Genesee County Drain Commissioner Division of Water and Waste Services, a component unit of Genesee County's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Genesee County Drain Commissioner Division of Water and Waste Services, a component unit of Genesee County's internal control over financial reporting and compliance.



June 15, 2017

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

Management's Discussion and Analysis

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

Primary Objectives

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

Responsibilities

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

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

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

Genesee County Drain Commissioner Division of Water and Waste Services

Management's Discussion and Analysis (Continued)

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

- Preventive maintenance of the water and sewer infrastructure and appurtenances
- Staking of water and sewer infrastructure (Miss Dig)
- Jetting/Televising of sanitary sewers
- Inspection of water and sewer infrastructure
- Responds to customer complaints (i.e., plugged sewers, high bills, etc.)
- Installs, reads, and repairs water meters, repairs broken water mains, and coordinates the repair of sanitary sewers, sewer main taps, and cut and cap water and sewer services
- Provides after-hours emergency response as needed
- Provides training in the operation and maintenance of the water and sewer systems, along with safety and regulatory compliance
- Establishes and oversees capital improvement projects

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

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

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

Genesee County Drain Commissioner Division of Water and Waste Services

Management's Discussion and Analysis (Continued)

ARTP provides sewage treatment for the majority of the Division's service area, with District Nos. 3 and 7 providing service for several outlying areas. And while the District Nos. 3 and 7 facilities are two distinctly separate operations, they are combined administratively due to their proximity to one another.

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

- **Biosolids Disposal** - Each treatment plant is responsible for disposing wastewater treatment plant biosolids in a manner that is considered beneficial reuse, in particular, biosolids application on farmland. ARTP accomplished this goal in 2016 by applying 5,676 dry tons of stabilized biosolids on approximately 1,950 acres of approved fields. In 2016, District No. 3 applied 1,381 dry tons of stabilized biosolids on approximately 1,190 acres of approved fields.
- **Industrial Pretreatment Program** - The Division regulates and monitors industrial and nondomestic dischargers to the wastewater system. The Division reviews applications, issues discharge permits, verifies compliance, calculates fees and surcharge bills for the customers, and enforces regulations through discharge permits, which protect the wastewater treatment facilities and the environment. An arsenic program for drinking water systems was implemented to ensure compliance with MDEQ regulations. The ordinance also allows for best management practices (BMP) in regulating silver and mercury from over 450 physician and dental offices and grease and oil from approximately 1,200 restaurants. Inter-jurisdictional agreements and the sewer use ordinance have been distributed to the municipalities that discharge into the Division's systems, and the local unit of government approval process is ongoing. At this time, there are 14 significant industrial facilities, and four categorical users that pay surcharges for the cost of treating various substances they discharge to the Division.

Water Supply - The water supply department is responsible for acquisition of treated water from the Great Lakes Water Authority (GLWA). The Division distributes potable water to local communities, which in turn supply their residential, commercial, and industrial customers. The Division also contracts with certain local municipalities to operate and maintain their water systems, as well as provide billing services.

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

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

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

Management's Discussion and Analysis (Continued)

During 2016, the Division continued to make significant progress on its plans to acquire a new water supply via its participation in the component unit Karegnondi Water Authority (KWA). The KWA will supply untreated water to the Division, and successfully brought its water pipeline and pumping capacity online in 2017.

The Division continued construction on its new water treatment plant, which will treat the raw water to be supplied by the KWA. The new water treatment plant will begin testing in July 2017, and is expected to officially come online in late 2017, at which time the Division will discontinue its purchase and use of GLWA treated water. Funding for the new water treatment plant is coming from bond sale proceeds, with the first bond sale completed in April 2015, and a subsequent bond sale completed in September 2016.

Rate Structure

During 2016, the Division received a water supply rate increase from GLWA, which the Division passed through to its community customers beginning in September 2016. Previously approved sewer rate increases for Districts 3 and 7 took effect in January 2014, while an ARTP sewer rate increase took effect in July 2014.

Karegnondi Water Authority

The Karegnondi Water Authority (KWA) is a discretely presented component unit of the Division. KWA is governed by a 15-member board and was created pursuant to Act 233, Michigan Public Acts of 1955. Its purpose is to acquire and operate a water pipeline that provides water to the Division and the city of Flint, which in turn will treat the water to be provided to their residents. KWA may also provide water to other local units in Lapeer and Sanilac counties. The Division has financial accountability for KWA. This is subject to change based upon redistribution of capacity units.

Using this Annual Report

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

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

Management's Discussion and Analysis (Continued)

Condensed Financial Information

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

	December 31		Increase (Decrease)	Percent Change
	2016	2015		
Assets				
Current assets	\$ 32,850,489	\$ 36,418,358	\$ (3,567,869)	(9.8) %
Restricted assets	60,820,858	44,839,976	15,980,882	35.6
Noncurrent lease receivable and local unit construction in progress	46,297,522	43,306,090	2,991,432	6.9
Capital assets	376,684,264	323,343,986	53,340,278	16.5
Total assets	516,653,133	447,908,410	68,744,723	15.3
Deferred Outflows of Resources	15,018,219	3,106,373	11,911,846	383.5
Liabilities				
Current liabilities	15,542,370	20,019,718	(4,477,348)	(22.4)
Liabilities payable from restricted assets	14,600,588	3,402,534	11,198,054	329.1
Other noncurrent liabilities	38,605,550	23,774,329	14,831,221	62.4
Long-term debt	264,716,346	213,095,902	51,620,444	24.2
Total liabilities	333,464,854	260,292,483	73,172,371	28.1
Deferred Inflows of Resources	1,125,058	1,368,998	(243,940)	
Net Position				
Net investment in capital assets	185,230,686	184,728,296	502,390	0.3
Restricted	5,494,572	493,334	5,001,238	-
Unrestricted	6,356,182	4,131,672	2,224,510	53.8
Total net position	<u>\$ 197,081,440</u>	<u>\$ 189,353,302</u>	<u>\$ 7,728,138</u>	4.1
	Year Ended December 31			
	2016	2015	Increase (Decrease)	Percent Change
Revenue from operations	\$ 70,203,757	\$ 64,158,121	\$ 6,045,636	9.4 %
Gain on sale of assets	10,100	-	10,100	-
Interest on operating cash and receivables	13,041	5,077	7,964	156.9
Total revenue	70,226,898	64,163,198	6,063,700	9.5
Sludge disposal charges	982,834	1,146,713	(163,879)	(14.3)
Cost of water	22,155,625	18,207,829	3,947,796	21.7
Operating and maintenance expense	26,377,903	23,472,884	2,905,019	12.4
Administrative and depreciation expense	10,948,598	11,176,087	(227,489)	(2.0)
Total operating expenses	60,464,960	54,003,513	6,461,447	12.0
Other nonoperating expense	(2,783,800)	(3,080,238)	296,438	(9.6)
Change in net position - Before capital contributions	6,978,138	7,079,447	(101,309)	(1.4)
Capital contributions	750,000	-	750,000	
Change in net position	<u>\$ 7,728,138</u>	<u>\$ 7,079,447</u>	<u>\$ 648,691</u>	9.2

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

Management's Discussion and Analysis (Continued)

Major Capital Assets and Debt Activity

There were no construction project completions during 2016.

The Division continues to utilize remaining portions of \$56M water system supply bonds sold in 2016 in connection with its involvement in KWA to construct the division-owned water treatment plant. The water treatment plant is a key piece of the new water supply system, and is expected to come online later in 2017.

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

Financial Review

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

Statement of Net Position

- Current assets decreased almost \$3.6M to approximately \$32.9M.
- Current liabilities also decreased by approximately \$4.5M to approximately \$15.5M.
- Restricted assets increased to over \$60M due to unspent proceeds of the 2016 Water Treatment Plant bond.
- Combined unrestricted net position at year end increased over \$2.2M to approximately \$6.4M.

Statement of Revenue, Expenses, and Changes in Net Position

- Operating revenue increased by approximately \$6.0M (9.5 percent) in 2016, primarily due to the Great Lakes Water Authority (GLWA) water pass-through rate increase.

Operating expenses increased by 12.0 percent. Of this, cost of water increased by nearly \$4.0M in 2016 due to rate increases from the Great Lakes Water Authority, combined with a period when the Division was also making fixed capacity fee payments to the Karegnondi Water Authority as it prepared to switch water sources. The Division will also experience a significant cost of water increase in 2017 as it makes simultaneous payments to the GLWA and the KWA for a period of approximately nine months. As a result, 2018 should show a significant decrease from 2017 levels as the Division reverts back to making water purchases from just one vendor. Summarizing, 2015 was the last year when the Division was making payments to a single water supplier. In 2016, the Division experienced payments to two water suppliers 25 percent of the year, with that percentage increasing to an expected 75 percent of the year for 2017. 2018 is expected to be the next full year in which the Division is purchasing water from a single supplier, which will be the KWA.

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

Management's Discussion and Analysis (Continued)

- Utility costs decreased approximately 4.9 percent in 2016, in part due to limited wet weather events and continued energy saving investments which have been made. 2017 utility costs are expected to increase due to a number of wet weather events combined with utility rate increases from our main supplier.
- Repairs and maintenance expenditures increased by approximately \$300,000, while contractual services decreased by \$210,000 in 2016.
- Personnel expenses increased by over \$3,000,000 partially due to planned staffing of the new water treatment plant, along with significant noncash charges for pension funding related to the new GASB 68 guidance.
- Depreciation was once again essentially flat year over the year.

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

	Year Ended December 31	
	2016	2015
Total revenue from I&T customers	\$ 25,585,636	\$ 25,358,801
Total flow (thousands of gallons)	10,431,280	9,531,680
Revenue per thousands of gallons treated	\$ 2.45	\$ 2.66

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

	Year Ended December 31	
	2016	2015
Total revenue from water sales	\$ 35,156,014	\$ 30,135,814
Volume of water purchased (cu. ft.) by Division	556,270,310	518,878,600
Volume of water sold (cu. ft.) by Division	561,326,691	521,158,226
Water efficiency rate	101%	100%
Revenue per 100 cu. ft. of water sold	\$ 6.26	\$ 5.78

Contacting the Division's Management

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

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

**Statement of Net Position
Proprietary Fund Types**

	December 31, 2016			Component Unit - Karegnondi Water Authority - September 30, 2016
	Major	Proprietary	Total	
	Enterprise	Internal Service Fund		
Assets				
Current assets:				
Cash and cash equivalents (Note 2)	\$ 14,677,682	\$ 313,156	\$ 14,990,838	\$ 7,159,901
Accounts receivable	12,023,490	-	12,023,490	-
Current portion of leases receivable (Note 11)	2,420,000	-	2,420,000	-
Due from other governmental units	2,286,659	-	2,286,659	33,534
Accrued interest receivable	-	-	-	74,117
Prepaid expenses and other assets	1,129,502	-	1,129,502	-
Total current assets	32,537,333	313,156	32,850,489	7,267,552
Noncurrent assets:				
Restricted cash and cash equivalents (Notes 1 and 4)	60,820,858	-	60,820,858	45,429,465
Leases receivable - Net of current portion (Notes 1 and 11)	40,305,400	-	40,305,400	-
Due from other governmental units	4,704,585	-	4,704,585	-
Local unit construction in progress	1,287,537	-	1,287,537	-
Capital assets (Note 5):				
Assets not subject to depreciation	84,931,611	-	84,931,611	310,377,287
Assets subject to depreciation	289,990,998	1,761,655	291,752,653	-
Total noncurrent assets	482,040,989	1,761,655	483,802,644	355,806,752
Total assets	514,578,322	2,074,811	516,653,133	363,074,304
Deferred Outflows of Resources				
Deferred charge on refunding	19,281	-	19,281	-
Deferred outflows related to pensions (Note 7)	14,998,938	-	14,998,938	-
Total deferred outflows of resources	15,018,219	-	15,018,219	-
Liabilities				
Current liabilities:				
Accounts payable and accrued expenses	4,380,857	6,481	4,387,338	18,575
Current portion of long-term debt (Note 6)	11,155,032	-	11,155,032	-
Total current liabilities	15,535,889	6,481	15,542,370	18,575
Noncurrent liabilities:				
Liabilities related to restricted assets	14,600,588	-	14,600,588	12,573,368
Unearned leases	1,276,135	-	1,276,135	-
Lease interest payable	-	-	-	5,118,032
Other postemployment benefit obligation (Note 8)	5,147,853	-	5,147,853	-
Net pension liability (Note 7)	32,181,562	-	32,181,562	-
Long-term debt - Net of current portion (Note 6)	264,716,346	-	264,716,346	340,503,990
Total noncurrent liabilities	317,922,484	-	317,922,484	358,195,390
Total liabilities	333,458,373	6,481	333,464,854	358,213,965
Deferred Inflows of Resources - Deferred inflows related to pensions (Note 7)	1,125,058	-	1,125,058	-
Equity - Net position				
Net investment in capital assets	183,469,031	1,761,655	185,230,686	2,729,394
Restricted	5,494,572	-	5,494,572	-
Unrestricted	6,049,507	306,675	6,356,182	2,130,945
Total net position	\$ 195,013,110	\$ 2,068,330	\$ 197,081,440	\$ 4,860,339

The Notes to Financial Statements are an
Integral Part of this Statement.

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

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

	Year Ended December 31, 2016			Component Unit - Karegnondi Water Authority - Year Ended September 30, 2016
	Enterprise	Internal	Total	
	Fund	Service Fund		
Operating Revenue				
Charges for sales and service:				
Sale of water	\$ 35,156,014	\$ -	\$ 35,156,014	\$ -
Sewage disposal charges	31,184,690	-	31,184,690	-
Billing services	139,269	-	139,269	-
Water meter sales	156,290	-	156,290	-
Sewer and pumping station - Operation and maintenance	1,320,630	-	1,320,630	-
Other operating revenue	2,246,864	-	2,246,864	-
Total operating revenue	70,203,757	-	70,203,757	-
Operating Expenses				
Cost of water	22,155,625	-	22,155,625	-
Sludge disposal service	982,834	-	982,834	-
Cost of insurance claims and expenses	394,749	-	394,749	-
Repairs and maintenance	2,860,530	-	2,860,530	-
Personnel services	18,758,980	-	18,758,980	-
Other supplies and expenses	1,408,814	43,610	1,452,424	4,186
Contractual services	1,723,498	-	1,723,498	190,313
Utilities	3,305,969	-	3,305,969	-
Depreciation	8,455,617	374,734	8,830,351	-
Total operating expenses	60,046,616	418,344	60,464,960	194,499
Operating Income (Loss)	10,157,141	(418,344)	9,738,797	(194,499)
Nonoperating Revenue (Expenses)				
Community bond interest income	1,997,301	-	1,997,301	-
Community bond interest expense	(1,997,301)	-	(1,997,301)	-
Miscellaneous income	1,315,756	-	1,315,756	-
Water supply operating subsidy	-	-	-	1,938,000
Interest expense	(4,099,556)	-	(4,099,556)	-
Bond issuance costs	-	-	-	(563,218)
Investment income	13,041	-	13,041	11,270
Gain on sale of capital assets	-	10,100	10,100	-
Total nonoperating (expense) revenue	(2,770,759)	10,100	(2,760,659)	1,386,052
Income (Loss)	7,386,382	(408,244)	6,978,138	1,191,553
Capital Contributions	750,000	-	750,000	-
Transfers In	-	65,844	65,844	-
Transfers Out	(65,844)	-	(65,844)	-
Increase (Decrease) in Net Position	8,070,538	(342,400)	7,728,138	1,191,553
Net Position - Beginning of year	186,942,572	2,410,730	189,353,302	3,668,786
Net Position - End of year	\$ 195,013,110	\$ 2,068,330	\$ 197,081,440	\$ 4,860,339

The Notes to Financial Statements are an
Integral Part of this Statement.

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

Statement of Cash Flows - Proprietary Fund Types

	Year Ended December 31, 2016			Component Unit - Karegnondi Water Authority - Year Ended September 30, 2016
	Enterprise Fund	Internal Service Fund	Total	
Cash Flows from Operating Activities				
Receipts from customers	\$ 70,977,074	\$ -	\$ 70,977,074	\$ -
Payments to suppliers and others for goods and services	(33,804,073)	(39,096)	(33,843,169)	(185,955)
Payments for salaries and employee benefits	(16,308,243)	-	(16,308,243)	-
Net cash provided by (used in) operating activities	20,864,758	(39,096)	20,825,662	(185,955)
Cash Flows from Noncapital Financing Activities - Water supply contract operating subsidy	-	-	-	1,938,000
Cash Flows from Capital and Related Financing Activities				
Purchases of capital assets	(55,440,082)	(154,808)	(55,594,890)	(126,489,885)
Collection of interest from communities and C.U. (KWA)	339,053	-	339,053	-
Community and C.U. (KWA) interest expense	(1,716,130)	-	(1,716,130)	-
Collections of leases receivable from municipalities	2,545,000	10,100	2,555,100	-
Proceeds from issuance of bonded debt	61,532,424	-	61,532,424	74,370,000
Principal paid on bond maturities	(16,140,000)	-	(16,140,000)	-
Interest paid on bonds and other long-term liabilities	(4,028,639)	-	(4,028,639)	(11,036,205)
Miscellaneous revenue	2,089,000	-	2,089,000	-
Bond issuance costs	-	-	-	(563,218)
Premium proceeds on bonded debt and bond issuance costs	6,283,838	-	6,283,838	-
Operating transfers	(65,844)	65,844	-	-
Net cash used in capital and related financing activities	(4,601,380)	(78,864)	(4,680,244)	(63,719,308)
Cash Flows from Investing Activities				
Investment income	13,041	-	13,041	569,415
Proceeds from sale and maturities of investment securities	-	-	-	68,908,919
Net cash provided by investing activities	13,041	-	13,041	69,478,334
Net Increase (Decrease) in Cash and Cash Equivalents	16,276,419	(117,960)	16,158,459	7,511,071
Cash and Cash Equivalents - Beginning of year	59,222,121	431,116	59,653,237	11,458,659
Cash and Cash Equivalents - End of year	\$ 75,498,540	\$ 313,156	\$ 75,811,696	\$ 18,969,730
Statement of Net Position Classification of Cash and Cash Equivalents				
Cash and cash equivalents	\$ 14,677,682	\$ 313,156	\$ 14,990,838	\$ 7,159,901
Restricted cash and cash equivalents	60,820,858	-	60,820,858	45,429,465
Less amounts classified as investments	-	-	-	(33,619,636)
Total cash and cash equivalents	\$ 75,498,540	\$ 313,156	\$ 75,811,696	\$ 18,969,730

The Notes to Financial Statements are an Integral Part of this Statement.

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

Statement of Cash Flows - Proprietary Fund Types (Continued)

	Year Ended December 31, 2016			Component Unit - Karegnondi Water Authority - Year Ended September 30, 2015
	Enterprise Fund	Internal Service Fund	Total	
Reconciliation of Operating Income to Net Cash from Operating Activities				
Operating income (loss)	\$ 10,157,141	\$ (418,344)	\$ 9,738,797	\$ (194,499)
Depreciation	8,455,617	374,734	8,830,351	-
Changes in assets and liabilities:				
Receivables	773,317	-	773,317	-
Prepaid and other assets	(129,220)	-	(129,220)	-
Accounts payable	(842,834)	4,514	(838,320)	8,544
Accrued and other liabilities	168,036	-	168,036	-
OPEB liability	(15,063)	-	(15,063)	-
Net pension liability	2,297,764	-	2,297,764	-
Net cash provided by (used in) operating activities	\$ 20,864,758	\$ (39,096)	\$ 20,825,662	\$ (185,955)

Noncash Activity

During the year ended September 30, 2016, the Karegnondi Water Authority has no noncash activities. During the year ended September 30, 2015, the Karegnondi Water Authority recorded \$4,625,646 of capital assets related to a capital lease. During the year ended September 30, 2015, the Karegnondi Water Authority also recorded \$33,960,593 of capital assets related to the drawdown of deposits with a pipe supplier.

The Notes to Financial Statements are an Integral Part of this Statement.

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

**Notes to Financial Statements
December 31, 2016**

Note 1 - Summary of Significant Accounting Policies

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

Reporting Entity

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

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

Included within the reporting entity are the following:

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

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

**Notes to Financial Statements
December 31, 2016**

Note 1 - Summary of Significant Accounting Policies (Continued)

In evaluating how to define the Division for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria set forth in GAAP. The basic, but not the only, criterion for including a potential component unit within the reporting entity is the governmental body's ability to exercise oversight responsibility. The most significant manifestation of this ability is financial interdependency. Other manifestations of the ability to exercise oversight responsibility include, but are not limited to, the selection of governing authority, the designation of management, the ability to significantly influence operations, and accountability for fiscal matters. The other criterion used to evaluate potential component units for inclusion or exclusion from the reporting entity is the existence of special financing relationships, regardless of whether the Division is able to exercise oversight responsibilities. Based on the application of these criteria, the Karegnondi Water Authority will be presented as described in the following paragraph.

Karegnondi Water Authority - The Karegnondi Water Authority (KWA) is a discretely presented component unit of the Division. KWA is governed by a 15-member board and was created pursuant to Act 233, Michigan Public Acts of 1955. Its purpose is to acquire and operate a water pipeline, which in turn will treat the water to be provided to their residents. KWA may also provide water to other local units in Lapeer and Sanilac counties. The Division has financial accountability for KWA. This is subject to change based upon redistribution of capacity units. KWA reports as of September 30, and the complete financial reports can be obtained at its administrative offices at 4610 Beecher Road, Flint, MI. The Division also reports KWA activity as of September 30.

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

Accounting and Reporting Principles

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

Report Presentation

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

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

**Notes to Financial Statements
December 31, 2016**

Note I - Summary of Significant Accounting Policies (Continued)

Fund Accounting

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

The Division reports the following major proprietary fund:

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

Additionally, the Division reports the following Internal Service Fund:

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

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

Basis of Accounting

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

Proprietary funds use the economic resources measurement focus and the full accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

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

**Notes to Financial Statements
December 31, 2016**

Note I - Summary of Significant Accounting Policies (Continued)

Specific Balances and Transactions

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

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

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

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

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

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

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

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

**Notes to Financial Statements
December 31, 2016**

Note 1 - Summary of Significant Accounting Policies (Continued)

Capital Assets - Additions to property, plant, and equipment are recorded at cost or, if donated, at their acquisition value at the time of donation. Repairs and maintenance are recorded as expenses; renewals and betterments are capitalized. The sale or disposal of fixed assets is recorded by removing cost and accumulated depreciation from the accounts and charging the resulting gain or loss to income.

Interest incurred during the construction of capital assets of business-type activities is included as part of the capitalized value of the assets constructed. Total interest expense for the Division for the year was \$8,303,714, of which \$2,945,783 (interest expense net of interest income and premium amortization) was capitalized. Total interest expense for KWA for the year was \$13,907,194, of which \$13,349,049 (interest expense net of interest income) was capitalized.

Depreciation has been calculated on each class of property using the straight-line method based on the estimated useful lives of the assets, as follows:

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

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

Liabilities Payable from Restricted Assets - The Division uses the restricted assets to liquidate construction-related payables and accrued interest payable on outstanding bonds. Therefore, these amounts due have been reported as a noncurrent liability.

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

**Notes to Financial Statements
December 31, 2016**

Note 1 - Summary of Significant Accounting Policies (Continued)

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of net position and/or balance sheet will sometimes report a separate section for deferred outflows of resources. This separate financial statement element represents a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (expense/expenditure) until then. The Division has two items that qualify for reporting in this category. They are the deferred charge on refunding reported in the statement of net position and deferred outflows related to pensions. A deferred charge on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt. A deferred inflow related to pension results from changes in assumptions; differences between projected and actual investment earnings; and employer contributions after the measurement period in the current fiscal year. This is deferred and amortized as summarized in Note 7.

In addition to liabilities, the statement of net position and/or balance sheet will sometimes report a separate section for deferred inflows of resources. This separate financial statement element represents an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources (revenue) until that time. The Division has deferred inflows related to pensions that result from changes in assumptions related to economic and demographic factors.

Net Position Flow Assumption

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

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

**Notes to Financial Statements
December 31, 2016**

Note 1 - Summary of Significant Accounting Policies (Continued)

Pension - The Division offers a defined benefit pension plan to its employees. The Division records a net pension liability for the difference between the total pension liability calculated by the actuary and the pension plan's fiduciary net position. For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pension, and pension expense, information about the fiduciary net position of the GCERS Pension Plan and additions to/deductions from the pension plan's fiduciary net position have been determined on the same basis as they are reported by the pension plan. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value. The Division will fund the net pension liability based on whichever fund an employee or retiree is assigned and to which the employee's pension costs are charged.

Other Postemployment Benefit Costs - The Division offers retiree healthcare benefits to retirees. The Division is responsible for 100 percent of the cost of postemployment benefits and advance funds. In 2016, the total number of eligible retirees amounted to 86 and postemployment benefits paid for retired employees totaled \$1,587,627.

Compensated Absences (Vacation and Sick Leave) - The Division's employees are granted vacation leave twice a year based on length of service. 80 hours of personal leave is granted at the beginning of each year. Upon retirement or separation, employees are paid accumulated vacation at current salary rates. Upon retirement or separation for nonunion employees, up to 112 hours of personal leave is also paid at current salary rates. Union employees are paid up to 112 hours of personal leave upon retirement only. At December 31, 2016, the Division has recorded a liability of approximately \$518,000 for accumulated vacation and personal leave.

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

Use of Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

Comparative Data - Comparative total data for the prior year has been presented in the financial statements in order to provide an understanding of the changes in the financial position and operations.

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

**Notes to Financial Statements
December 31, 2016**

Note 2 - Deposits and Investments

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

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

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

Custodial Credit Risk of Bank Deposits - Custodial credit risk is the risk that in the event of a bank failure, the Division's deposits may not be returned to it. The Division does not have a deposit policy for custodial credit risk. At year end, the Division had \$25,990,177 of bank deposits (certificates of deposit and checking and savings accounts) that were uninsured and uncollateralized. Bank deposits of \$500,000 were insured and \$52,991,694 were collateralized. The Division believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the Division evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

For the year ended September 30, 2016, Karegnondi Water Authority had \$17,942,717 (checking and savings accounts) that were not fully insured or collateralized.

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 Division's investment policy does not restrict investment maturities, other than commercial paper, which can only be purchased with a 270-day maturity. The Division and KWA hold no investments subject to interest rate risk.

Concentration of Credit Risk - The Division and KWA place no limit on the amount they may invest in any one issuer.

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

**Notes to Financial Statements
December 31, 2016**

Note 3 - Fair Value Measurement

The Division categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. Investments that are measured at fair value using the net asset value per share (or its equivalent) as a practical expedient are not classified in the fair value hierarchy. All cash and investments owned by the Division and KWA are properly valued at cost; therefore, there is no fair value hierarchy applicable.

Note 4 - Restricted Assets

The restricted assets are restricted for the following purposes:

	Enterprise Fund	Component Unit - KWA
Unspent bond proceeds and related interest	\$ 49,818,153	\$ 10,909,829
County deposits	100,000	900,000
General obligation bond restrictions:		
Debt reserve	-	16,187,952
Debt retirement	<u>10,902,705</u>	<u>17,431,684</u>
Total restricted assets	<u>\$ 60,820,858</u>	<u>\$ 45,429,465</u>

Total restricted cash in the Water Supply System Fund of \$60,820,858 related to unspent bond proceeds and restriction by bond ordinance. Restricted cash of \$532,713 in District No. 3 and \$3,871,978 in Interceptor and Treatment Facilities related to restriction by bond ordinance. The liabilities payable from restricted assets are for construction accounts payable and accrued interest in the amount of \$14,600,588.

KWA's bond indenture required amounts to be set aside in a construction account and a debt service reserve. These amounts have been classified as restricted assets, as well as amounts on deposit at the County being held for the construction or debt service of KWA water lines.

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

**Notes to Financial Statements
December 31, 2016**

Note 5 - Capital Assets

Capital asset activity of the Division's proprietary funds at December 31, 2016 was as follows:

	Balance January 1, 2016	Additions	Disposals	Balance December 31, 2016
Enterprise Fund:				
Capital assets not being depreciated:				
Land	\$ 2,313,197	\$ -	\$ -	\$ 2,313,197
Construction in progress	22,151,656	61,666,013	(1,199,255)	82,618,414
Subtotal	<u>24,464,853</u>	<u>61,666,013</u>	<u>(1,199,255)</u>	<u>84,931,611</u>
Capital assets being depreciated:				
Distribution and collections system	366,642,152	-	-	366,642,152
Buildings and equipment	13,471,582	1,233,714	(82,527)	14,622,769
Vehicles	912,047	315,349	(20,439)	1,206,957
Subtotal	<u>381,025,781</u>	<u>1,549,063</u>	<u>(102,966)</u>	<u>382,471,878</u>
Accumulated depreciation:				
Distribution and collections system	(77,941,140)	(7,745,965)	-	(85,687,105)
Buildings and equipment	(5,551,861)	(604,753)	82,527	(6,074,087)
Vehicles	(635,228)	(104,899)	20,439	(719,688)
Subtotal	<u>(84,128,229)</u>	<u>(8,455,617)</u>	<u>102,966</u>	<u>(92,480,880)</u>
Net capital assets being depreciated	<u>296,897,552</u>	<u>(6,906,554)</u>	<u>-</u>	<u>289,990,998</u>
Net capital assets	<u>\$ 321,362,405</u>	<u>\$ 54,759,459</u>	<u>\$ (1,199,255)</u>	<u>\$ 374,922,609</u>
Internal Service Fund:				
Capital assets being depreciated - Buildings and equipment				
	\$ 8,845,870	\$ 182,670	\$ (1,088,855)	\$ 7,939,685
Accumulated depreciation - Buildings and improvements	<u>(6,864,289)</u>	<u>(374,734)</u>	<u>1,060,993</u>	<u>(6,178,030)</u>
Net capital assets	<u>\$ 1,981,581</u>	<u>\$ (192,064)</u>	<u>\$ (27,862)</u>	<u>\$ 1,761,655</u>
Total proprietary funds capital assets	<u>\$ 323,343,986</u>	<u>\$ 54,567,395</u>	<u>\$ (1,227,117)</u>	<u>\$ 376,684,264</u>
Component unit - KWA - Capital assets not being depreciated - Construction in progress				
	<u>\$ 181,395,807</u>	<u>\$ 128,981,480</u>	<u>\$ -</u>	<u>\$ 310,377,287</u>

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

**Notes to Financial Statements
December 31, 2016**

Note 5 - Capital Assets (Continued)

Construction Commitments - The Division has active construction projects at year end, which include improvements and extensions to the water and sewage disposal systems. The most significant project related to the water supply system construction. The Division spent \$110,415,179 to date and has \$30,635,350 remaining on water and sewer contracts.

The component unit, KWA, had the water pipeline project in progress during the year. At year end, it spent \$248,189,580 and had \$12,381,633 remaining on the contract.

Note 6 - Long-term Debt

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

Long-term debt activity for the year ended December 31, 2016 can be summarized as follows:

	Number of Issues	Interest Rate Ranges	Principal Maturity Ranges	Beginning Balance *	Additions	Reductions	Ending Balance *	Due Within One Year
Genesee County Drain Commissioner bonds payable:								
Interceptor and treatment facilities:								
District No. 3	13	1.625%-5.00%	2031	\$ 77,666,023	\$ -	\$ (6,390,000)	\$ 71,276,023	\$ 6,555,000
Water supply system	2	2.50%-4.50%	2030	5,270,000	-	(325,000)	4,945,000	340,000
Premiums on bonds payable	6	2.50%-5.375%	2046	127,380,000	60,559,561	(6,880,000)	181,059,561	2,295,000
				4,572,862	6,709,810	(417,278)	10,865,394	410,032
Subtotal				214,888,885	67,269,371	(14,012,278)	268,145,978	9,600,032
Community-related bonds payable:								
Interceptor and treatment facilities:								
District No. 3	2	4.00%-4.35%	2026	3,630,000	-	(445,000)	3,185,000	465,000
Water supply system	3	2.50%-7.375%	2019	4,850,000	-	(2,020,000)	2,830,000	1,010,000
Premiums on bonds payable	2	2.50	2035	1,416,006	374,394	(80,000)	1,710,400	80,000
Subtotal				9,896,006	374,394	(2,545,000)	7,725,400	1,555,000
Total bonds payable				\$224,784,891	\$ 67,643,765	\$ (16,557,278)	\$ 275,871,378	\$ 11,155,032
Component Unit Activities								
			Beginning Balance October 1, 2015	Additions	Reductions	Ending Balance September 30, 2016	Due Within One Year	
Bonds	\$	220,500,000	\$	74,370,000	\$ -	\$ 294,870,000	\$ -	
Premiums on bonds payable		11,027,841		-	393,851	10,633,990	-	
Capital lease		35,000,000		-	-	35,000,000	-	
Total component unit activities	\$	266,527,841	\$	74,370,000	\$ 393,851	\$ 340,503,990	\$ -	

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

**Notes to Financial Statements
December 31, 2016**

Note 6 - Long-term Debt (Continued)

Total interest expense for the Division for the year was \$8,303,714, of which \$2,945,783 (interest expense net of interest income and premium amortization) was capitalized. Total interest expense for KWA for the year was \$13,907,194, of which \$13,349,049 (interest expense net of interest income) was capitalized.

Annual debt service requirements to maturity for the above bond obligations are as follows:

Years Ending December 31	Business-type Activities			Component Unit Activities - KWA		
	Principal	Interest	Total	Principal	Interest	Total
2017	\$ 10,745,000	\$ 10,235,375	\$ 20,980,375	\$ -	\$ 14,361,491	\$ 14,361,491
2018	11,045,000	10,210,307	21,255,307	78,475,000	14,928,113	93,403,113
2019	10,930,000	9,839,434	20,769,434	4,275,000	10,861,863	15,136,863
2020	10,045,000	9,488,589	19,533,589	4,475,000	10,669,613	15,144,613
2021	10,425,000	9,136,866	19,561,866	4,655,000	10,471,363	15,126,363
2022-2026	58,050,000	39,772,294	97,822,294	26,740,000	48,788,938	75,528,938
2027-2031	43,230,288	29,479,603	72,709,891	34,180,000	41,105,344	75,285,344
2032-2036	35,471,135	20,327,759	55,798,894	43,990,000	31,062,075	75,052,075
2037-2040	37,344,561	12,735,096	50,079,657	56,590,000	18,103,650	74,693,650
2041-2045	37,720,000	4,036,225	41,756,225	41,490,000	3,179,250	44,669,250
Total	\$ 265,005,984	\$ 155,261,548	\$ 420,267,532	\$ 294,870,000	\$ 203,531,700	\$ 498,401,700

Future Revenue Pledged for Debt Payment

Revenue Bond - The Division has pledged substantially all revenue, net of operating expenses, to repay the above Genesee County Drain Commissioner water and sewer revenue bonds. Proceeds from the bonds provided financing for the construction of the water and waste systems described above. The bonds are payable solely from the net revenue of the water and sewer system. The remaining principal and interest to be paid on the bonds total \$352,507,133. During the current year, net revenue of the system was \$18,612,758 compared to the annual debt requirements of \$12,279,393. Of the annual debt requirement, \$2,668,818 is interest expense funded by capitalized interest from bond proceeds.

Note 7 - Retirement Plans - Defined Benefit Plan

Plan Description - The Division participates in a contributory agent multiple-employer defined benefit pension plan known as the Genesee County Employees Retirement System (GCERS or the "System"), administered by Genesee County. The plan is included as a pension trust fund in Genesee County's Comprehensive Annual Financial Report. GCERS issues a publicly available annual financial report that includes financial statements and required supplementary information for the system as a whole. This report can be obtained from the retirement coordinator at the County's administrative offices, located at 1101 Beach Street, Flint, MI 48502, or on the State of Michigan's website.

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

**Notes to Financial Statements
December 31, 2016**

Note 7 - Retirement Plans - Defined Benefit Plan (Continued)

GCERS was organized pursuant to Section 12a of Act 156, State of Michigan Public Acts of 1851 (MSA 5.33(l); MCLA 46.12a) as amended. GCERS was established by ordinance in 1946, beginning with general county employees and the County Road Commission. Genesee County Water and Waste Services joined the system in 1956; Genesee County Community Mental Health joined in 1966; the City of Mt. Morris joined in 1969; and the Genesee District Library joined in 1980. GCERS is regulated under the Genesee County Employees' Retirement System Ordinance, the sections of which have been approved by the State of Michigan Pension Commission.

Benefits Provided - GCERS provides certain retirement, disability, and death benefits to plan members and beneficiaries. PA 427 of 1984, as amended, established and amends the benefit provisions of the participants in GCERS.

GCERS provides for vesting of benefits after 10 years of service. Generally, participants may elect normal retirement with 25 years of credited service, regardless of age, or at age 60 with 10 or more years of credited service. Retirement benefits vary by employer group and are payable monthly. Generally, the retirement benefit is equal to the employee's final average compensation times the sum of 2.0-2.4 percent for each year of credited service. All employers allow members to elect a deferred annuity providing a lifetime benefit. The length of service required to elect the deferred annuity is either 8 or 10 years, depending on the date of employment and employer group.

Benefit terms provide for annual cost-of-living adjustments to each employee's retirement allowance subsequent to the employee's retirement date. The annual adjustments are between 1.75 and 3 percent, noncompounding.

Benefit terms, within the parameters established by GCERS, are generally established and amended by authority of the county commissioners, generally after negotiations of these terms with the affected unions. The covered employees' benefit terms may be subject to binding arbitration in certain circumstances.

Employees Covered by Benefit Terms - At the December 31, 2015 measurement date, the following employees were covered by the benefit terms:

Inactive plan members or beneficiaries currently receiving benefits	102
Inactive plan members entitled to but not yet receiving benefits	7
Active plan members	<u>130</u>
Total employees covered by GCERS	<u>239</u>

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

**Notes to Financial Statements
December 31, 2016**

Note 7 - Retirement Plans - Defined Benefit Plan (Continued)

Contributions - Article 9, Section 24 of the State of Michigan constitution requires that financial benefits arising on account of employee service rendered in each year be funded during that year. Accordingly, GCERS retains an independent actuary to determine the annual contribution. The employer is required to contribute amounts at least equal to the actuarially determined rate, as established by the GCERS retirement board. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by plan members during the year, with an additional amount to finance any unfunded accrued liability. The employer may establish contribution rates to be paid by its covered employees.

For the year ended December 31, 2016, one appointed employee contributes 5 percent and all others contribute 7 percent of annual pay and the Division's average contribution rate was 20.0 percent of annual payroll.

Net Pension Liability

The net pension liability reported at December 31, 2016 was determined using a measure of the total pension liability and the pension net position as of December 31, 2015. The December 31, 2015 total pension liability was determined by an actuarial valuation performed as of that date.

Changes in the net pension liability during the measurement year were as follows:

Changes in Net Pension Liability	Increase (Decrease)		
	Total Pension Liability	Plan Net Position	Net Pension Liability
Balance at December 31, 2014	\$ 59,485,648	\$ 41,775,976	\$ 17,709,672
Service cost	879,564	-	879,564
Interest	4,017,471	-	4,017,471
Differences between expected and actual experience	(50,724)	-	(50,724)
Changes in assumptions	12,131,977	-	12,131,977
Contributions - Employer	-	1,665,567	(1,665,567)
Contributions - Employee	-	573,221	(573,221)
Net investment income	-	519,442	(519,442)
Benefit payments, including refunds	(3,474,956)	(3,474,956)	-
Administrative expenses	-	(46,313)	46,313
Miscellaneous other charges	205,519	-	205,519
Net changes	<u>13,708,851</u>	<u>(763,039)</u>	<u>14,471,890</u>
Balance at December 31, 2015	<u>\$ 73,194,499</u>	<u>\$ 41,012,937</u>	<u>\$ 32,181,562</u>

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

**Notes to Financial Statements
December 31, 2016**

Note 7 - Retirement Plans - Defined Benefit Plan (Continued)

Assumption Changes - As of the measurement date, December 31, 2015, the mortality table used by GCERS was updated to the RP 2000 Combined Healthy Annuitant Mortality Table. The discount rate was also changed from 6.88 to 5.56 percent. These changes in assumptions changed the total pension liability as noted in the table above.

Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

For the year ended December 31, 2016, the Division recognized pension expense of \$3,940,140. At December 31, 2016, the Division reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ -	\$ (1,125,058)
Changes in assumptions	11,547,084	-
Net difference between projected and actual earnings on pension plan investments	1,809,478	-
Employer contributions to the plan subsequent to the measurement date	1,642,376	-
Total	<u>\$ 14,998,938</u>	<u>\$ (1,125,058)</u>

Amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Years Ending December 31	Amount
2017	\$ 2,251,300
2018	2,251,300
2019	2,251,300
2020	2,264,308
2021	1,791,971
Thereafter	1,421,325

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

**Notes to Financial Statements
December 31, 2016**

Note 7 - Retirement Plans - Defined Benefit Plan (Continued)

Actuarial Assumptions - The total pension liability in the December 31, 2015 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.0 %	
Salary increases	3.0-7.03 %	Across-the-board increases along with merit and longevity increases that range from .17 percent up to 4.03 percent
Discount rate	5.56 %	

Mortality rates were based on the RP 2000 Combined Healthy Annuitant Mortality Table projected to 2014.

Discount Rate - The discount rate used to measure the total pension liability was 5.56 percent. The projection of cash flows used to determine the discount rate assumes that employee contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the difference between actuarially determined contribution rates and the employee rate.

Projected Cash Flows

Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, discount rate incorporates both the assumed rate of return of 8.0 percent and a municipal bond rate, which was 3.15 percent. The source of that bond rate was the S&P Muni Bond 20-year high-grade index.

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

**Notes to Financial Statements
December 31, 2016**

Note 7 - Retirement Plans - Defined Benefit Plan (Continued)

The long-term expected rate of return on pension plan investments was determined using a model in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense, and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. At December 31, 2015, the annual money-weighted rate of return, net of investment expenses, was 1.03 percent. The nominal long-term expected rate of return for the System as a whole was 8.0 percent. The target allocation by class is as follows:

Asset Class	Target Allocation (%)
U.S. equities active or passive	32 %
Non-U.S. equities	18
Domestic fixed income	20
Commercial real estate	20
Alternative investment hedge funds	10

Sensitivity of the Net Pension Liability to Changes in the Discount Rate - The following presents the net pension liability of the Division, calculated using the discount rate of 5.56 percent, as well as what the Division's net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower (4.56 percent) or 1 percentage point higher (6.56 percent) than the current rate:

	1 Percent Decrease (4.56%)	Current Discount Rate (5.56%)	1 Percent Increase (6.56%)
Net pension liability of the Division	\$ 41,998,396	\$ 32,181,562	\$ 24,445,831

Pension Plan Fiduciary Net Position - Detailed information about the System's fiduciary net position is available in the separately issued financial report. For the purpose of measuring the net pension liability, deferred outflows of resources and deferred inflows or resources related to pension, and pension expense, information about the System's fiduciary net position and addition to/deduction from fiduciary net position has been determined on the same basis as they are reported by the system. The System uses the economic resources measurement focus and the full accrual basis of accounting. Investments are stated at fair value. Contribution revenue is recorded as contributions are due pursuant to legal requirements. Benefit payments and refunds of employee contributions are recognized as expense when due and payable in accordance with the benefit terms.

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

**Notes to Financial Statements
December 31, 2016**

Note 8 - Other Postemployment Benefits

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

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

Funding Progress - For the year ended December 31, 2016, the Division has estimated the cost of providing retiree healthcare benefits through an actuarial valuation as of December 31, 2016. The valuation computes an annual required contribution, which represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed 30 years. This valuation's computed contribution and actual funding are summarized as follows:

Annual required contribution (recommended)	\$ 2,845,372
Interest on the prior year's net OPEB obligation	387,216
Less adjustment to the annual required contribution	<u>(160,024)</u>
Annual OPEB cost	3,072,564
Amounts contributed:	
Payments of current premiums	(1,587,627)
Advance funding	<u>(1,500,000)</u>
Total contributions	<u>(3,087,627)</u>
Decrease in net OPEB obligation	(15,063)
OPEB obligation - Beginning of year	<u>5,162,916</u>
OPEB obligation - End of year	<u>\$ 5,147,853</u>

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

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

**Notes to Financial Statements
December 31, 2016**

Note 8 - Other Postemployment Benefits (Continued)

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

Fiscal Year Ended	Annual OPEB Costs	Percentage Contributed	Net OPEB Obligation
12/31/14	\$ 3,738,090	100.10 %	\$ 5,192,543
12/31/15	2,977,136	101.00	5,162,916
12/31/16	3,072,564	100.50	5,147,853

The funding progress of the plan is as follows:

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (Percent) (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll
9/30/12	\$ 2,333,369	\$ 37,819,976	\$ 35,486,607	6.17 %	\$ 7,312,770	485.27 %
12/31/13	4,580,978	52,626,256	48,045,278	8.70	7,092,691	677.39
12/31/15	9,101,281	41,766,267	32,664,986	21.79	8,163,418	400.14
12/31/16	11,648,845	45,148,521	33,499,676	25.80	8,244,365	406.33

The schedule of employer contributions is as follows:

Fiscal Year Ended	Actuarial Valuation Date	Annual Required Contribution (ARC)	Percentage of ARC Contributed	Contribution Rate as Percentage of Valuation Payroll
12/31/12	12/31/10	\$ 3,818,480	105.38 %	50.59 %
12/31/13	12/31/13	2,523,914	126.86	48.48
12/31/14	12/31/13	3,554,246	105.50	48.48
12/31/15	12/31/15	2,715,562	110.70	36.80
12/31/16	12/31/16	2,845,372	108.51	37.45

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

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

**Notes to Financial Statements
December 31, 2016**

Note 8 - Other Postemployment Benefits (Continued)

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

In the December 31, 2016 actuarial valuation, the individual entry age actuarial-cost method was used. The actuarial assumptions included a 7.50 percent investment rate of return (net of administrative expenses) and an assumed rate of increase for healthcare costs was 8 percent for medical and prescription drugs for 2016, with this rate of increase declining over seven years in 0.5 percent increments. Thereafter, it is assumed to be 5.0 percent per year. The UAAL is being amortized as a level percentage of projected payroll over 30 years on an open basis.

Note 9 - Risk Management

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

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

	2016	2015
Unpaid claims - Beginning of year	\$ 507,921	\$ 485,354
Incurred claims, including claims incurred but not reported	2,423,517	2,438,023
Claims payments	(2,426,539)	(2,415,456)
Unpaid claims - End of year	\$ 504,899	\$ 507,921

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

**Notes to Financial Statements
December 31, 2016**

Note 10 - Upcoming Accounting Pronouncements

In June 2015, the GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, which addresses reporting by governments that provide postemployment benefits other than pensions (OPEB) to their employees and for governments that finance OPEB for employees of other governments. This OPEB standard will require the Division to recognize on the face of the financial statements its net OPEB liability related to its participation in the OPEB plan. The statement also enhances accountability and transparency through revised note disclosures and required supplemental information (RSI). The Division is currently evaluating the impact this standard will have on the financial statements when adopted. The provisions of this statement are effective for the Division's financial statements for the year ending December 31, 2018.

Note 11 - Related Party Transactions

During fiscal year 2013, the Karegnondi Water Authority (the "Authority") was formed. The Authority has retained the services of the Division to administer the design and construction of the raw water supply system. In addition, it is expected that the Authority will contract with the Division for operation and maintenance of the raw water supply system after the system is completed and operational. The Authority has no employees of its own, with all current and future services expected to be rendered by division employees.

The Division has entered into certain contracts with the Authority as a local unit so as to acquire a supply of raw water. This new raw water supply system is expected to be utilized by the Division in late 2017, at which time the Division will cease purchasing finished water from the Detroit Water and Sewerage Department.

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

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

**Notes to Financial Statements
December 31, 2016**

Note 11 - Related Party Transactions (Continued)

The Division has a lease receivable related to the Division's \$35 million bond issuance in 2013 for construction of an intake facility and two pump stations. Recording of the receivable was a result of modification of a supply contract with KWA in April 2014, effectively stating the Division is to turn over title to the aforementioned facilities to KWA upon redemption of the bonds. Based on contract terms, GASB Statement No. 62, paragraph 213 requires KWA to treat facilities as a capital lease and record as construction in progress the cost of land and other construction costs previously incurred by the Division. The Division reports a lease receivable and KWA reports long-term debt.

The lease agreement qualifies as a capital lease for accounting purposes and therefore has been recorded as a present value of the future minimum lease payments as of the inception date. The future minimum lease obligations (for KWA) and the net present value are as follows:

2017	\$ 2,527,188
2018	2,527,588
2019	2,526,588
2020	2,527,188
2021	2,525,437
2022-2026	12,637,937
2027-2031	12,635,288
2032-2036	12,638,112
2037-2041	<u>12,638,928</u>
Total minimum lease payments	63,184,254
Less amount representing interest	<u>(28,184,254)</u>
Present value	<u>\$ 35,000,000</u>

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

**Required Supplemental Information
Other Postemployment Health Benefits
Schedule of Funding Progress
Year Ended December 31, 2016**

The schedule of funding progress is as follows:

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (Percent) (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll
12/31/13	\$ 4,580,978	\$ 52,626,256	\$ 48,045,278	8.70 %	\$ 7,092,691	677.39 %
12/31/15	9,101,281	41,766,267	32,664,986	21.79	8,163,418	400.14
12/31/16	11,648,845	45,148,521	33,499,676	25.80	8,244,365	406.33

The information presented above was determined as part of the actuarial valuations at the dates indicated. Additional information as of December 31, 2016, the latest actuarial valuation, is as follows:

Amortization method	Level percent
Amortization period (perpetual)	30 years
Asset valuation method	Market value
Actuarial assumptions:	
Investment rate of return	7.5%
Medical inflation rate	8.0%

Required Supplemental Information

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

**Required Supplemental Information
Schedule of Changes in the Division Net Pension Liability
and Related Ratios
December 31, 2015 and 2014**

	2015	2014
Total Pension Liability		
Service cost	\$ 879,564	\$ 792,297
Interest	4,017,471	3,903,244
Changes in benefit terms	-	-
Differences between expected and actual experience	(50,724)	(1,552,139)
Changes in assumptions	12,131,977	1,720,622
Benefit payments, including refunds	(3,474,956)	(3,430,840)
Other	205,519	-
Net Change in Total Pension Liability	13,708,851	1,433,184
Total Pension Liability - Beginning of year	59,485,648	58,052,464
Total Pension Liability - End of year	\$ 73,194,499	\$ 59,485,648
Plan Fiduciary Net Position		
Contributions - Employer	\$ 1,608,830	\$ 1,434,116
Contributions - Member	573,221	491,212
Net investment income	519,442	2,799,943
Administrative expenses	(46,313)	(45,417)
Benefit payments, including refunds	(3,474,956)	(3,430,840)
Other	56,737	-
Net Change in Plan Fiduciary Net Position	(763,039)	1,249,014
Plan Fiduciary Net Position - Beginning of year	41,775,976	40,526,962
Plan Fiduciary Net Position - End of year	\$ 41,012,937	\$ 41,775,976
Division's Net Pension Liability - Ending	\$ 32,181,562	\$ 17,709,672
Plan Fiduciary Net Position as a Percentage of Total Pension Liability	56.03 %	70.23 %
Covered Employee Payroll	\$ 8,211,886	\$ 7,910,806
Division's Net Pension Liability as a Percentage of Covered Employee Payroll	391.9 %	223.9 %

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

**Required Supplemental Information
Schedule of Division Contributions
Last Ten Fiscal Years**

	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
Actuarially determined contribution	\$ 1,330,325	\$ 1,456,379	\$ 1,491,452	\$ 1,456,416	\$ 1,531,645	\$ 1,763,782	\$ 1,744,861	\$ 1,679,931	\$ 1,717,656	\$ 1,689,682
Contributions in relation to the actuarially determined contribution	1,642,376	1,608,830	1,491,452	1,456,416	1,531,645	1,763,782	1,744,861	1,679,931	1,717,656	1,689,682
Contribution excess	\$ (312,051)	\$ (152,451)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Covered employee payroll	\$ 8,211,886	\$ 7,910,806	\$ 7,331,367	\$ 7,199,930	\$ 7,050,579	\$ 7,312,770	\$ 7,610,890	\$ 8,130,143	\$ 8,420,060	\$ 7,823,724
Contributions as a percentage of covered employee payroll	20.0 %	20.3 %	20.3 %	20.2 %	21.7 %	24.1 %	22.9 %	20.7 %	20.4 %	21.6 %

Notes to Schedule of Division Contributions

Actuarial valuation information relative to the determination of contributions:

Valuation date Actuarially determined contribution rates are calculated as of December 31, two years prior to the end of the fiscal year in which the contributions are reported. Contributions for the Division's fiscal year ended December 31, 2016 were determined based on the actuarial valuation as of December 31, 2014. The most recent valuation is as of December 31, 2015.

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Entry age
Amortization method	Level percentage of payroll
Remaining amortization period	25 years, open
Asset valuation method	Four years smoothed market
Inflation	3.00 percent
Salary increases	3.0-7.03 percent, including inflation
Investment rate of return	8.0 percent, net of pension plan investment expense, including inflation
Retirement age	60
Mortality	RP 2000 Combined Healthy Mortality Table
Other information	None

APPENDIX D

**CITY OF FLINT
GENERAL FINANCIAL, ECONOMIC AND STATISTICAL INFORMATION**

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APPENDIX D*

CITY OF FLINT

GENERAL FINANCIAL, ECONOMIC & STATISTICAL INFORMATION

UPDATE ON CITY OF FLINT FINANCIAL POSITION

For updates on the City of Flint’s financial position, refer to the Introductory Section - Letter of Transmittal included in the City’s audited financial statements for the fiscal year ended June 30, 2017 set forth in Appendix E of this Official Statement.

LOCATION AND DESCRIPTION

The City of Flint (the “City”) encompasses an area of 32.8 square miles and is located in Genesee County.

The City is the following distances from these commercial and industrial areas:

35	miles northwest of Pontiac
36	miles south of Saginaw
50	miles northeast of Lansing
54	miles north of Ann Arbor
70	miles northwest of Detroit
99	miles east of Grand Rapids

POPULATION

The U.S. Census Bureau estimated and reported population for the City of Flint as follows:

	City of Flint	% Change
2016 Estimate	97,379	-4.93%
2010 U.S. Census	102,434	-18.02
2000 U.S. Census	124,943	-11.24
1990 U.S. Census	140,761	--

FISCAL YEAR

The City’s fiscal year begins on July 1st and ends on June 30th.

PROPERTY VALUATIONS

Article IX, Section 3, of the Michigan Constitution provides that the proportion of true cash value at which property shall be assessed shall not exceed 50% of true cash value. The Michigan Legislature by statute has provided that property shall be assessed at 50% of its true cash value. The Michigan Legislature or the electorate may at some future time reduce the percentage below 50% of true cash value.

On March 15, 1994, the electors of the State approved an amendment to the Michigan Constitution permitting the Legislature to authorize ad valorem taxes on a non-uniform basis. The legislation implementing this constitution amendment added a new measure of property value known as “Taxable Value.” Since 1995, taxable property has had two valuations—State Equalized Value (“SEV”) and Taxable Value. Property taxes are levied on Taxable Value. Generally, the Taxable Value of property is the lesser of: (a) the property’s Taxable Value in the immediately preceding year minus any losses, multiplied by the lesser of 5% or the inflation rate, plus all additions, or (b) the property’s current SEV. Under certain circumstances, therefore, the Taxable Value of property may be different from the same property’s SEV.

*Information included in Appendix D of this Official Statement was obtained from the City unless otherwise noted.

When property is sold or transferred, Taxable Value is adjusted to the SEV, which under existing law is 50% of the current true cash value. The Taxable Value and SEV of new construction are equal to current SEV. The Taxable Value and SEV of existing property are also adjusted annually for additions and losses.

Responsibility for assessing taxable property rests with the local assessing officer of each township and city. Any property owner may appeal the assessment to the local assessor, the local Board of Review and ultimately to the Michigan Tax Tribunal.

In addition to limiting the annual increase in Taxable Value, the Michigan Constitution mandates a system of equalization for assessments. Although the assessor for each local unit of government within a county are responsible for actually assessing at 50% of true cash value, adjusted for taxable value purposes, the final SEV and taxable value are arrived at through several steps. Assessments are established initially by the municipal assessor.

Municipal assessments are then equalized to the 50% levels as determined by the County Department of Equalization. Thereafter, the State equalizes the various counties in relation to each other. SEV is important, aside from its use in determining Taxable Value for the purpose of levying ad valorem property taxes, because of its role in spreading of taxes between overlapping jurisdictions, the distribution of various State aid programs, State revenue sharing and in the calculation of debt limits.

Property that is exempt from property taxes (churches, governmental property, public schools) is not included in the SEV or Taxable Value in this Official Statement. Property granted tax abatements under Act 198, Public Acts of Michigan, 1974, as amended, is recorded on a separate tax roll which is subject to tax abatement. The valuation of tax abated property is based upon SEV but is not included in either the SEV or Taxable Value in this Official Statement except as noted.

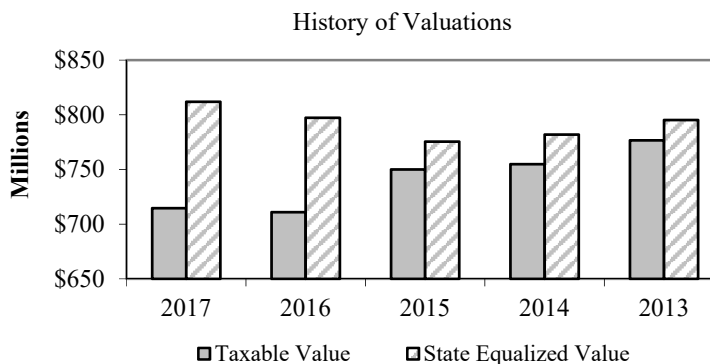
History of Valuations

A history of the property valuations in the City is shown below:

Property Value as of 12/31	Levy/ Valuation Year	Total Taxable Value	Percent Change	State Equalized Value	Percent Change
2016	2017	\$714,582,817	0.51%	\$811,880,174	1.83%
2015	2016	710,934,838*	-5.20	797,297,700	2.83
2014	2015	749,945,990	-0.65	775,382,450	-0.82
2013	2014	754,826,072	-2.81	781,815,250	-1.68
2012	2013	776,654,903	----	795,172,400	----

*The decline in the valuation is in part due to the elimination of certain personal property. The City receives reimbursement from the State of Michigan for the computed personal property valuation loss on certain levies. The 2016 taxable value of the personal property exemption loss was \$41,858,000. See "MICHIGAN PROPERTY TAX REFORM" herein for further information.

Source: Genesee County Equalization Department



A summary of the 2017 valuation subject to taxation is as follows:

2017 Taxable Value	\$714,582,817
Plus: 2017 Equivalent IFT Taxable Value ¹	16,087,909
Total 2017 Equivalent Taxable Value	\$730,670,726
Less: 2017 TIF Captured Taxable Value ²	(38,888,336)
Net 2017 Taxable Value	<u>\$691,782,390</u>

¹See “INDUSTRIAL FACILITY TAX ABATEMENTS” herein.

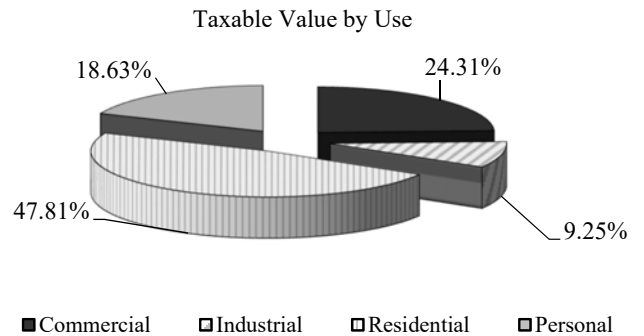
²See “TAX INCREMENT AUTHORITIES” herein.

Source: Genesee County Equalization Department

VALUATION COMPOSITION

A breakdown of the City’s 2017 Taxable Value by class and use is as follows:

	2017	Percent
<u>By Class:</u>	<u>Taxable Value</u>	<u>of Total</u>
Real Property	\$581,437,117	81.37%
Personal Property	133,145,700	18.63
TOTAL	\$714,582,817	100.00%
<u>By Use:</u>		
Commercial	\$173,709,042	24.31%
Industrial	66,063,625	9.25
Residential	341,664,450	47.81
Personal	133,145,700	18.63
TOTAL	\$714,582,817	100.00%



Source: Genesee County Equalization Department

INDUSTRIAL FACILITY TAX ABATEMENTS

Under the provisions of Act 198 of the Public Acts of Michigan, 1978, as amended (“Act 198”), plant rehabilitation districts and/or industrial development districts may be established. Businesses in these districts are offered certain property tax incentives to encourage restoration or replacement of obsolete facilities and to attract new facilities in the area. The industrial facilities tax (“IFT”) is paid, at a lesser effective rate and in lieu of ad valorem property taxes, in such facilities for a period of up to 12 years. Qualifying facilities are issued abatement certificates for this period.

After expiration of the abatement certificate, the then-current SEV of the facility is returned to the ad valorem tax roll. The owner of such facility may obtain a new certificate, provided it has complied with the provisions of Act 198.

The City has several IFT abatements outstanding with a total 2017 Taxable Value of \$32,175,818, all of which is taxed at half rate. For purposes of computing “Equivalent” Taxable Value, the abatements taxed at half rate have been shown in the “History of Valuations” table above as 50% of the Taxable Value.

Source: Genesee County Equalization Department

RENAISSANCE ZONE

Act 376, Public Acts of Michigan, 1996 (“Act 376”) authorized the creation of six urban, three rural and two ex-military facilities for designation as “renaissance zones.” The purpose of a renaissance zone is to foster economic development and stimulate industrial, commercial and residential improvements by, in part, providing certain tax credits or exemptions within the zone. One of the subzones lies within the City’s boundaries. Property within this subzone has a 2017 Taxable Value of \$11,208,802.

Source: City of Flint

TAX INCREMENT AUTHORITIES

Act 450 of the Public Acts of Michigan, 1980, as amended (the “TIFA Act”), Act 197 of the Public Acts of Michigan, 1975, as amended (the “DDA Act”), Act 281 of the Public Acts of Michigan, 1986, as amended (the “LDFA Act”) and Act 381, of the Public Acts of Michigan, 1996, as amended (the “Brownfield Act”) (together the “TIF Acts”) authorize the designation of specific districts known as Tax Increment Finance Authority (“TIFA”) Districts, Downtown Development Authority (“DDA”) Districts, Local Development Finance Authority (“LDFA”) Districts or Brownfield Redevelopment Authority (“BRDA”) Districts, authorized to formulate tax increment financing plans for public improvements, economic development, neighborhood revitalization, historic preservation and environmental cleanup with the district.

Tax increment financing permits the TIFA, DDA, LDFA, or BRDA to capture tax revenues attributable to increases in value (“TIF Captured Value”) of real and personal property located within an approved development area while any tax increment financing plans by an established district are in place. These captured revenues are used by the District and are not passed on to the local taxing jurisdictions.

The City of Flint has one DDA district that captures operating millage. The 2017 captured taxable value is \$35,662,071.

The City of Flint has one BRDA district that captures all millages except debt. The 2017 captured taxable value is \$3,226,265.

Source: City of Flint

MICHIGAN PROPERTY TAX REFORM

The voters of the State approved enactment of Michigan Public Acts 153 and 154 of 2013 and Acts 80 and 86 through 93 of 2014 by referendum on August 5, 2014 (collectively, the “PPT Reform Acts”), which significantly reformed Personal Property tax in Michigan.

Under the PPT Reform Acts, owners of industrial and commercial Personal Property with a total true cash value of \$80,000 or less may file an affidavit claiming a Personal Property tax exemption. To be eligible for the exemption, all of the commercial or industrial Personal Property within a city or township that is owned by, leased to, or controlled by the claimant has to have an accumulated true cash value of \$80,000 or less. Beginning in calendar year 2016, owners of certain manufacturing Personal Property that was either purchased after December 31, 2012, or that is at least 10 years old may claim an exemption from Personal Property tax. By 2022, all eligible manufacturing Personal Property will be at least 10 years old or purchased after December 31, 2012, so that it could be exempted from Personal Property tax.

To replace personal property tax revenues lost by local governments, including cities, the PPT Reform Acts divided the existing state use tax into two components, a “state share tax” and a “local community stabilization share tax,” and established the Local Community Stabilization Authority (the “LCSA”) to administer distribution of the local community stabilization share. The Michigan Department of Treasury collects the local community stabilization share tax on behalf of the LCSA. The local community stabilization share tax revenues are not subject to the annual appropriations process and are provided to the LCSA for distribution pursuant to a statutory formula. The statutory formula is anticipated to provide 100% reimbursement to local governments for losses due to the new personal property tax exemptions. The LCSA began distributions of the local community stabilization share tax to local governments, including cities, on November 21, 2016. The City received \$1,407,703 from the LCSA to replace personal property tax revenues lost during fiscal year 2017.

The ultimate nature, extent and impact of any other future amendments to Michigan’s property tax laws on the City’s finances cannot be predicted. Purchasers of the Bonds should consult with their legal counsel and financial advisors as to the consequences of any such legislation on the market price or marketability of the Bonds, the security therefor and the operations of the City.

MAJOR TAXPAYERS

The City's top ten taxpayers and their 2017 Taxable Values are as follows:

<u>Taxpayer</u>	<u>Product/Service</u>	<u>Taxable Value</u>	<u>"Equivalent" IFT Value¹</u>	<u>Total Valuation</u>
Consumers Energy	Utility	\$73,745,646	\$0	\$73,745,646
General Motors Company	Automotive	19,219,707	2,936,953	22,156,660
General Motors LLC	Manufacturer	4,163,800	7,281,290	11,445,090
4400 Matthews Drive LLC	Manufacturer	8,259,100	0	8,259,100
Barrette Outdoor ²	Outdoor Living	7,653,774	0	7,653,774
Continental Drive LP	Manufacturer	6,263,700	0	6,263,700
Comcast Cablevision	Communication	3,944,500	0	3,944,500
Evergreen Reg. Townhome	Townhouses	3,141,000	0	3,141,000
PPG Industries, Inc.	Manufacturer	3,137,814	0	3,137,814
Saginaw & Court Assoc.	Real Estate	2,727,529	0	2,727,529
TOTALS		<u>\$132,256,570</u>	<u>\$10,218,243</u>	<u>\$142,474,813</u>
Total 2017 Taxable Value		\$714,582,817		\$730,670,726
Top 10 Taxpayers as a % of 2017 Total Taxable Value		18.51%		19.50%

¹Represents 50% of the actual Taxable Value.

²Appealing its taxes with the Michigan Tax Tribunal.

Source: City of Flint

CONSTITUTIONAL ROLLBACK AND ASSESSMENT CAPS

Article IX, Section 31 of the Michigan Constitution requires that if the total value of existing taxable property in a local taxing unit, exclusive of new construction and improvements, increases faster than the U.S. Consumer Price Index from one year to the next, the maximum authorized tax rate for that local taxing unit must be reduced through a Millage Reduction Fraction unless reversed by a vote of the electorate of the local taxing unit.

TAX RATES (PER \$1,000 OF VALUATION)

The following table provides the tax rates for the municipal units of government that overlap with the City's boundaries:

<u>Taxing Jurisdiction</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
City of Flint					
Operating	7.5000	7.5000	7.5000	7.5000	7.5000
Public Improvement	2.5000	2.5000	2.5000	2.5000	2.5000
Neighborhood Police	2.0000	2.0000	2.0000	2.0000	2.0000
Parks & Recreation	0.5000	0.5000	0.5000	0.5000	0.5000
Paramedic Service	0.6000	0.6000	0.6000	0.6000	0.6000
Police & Fire	6.0000	6.0000	6.0000	6.0000	6.0000
City Total	<u>19.1000</u>	<u>19.1000</u>	<u>19.1000</u>	<u>19.1000</u>	<u>19.1000</u>
County of Genesee	8.7819	8.7819	8.7819	8.7819	8.2766
Flint Community Schools					
Non-Homestead	22.0000	22.0000	22.0000	22.0000	22.0000
Homestead	4.0000	4.0000	4.0000	4.0000	4.0000
State Education Tax	6.0000	6.0000	6.0000	6.0000	6.0000
Genesee ISD	3.7826	3.7826	3.5341	3.5341	3.5341
Flint Public Library	4.0000	4.0000	4.0000	3.4000	3.4000
Mott Community College	2.8096	2.8096	2.8596	2.8596	2.8596
Total Principal Residence	<u>48.4741</u>	<u>48.4741</u>	<u>48.2756</u>	<u>47.6756</u>	<u>47.1703</u>
Total Non-Principal Residence	<u>66.4741</u>	<u>66.4741</u>	<u>66.2756</u>	<u>65.6756</u>	<u>65.1703</u>

Source: City of Flint and Genesee County Equalization Department

TAX RATE LIMITATIONS

Purpose	Millage Authorized	2017		Expiration Date of Levy
		Maximum Allowable Millage after Rollback		
Operating	7.5000	7.5000		Indefinite
Public Improvement	2.5000	2.5000		Indefinite
Neighborhood Police	2.0000	2.0000		12/31/2022
Parks & Recreation	0.5000	0.5000		12/31/2026
Paramedic Service	0.6000	0.6000		06/30/2021
Police & Fire	6.0000	6.0000		06/30/2021

The City has the authority to levy taxes in excess of the above limitations pursuant to state law for the following purposes:

Purpose	Authority	Rate per \$1,000 of Taxable Value
Refuse Collection and Disposal	Act 298, P.A. of Michigan 1917, as amended	\$3.00
Police & Fire Pension Retirement	Act 345, P.A. of Michigan 1937, as amended	Amount required to make contribution

On November 7, 1978, Article IX, Section 6, of the 1963 Michigan Constitution was amended placing certain limitations on increases of taxes. The amendment did not, and will not, limit the levy of taxes for the payment of principal and interest on bonds or other evidences of indebtedness outstanding at the time the amendment became effective, nor will the amendment limit taxes imposed for the payment of bonds or other indebtedness issued, or incurred, after their effective date if said bonds, or other indebtedness, have been approved by the voters.

Additionally, Article IX, Section 6, of the 1963 Michigan Constitution, as amended, permits the levy of millage in excess of the above for:

1. All debt service on tax supported bonds or bonds issued prior to December 23, 1978 or tax supported issues which have been approved by the voters.
2. Operating purposes for a specific period of time provided that said increase is approved by a majority of the qualified electors of the local unit

TAX LEVIES AND COLLECTIONS

The City's fiscal year begins July 1 and ends June 30. City property taxes are due in three equal installments on July 1, October 1 and February 1. The installments bear a penalty and begin to accrue interest if not paid by August 1, November 1 and March 1 respectively. All real property taxes remaining unpaid on March 1st of the year following the levy are turned over to the County Treasurer for collection. Genesee County annually pays from its Tax Revolving Fund delinquent taxes on real property to all taxing units in the County, including the City's, shortly after the date delinquent taxes are returned to the County Treasurer for collection.

A history of tax levies and collections for the City is as follows:

Tax Levy Year	Fiscal Year	Operating Tax Levy	Collections to March 1, Following Year		Collections Plus Funding to June 30, Following Year	
2017	2018	\$21,957,087*	(In Process of Collection)		N/A	
2016	2017	21,805,219	\$15,198,951	69.70%	\$18,451,890	84.62%
2015	2016	23,794,281	16,075,993	67.56	19,381,146	81.45
2014	2015	25,961,448	16,852,314	64.91	21,518,002	82.88
2013	2014	25,902,601	16,943,948	65.41	22,387,454	86.43

*Estimated.

CITY INCOME TAX

On January 1, 1965, a local income tax at a rate of 1% on all income of residents and corporations and 1/2% on income earned in the City by nonresidents became effective through the enactment of the Uniform City Income Tax Ordinance, as prescribed by Act 248, Public Acts of Michigan, 1964. The income tax is imposed for general revenue purposes and may be used for general governmental functions or capital improvement expenditures.

A history of income tax collections for the City is as follows:

Year Ended	
June 30	Net Income Tax
2017	\$15,487,439
2016	15,540,594
2015	14,314,826
2014	13,038,275
2013	14,674,274

Source: City of Flint

REVENUES FROM THE STATE OF MICHIGAN

The City receives revenue sharing payments from the State of Michigan under the State Constitution and the State Revenue Sharing Act of 1971, as amended. The revenue sharing payments consist of two components – a constitutional distribution and a statutory distribution as shown in the table below.

The constitutional distribution is mandated by the State Constitution and distributed on a per capita basis to townships, cities and villages. The amount of the constitutionally mandated revenue sharing component distributed to the City can vary depending on the population of the City and the receipt of sales tax revenues by the State.

The statutory distribution is authorized by legislative action and distribution is subject to annual State appropriation by the State Legislature. Statutory distributions may be reduced or delayed by Executive Order during any State fiscal year in which the Governor, with the approval of the State Legislature’s appropriations committees, determines that actual revenues will be less than the revenue estimates on which appropriations were based.

On July 14, 2017, Governor Snyder signed into law the budget for fiscal year 2018. The budget includes a constitutional revenue sharing distribution to cities, villages and townships of approximately \$798.1 million. The budget continues the incentive-based revenue sharing program known as the City, Village, and Township Revenue Sharing (or “CVTRS”) program begun in fiscal year 2015, similar to the Economic Vitality Incentive Program (“EVIP”) that from fiscal year 2012 through fiscal year 2014 distributed revenue sharing to municipalities that complied with certain “best practices” such as increasing transparency. Under the fiscal year 2018 budget, approximately \$243 million, the same amount appropriated in fiscal years 2016 and 2017, has been appropriated for revenue sharing to cities, villages and townships that meet requirements for accountability and transparency, including making a citizen’s guide to its finances, a performance dashboard, a debt service report and a two-year budget projection available for public viewing.

The fiscal year 2018 budget retains \$5.8 million for distribution to cities, villages and townships as a one-time payment based on population and added an additional appropriation of \$6.2 million for distribution to eligible cities, villages and townships as an additional one-time payment based on population. The fiscal year 2018 budget also maintains funding for the revenue sharing grant program for financially distressed communities at the level of \$5 million, the same amount appropriated in fiscal years 2016 and 2017. Any portion of the CVTRS payment that the City would be eligible to receive would be subject to certain benchmarks that the City would need to meet, and there can be no assurance of what amount, if any, the City would receive under the CVTRS program.

Purchasers of the Bonds should be alerted to further modifications to revenue sharing payments to Michigan local governmental units, to potential consequent impact on the City’s general fund condition, and to the potential impact upon the market price or marketability of the Bonds resulting from changes in revenues received by the City from the State.

The following table sets forth the annual revenue sharing payments and other moneys received by the City for the State's fiscal years ended September 30, 2013 through September 30, 2017, and the estimated revenue sharing payments for the State's fiscal year ending September 30, 2018.

State of Michigan Fiscal Year Ended September 30th	Constitutional Payments	EVIP/CVTRS Payments	Revenue Sharing Payments ¹
2018	\$8,271,349 ²	\$6,761,404 ²	\$15,032,753 ²
2017	8,220,751	6,678,491	14,899,242
2016	7,772,765	6,678,491	14,451,256
2015	7,780,240	6,678,491	14,458,731
2014	7,659,931	6,480,642	14,140,573
2013	7,484,413	6,182,769	13,667,182

¹Amounts do not include state gas and weight tax distributions

²Estimated.

Source: Department of Treasury via website at www.michigan.gov/treasury

LABOR FORCE

A breakdown of the number of employees of the City and their affiliation with organized groups follows:

Employee Group	Full Time No. of Employees	Part Time No. of Employees	Affiliation	Exp. Date of Contract
Clerical/Labor	213	49	AFSCME Local 1600	06/30/16*
Supervisory/Professional	50	0	AFSCME Local 1799	06/30/16*
Police Patrol	73	0	Flint Police Officers Assn.	06/30/16*
Police Sergeants	29	0	Teamsters Local 129	06/30/17*
Police Captains & Lieutenants	7	0	Flint Police Cap'ts & L'ts. Assn.	06/30/17*
Firefighters	68	0	Int'l. Assn. of Firefighters No. 352	06/30/16*
Exempt Employees	24	9	Non-Affiliated	N/A
Appointees/Elect	22	9	Non-Affiliated	N/A
TOTAL	486	67		

*In negotiations.

PENSION FUND

Michigan Municipal Employees' Retirement System

The City participates in the Michigan Municipal Employees' Retirement System (MERS), an agent multiple-employer defined benefit pension plan that covers all employees of the government. The plan was established by the Michigan Legislature under Public Act 135 of 1945 and administered by a nine member Retirement Board. The system provides retirement, disability and death benefits to plan members and their beneficiaries. MERS issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to MERS at 1134 Municipal Way, Lansing, Michigan 48917 or on the web at <http://www.mersofmich.com>.

Schedule of Employer Contributions

A history of the City's contributions to the Michigan Municipal Employees' Retirement System are shown below:

Fiscal Year Ended June 30,	Employer Contributions
2017	\$16,964,535
2016	16,598,425
2015	16,545,459
2014	16,409,676
2013	14,909,789
2012	14,562,392

Schedule of Funding Progress

A history of the City's funding progress to the Michigan Municipal Employees' Retirement System are shown below:

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL)	Funded Ratio Total	Covered Payroll	UAAL as a % of Covered Payroll
6/30/2017	\$548,844,656	\$203,099,492	\$345,745,164	37.0%	\$21,427,792	1613.5%
6/30/2016	554,028,549	208,965,319	345,063,230	37.7	18,783,674	1837.0
6/30/2015	538,869,339	253,510,974	285,358,365	47.0	18,635,475	1531.3
6/30/2014	552,783,134	291,869,102	260,914,032	52.8	23,285,420	1120.5

For further information on the City's Michigan Municipal Employees' Retirement System, refer to Note 16 in the Notes to Financial Statements of the City's fiscal year ended June 30, 2017 audited financial statements.

Source: Audited Financial Statements and the City of Flint

OTHER POST-EMPLOYMENT BENEFITS

The City provides retiree healthcare benefits to eligible employees and their spouses through the Retiree Health Care Trust Fund. Benefits are provided to public safety and general employees. Currently, the plan has 1,815 members, including 332 employees in active service and 1,483 retired employees and beneficiaries currently receiving benefits.

This is a single employer defined benefit plan administered by the City. The benefits are provided under collective bargaining agreements of Local 1799, Local 1600, and Fire Local 352. The plan does not issue a separate stand-alone financial statement. Administrative costs are paid by the plan through employer contributions. The plan does not cover Hurley Medical Center employees.

Schedule of Employer Contributions

A history of the City's contributions to the Other Postemployment Benefits are shown below:

<u>Fiscal Year Ended June 30,</u>	<u>Annual OPEB Costs</u>	<u>Percentage OPEB Costs Contributed</u>	<u>Net OPEB Obligation</u>
2017	\$17,129,010	114.0%	\$152,386,556
2016	15,569,923	107.3	150,284,614
2015	14,219,784	114.2	151,416,390
2014	13,896,769	139.4	153,431,369
2013	18,942,499	89.8	158,901,714
2012	22,105,830	92.4	156,975,216

Schedule of Funding Progress

A history of the City's funding progress to the Other Postemployment Benefits are shown below:

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets</u>	<u>Actuarial Accrued Liability (AAL)</u>	<u>Unfunded AAL (UAAL)</u>	<u>Funded Ratio Total</u>	<u>Covered Payroll</u>	<u>UAAL as a % of Covered Payroll</u>
7/1/2016	----	\$293,607,373	\$293,607,373	0.0%	\$16,418,398	1788.3%
7/1/2015	\$137,998	273,817,859	273,679,861	0.1	17,892,129	1529.6
7/1/2014	137,927	240,734,057	240,596,130	0.1	--	--
7/1/2013	14,237	240,539,434	240,525,197	0.0	--	--
7/1/2012	166,903	320,180,757	320,013,854	0.1	--	--

For further information on the City's Other Postemployment Benefits, refer to Note 16 in the Notes to Financial Statements of the City's fiscal year ended June 30, 2017 audited financial statements.

Source: Audited Financial Statements and the City of Flint

DEBT STATEMENT - (As of 03/22/18 – including Bonds described herein)

DIRECT DEBT:

Dated Date	Purpose	Bond Type	Final Maturity	Principal Outstanding
<i>General Obligation - Tax Increment Bonds</i>				
04/13/11	Fiscal Stabilization Bonds	LT	11/01/35	\$6,765,000
12/28/07	Capital Improvement, Public Garage/Parking	LT	11/01/32	7,680,000
<i>Authority Revenue Bonds - No City Pledge</i>				
03/25/10	Hurley Medical Center, Series 2010, SSAAuth	REV	07/01/39	31,215,000
09/30/11	Health Care Facilities, Equipment	REV	12/01/18	617,491
04/02/13	Hurley Medical Center, Series 2013A, SSAAuth	REV	07/01/39	21,940,000
04/02/13	Hurley Medical Center, Series 2013B, SSAAuth	REV	07/01/28	25,010,000
<i>Share of Authority Issued Bonds</i>				
04/16/14	Karegnondi Water Supply System	LT	11/01/43	73,574,300
06/10/16	Karegnondi Water Supply System	LT	05/01/18	25,434,540
04/10/18	Karegnondi Water Supply System	LT	11/01/45	19,720,500
SUB TOTAL DIRECT DEBT				\$211,956,831
Less: Refunded Bonds				<u>(25,434,540)</u>
TOTAL DIRECT DEBT				\$186,522,291
Less: Authority Revenue Bonds				(78,782,491)
Karegnondi Water Authority Bonds				<u>(93,294,800)</u>
NET DIRECT DEBT				\$14,445,000

OVERLAPPING DEBT:

Percent Share	Municipality	Net Debt	City's Share
5.49%	Carman Ainsworth School District	\$31,373,000	\$1,722,378
100.00	Flint School District	4,500,000	4,500,000
0.04	Kearsley School District	0	0
1.34	Swartz Creek School District	8,575,000	114,905
3.09	Westwood Heights School District	0	0
7.79	Genesee County	99,372,272	7,741,100
7.32	Genesee ISD	7,555,000	553,026
7.32	Mott Community College	71,920,000	5,264,544
100.00	Flint Public Library	0	0
7.79	Bishop Airport Authority	9,355,000	<u>728,755</u>
TOTAL OVERLAPPING DEBT			<u>\$20,624,708</u>
NET DIRECT AND OVERLAPPING DEBT			<u><u>\$35,069,708</u></u>

Source: Municipal Advisory Council of Michigan

DEBT RATIOS

City's Estimated Population	97,379
2017 Taxable Value	\$714,582,817
2017 State Equalized Value (SEV)	\$811,880,174
2017 True Cash Value (TCV)	\$1,623,760,348
Per Capita 2017 Taxable Value	\$7,338.16
Per Capita 2017 State Equalized Value	\$8,337.32
Per Capita 2017 True Cash Value	\$16,674.65
Per Capita Net Direct Debt	\$148.34
Per Capita Net Direct and Overlapping Debt	\$360.14
Percent of Net Direct Debt of 2017 Taxable Value	2.02%
Percent of Net Direct and Overlapping Debt of 2017 Taxable Value	4.91%
Percent of Net Direct Debt of 2017 SEV	1.78%
Percent of Net Direct and Overlapping Debt of 2017 SEV	4.32%
Percent of Net Direct Debt of 2017 TCV	0.89%
Percent of Net Direct and Overlapping Debt of 2017 TCV	2.16%

Source: Municipal Advisory Council of Michigan

LEGAL DEBT MARGIN - (As of 03/22/18 – including the Bonds described herein)

The net indebtedness of the City shall not be in excess of 10% of the State Equalized Valuation of all real and personal property. Obligations which are not included in the computation of legal debt margin are:

- (1) Special Assessment Bonds;
- (2) Mortgage Bonds;
- (3) Michigan Transportation Bonds;
- (4) Revenue Bonds;
- (5) Bonds issued, or contracts or assessment obligations, incurred, to comply with an order of the Water Resources Commission (now the Department of Environmental quality) or a court of competent jurisdiction;
- (6) Other obligations incurred for water supply, sewage, drainage or refuse disposal projects necessary to protect the public health by abating pollution.

2017 State Equalized Value	\$811,880,174
Legal Debt Limit – 10% of SEV	\$81,188,017
Total Bonded Debt Outstanding	\$186,522,291
Less: Authority Revenue Bonds	(78,782,491)
Karegnondi Water Authority Bonds	(93,294,800)
Net Amount Subject to Legal Debt Limit	<u>14,445,000</u>
LEGAL DEBT MARGIN AVAILABLE	<u>\$66,743,017</u>

SHORT TERM BORROWING

The City has no short-term borrowing outstanding.

DEBT HISTORY

The City has no record of default on its obligations.

FUTURE FINANCING

The City does not have plans for additional capital financings in the next 12 months.

SCHEDULE OF BOND MATURITIES - (As of 03/22/18 – including the Bonds described herein)

Year	GO Tax Increment Bonds	Authority Revenue Bonds	Share of Authority Issued Bonds	TOTAL	Percent Repaid
2018	\$595,000	\$6,282,491	\$1,788,000	\$8,665,491	
2019	620,000	6,380,000	1,880,000	8,880,000	
2020	645,000	6,525,000	1,954,700	9,124,700	
2021	680,000	2,455,000	2,047,300	5,182,300	
2022	710,000	2,580,000	2,136,500	5,426,500	20%
2023	745,000	2,710,000	2,241,000	5,696,000	
2024	785,000	2,850,000	2,355,300	5,990,300	
2025	830,000	2,990,000	2,473,000	6,293,000	
2026	870,000	3,150,000	2,595,600	6,615,600	
2027	915,000	3,320,000	2,725,000	6,960,000	37%
2028	965,000	3,490,000	2,867,600	7,322,600	
2029	1,020,000	2,310,000	3,017,000	6,347,000	
2030	1,075,000	2,460,000	3,173,000	6,708,000	
2031	1,135,000	2,620,000	3,337,300	7,092,300	
2032	1,200,000	2,800,000	3,513,100	7,513,100	56%
2033	520,000	2,995,000	3,694,000	7,209,000	
2034	550,000	3,200,000	3,864,500	7,614,500	
2035	585,000	3,420,000	4,065,200	8,070,200	
2036	0	3,655,000	4,277,600	7,932,600	
2037	0	3,915,000	4,500,000	8,415,000	77%
2038	0	4,190,000	4,734,100	8,924,100	
2039	0	4,485,000	4,979,700	9,464,700	
2040	0	0	5,240,200	5,240,200	
2041	0	0	5,510,900	5,510,900	
2042	0	0	5,787,800	5,787,800	95%
2043	0	0	6,076,400	6,076,400	
2044	0	0	1,200,000	1,200,000	
2045	0	0	1,260,000	1,260,000	100%
	<u>\$14,445,000</u>	<u>\$78,782,491</u>	<u>\$93,294,800</u>	<u>\$186,522,291</u>	

LARGEST EMPLOYERS

A representative list of largest employers within the City and Genesee County is as follows:

Employer	Product or Service	Approx. No. of Employees
<i>Within the City (500 + employees)</i>		
Hurley Medical Center	Medical Center	3,045
McLaren Health Care Corporation	Hospital & Other Health Care	3,014
University of Michigan	Higher Education	2,736
General Motors Co., Flint	Truck & Bus Assembly	2,100
Diplomat Pharmacy	Pharmacy	1,400
State of Michigan	Government	943
Flint School District	Education	821
Genesee ISD	Education	812
Mott Community College	Education	711
Carman-Ainsworth School District	Education	698
General Motors Co., South Flint	Automotive Engines	663
City of Flint	Government	553
General Motors Corporation	Customer Care Center	500
<i>Major Employers within Genesee County (1,000 + employees)</i>		
Genesys Health Care System	Health Care	3,265
General Motors Corp.	Automotive Parts & Bodies	3,263
Baker College	Higher Education	2,800
Square D	Computer Programming Services	2,500
Flint Metal Center, Vehicle Mfg. Operating Div.	Metal Fabrication	2,180
A1 Flint LLC	Car Parts and Accessories	1,500
United States Postal Service	Postal Service	1,200
Genesee County (full-time employees)	Government	1,093
Delphi Corp.	Spark Plugs & Odometers	1,000
Meijer, Inc.	Retail	1,000

Source: 2017 Michigan Manufacturer's Directory, Manta via www.manta.com, and individual employers

EMPLOYMENT BREAKDOWN

The U.S. Census Bureau, 2012-2016 American Community Survey reports the occupational breakdown of persons 16 years and over for the City is as follows:

PERSONS BY OCCUPATION	City of Flint	
	Number	Percent
	29,681	100.00%
Management, Business, Science & Arts	5,775	19.46
Service	8,523	28.72
Sales & Office	7,222	24.33
Natural Resources, Construction & Maintenance	2,440	8.22
Production, Transportation & Material Moving	5,721	19.27

The breakdown by industry for persons 16 years and over in the City is as follows:

PERSONS BY INDUSTRY	City of Flint	
	Number	Percent
	29,681	100.00%
Agriculture, Forestry, Fishing, Hunting & Mining	73	0.25
Construction	1,352	4.56
Manufacturing	4,733	15.95
Wholesale Trade	549	1.85
Retail Trade	3,465	11.67
Transportation	1,239	4.17
Information	343	1.16
Finance, Insurance & Real Estate	846	2.85
Professional & Management Services	2,145	7.23
Educational, Health & Social Services	8,183	27.56
Arts, Entertainment, Recreation & Food Services	3,563	12.00
Other Professional & Related Services	1,956	6.59
Public Administration	1,234	4.16

POPULATION BY AGE

The 2010 U.S. Census estimate of population by age for the City is as follows:

	City of Flint	
	Number	Percent
Total Population	102,434	100.00%
0 through 19 years	31,750	31.00
20 through 64 years	59,685	58.26
65 years and over	10,999	10.74
Median Age	33.6 years	

INCOME

The U.S. Census Bureau, 2012-2016 American Community Survey estimate of household income for the City is as follows:

HOUSEHOLDS BY INCOME	City of Flint	
	Number	Percent
	40,046	100.00%
Less than \$ 10,000	8,134	20.31
\$ 10,000 to \$ 14,999	4,485	11.20
\$ 15,000 to \$ 24,999	6,967	17.40
\$ 25,000 to \$ 34,999	5,502	13.74
\$ 35,000 to \$ 49,999	5,865	14.65
\$ 50,000 to \$ 74,999	5,102	12.74
\$ 75,000 to \$ 99,999	2,162	5.40
\$100,000 to \$149,999	1,371	3.42
\$150,000 to \$199,999	257	0.64
\$200,000 or MORE	201	0.50
Median Income	\$25,650	

WATER SYSTEM

DESCRIPTION OF THE SYSTEM

Flint has a public water supply system consisting of approximately 580 miles of water main, 3910 fire hydrants, a water treatment plant, 4 pumping stations housing 56 mg of storage and a 2 mg elevated tank. The City recently executed a 30 year agreement with Great Lakes Water Authority (GLWA), which now operates Detroit Water and Sewerage Department's water supply system, to purchase finished drinking water from GLWA. Flint also entered into an agreement for Genesee County to provide a portion of Flint's backup source of water supply thereby eliminating the need for Flint to operate and maintain its water treatment plant. However, many of the functions of Flint's water treatment plant will remain in operation such as the elevated tank, Dort Reservoir, Pump Station #4, Control Station #2, Drinking Water Laboratory and the Operations Center. The City adjusts the finished drinking water it receives from GLWA and the backup water it receives from Genesee County, which Flint distributes through the water supply system to customers, by adding chlorine, orthophosphate and caustic soda to achieve target chlorine, phosphate and pH levels specified by the Michigan DEQ. These parameters ensure the water has adequate free chlorine residuals and corrosion control throughout the distribution system.

HISTORY OF CUSTOMERS

A five-year history of the number of customers is as follows:

Fiscal Year Ended June. 30,	Number of Customers
2017	31,818
2016	31,517
2015	31,242
2014	32,085
2013	34,048

Source: City of Flint

HISTORY OF CONSUMPTION

A five-year history of the System's water consumption (in 100 cubic feet) is as follows:

Fiscal Year Ended Sept. 30,	Residential	Commercial	Total
2017	1,667,730	1,367,925	3,035,655
2016	1,512,550	1,310,413	2,822,963
2015	1,583,139	1,270,082	2,853,221
2014	1,634,923	6,479,929	8,114,852
2013	1,777,624	7,680,207	9,457,831

Source: City of Flint

MAJOR CUSTOMERS

The major water customers with their consumption and billings for the 2017 fiscal year are as follows:

<u>Customer</u>	<u>Product/Service</u>	<u>Units Sold (in 100cf)</u>	<u>Amount of Billings</u>
GM Flint	Automotive	287,915	\$2,625,040
Hurley Medical Center	Hospital	87,134	969,768
McLaren Regional Med	Hospital	61,001	647,667
Sunridge Apts	Apartments	41,772	304,738
U of M	College	34,452	517,848
Flint Housing	Housing	31,356	513,776
Genesee County Jail	Municipal	30,615	324,857
Evergreen Regency	Apartments	28,856	310,391
Kettering University	College	17,083	317,857
Midstate Plating	Manufacturing	12,189	124,004
TOTALS		<u>632,373</u>	<u>6,655,946</u>
Total Consumption		3,035,655	
% of Total		20.83%	

Source: City of Flint

BILLING SYSTEM

The City of Flint utilizes a centralized system to manage its general ledger. This system of record includes an integrated utility billing platform that utilizes different categories to distinguish types of accounts. More specifically, the over 30,410 accounts in the City of Flint are split into residential and commercial. The City bills its 28,865 residential users in eight billing cycles and one commercial cycle for the 1,545 commercial users. Each account is billed monthly. A meter is used for each account. Each meter size has a specific service charge fee. This fee is divided between water and sewer. The system employs billing codes to differentiate between water usage, water service charges, sewer usage and sewer service charges. The city also charges miscellaneous charges including (but not limited to) non-sufficient fund, shut-off and turn-on fees.

There are a total of 13 different meter sizes utilized in the field. The table below illustrates the distribution of the meters in the field, reflecting the 30,410 accounts:

<u>Meter Size (in)</u>	<u>Quantity (Residential)</u>	<u>Quantity (Commercial)</u>
Unknown	1	1
5/8	28,518	511
1	290	301
1.5	37	276
2	17	267
3	2	88
4	0	57
6	0	40
8	0	4
TOTAL	<u>28,865</u>	<u>1,545</u>

In order to determine usage in the field for billing purposes, City of Flint has Water Service Center employees who conduct meter reads. These meter reads are done remotely by wirelessly accessing the transponder on the water meter from the street. These reads are then electronically imported into the UB application. Billing supervisors also perform analyses for abnormal usage and zero usage which could lead to the need for an estimate. Additionally,

billing personnel run Shut Off Notices, run penalties on accounts that do not meet the current criteria as well as all inactive accounts with balances, and redistribute credits before bills are calculated. From there, activity is journalized and integrated into the general ledger for the City.

HISTORY OF RATES

Usage

A five-year history of the System’s usage fees are as follows:

<u>Year</u>	<u>Usage (in mcf)</u>
2017	.691
2016	.691
2015	.792
2014	.752
2013	.752

Source: City of Flint

Service Charge

The System’s water service charges are as follows:

<u>Meter Size in Inches</u>	<u>Water Service Charge</u>
5/8	57.38
1	128.56
1 1/2	261.00
2	368.59
3	782.45
4	1,324.19
6	1,075.75
8	1,560.05

Source: City of Flint

City of Flint
General Fund Budget Summary

	As Adopted 2017/18
Revenue:	
Property Tax	\$4,591,469
Income Tax	15,810,780
State Revenue	17,972,856
Licensing and Permits	1,200,000
Fines and Forfeitures	331,397
Charges for Services	9,901,977
Other	3,355,092
Total Revenue	\$53,163,571
 Expenditures:	
General Government	\$10,576,072
District Court	858,955
Public Safety	30,928,957
Infrastructure	1,581,804
Governance	575,107
Other	7,123,541
Total Expenditures	\$51,644,436
 Excess of Expenditures (over) under Revenues	 \$1,519,135
 Fund Balance - July 1	 \$17,073,792
 Projected Fund Balance - June 30	 \$18,592,927

Source: City of Flint

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APPENDIX E

**CITY OF FLINT
AUDITED FINANCIAL STATEMENTS**

Attached are the audited financial statements for Flint for the fiscal year ended June 30, 2017. The auditors for Flint have not been asked to consent to the use of information from such financial statements in either the Preliminary Official Statement or the Official Statement and have not conducted any subsequent review of such financial statements.

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Dr. Karen W. Weaver
Mayor

CITY OF FLINT, MICHIGAN Department of Finance

Steve Branch
Interim City Administrator

Hughey Newsome
Interim Chief Financial Officer

Dawn Steele
Deputy Finance Director

December 18, 2017

To the Mayor, Members of City Council, City Administrator, Receivership Transition Advisory Board, and Citizens of the City of Flint:

Michigan Public Act 2 of 1968 as amended, requires that all local governments publish, within six months of the close of each fiscal year, a complete set of financial statements presented in conformity with generally accepted accounting principles (GAAP) and audited in accordance with generally accepted auditing standards by a firm of licensed certified public accountants. Pursuant to that requirement, we hereby issue the Comprehensive Annual Financial Report of the City of Flint for the fiscal year ended June 30, 2017.

This report consists of management's representations concerning the finances of the City of Flint. Consequently, management assumes full responsibility for the completeness and reliability of all of the information presented in this report. To provide a reasonable basis for making these representations, management of the City of Flint has established a comprehensive internal control framework that is designed both to protect the government's assets from loss, theft, or misuse and to compile sufficient reliable information for the preparation of the City of Flint's financial statements in conformity with GAAP. Because the cost of internal controls should not outweigh their benefits, the City of Flint's comprehensive framework of internal controls has been designed to provide reasonable, rather than absolute, assurance that the financial statements will be free from material misstatement. As management, we assert that, to the best of our knowledge and belief, this financial report is complete and reliable in all material respects.

Yeo & Yeo, P.C., a firm of licensed certified public accountants, has audited the City of Flint's financial statements. The goal of the independent audit is to provide reasonable assurance that the financial statements of the City of Flint for the fiscal year ended June 30, 2017, are free of material misstatement. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. The independent auditor concluded, based upon the audit, that there was a reasonable basis for rendering an unqualified opinion that the City of Flint's financial statements for the fiscal year ended June 30, 2017, are fairly presented in conformity with GAAP. The independent auditor's report is presented as the first component of the financial section of this report.

The independent audit of the financial statements of the City of Flint was part of a broader, federally mandated "Single Audit" designed to meet the special needs of federal grantor agencies. The standards governing Single Audit engagements require the independent auditor to report not only on

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the fair presentation of the financial statements, but also on the audited government's internal controls and compliance with legal requirements, with special emphasis on internal controls and legal requirements involving the administration of federal awards. These reports are available in the City of Flint's separately issued Single Audit Report.

GAAP requires that management provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to complement MD&A and should be read in conjunction with it. The City of Flint's MD&A can be found immediately following the report of the independent auditors.

Profile of the Government

The City of Flint, incorporated in 1855, is located in the eastern part of the State of Michigan. The City currently occupies a land area of 32.8 square miles and serves a population of 102,434 (2010 Census). The City is empowered to levy a property tax on both real and personal properties located within its boundaries, as well as a 1% income tax for those who live within the City limits (or .5% for those who only work within the City limits).

The City of Flint has operated under the strong mayor / council form of government since November 4, 1975, when the present charter was adopted. According to the Charter, legislative authority is vested in a City Council consisting of nine members elected from each of the nine wards in the City and serving a four-year term. The City Council is responsible for, among other things, passing ordinances, adopting the budget, approving resolutions and appointing committees. The Mayor is an elected official who serves as the chief executive officer of the City for a four-year term of office (the Mayor may be reelected for additional terms). The Mayor appoints a City Administrator to be the chief administrative officer of the City, overseeing the day-to-day operations of the government. The Mayor also appoints the principal officials responsible for budget, personnel, planning, legal counsel, and administrative services, appointing up to ten principal staff officials who serve at the pleasure of the Mayor. In addition, the Mayor may appoint up to ten executive department heads over such departments as may be necessary to administer the responsibilities of the City for public safety, public works, utilities, parks and recreation, transportation, finance, community development, and environmental protection. The City Council must approve these appointments. The City Council and the Mayor are elected on a non-partisan basis.

The City of Flint provides a full range of services, including police and fire protection, the construction and maintenance of streets and other infrastructures, recreational activities and cultural events, water and sewer services, and contracts for municipal solid waste pickup services. The Board of Hospital Managers has the exclusive authority to manage and operate Hurley Medical Center. The Flint Downtown Development Authority Board promotes the rehabilitation of the downtown area. The City of Flint Economic Development Corporation provides financing and development opportunities for businesses located in the City of Flint. The Flint Area Enterprise Community works with community partners to coordinate the federal enterprise community plan and help leverage resources for the zone.

The annual budget serves as the foundation for the City of Flint's financial planning and control. Under the Charter, all departments and agencies of the City of Flint are required to submit requests for appropriations to the Mayor's appointed Chief Financial Officer in March each year. The Chief Financial Officer uses these requests as the starting point for developing a proposed budget. The Mayor then presents this proposed budget to the City Council on the first Monday in April. The Council is required to hold public hearings on the proposed budget and to adopt a final budget, by charter, on the first Monday in June. The City's fiscal year ends on June 30. The current appropriated budget is prepared by fund, function (e.g., public safety), department (e.g. police) and line item. The Administration may not make transfers of appropriations within department line items, or transfers of appropriations between departments or funds, without the approval of the City Council. Budget-to-actual comparisons are provided in this report for each major governmental fund for which an appropriated annual budget has been adopted. The comparison is presented in the

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required supplementary information subsection of this report.

On December 1, 2011, the Governor of the State of Michigan appointed an Emergency Manager for the City of Flint, due in part to a consistent deficit in the general fund, the decline in pooled cash, budget issues, and unfunded liabilities for post-employment benefits. The appointed Emergency Manager was authorized by virtue of his appointment to "act for and in the place and stead of the governing body and the office of chief administrative officer of the City of Flint." The Emergency Manager assumed control at the mid-point of the FY12 budget. Consequently, FY12 ended with a General Fund deficit of \$19.2 million.

Due to the suspension and subsequent repeal of Public Act 4, Emergency Manager Law, the Governor of the State of Michigan subsequently appointed an Emergency Financial Manager for the City of Flint, effective August 9, 2012, under the authorization of the statute preceding PA4. On March 28, 2013, a new Emergency Manager Law, Public Act 436 was passed, the Governor of the State of Michigan appointed another Emergency Manager. In all of these instances, the appointed Emergency Manager (or Emergency Financial Manager) was authorized by virtue of his appointment to "act for and in the place and stead of the governing body and the office of chief administrative officer of the City of Flint."

The preparation and adoption of the FY13, FY14, and FY15 budgets were under the control of the Emergency Manager. Under the direction of these Emergency Managers, considerable progress was made in reducing the City's June 30, 2012 accumulated General Fund deficit of \$19.2 million. As of June 30, 2013, the deficit had been reduced to \$12.9 million, and by June 30, 2016 a positive fund balance in the amount of \$10.0 million was achieved. The FY17 budget was adopted under the guidance of the newly elected Mayor, City Administrator and Charter-designated leaders along with State receivership transitional advisory board oversight. Under their guidance, the FY17 fund balance of the General Fund has increased to \$17.0 million.

Steps have also been taken to reduce long-term liabilities such as the Other Post Employment Benefit (OPEB) unfunded accrued liability, which stand at \$152.3 million at the end of FY17, compared to more than \$862 million six years ago. Starting in FY15, all municipalities were required under Governmental Accounting Standards number sixty-eight (68) to record the City's net pension liability. The City recorded a \$345.0 million net pension liability on the government wide financial statements in FY 16. The total net pension liability increased slightly to \$345.7 million at the end of FY17. This pension liability increase is due to pension payments exceeding employer and employee pension system contributions, a change in actuarial assumptions by the pension system board and poorer than expected investment returns.

Factors Affecting Economic and Financial Condition

The information presented in the financial statements is perhaps best understood when it is considered from the broader perspective of the specific environment in which the City of Flint operates.

Local Economy. As an urban center whose vibrancy flowed with the dominance of the U.S. automotive industry, the economy of Flint declined sharply as the automotive presence declined. In 1978, over 80,000 Flint-area residents were employed by GM; however by 1990 the number had declined to 23,000, and was reported to be as low as 7,800 in 2014.

While the City of Flint's economy was strongly tied to the automobile industry, it has diversified over the last ten years. Most notable is the expansion of higher education, where it is estimated that over 30,000 students attend Kettering University, the University of Michigan-Flint, Mott Community

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College, and Baker College. As part of this expansion, the Mott Community college is in the process of rehabilitating a vacant 36,000 sq. ft. building in downtown Flint into their new Culinary Institute. The \$13 million project is scheduled to open its doors in the Fall of 2018.

Aggressive efforts continue by many entities within the Flint/Genesee area to encourage new development, including the redevelopment of the 452-acre vacant "Buick City" property. The LEAR Corporation has committed to construct a 157,000 square foot facility that will create 450 new jobs and house 600 employees. The \$29 million project is currently underway and scheduled to open spring 2018. Additionally, the Phoenix investors purchased a vacant 550,000 sq. ft. facility and will improve the property. The total project costs are expected to top \$5 million.

In addition to the repurposing of Buick City, the City has seen a tremendous amount of new development over the past few years with a significant amount of private investment over the course of 2016-2017. Multiple projects have been completed, are in process, or are planned throughout the City. The Flint River Restoration project was initiated with the \$4 million removal of the Hamilton Dam (City owned) beginning in November 2017. In all over \$45 million has been earmarked for this project and will result in improved water quality and enhanced riverfront from Hamilton Ave. to the Mott Park Golf Course.

Huntington Bank is investing \$4.5 million in downtown Flint by moving expanding its call center and creating 60 new jobs. In addition C3 Venture selected Flint as the site for its manufacturing facilities to produce interior plastic automotive components and hiring 380 workers. This work was previously done in China.

The restoration of the iconic Capital Theater with \$21 million worth of investment, which resulted in a complete remodel, was completed in September 2017. Additionally, two residential development projects have begun, receiving funding from both the City and MSHDA. The Marketplace is a \$9 million mixed-income, mixed-use development that will include 92 residential units and will open around mid-2019. On the west side of town, the historic Coolidge School will be rehabilitated and a new building will be built on the site. The 54-unit residential complex will be named Coolidge Park Apartments and cost over \$17 million to complete.

The City has partnered with the Flint Housing Commission and Norstar Development LLC, to submit a LIHTC (low income housing tax credit) application to MSHDA for a new 63-unit mixed income residential complex. The total project cost is over \$15 million.

The City also continues to aggressively tackle blight. There are over 23,000 vacant properties in the City of Flint, with over 15,000 of them being vacant lots, with no structure on the parcel (one out of every four parcels in the city is a vacant lot). The City continues to implement its 5-year plan to combat blight, "Beyond Blight: Blight Elimination Framework". This document identified the cost to eliminate blight over the next 5 years, resulting in a \$90 million price tag. The plan has been critical, however, to the continued support for neighborhood stabilization funds. Since 2014, the City has been awarded over \$67.4 million in funds to combat residential blight through demolition, resulting in nearly 5,000 blighted and abandoned homes being demolished. Additionally the City recently demolished the dilapidated Glen Acres apartment complex using CDBG funds. The City was also awarded a Michigan Blight Elimination Grant from MSHDA of \$500,000 that will target three significantly distressed vacant buildings.

The City was also fortunate to have the AmeriCorps NCCC (National Civilian Community Corps) team serve Flint's Blight Elimination Division from May 8 to June 29. The team of nine cleared several tons of debris and garbage from the vacant houses needing to be boarded up. Through boarding up abandoned homes and cleaning out vacant lots, the community looks nicer, is more stable and overall safer.

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Property taxes. Overall, property values within the City have continued to decline. Property tax values were \$1.680 billion in 2007 and have since declined to \$710 million for FY17 generating approximately \$12.0 million in tax revenues across all operating funds. In addition the City has a Special Assessment for Garbage Collection and Street Lighting that generated an additional \$7.7 million in revenue for FY17.

Cash management policies and practices. Cash flow for the City has been a concern for several years, but in 2017 it continues to improve. It is closely monitored and is currently sufficient for operations. Safety of principal is the foremost objective of the City of Flint. Each investment transaction shall seek to ensure that capital losses are avoided, whether from institutional default, broker-dealer default, or erosion of market value of securities. The surplus funds of the City of Flint were invested in accordance with Act 20 of the Public Acts of 1943, as amended, and the City's Code of Ordinances. These funds were invested in obligations of the U.S. Treasury, certificates of deposit, commercial paper and investment pools. The maturity dates of the investments range from one day to 5 years. Additional information on the City of Flint's deposits and investments can be found within Note four of the June 30, 2017 Audited Financial Statements.

Risk Management. The City of Flint has established a comprehensive Risk Management program in order to protect the assets of the City from the risk of loss. This is accomplished through a combination of risk financing and loss control activities, which are designed to avoid, reduce or transfer various risk exposures. The City utilizes a combination of commercial insurance and self-insurance to finance these exposures. The risk of loss is reduced through the use of various control techniques, such as contract review, safety training and site inspections.

The Workers' Compensation function resides in the Human Resources Department, which allows for a coordinated effort to minimize accident-related losses. Additional information on the City of Flint's risk management activities can be found within Note 14 of the June 30, 2017 Audited Financial Statements.

Pension and other post-employment benefits. The City of Flint is a member of the Municipal Employees Retirement System (MERS). MERS is a statewide multiple employer pension system which administers various defined benefit and defined contribution pension plans for its public safety and most non-public safety employees. New non-public safety employees hired after FY13 will be enrolled in a hybrid plan administered by MERS, similar plans for new public safety employees were made effective in FY14.

Each year, an independent actuary engaged by the pension system calculates the amount of the annual contribution that the City of Flint must make to the pension system to ensure that the plan will be able to meet its obligations to retired employees. The City of Flint makes monthly contributions to the system in accordance with the contribution rate determined by the independent actuary. Despite the City of Flint's funding activities, the overall retirement system as of December 31, 2016 (the latest actuarial report) was 39% funded along with taking into consideration four new actuarial assumptions. Those new actuarial assumptions that are effective within the December 31, 2016 valuation reflect a change in the mortality tables to reflect longer lifetimes of retirees, a lowering of the annual rate of investment return from 8% to 7.75%, smoothing of assets from ten years to five years and moving the amortization period to a fixed period. Currently, there are 1,800 retirees and beneficiaries receiving pension benefits from the City of Flint. Additional information on the City of Flint's Retirement Plan can be found in Section 4-4 of the Required Supplementary Information of the June 30, 2017 Audited Financial Statements.

The City of Flint also provides post-retirement health and vision care benefits for retirees and their dependents. As of the end of FY17, there were 1,463 retired employees and beneficiaries receiving insurance benefits. The benefits are financed on a pay-as-you-go basis. For fiscal year 2017, the City paid \$15.0 million for post-employment health benefits premiums. The City had an actuarial accrued liability for other post-employment benefits (OPEB) of \$293 million at June 30, 2017. Beginning in FY15, new employees are not eligible for retiree health care but are, instead, enrolled

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in a retiree medical savings account. This program will eventually eliminate retiree health care liabilities for the City. Currently, there are a number of lawsuits pending that deal with the retiree health care program.

The Flint Water Crisis. The full effects of the Flint Water Crisis continued into FY17. Cash flows fell significantly in the City's Water Fund. The State-funded water credit program for the City's residential and commercial water customers whereby the State pays 65% of a water bill for a resident and pays 20% of a commercial customers account that started in FY16 ended in February 2017. The Mayor's "Fast Start Initiative", which is a lead line infrastructure replacement program that commenced at the end of FY16 continued through FY17. A total of 2,142 homes had lead lines replaced in FY17. An additional \$2 million was appropriated for lead line replacement in FY17. Further details of the Flint Water Crisis can be read in the City's Management's Discussion and Analysis section of this report.

Awards and Acknowledgements

We are pleased to report that the Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Flint for its Comprehensive Annual Financial Report for the fiscal year ended June 30, 2016. The City has now received this award fourteen years in a row. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized Comprehensive Annual Financial Report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe that this Comprehensive Annual Financial Report for the fiscal year ended June 30, 2016, continues to meet the Certificate of Achievement Program's requirements and we are submitting our report to the GFOA to determine its eligibility for another certificate.

The preparation of this report would not have been possible without the efficient and dedicated services of the entire staff of the finance administration department and City. We would like to express our appreciation to all members of the departments who assisted and contributed to the preparation of this report. Most importantly, we would like to acknowledge the contributions and sacrifices made by taxpayers, employees, and the public necessary for the City of Flint to regain its financial solvency and to become an effective force in making Flint an attractive place to live, learn, visit and conduct business.

Respectfully submitted,


Hughey Newsome
Interim Chief Financial Officer


Dawn Steele
Deputy Finance Director

Independent Auditors' Report

To the Honorable Mayor, Receivership Transition Advisory Board, and Members of the City Council
City of Flint, Michigan

Report on the Financial Statements

We have audited the accompanying 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 City of Flint (the "City"), as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of Hurley Medical Center, which represent 96.4 percent, 91.3 percent, and 99.6 percent, respectively, of the assets, net position, and revenues of the total component units. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for total component units, is based solely on the report of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. The financial statements of Hurley Medical Center, the Downtown Development Authority, and the Flint Area Enterprise Community were not audited under *Government Auditing Standards*.

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position 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 City of Flint, as of June 30, 2017, and the respective changes in financial position, and, where applicable, cash flows, for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters:

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, major fund budgetary comparison schedules, Municipal Employees Retirement System schedules, and other postemployment benefit information, 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, who 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 supplementary 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.

Other Supplementary Information

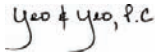
Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Flint's basic financial statements. The introductory section, other supplementary information, and statistical section, as identified in the table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements.

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

The introductory section and statistical section, which are the responsibility of management, have not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 18, 2017 on our consideration of the City of Flint's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City of Flint's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering City of Flint's internal control over financial reporting and compliance.



Flint, Michigan
December 18, 2017

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**City of Flint, Michigan
Management's Discussion and Analysis
June 30, 2017**

The following is a brief overview and analysis of the financial statements for the City of Flint, Michigan (the "City") for the 2017 fiscal year, which began on July 1, 2016 and ended on June 30, 2017. The reader is encouraged to not only consider the comments made here but to review the statements in their entirety.

The City provides a full range of municipal services, including police and fire protection, construction and maintenance of streets, sidewalks, and other infrastructure, maintenance and operation of water and sewer systems, maintenance of parks, and solid waste collection. These activities comprise the majority of the City's governmental and business-type activities.

In addition to governmental and business-type activities, the financial statements include the activities of Hurley Medical Center, Flint Downtown Development Authority, Flint Economic Development Corporation, and Flint Area Enterprise Community. While part of the City government, these entities are presented as "discrete component units" because of their independent management authority. In previous years, Hurley Medical Center has been included as a business-type activity of the City government, but a review of its status has concluded that it can be more appropriately presented as a discrete component unit.

Financial Highlights

The City of Flint was returned to local government control in April 2015. The return to local control requires a State appointed, Receivership Transition Advisory Board (RTAB) to oversee and approve City operational decisions. (The City had been in state receivership under an Emergency Manager since December 1, 2011.)

The City has adopted a two year operating budget and new ordinances addressing the achievement and maintenance of financial stability. These ordinances include requirements for creating and maintenance of a strategic plan; adoption of biennial budget and five year financial projections; establishment of a fund balance reserve, including establishment of a budget stabilization fund; establishment of a requirement to begin funding of OPEB liabilities; and an update of the City's Purchasing ordinance. The budget continues with the reduction in staffing levels.

The City ended the year in compliance with State of Michigan, Public Act 2 of 1968 as amended (the State Budget act) which includes no individual City governmental operating fund in a deficit at year end. The City's General Fund ended FY 2016/17 with a fund balance of \$17 million. The City's cash on hand at June 30, 2017 totaled more than \$130.7 million compared to \$121.9 million in FY 2015/16 across all governmental and business type activities.

In FY 2016/17, the City billed \$168 million in taxes, fees, and grants for governmental and business-type activities, and spent \$177.6 million to provide City services. During the course of the year, the City's capital assets decreased by \$8.4 million in governmental activities. The City's capital assets for business-type activities decreased slightly. The decrease in governmental activities is in infrastructure and can be attributed to the City netting the additions of \$10.7 million against the depreciation expense of \$18.8 million.

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City of Flint, Michigan
Management's Discussion and Analysis
June 30, 2017

The City's Statement of Net Position at 6/30/2017, highlights primary government assets both governmental and business-type activities including deferred outflows totaling \$427.5 million and liabilities totaling \$577 million, for a total net position of a negative \$149.5 million. Unrestricted net position totaled a negative (\$339.9) million in the governmental activity and negative (\$20.8) in the business-type activities and this amount was netted against positive restricted net position and positive net investment in capital assets to reach the negative \$149.5 million negative total net position on the Statement of Net Position.

The City has a 1 percent income tax for residents and a ½ percent income tax for non-residents, Non-residents do not live in the City but work in the City of Flint. In FY 2016/17, the City's income tax revenue maintained status quo from FY 2015/16 at \$15.5 million.

For the year ended June 30, 2017, the City has estimated the cost of providing retiree healthcare benefits through an actuarial valuation as of July 1, 2016. The City's annual Other Post Employment Benefit (OPEB) cost as of June 30, 2017 was \$17.1 million. The city made OPEB contributions of \$15 million, on a pay-as-you-go basis for the fiscal year. The payment decrease of the estimated liability amounted to \$2.1 million. The decreased pay-as-you-go amount of \$2.1 million increased the overall OPEB obligation from \$150.3 million at June 30, 2016 to \$152.4 million as of June 30, 2017. The City also recorded an increase of \$0.5 million in OPEB expense in the Water and Sewer Funds. The \$0.5 million is a component of the \$2.1 million overall OPEB increase.

The City adopted Governmental Accounting Standards Board (GASB) Statements 68 & 71 effective June 30, 2015. These GASB statements required the City to recognize the long-term obligation for pension benefits as a liability and to measure the annual costs of the pension benefits. Although these items existed prior to implementation of the statements, they were not required to be reported. Additional information regarding the City's \$345.7 million net pension liability and \$152.4 million net other postemployment benefits obligation may be found in Section 3-49 and 3-62 under Note 16.

The City has taken action to reduce these legacy costs associated with health care and pensions. Actions taken since FY 2012/13 with respect to healthcare benefits for current employees and retirees have had a significant impact on current costs and long-term liabilities. The City's unfunded actuarial accrued liability for OPEB is \$293.6 million, which is an increase from 2016 due to two actuarial assumption updates for the mortality table and health care trend rates. In addition a pension plan provision was changed effective January 1, 2016 whereby surviving spouses and eligible dependents of a sworn City of Flint Police Officer or Firefighter killed in the line of duty would be eligible to participate in the City of Flint healthcare plan at no cost for life. Restructuring health benefits has involved consolidating and updating plans, imposing premium sharing, limiting access of spouses and dependents, and eliminating the promise of retiree health care for new employees. Similar changes have taken place with respect to retirement benefits, with increased contributions, changes in multipliers, and enrollment of new employees into hybrid pension plans in lieu of the traditional defined benefits plans.

Administration of the pension system was transferred to the Municipal Employees' Retirement System, a state-wide multi-employer system in FY 2012/13.

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City of Flint, Michigan
Management's Discussion and Analysis
June 30, 2017

The City continues to follow budgetary and financial best practices and continues to look for ways to increase revenues and decrease expenditures. In FY 2016/17, The City, along with support from the State of Michigan restructured the City's long-term debt Drinking Water Revolving Loan Fund (DWRLF) obligations so that principal payments were deferred 5 years to 2021 and the interest payments were eliminated. This refinancing saved the City approximately \$2.2 million. At year end the City was waiting on the decision from the MDEQ and the EPA to forgive the City of these long term debts, which would be \$20.8 million.

The City has continued their Partnerships with local organizations for the maintenance of its parks. Senior Centers continue to be run by independent non-profit organizations, with very minimal appropriation from the City; and the City golf courses continue to be leased to private operators. The Charter Revision Commission established by the voters of the City of Flint continues to meet and focus on updating the City's Charter. Their revisions are scheduled for a vote in August by the residents of Flint.

The City continues to achieve financial stability by following the ordinances that were enacted by the City Council, with support from the Mayor. These ordinances include the requirement for creation and maintenance of a strategic plan; requirement for creation and maintenance of a biennial budget and five year financial projections; establishment of a fund balance reserve, including establishment of a budget stabilization fund; and establishment of a requirement to begin funding of OPEB liabilities.

City Water Fund:

For FY 2016/17 the City received \$7.8 million from the State for the purchase of treated water from the Great Lakes Water Authority.

During FY 2017 the City continued to receive support from the State to provide residents with bottled water, water filters and water cartridge replacements through water point of distribution sites (PODS) located throughout the City. Several of these PODS are scheduled to close in August & September 2017 when the City will no longer receive Federal support for them. The State of Michigan and the Mayor reached an agreement whereby the State would continue to support eight of the water distribution centers indefinitely. Furthermore, the Governor has committed to support Flint and its citizenry needs concerning the water crisis until the water crisis is declared over.

Although the MDEQ and EPA have reported that the water is below the Federal level for lead and copper, residents are encouraged to continue to use filters and drink bottled water until all of the infrastructure work, i.e. lead line replacements and main replacements are complete.

With the declared water emergency, residential and commercial water customer collections for water and sewer usage dropped significantly and have not completely recovered to pre-crisis levels. This is in spite of the fact that the MDEQ & EPA have reported that the water is below the Federal required levels for lead and copper. This has caused a serious issue in the City's Water and Sewer operating funds.

The State committed through Public Act 268 of 2016, another \$12.7 million to continue the 65% residential / 20% commercial water usage credits from March 1, 2016 through billing cycle January 31, 2017. The City received \$8.8 million from the State of Michigan in water credits between July and February 2017 in order to meet state law requirements. .

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City of Flint, Michigan
Management's Discussion and Analysis
June 30, 2017

The Mayor's "Fast Start Initiative" which commenced in the spring of 2016 was in full swing in FY 2017. As of June 30, 2017 approximately 2,181 homes have had their lead lines replaced. The Third phase of lead line replacement commenced in mid-September 2016. The State of Michigan Department of Environmental Quality (MDEQ) has committed an additional \$25 million (including a \$5 million advance for Phase III) to supplement the program. The program is estimated to replace approximately 6,000 lead lines that carry drinking water to single family homes and multi-residential complexes. The program was scheduled to be complete by September 2017 in accordance with State law but has been extended.

A civil lawsuit was filed by the Concerned Pastors for Social Action and others against the State of Michigan and others over the Flint water crisis. In March an approved settlement agreement was reached. The settlement guarantees replacement of 18,000 lead and galvanized service lines in Flint but did not continue the door-to-door water deliveries that had been sought. The settlement requires the state to allocate \$87 million to pay for the replacement of lead and galvanized water service lines, with at least \$47 million to come from sources other than those approved by Congress and President Barack Obama. The State has already committed to support the Fifth Phase of the lead line replacement program, which is scheduled to begin in the Spring of 2018.

The City received a \$100 million Federal Water Infrastructure Improvements for the Nation (WIIN) grant in FY 2017, which was approved by congress and President Barack Obama. This funding is available from the US Environmental Protection Agency (EPA) to provide capitalization grants under the Safe Drinking Water Act (SDWA) and the (WIIN).

The City received a \$120,000 grant from the Charles Stewart Mott Foundation in FY 2016 to fund a contractual consultant position to oversee all of the "Fast Start Program-Lead Line Replacement" programs and an additional \$60,000 to continue the consultant position through October 2017. The State of Michigan has also provided engineering personnel assistance at no cost to the City to assist in implementing the lead line replacement initiatives.

The City has contracted with an engineering firm who will analyze the City's municipal water distribution system and water treatment protocols at the City water plant. Specifically, engineers will assess how operating, maintenance, monitoring, water quality, and other water distribution practices are functioning. From this study, improvements will be made to the water quality and water distribution systems to insure compliance with the federal EPA and MDEQ water treatment and water distribution guidelines and rules. This funding of approximately \$1.5 million will come from a portion of the \$100 million of federal WIIN funding.

In May 2016, the City was informed that they were the recipients of a three (3) year grant from the Ford Foundation through the Community Foundation of Greater Flint, to fund the position "Chief Public Health Advisor" (CPHA). This position works under the guidance of the Mayor to provide increased capacity for the City to enhance the health, wellness and resilience of its residents by providing crucial advice and support to the Mayor and City Council on all matters affecting the health of City residents. The CPHA will serve as the go to convener and liaison for the City with the County, State, and national bodies engaged in the health and human services work supporting City residents. The (CPHA) was hired in October 2016. In addition to this important position, the City was notified in March 2017 that they were the recipients of a grant from the Community Foundation of Greater Flint with the Skillman Foundation Grant to cover the position of Chief Recovery Officer. This position will also provide crucial advice and support to the Mayor and City Council on all matters affecting the health of the City of Flint.

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City of Flint, Michigan
Management's Discussion and Analysis
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Continuing Challenges

Although significant work has been accomplished to resolve the conditions that put the City of Flint into State Receivership, there are still major challenges that will require continued work on the part of City leaders. Water issues will be a continuing concern for all and the effects will be felt for many years to come even after the water is deemed safe for consumption without a water filter.

In order to control costs and water quality, the Mayor decided not to switch to the Karegnondi Water Authority (KWA) as the City's primary water source but instead decided to stay with the purchase of treated water from the Great Lakes Water Authority (GLWA). This was after many months of receiving information and a study that showed this would be the City's best option in terms of health and financial viability. The City Council, however was not so enthused and as of June 30, 2017 the City Council postponed the decision on a long-term water source. This prompted the MDEQ to file a lawsuit against the City citing that the City was in violation of the EPA's Emergency Administrative Order.

The City has been in limbo without a selection of a long-term water source. The WIIN funding would cover lead line replacements, funding for water plant improvements, water plant staffing/training, water transmission line replacement, and water plant operational issues. If the City decides to go with the long-term GLWA contract then the money set aside for water plant improvements could be used for other needed infrastructure repairs and replacements. The budget for FY 2017/18 includes not only the KWA bond payment but also a higher payment for the purchase of water from GLWA because the City has not signed the long term deal with GLWA, which would reduce the price for purchase of water and give the City credits for it's the KWA bond payment (approximately \$6.6 million a year). As of June 30, 2017, the City is procuring water from GLWA on a month-to-month basis, which does not allow the credit for the KWA bond payment.

In November 2016 the City received voter support for special millages for public safety and recreation that were due to expire June 2017. These renewals help the City maintain its public safety services and recreational services.

The MERS December 2015 actuarial report delivered to the City at the end of June 2016 disclosed a significant employer pension contribution for FY 2017/18. The City's employer pension contribution was requested to be \$42 million in FY 2017/18 as compared to \$18.5 million in FY 2016/17. The City worked with the City's pension administrator to reduce this obligation to insure an affordable employer pension contribution in FY 2017/18 and continue to maintain the fiscal integrity of the City pension plan now and into the future. The annual contributions over the next five years were revised for retiree transfers, asset allocation and equal funded ratio. The City's pension obligation in FY 2017/18 is \$20.6 million and will be \$22.8 in FY 2018/19; \$26.8 million in FY 2019/20; \$31.5 million in FY 2020/21 and \$36.1 million in FY 2021/22. The City continues to look for ways to fund this unfunded liability.

Property tax taxable values continue to decline from \$750 million in tax value in 2016 to under \$710 million in tax value in 2017. Administration will continue to seek community development opportunities as well as to work with the Genesee County Land Bank to bring vacant properties back onto the City tax rolls. The LEAR Corporation has committed to the redevelopment of 452 acres that has been vacant for several years. With this redevelopment they plan on creating 450 new jobs and housing 600 employees.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements comprise three components: (1) government-wide financial statements, (2) fund financial statements, and (3) notes to the financial statements. This

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City of Flint, Michigan
Management's Discussion and Analysis
June 30, 2017

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

Table 1 summarizes the major features of the City's financial statements, including the portion of the City government they cover and the types of information they contain. The remainder of this overview section of management's discussion and analysis explains the structure and contents of each of the statements.

Table 1 – Major Features of the City of Flint, Michigan's Government-wide and Fund Financial Statements

Type of Statements	Government-wide	Governmental Funds	Proprietary Funds	Fiduciary Funds
Scope	Entire City government (except fiduciary funds) and the City's component units	The activities of the City that are not proprietary or fiduciary, such as police, fire, and parks	Activities the City operates similar to private businesses: the water and sewer system	Instances in which the City is the trustee or agent for someone else's resources, such as the retirement plan for City employees
Required financial statements	<ul style="list-style-type: none"> • Statement of net position • Statement of activities 	<ul style="list-style-type: none"> • Balance sheet • Statement of revenues, expenditures, and changes in fund balances 	<ul style="list-style-type: none"> • Statement of net position • Statement of revenues, expenses, and changes in fund net position • Statement of cash flows 	<ul style="list-style-type: none"> • Statement of fiduciary net position • Statement of changes in fiduciary net position
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, short term and long term	Only assets expected to be used up and liabilities that come due during the year or soon thereafter, no capital assets included	All assets and liabilities, both financial and capital, and short term and long term	All assets and liabilities, both short term and long term; the City's funds do not currently contain capital assets, although they can
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year, expenditures when goods or services have been received and payment is due during the year or soon thereafter	All revenues and expenses during year, regardless of when cash is received or paid	All revenues and expenses during year, regardless of when cash is received or paid

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City of Flint, Michigan
Management's Discussion and Analysis
June 30, 2017

Government-wide Financial Statements

The government-wide financial statements are designed to provide readers with a broad overview of the City's finances, in a manner similar to a private sector business.

The statement of net position presents information on all of the City's assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The statement of activities presents information showing how the City's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the City include general government, police, fire, transportation, public works, parks and recreation, and community enrichment and development. The business-type activities of the City include the water system and sewer system. The government-wide financial statements include not only the City itself (known as the primary government), but also the legally separate component units of Hurley Medical Center, Downtown Development Authority, Economic Development Corporation, Atwood Stadium Building Authority, and the Flint Area Enterprise Community, for which the City is financially accountable. Financial information for these component units is reported separately from the financial information presented for the primary government itself. The government-wide financial statements can be found starting with pages 3-1 of this report.

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City of Flint, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

Governmental Funds

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements. Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

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City of Flint, Michigan
Management's Discussion and Analysis
June 30, 2017

The City maintains fifteen individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General Fund and the Federal Grants Fund. Data from the other thirteen governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these non-major governmental funds is provided in the form of combining statements elsewhere in this report.

The City adopts an appropriated budget for its General Fund. A budgetary comparison statement has been provided for the General Fund to demonstrate compliance with this budget.

The basic governmental fund financial statements can be found on pages 3-4 through 3-9 of this report.

Proprietary Funds

The City maintains two different types of proprietary funds. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses enterprise funds to account for its water and sewer activities. Internal service funds are an accounting device used to accumulate and allocate costs internally among the City's funds. The City uses internal service funds to account for its data processing, central maintenance garage, fringe benefits, and self-insurance activities. Because these services predominantly benefit governmental rather than business-type activities, they have been included within governmental activities in the government-wide financial statements.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the Water and the Sewer Funds, both of which are considered to be major funds of the City. Conversely, the internal service funds are combined into a single, aggregated presentation in the proprietary fund financial statements. Individual fund data for the internal service funds is provided in the form of combining statements elsewhere in this report. The basic proprietary fund financial statements can be found on pages 3-10 through 3-15 of this report.

Fiduciary Funds

Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the City's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds. The basic fiduciary fund financial statements can be found on pages 3-16 through 3-17 of this report.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 3-21 through 3-62 of this report.

Other Information

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplemental information concerning the City's progress in funding its obligation to provide pension benefits to its employees. Required supplemental information can be found on pages 4-1 through 4-14 of this report.

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City of Flint, Michigan
Management's Discussion and Analysis
June 30, 2017

The combining statements referred to earlier in connection with non-major governmental funds and internal service funds are presented immediately following the required supplemental information on pensions. Combining and individual fund statements and schedules can be found on pages 5-1 through 5-22 of this report.

Government-wide Financial Analysis

Net position may serve, over time, as a useful indicator of a government's financial position. Total assets including deferred outflows of the City are \$427 million. Total liabilities are \$577.0 million, of which the largest portion of \$498.1 million reflects its net pension liability and Other Post-Employment benefits obligations. As stated earlier, the City adopted Governmental Accounting Standards Board (GASB) Statements 68 & 71 effective for the fiscal year ended June 30, 2016. These GASB statements required the City to recognize the long-term obligation for pension benefits as a liability and to measure the annual costs of the pension benefits.

Total net position (total assets less total liabilities) is a negative \$149.5 million, this includes \$187.9 million of net investment in capital assets. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's net investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

Of the remaining portion of the City's total net position, \$22.4 million represents resources which are subject to external restrictions on how they may be used. The unrestricted deficit at year end was a negative \$359.9 million, which is up slightly from FY 2015/16 deficit of \$359 million. There is no remaining balance of unrestricted net position that may be used to meet the government's ongoing obligations to citizens and creditors. Net position is divided between governmental activities and business-type activities. Governmental activities show a \$339 million deficit in unrestricted net position. The \$339 million deficit results from the increase in the pension and OPEB liabilities.

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City of Flint, Michigan
Management's Discussion and Analysis
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Table 2 – City of Flint's Net Position

	Governmental Activities		Business-type Activities		Total Primary Government	
	2017	2016	2017	2016	2017	2016
Current assets	\$ 97,282,336	\$ 85,139,538	\$ 99,910,392	\$ 95,439,219	\$ 197,192,728	\$ 180,578,757
Capital assets	113,895,652	122,280,530	97,492,951	97,764,744	211,388,603	220,045,274
Total assets	<u>211,177,988</u>	<u>207,420,068</u>	<u>197,403,343</u>	<u>193,203,963</u>	<u>408,581,331</u>	<u>400,624,031</u>
Deferred outflows	15,434,551	30,020,566	3,474,550	9,516,594	18,909,101	39,537,160
Current liabilities	16,522,340	13,144,489	7,886,004	12,117,427	24,408,344	25,261,916
Long-term liabilities	419,785,151	422,433,816	132,843,161	132,841,921	552,628,312	555,275,737
Total liabilities	<u>436,307,491</u>	<u>435,578,305</u>	<u>140,729,165</u>	<u>144,959,348</u>	<u>577,036,656</u>	<u>580,537,653</u>
Net position:						
Net investment in capital assets	112,083,639	120,193,431	75,820,800	75,805,935	187,904,439	195,999,366
Restricted	17,288,837	17,600,308	5,113,523	5,113,523	22,402,360	22,713,831
Unrestricted (deficit)	<u>(339,067,428)</u>	<u>(335,931,410)</u>	<u>(20,785,595)</u>	<u>(23,158,249)</u>	<u>(359,853,023)</u>	<u>(359,089,659)</u>
Total net position	<u>\$ (209,694,952)</u>	<u>\$ (198,137,671)</u>	<u>\$ 60,148,728</u>	<u>\$ 57,761,209</u>	<u>\$ (149,546,224)</u>	<u>\$ (140,376,462)</u>

Governmental Activities

Changes in net position provide some insight into current year activities as compared to those of the prior year. Total net position for governmental activities decreased by \$11.5 million. Total assets & deferred outflows decreased by \$10.8 million, however total liabilities decreased by \$8.5 million from FY 2015/16. The decrease in total net position can be attributed to the increase in long-term liabilities. Revenues in FY 2016/17 were \$3.8 million lower than in FY 2015/16. The decrease is mainly due to a decrease in grant revenue. The FY 2016/17 expenses were \$8.5 million less than in FY 2015/16. The decrease in expenses is attributable to the consolidation of the 68th District Court with the Genesee County 67th District Court, which decreased expenditures by \$4.6 million in FY2016/17.

Business-type Activities – Business-type activities have \$60.1 million of total net position. Business-type activities do not encumber at year-end and normally do not appropriate net position as part of the budget process. Total net position for business type activities increased by \$2.4 million. This was due to the \$1.8 million decrease in current assets and deferred outflows; only a \$4.2 million increase in total liabilities and a decrease of \$2.4 million in unrestricted deficit. Expenses increased by \$18.5 million in FY 2016/17 from FY 2015/16, while revenues increased by \$11.9 million. These changes can be attributed to the grant funding received in the water fund for Lead Line Replacement.

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City of Flint, Michigan
Management's Discussion and Analysis
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Table 3 – City of Flint's Change in Net Position

	Governmental Activities		Business-type Activities		Total Primary Government	
	2017	2016	2017	2016	2017	2016
Revenues:						
Program revenues:						
Charges for services	\$ 12,193,028	\$ 14,689,966	\$ 59,562,460	\$ 61,386,955	\$ 71,755,488	\$ 76,076,921
Operating grants and contributions	18,821,609	18,497,749	-	-	18,821,609	18,497,749
Capital grants and contributions	2,092,816	6,240,235	22,107,628	8,374,748	24,200,444	14,614,983
General revenues:						
Property taxes	19,861,396	18,429,084	-	-	19,861,396	18,429,084
Income taxes	15,487,439	15,540,594	-	-	15,487,439	15,540,594
State shared revenue	14,899,242	14,451,256	-	-	14,899,242	14,451,256
Cable franchise fees	1,022,650	-	-	-	1,022,650	-
Unrestricted investments earnings	773,736	1,113,097	362,738	613,207	1,136,474	1,726,304
Gain on sale of capital assets	-	-	-	-	-	-
Miscellaneous	967,327	1,028,723	298,954	37,051	1,266,281	1,065,774
Total revenues	<u>86,119,243</u>	<u>89,990,704</u>	<u>82,331,780</u>	<u>70,411,961</u>	<u>168,451,023</u>	<u>160,402,665</u>
Expenses:						
General government	14,329,561	14,042,753	-	-	14,329,561	14,042,753
Judicial	530,845	5,143,547	-	-	530,845	5,143,547
Public safety	48,981,359	51,070,022	-	-	48,981,359	51,070,022
Building inspection	1,561,223	1,254,516	-	-	1,561,223	1,254,516
Public works	18,538,906	25,477,531	-	-	18,538,906	25,477,531
Legislative	1,005,230	-	-	-	1,005,230	-
Community development	5,750,353	8,988,332	-	-	5,750,353	8,988,332
Facilities, parks, and recreation	1,825,123	1,723,835	-	-	1,825,123	1,723,835
Transportation	6,626,953	-	-	-	6,626,953	-
Interest on long-term debt	1,306,639	1,280,956	-	-	1,306,639	1,280,956
Sewer	-	-	30,017,709	24,710,771	30,017,709	24,710,771
Water	-	-	47,146,884	33,959,767	47,146,884	33,959,767
Total expenses	<u>100,456,192</u>	<u>108,981,492</u>	<u>77,164,593</u>	<u>58,670,538</u>	<u>177,620,785</u>	<u>167,652,030</u>
Excess (deficiency) before transfers	(14,336,949)	(18,990,788)	5,167,187	11,741,423	(9,169,762)	(7,249,365)
Transfers	2,779,668	2,990,000	(2,779,668)	(2,990,000)	-	-
Increase (decrease) in net position	(11,557,281)	(16,000,788)	2,387,519	8,751,423	(9,169,762)	(7,249,365)
Net position, beginning of year (restated)	(198,137,671)	(182,136,882)	57,761,209	49,009,786	(140,376,462)	(133,127,096)
Net position, end of year	<u>\$ (209,694,952)</u>	<u>\$ (198,137,670)</u>	<u>\$ 60,148,728</u>	<u>\$ 57,761,209</u>	<u>\$ (149,546,224)</u>	<u>\$ (140,376,461)</u>

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City of Flint, Michigan
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Analysis of Fund Financial Statements

As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds

The focus of the City's governmental funds is to provide information on near-term inflows, outflows, and balances of expendable resources. Such information is useful in assessing the City's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

The City's governmental funds show an operating surplus (or fund balance) of \$ 47.7 million as of June 30, 2017. This is an increase of \$9.4 million compared to fund balance of \$38.3 million at the end of FY 2015/16. One significant factor is the continuing emphasis on containing expenses wherever possible. The financial impact of changes in active and retiree health care benefits began to be seen. The City was able to collect premiums from the retirees in amount of \$2.0 million in FY 2016/17.

The non-major governmental funds have a fund balance of \$21.5 million, of which virtually all is invested in infrastructure and equipment or restricted for specific purposes. The largest fund balances among the governmental funds are the General Fund \$17.0 million. The major street fund, which is a special Revenue fund, has a fund balance of \$8.5 million. Special revenue funds are maintained primarily to demonstrate accountability. Federal and state laws place restrictions on how these funds can be spent.

Proprietary Funds

The City's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail.

Total net position in the Water Fund is \$19.3 million, an increase of \$3.5 million from the previous year. Net operating income was a negative \$17.6 million an increase from a negative \$1.43 million in previous year. This negative increase was due to the State stopping the water credit program at the end of January 2017. (The State was paying 65% of residential and 20% of commercial water bills.) The State of Michigan also stopped helping the City with its payment to GLWA for the purchase of water. There was an increase in contractual services of \$3.6 million, which can be attributed to the Lead Line Replacement Program. Operating Revenue decreased by \$1.8 million in FY 2016/17 as compared to FY 2015/16 and operating expenditures increased by \$18.5 million in FY 2016/17 compared to FY 2015/16. The Water Fund has a bond reserve account of \$2.0 million and an equipment reserve account of \$3 million. The bond reserve was created to help fund the City's yearly bond payment on the Drinking Water Revolving Loans that the City took out in 2004. The State of Michigan and the EPA are in discussions about possibly forgiving the City of the balance on these loans of approximately \$20.7 million. In FY 2015/16 the State of Michigan did defer the principal payment for 5 years and forgave the interest on these loans.

Net position in the Sewer Fund is \$37.4 million, a decrease of \$2.4 million from FY 2015/16. Net operating income was a negative \$1 million with total operating expenditures of \$31.4 million, which is an increase from FY 2015/16 of \$5 million. This increase is due to bad debt expense of \$2.0 million and an increase in contractual services of \$1.5 million for sewer relining and root control. In FY 2015/16 the City initiated a spending freeze so these services resumed in FY 2016/17.

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Capital Assets

The City's net investment in capital assets for its governmental and business-type activities as of June 30, 2017 amounts to \$211.4 million (net of accumulated depreciation), a net decrease of \$8.7 million. This net investment in capital assets includes land, buildings and system improvements, machinery and equipment, park facilities, roads, highways, and bridges (see Table 4). The decrease can be attributed to the \$8.0 million decrease in infrastructure. Additional information on the City's capital assets can be found in Note 8.

Table 4 City of Flint's Capital Assets – Net of Depreciation

	Governmental Activities		Business-type Activities		Total Primary Government	
	2017	2016	2017	2016	2017	2016
Land	\$ 14,409,836	\$ 14,409,836	\$ 762,394	\$ 762,394	\$ 15,172,230	\$ 15,172,230
Construction in progress	401,283	436,576	-	-	401,283	436,576
Land improvements	2,706,467	2,702,171	2,957,416	3,117,754	5,663,883	5,819,925
Infrastructure	89,048,458	97,010,693	39,457,405	36,186,572	128,505,863	133,197,265
Buildings, additions, and improvements	4,469,924	4,771,676	14,778,747	16,077,115	19,248,671	20,848,791
Machinery and equipment	1,603,772	1,656,812	38,374,255	40,175,902	39,978,027	41,832,714
Vehicles	1,255,912	1,292,766	1,162,734	1,445,007	2,418,646	2,737,773
Total	\$ 113,895,652	\$ 122,280,530	\$ 97,492,951	\$ 97,764,744	\$ 211,388,603	\$ 220,045,274

Debt Administration

Debt is administered through three debt service funds and the Public Improvement Fund. In addition, the Water Fund services debt for bonds issued for plant improvements. In FY 2015/16 the State restructured the City's Drinking Water Revolving Loan Fund due to the water crisis. As stated earlier, the principal payments were deferred five years and the interest was removed. (see Table 5)

General Obligation Bonds

The City issued \$10 million in General Obligation Bonds in fiscal year 2008 on behalf of the Flint Downtown Development Authority for construction of the new Rutherford parking structure. The City has pledged a portion of state-shared revenue as security for the bond. The DDA has pledged net revenue from the parking operations for the repayment of the bond. However, in the City's approved deficit elimination plan, it was determined by the City that the DDA's commitment to funding its portion of the debt service for the parking ramp was unrealistic given the decline in property values and revenues expected to be received through operations were not realized. The City as the guarantor is making the debt service payments.

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City of Flint, Michigan
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Long-term Debt

At year end, the City had \$34.7 million in bonds and notes and compensated absences outstanding for governmental activities and \$22.2 million in bonds and notes and compensated absences outstanding for business-type activities. Additional information on the City's long-term debt can be found in Note 12.

Table 5 – City of Flint's Long-term Debt

	Governmental Activities		Business-type Activities		Total	
	2017	2016	2017	2016	2017	2016
General obligation debt	\$ 8,025,000	\$ 8,355,000	\$ -	\$ -	\$ 8,025,000	\$ 8,355,000
Local government loan	6,990,000	7,210,000	-	-	6,990,000	7,210,000
Emergency loan	6,200,000	6,610,000	-	-	6,200,000	6,610,000
Revenue bonds and notes	-	-	20,770,336	20,770,336	20,770,336	20,770,336
Other notes	9,920,276	10,715,451	-	-	9,920,276	10,715,451
Capital leases	433,737	597,648	901,815	1,188,473	1,335,552	1,786,121
Accrued annual and sick pay	3,092,942	3,168,787	489,479	524,910	3,582,421	3,693,697
Total	\$ 34,661,955	\$ 36,656,886	\$ 22,161,630	\$ 22,483,719	\$ 56,823,585	\$ 59,140,605

Limitations on Debt

The State limits the amount of general obligation debt the City can issue to 7 percent of the assessed value of all taxable property within the City's corporate limits. The City's legal debt limit is \$53.2 million. The amount of debt available to the City (unused portion of the debt limitation) is \$32.0 million. The City can issue bonds through the Michigan Municipal Bonding Authority's state-shared revenue program. This program may require a pledge of the City's future state-shared revenues.

Bond Ratings

There are no current ratings for the City. Prior ratings were withdrawn as the City's financial position led to consideration of the City being placed into receivership. Moody's Investors Service last rated the City's general obligation unlimited bonds at Ba1, with a stable outlook in February 2006.

City of Flint, Michigan
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The City of Flint, Michigan Funds

The City's Governmental funds include the General Fund, Grants & Nonmajor Governmental Funds. The General Fund pays for most of the City's governmental services. The General Fund recorded \$45.6 million in expenses to provide City services in fiscal year FY 2016/17. The most significant expenses were for Public Safety (police & fire). Public Safety must account for at least 55.5% of the General Fund Budget per Ordinance.

Public Safety services are partially supported by two special millages, a Public Safety Millage and a Neighborhood Policing Millage. These millages are recorded in separate special revenue funds. The Neighborhood Policing Fund had expenditures of \$785 thousand and the Public Safety Fund had expenditures of \$4.7 million. The Public Safety Fund includes both police and fire.

A combined \$10.5 million was spent in FY 2016/17 on major and local road repairs. The Local Street Fund received an operating transfer from the Major Street Fund in FY 2016/17 of \$500,000. In the City's Garbage Collection Fund, the City spent \$4.2 million to collect and dispose of the City's solid waste, recyclables, and leaves in FY 2016/17. The City spent \$2.3 million in the Street Lights Assessment Fund to cover the expense of the street lights and upgrades in the City of Flint.

Budgets

The placement of the City into state receivership twice in the past 12 years emphasizes the City's precarious and long standing financial position. Flint still has one of the highest unemployment rates in the nation; the change from homeownership to rentals as substantially increased over the years; crime continues to grow even with the support from the State; and our infrastructure continues to age.

The City reviews its budgets on a monthly basis and makes various amendments to address unexpected operating events throughout the year. The total amount of revenue appropriation adjustments reflected a net increase of \$87.4 million. The major adjustments were in the grant funds of \$45.5 million and the Water Fund of \$42.5 million. The City doesn't budget for the grant funds. The grant funds are rolled from year to year depending on the balance of the grant at year end. The Water Fund increase is due to the grant funding from the State of Michigan and the Federal Government. The General Fund revenue budget was increased by \$448 thousand. When comparing the City's General Fund amended revenue appropriation to actual revenues, the actual revenue received is 106 percent of the amended revenue appropriation, or \$50.0 million.

The total amount of expenditure appropriation adjustments amounted to \$87.5 million an increase across all operating funds. The Water Fund accounted for \$38.8 million of the overall expenditure increase. The increase was due mainly to the funding received from the State and Federal Government for the lead line replacement program. The General Fund expenditure budget was increased by \$448 thousand. The grant funds increased by \$45.5 million. When comparing the City's General Fund amended expenditure appropriation to actual expenditures, the City spent 91 percent of the total appropriation or \$45.7 million.

City of Flint, Michigan
Management's Discussion and Analysis
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Economic Factors and Next Year's Budgets and Rates

The City will be challenged for several more years as it works to rebuild financial stability while providing a future vision and basic level of services. A sound vision for the provision of quality services while remaining solvent is crucial to redevelop the City of Flint as an attractive place to live, play, study, work, and visit.

In summary, challenges include:

- An aging and reduced workforce, resulting in an increase in the ratio of retirees to active employees, affecting pension and health care costs
- Aging sewer, water, street, and sidewalk infrastructure
- Providing safe and affordable drinking water
- Combating high levels of crime
- Higher water and sewer rates
- A shrinking population

There are, however, many positive steps being taken by the City to insure the path of financial solvency, including:

- Ongoing commitment to new policies, practices, and organizational changes focused on financial stability.
- Taking steps to improve and maintain long-term financial solvency, including seeking innovative ways to reduce costs and improve efficiencies within City operations
- Strong partnership with entities such as the Greater Regional Flint Chamber of Commerce and the State of Michigan to promote economic development
- Strong support – financial and otherwise – from the Mott Foundations to support a variety of activities and programs in Flint
- Diversification of Flint's economic base, especially in higher education and health care
- Continuing financial support from the State of Michigan to assist the City with Public Safety, clean drinking water and assisting financially in keeping the City's lockup open.

Long Term Financial Planning

- The City will continue to carefully manage resources that are available for operations and improvements.
- The City will continue to monitor all operating programs in order to determine if the program provides a quality level of service at a fair cost.
- The City will continue to evaluate revenues to ensure that fees charged meet program expenses.
- The City will continue to follow newly adopted Ordinances including the adoption of a biennial budget with a five year projection. Through this long term planning, the City will continue to evaluate and monitor its budgets. Adjustments will be made to address changes in economic conditions and other events as they present themselves.
- The Capital Improvement Plan was developed, reviewed by the Public, and approved by the Planning Commission and the City Council and is updated on a yearly basis.
- The City of Flint has a Master Plan. The plan paints a new vision for the City and is focused on making Flint an attractive place to live, work, learn, and play.

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City of Flint, Michigan
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- The City continues to receive valuable support in the form of grants from local organizations including the Ruth Mott Foundation, Charles Stewart Mott and the Community Foundation; the State of Michigan, FEMA and the Federal Government. For FY 2016/17 the City received grants from these organizations that totaled over \$187.0 million. This does not include the support the City receives from HUD for its Community Development Block Grant, Home Investment Partnerships Program (HOME) and Emergency Shelter Grants, which included an additional \$4.6 million.
- There have been ongoing repairs and improvements to the City's water treatment and distribution system. The City continues to work with the State of Michigan and the EPA in evaluating and improving the water plant and the City's infrastructure.
- In FY 2016/17 over 2,181 lead lines were replaced with 6,000 more scheduled for FY 2017/18. Funding coming from grants received from the State of Michigan and the Federal Government
- The City received a SAFER grant in the amount of \$3.8 million for 33 firefighters for 2 years.
- The City of Flint has continued to see significant private investment over the course of FY 2016/17. Multiple projects have been completed, are in progress, or are planned throughout the City in the next few years.
- The Flint River Restoration project was initiated with the \$4 million removal of the Hamilton Dam, which is scheduled to begin in November 2017.
- \$35 million has been earmarked for the Flint River Restoration, which will result in improved water quality and enhanced riverfront from Hamilton Ave. to the Mott Park Golf Course.
- Two residential development projects have begun, receiving funding from both the City and MSHDA. The Marketplace is a \$19 million mixed-income, mixed-use development that will include 92 residential units and open around mid-2019.
- On the West side of Flint, the historic Coolidge School will be rehabilitated and a new building will be built on site. The 54 unit residential complex will be named Coolidge Park Apartments and cost over \$17 million to complete.
- The City has partnered with the Flint Housing Commission and Norstar Development LLC to submit a LIHTC (Low Income Housing Tax Credit) application to MSHDA for a new 63 unit mixed income residential complex. The total project cost is over \$15 million.
- Mott Community College is in the process of rehabilitating a vacant 36,000 sq. ft. building in downtown Flint for their new Culinary Institute. The \$13 million project will open its doors in Fall 2018.
- The City continues to implement its 5-year plan to combat blight. Since 2014 the City has been awarded over \$67.4 million in funds to combat residential blight through demolition, resulting in over 5,000 blighted and abandoned homes being demolished.
- The City was awarded a commercial demolition grant that will target 3 significantly distressed vacant buildings.

Requests for Information

This financial report is designed to provide a general overview of the City of Flint's finances for all those with an interest in the financial position of the City. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Office of the Chief Financial Officer, City of Flint, 1101 South Saginaw Street, Room #203, Flint, Michigan 48502.

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City of Flint, Michigan
Statement of Net Position
June 30, 2017

	Primary Government			Component Units
	Governmental Activities	Business-type Activities	Total	
Assets				
Cash and cash equivalents	\$ 1,496,737	\$ -	\$ 1,496,737	\$ 84,199,314
Pooled cash and investments	68,819,443	60,384,751	129,204,194	-
Investments	1,000,144	-	1,000,144	119,570,663
Receivables, net of allowance				
Property taxes receivable	2,277,576	-	2,277,576	-
Customers	-	23,178,081	23,178,081	51,132,295
Other receivables	3,749,717	387	3,750,104	2,331
Accrued interest	17,035	61,538	78,573	519,661
Due from other units of government	7,296,679	4,342,366	11,639,045	-
Internal balances	(3,450,763)	3,450,763	-	-
Due from component units, net of allowance	6,300,368	-	6,300,368	-
Notes and leases receivable, net of allowance	8,903,279	-	8,903,279	384,070
Inventories	110,868	976,528	1,087,396	5,193,318
Prepaid items	373,240	2,402,455	2,775,695	3,682,793
Restricted assets				
Cash and cash equivalents	383,698	5,113,523	5,497,221	13,442,591
Investments	4,315	-	4,315	24,188,557
Other assets	-	-	-	954,408
Investment in joint venture	-	-	-	6,377,966
Capital assets not being depreciated	14,811,119	762,394	15,573,513	4,971,927
Capital assets, net of accumulated depreciation	99,084,533	96,730,557	195,815,090	115,045,671
Total assets	211,177,988	197,403,343	408,581,331	429,665,565
Deferred outflows of resources				
Deferred amount relating to net pension liability	15,434,551	3,474,550	18,909,101	40,696,525
Deferred amount on refunding	-	-	-	913,997
Total deferred outflows of resources	15,434,551	3,474,550	18,909,101	41,610,522
Total assets and deferred outflows of resources	226,612,539	200,877,893	427,490,432	471,276,087

See Accompanying Notes to the Financial Statements
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City of Flint, Michigan
Statement of Net Position
June 30, 2017

	Primary Government			Component Units
	Governmental Activities	Business-type Activities	Total	
Liabilities				
Accounts payable	\$ 9,229,901	\$ 4,050,349	\$ 13,280,250	\$ 19,046,399
Checks written against future deposits	786,183	-	786,183	-
Accrued and other liabilities	2,104,367	1,398,240	3,502,607	34,918,454
Due to primary government	-	-	-	8,080,686
Due to other units of government	602,887	-	602,887	-
Deposits payable	590,657	908,953	1,499,610	-
Claims payable	395,101	-	395,101	34,251,657
Payable from restricted assets	-	-	-	501,298
Unearned revenue	120,389	1,102,938	1,223,327	11,407
Debt due within one year	2,692,855	425,524	3,118,379	6,514,761
Noncurrent liabilities				
Claims payable	791,387	-	791,387	24,285,365
Debt due in more than one year	31,969,100	21,736,106	53,705,206	80,287,485
Net pension liability	262,488,702	83,256,461	345,745,163	174,742,143
Other postemployment benefit obligations	124,535,962	27,850,594	152,386,556	-
Total liabilities	436,307,491	140,729,165	577,036,656	382,639,655
Deferred inflows of resources				
Deferred amount on net pension liability	-	-	-	2,936,055
Total liabilities and deferred inflows of resources	436,307,491	140,729,165	577,036,656	385,575,710
Net position				
Net investment in capital assets	112,083,639	75,820,800	187,904,439	30,000,239
Restricted for:				
Roads	5,659,422	-	5,659,422	-
Community development	33,935	-	33,935	778,595
Revolving loan program	-	-	-	1,094,980
Capital projects	7,370,782	-	7,370,782	-
Building inspection	3,372,452	-	3,372,452	-
Public works	852,246	-	852,246	-
Debt service	-	2,077,033	2,077,033	-
Capital replacement	-	3,036,490	3,036,490	-
Donor restricted and other	-	-	-	8,128,180
Unrestricted (deficit)	(339,067,428)	(20,785,595)	(359,853,023)	45,698,383
Total net position	\$ (209,694,952)	\$ 60,148,728	\$ (149,546,224)	\$ 85,700,377

See Accompanying Notes to the Financial Statements
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**City of Flint, Michigan
Statement of Activities
For the Year Ended June 30, 2017**

Functions/Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Position			Component Units
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government			
					Governmental Activities	Business-type Activities	Total	
Primary government								
Governmental activities								
General government	\$ 14,329,009	\$ 7,356,125	\$ 413,713	\$ -	\$ (6,559,171)	\$ -	\$ (6,559,171)	\$ -
Judicial	530,845	177,055	-	-	(353,790)	-	(353,790)	-
Public safety								
Police	35,542,024	1,616,609	3,053,378	-	(30,872,037)	-	(30,872,037)	-
Fire	13,278,780	696,965	-	-	(12,581,815)	-	(12,581,815)	-
Building inspection	1,561,223	2,232,541	-	-	671,318	-	671,318	-
Emergency dispatch	160,555	-	-	-	(160,555)	-	(160,555)	-
Public works	18,538,906	2,860	-	337,684	(18,198,362)	-	(18,198,362)	-
Legislative	1,005,230	-	-	-	(1,005,230)	-	(1,005,230)	-
Community development	5,750,353	5,224	797,968	767,719	(4,179,442)	-	(4,179,442)	-
Facilities, parks, and recreation	1,825,123	61,208	3,316,490	987,413	2,539,988	-	2,539,988	-
Transportation	6,626,953	44,441	11,240,060	-	4,657,548	-	4,657,548	-
Interest on long-term debt	1,307,191	-	-	-	(1,307,191)	-	(1,307,191)	-
Total governmental activities	100,456,192	12,193,028	18,821,609	2,092,816	(67,348,739)	-	(67,348,739)	-
Business-type activities								
Sewer	30,017,709	30,057,960	-	287,809	-	328,060	328,060	-
Water	47,146,884	29,504,500	-	21,819,819	-	4,177,435	4,177,435	-
Total business-type activities	77,164,593	59,562,460	-	22,107,628	-	4,505,495	4,505,495	-
Total primary government	177,620,785	71,755,488	18,821,609	24,200,444	(67,348,739)	4,505,495	(62,843,244)	-
Component Units								
Downtown Development Authority	\$ 1,990,328	\$ 918,968	\$ -	\$ -	-	-	-	(1,071,360)
Economic Development Corporation	173,553	136,548	47,745	-	-	-	-	10,740
Flint Area Enterprise Community	17,317	-	-	-	-	-	-	(17,317)
Hurley Medical Center	477,457,260	491,442,931	-	-	-	-	-	13,985,671
Total component units	479,638,458	492,498,447	47,745	-	-	-	-	12,907,734
General revenues								
Property taxes					19,861,396	-	19,861,396	427,091
Income taxes					15,487,439	-	15,487,439	-
State shared revenue					14,899,242	-	14,899,242	-
Cable franchise fees					1,022,650	-	1,022,650	-
Unrestricted investment earnings					773,736	362,738	1,136,474	47,061
Gain on extinguishment of debt					-	-	-	345,199
Miscellaneous					967,327	298,954	1,266,281	1,139,022
Transfers					2,779,668	(2,779,668)	-	-
Total general revenues and transfers					55,791,458	(2,117,976)	53,673,482	1,958,373
Change in net position					(11,557,281)	2,387,519	(9,169,762)	14,866,107
Net position – beginning of year					(198,137,671)	57,761,209	(140,376,462)	70,834,270
Net position – end of year					\$ (209,694,952)	\$ 60,148,728	\$ (149,546,224)	\$ 85,700,377

See Accompanying Notes to the Financial Statements

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**City of Flint, Michigan
Governmental Funds
Balance Sheet
June 30, 2017**

	General	Special Revenue		Nonmajor Governmental Funds	Total Governmental Funds
		Grant Fund	Major Streets		
Assets					
Cash and cash equivalents	\$ -	\$ 314,210	\$ -	\$ 483,849	\$ 798,059
Pooled cash and investments	13,242,022	-	7,169,703	16,372,780	36,784,505
Investments	-	1,000,144	-	-	1,000,144
Receivables					
Property taxes receivable	1,065,371	-	-	1,212,205	2,277,576
Other receivables	3,534,137	-	-	-	3,534,137
Accrued interest and other	-	-	-	17,035	17,035
Due from other units of government	2,972,195	2,004,065	1,571,774	458,571	7,006,605
Due from component unit, net of allowance	55,686	-	-	6,244,682	6,300,368
Notes and leases receivable	-	8,623,229	-	280,050	8,903,279
Restricted assets					
Cash and cash equivalents	-	383,698	-	-	383,698
Total assets	\$ 20,869,411	\$ 12,325,346	\$ 8,741,477	\$ 25,069,172	\$ 67,005,406
Liabilities					
Accounts payable	\$ 1,562,001	\$ 1,054,481	\$ 184,690	\$ 625,015	\$ 3,426,187
Checks written against future deposits	39,918	746,265	-	-	786,183
Deposits and advances	-	-	25	590,632	590,657
Accrued and other liabilities	525,143	81,417	48,107	857,719	1,512,386
Due to other units of government	602,883	-	-	4	602,887
Unearned revenue	-	117,051	3,338	-	120,389
Total liabilities	2,729,945	1,999,214	236,160	2,073,370	7,038,689
Deferred inflows of resources					
Property taxes	1,065,674	-	-	1,212,578	2,278,252
Notes and leases receivable	-	8,623,229	-	288,575	8,911,804
Grants	-	1,026,794	-	-	1,026,794
Total deferred inflows of resources	1,065,674	9,650,023	-	1,501,153	12,216,850
Total liabilities and deferred inflows of resources	3,795,619	11,649,237	236,160	3,574,523	19,255,539

See Accompanying Notes to the Financial Statements

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City of Flint, Michigan
Governmental Funds
Balance Sheet
June 30, 2017

	Special Revenue			Nonmajor Governmental Funds	Total Governmental Funds
	General	Grant Fund	Major Streets		
Fund balances					
Non-spendable					
Restricted for:					
Roads	\$ -	\$ -	\$ 8,505,317	\$ 2,883,447	\$ 11,388,764
Police	-	97,470	-	1,510,957	1,608,427
Community Development	-	578,639	-	-	578,639
Economic development	-	-	-	483,716	483,716
Debt service	-	-	-	10,766	10,766
Capital projects	-	-	-	7,370,782	7,370,782
Recreation and culture	-	-	-	223,191	223,191
Building inspection	-	-	-	3,372,452	3,372,452
Public safety	-	-	-	3,865,804	3,865,804
Public works	-	-	-	852,246	852,246
Street lighting	-	-	-	921,288	921,288
Unassigned	<u>17,073,792</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>17,073,792</u>
Total fund balances	<u>17,073,792</u>	<u>676,109</u>	<u>8,505,317</u>	<u>21,494,649</u>	<u>47,749,867</u>
Total liabilities, deferred inflows of resources and fund balances	<u>\$ 20,869,411</u>	<u>\$ 12,325,346</u>	<u>\$ 8,741,477</u>	<u>\$ 25,069,172</u>	<u>\$ 67,005,406</u>

See Accompanying Notes to the Financial Statements
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City of Flint, Michigan
Governmental Funds
Reconciliation of Fund Balances of Governmental Funds
to Net Position of Governmental Activities
June 30, 2017

Total fund balances for governmental funds	\$ 47,749,867
Total net position for governmental activities in the statement of net position is different because:	
Capital assets net of accumulated depreciation used in governmental activities are not financial resources and therefore are not reported in the funds.	97,625,412
Capital assets not being depreciated used in governmental activities are not financial resources and therefore are not reported in the funds.	14,811,119
Certain receivables are not available to pay for current period expenditures and, therefore are deferred in the funds.	12,216,850
Certain liabilities are not due and payable in the current period and are not reported in the funds.	
Accrued interest	(349,043)
Compensated absences	(3,092,942)
Net pension liability	(262,488,702)
Net other post employment obligation	(124,535,962)
Deferred outflows (inflows) of resources	
Deferred outflow of resources resulting from net pension liability	15,434,551
Long-term liabilities applicable to governmental activities are not due and payable in the current period and accordingly are not reported as fund liabilities.	(31,135,276)
Internal service funds are included as part of governmental activities.	<u>24,069,174</u>
Net position of governmental activities	<u>\$ (209,694,952)</u>

See Accompanying Notes to the Financial Statements
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City of Flint, Michigan
Governmental Funds
Statement of Revenues, Expenditures and Changes in Fund Balances
For the Year Ended June 30, 2017

	General	Grant Fund	Major Streets	Nonmajor Governmental Funds	Total Governmental Funds
Revenues					
Taxes	\$ 4,759,236	\$ -	\$ -	\$ 12,201,573	\$ 16,960,809
Income taxes	15,644,292	-	-	-	15,644,292
Licenses and permits	66,515	-	1,400	2,159,833	2,227,748
Federal grants	-	5,783,334	-	-	5,783,334
State revenue	18,216,677	645,660	8,121,363	3,081,583	30,065,283
Other state grants	-	-	321,345	-	321,345
Charges for services	8,290,092	70,174	36,601	2,784,393	11,181,260
Fines and forfeitures	288,387	-	-	141,473	429,860
Investment income	282,178	291,404	26,062	73,095	672,739
Local contributions	50,590	646,435	17,756	332,104	1,046,885
Cable franchise fees	1,022,650	-	-	-	1,022,650
Miscellaneous	455,231	393,000	73,855	577,437	1,499,523
Total revenues	<u>49,075,848</u>	<u>7,830,007</u>	<u>8,598,382</u>	<u>21,351,491</u>	<u>86,855,728</u>
Expenditures					
Current					
General government	10,339,533	-	-	-	10,339,533
Judicial - 68th District Court	901,361	-	-	-	901,361
Public safety:					
Police department	21,966,606	2,914,599	-	858,267	25,739,472
Combined public safety department	-	-	-	4,745,724	4,745,724
Fire	9,034,111	-	-	-	9,034,111
Building inspection	-	-	-	1,890,010	1,890,010
Emergency dispatch	88,622	-	-	-	88,622
Public works	-	-	6,552,517	4,161,996	10,714,513
Legislative	870,950	-	-	-	870,950
Community development	729,330	4,842,583	-	4,172	5,576,085
Facilities maintenance	1,643,145	-	-	-	1,643,145

See Accompanying Notes to the Financial Statements
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City of Flint, Michigan
Governmental Funds
Statement of Revenues, Expenditures and Changes in Fund Balances
For the Year Ended June 30, 2017

	General	Grant Fund	Major Streets	Nonmajor Governmental Funds	Total Governmental Funds
Parks and recreation	\$ -	\$ -	\$ -	\$ 584,219	\$ 584,219
Transportation	-	-	-	6,084,566	6,084,566
Debt service					
Principal retirement	-	684,000	111,173	960,000	1,755,173
Interest and fiscal charges	-	306,773	7,447	919,387	1,233,607
Total expenditures	<u>45,573,658</u>	<u>8,747,955</u>	<u>6,671,137</u>	<u>20,208,341</u>	<u>81,201,091</u>
Excess (deficiency) of revenues over expenditures	<u>3,502,190</u>	<u>(917,948)</u>	<u>1,927,245</u>	<u>1,143,150</u>	<u>5,654,637</u>
Other financing sources (uses)					
Transfers in	3,777,998	15,641	-	1,299,024	5,092,663
Transfers out	(80,489)	-	(500,000)	(734,176)	(1,314,665)
Total other financing sources and uses	<u>3,697,509</u>	<u>15,641</u>	<u>(500,000)</u>	<u>564,848</u>	<u>3,777,998</u>
Net change in fund balance	7,199,699	(902,307)	1,427,245	1,707,998	9,432,635
Fund balance – beginning of year, restated	<u>9,874,093</u>	<u>1,578,416</u>	<u>7,078,072</u>	<u>19,786,651</u>	<u>38,317,232</u>
Fund balance – end of year	<u>\$ 17,073,792</u>	<u>\$ 676,109</u>	<u>\$ 8,505,317</u>	<u>\$ 21,494,649</u>	<u>\$ 47,749,867</u>

See Accompanying Notes to the Financial Statements
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City of Flint, Michigan
Governmental Funds
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances
of Governmental Funds to the Statement of Activities
For the Year Ended June 30, 2017

Net change in fund balances - Total governmental funds	\$ 9,432,635
Total change in net position reported for governmental activities in the statement of activities is different because:	
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.	
Depreciation expense	(11,237,383)
Capital outlay	2,908,177
Revenues in the statement of activities that do not provide current financial resources are not reported as revenue in the funds.	
Grants	(555,870)
Property taxes	40,099
Notes and leases receivable	(325,945)
Expenses are recorded when incurred in the statement of activities	
Accrued interest	(73,584)
Compensated absences	75,845
Net other post employment obligation	(1,552,830)
The statement of net position reports the net pension liability and deferred outflows of resources and deferred inflows related to the net pension liability and pension expense. However, the amount recorded on the governmental funds equals actual pension contributions	
Net change in net pension liability	(482,192)
Net change in the deferred outflow of resources related to the net pension liability	(14,586,015)
Bond proceeds are reported as financing sources in the governmental funds and thus contribute to the change in fund balance. In the statement of net position, however, issuing debt increases long-term liabilities and does not affect the statement of activities. Similarly, repayment of principal is an expenditure in the governmental funds but reduces the liability in the statement of net position.	
Repayments of long-term debt	1,755,175
Internal service funds are also included as governmental activities	3,044,607
Change in net position of governmental activities	\$ (11,557,281)

See Accompanying Notes to the Financial Statements
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City of Flint, Michigan
Proprietary Funds
Statement of Net Position
June 30, 2017

	Enterprise Funds			Internal Service Funds
	Sewer	Water	Total	
Assets				
Current assets				
Cash and cash equivalents	\$ -	\$ -	\$ -	\$ 698,678
Pooled cash and investments	38,443,941	21,940,810	60,384,751	32,034,938
Receivables				
Other	155	232	387	-
Customers	10,867,194	12,310,887	23,178,081	215,580
Due from other units of government	108,760	4,233,606	4,342,366	290,074
Inventories	711,678	264,850	976,528	110,868
Prepaid items	-	2,402,455	2,402,455	373,240
Total current assets	50,131,728	41,152,840	91,284,568	33,723,378
Noncurrent assets				
Restricted assets				
Cash and cash equivalents	-	5,113,523	5,113,523	4,315
Accrued interest receivable	61,538	-	61,538	-
Capital assets not being depreciated	38,077	724,317	762,394	-
Capital assets, net of accumulated depreciated	48,976,873	47,753,684	96,730,557	1,459,121
Total noncurrent assets	49,076,488	53,591,524	102,668,012	1,463,436
Total assets	99,208,216	94,744,364	193,952,580	35,186,814
Deferred Outflows of Resources				
Deferred amount of pension expense related to net pension liability	1,850,709	1,623,841	3,474,550	-
Total assets and deferred outflows of resources	101,058,925	96,368,205	197,427,130	35,186,814

See Accompanying Notes to the Financial Statements
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City of Flint, Michigan
Proprietary Funds
Statement of Net Position
June 30, 2017

	Enterprise Funds			Internal Service Funds
	Sewer	Water	Total	
Liabilities				
Current liabilities				
Accounts payable	\$ 1,307,727	\$ 2,742,622	\$ 4,050,349	\$ 5,803,714
Accrued and other liabilities	388,094	1,010,146	1,398,240	242,938
Claims payable - current	-	-	-	395,101
Deposits payable	-	908,953	908,953	-
Unearned revenue	-	1,102,938	1,102,938	-
Current portion of noncurrent liabilities	201,113	224,411	425,524	168,124
Total current liabilities	<u>1,896,934</u>	<u>5,989,070</u>	<u>7,886,004</u>	<u>6,609,877</u>
Noncurrent liabilities				
Claims payable	-	-	-	791,387
Other postemployment benefit	16,337,944	11,512,650	27,850,594	-
Net pension liability	44,828,406	38,428,055	83,256,461	-
Long-term debt net of current portion	589,733	21,146,373	21,736,106	265,613
Total noncurrent liabilities	<u>61,756,083</u>	<u>71,087,078</u>	<u>132,843,161</u>	<u>1,057,000</u>
Total liabilities	<u>63,653,017</u>	<u>77,076,148</u>	<u>140,729,165</u>	<u>7,666,877</u>
Net position				
Net investment in capital assets	48,444,350	27,376,450	75,820,800	1,025,384
Restricted for:				
Debt service	-	2,077,033	2,077,033	-
Capital replacement	-	3,036,490	3,036,490	-
Unrestricted (deficit)	<u>(11,038,442)</u>	<u>(13,197,916)</u>	<u>(24,236,358)</u>	<u>26,494,553</u>
Total net position	<u>\$ 37,405,908</u>	<u>\$ 19,292,057</u>	<u>56,697,965</u>	<u>\$ 27,519,937</u>
Some amounts reported for business-type activities in the statement of net position are different because certain internal service funds assets and liabilities are reported with business-type activities			<u>3,450,763</u>	
Net position of business-type activities			<u>\$ 60,148,728</u>	

See Accompanying Notes to the Financial Statements
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City of Flint, Michigan
Proprietary Funds
Statement of Revenues, Expenses and Changes in Fund Net Position
For the Year Ended June 30, 2017

	Enterprise Funds			Internal Service Funds
	Sewer	Water	Total	
Operating revenue				
User charges	\$ 30,057,960	\$ 29,504,500	\$ 59,562,460	\$ 55,031,176
Other revenue	236,380	62,574	298,954	513,012
Total operating revenue	<u>30,294,340</u>	<u>29,567,074</u>	<u>59,861,414</u>	<u>55,544,188</u>
Operating expenses				
Salaries and benefits	17,094,252	15,027,064	32,121,316	2,747,968
Supplies	1,139,097	1,092,370	2,231,467	893,901
Contractual services	2,859,611	6,316,612	9,176,223	5,533,831
Claims	-	-	-	497,100
Utilities	1,643,794	357,493	2,001,287	32,379
Equipment operation	224,010	1,005,907	1,229,917	-
Repairs and maintenance	1,194,218	316,032	1,510,250	438,955
Insurance	-	-	-	645,530
Other expenses	3,205,317	2,660,160	5,865,477	273,251
Costs of materials and services rendered	-	17,307,301	17,307,301	39,349,939
Depreciation	4,014,638	3,053,073	7,067,711	522,047
Total operating expenses	<u>31,374,937</u>	<u>47,136,012</u>	<u>78,510,949</u>	<u>50,934,901</u>
Operating income (loss)	<u>(1,080,597)</u>	<u>(17,568,938)</u>	<u>(18,649,535)</u>	<u>4,609,287</u>

See Accompanying Notes to the Financial Statements
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City of Flint, Michigan
Proprietary Funds
Statement of Revenues, Expenses and Changes in Fund Net Position
For the Year Ended June 30, 2017

	Enterprise Funds			Internal Service Funds
	Sewer	Water	Total	
Nonoperating revenue (expenses)				
Federal grant	\$ -	\$ 1,253,227	\$ 1,253,227	\$ -
State grant	287,809	18,821,340	19,109,149	742,762
Local grants	-	1,745,252	1,745,252	-
Investment income	191,003	171,735	362,738	105,231
Loss on sale of assets	-	(490)	(490)	-
Miscellaneous expense	(4,376)	-	(4,376)	-
Interest expense	(21,914)	(10,382)	(32,296)	(30,825)
Total nonoperating revenues (expenses)	<u>452,522</u>	<u>21,980,682</u>	<u>22,433,204</u>	<u>817,168</u>
Income (loss) before transfers	(628,075)	4,411,744	3,783,669	5,426,455
Transfers in	55,445	154,887	210,332	-
Transfers out	(1,860,000)	(1,130,000)	(2,990,000)	(998,330)
Change in net position	(2,432,630)	3,436,631	1,004,001	4,428,125
Net position – beginning of year	<u>39,838,538</u>	<u>15,855,426</u>	<u>55,693,964</u>	<u>23,091,812</u>
Net position – end of year	<u>\$ 37,405,908</u>	<u>\$ 19,292,057</u>	<u>56,697,965</u>	<u>\$ 27,519,937</u>
Some amounts reported for business-type activities in the statement of activities are different because the net revenue (expense) of certain internal service funds is reported with business-type activities			<u>1,383,518</u>	
Change in net position of business-type activities			<u>\$ 2,387,519</u>	

See Accompanying Notes to the Financial Statements
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City of Flint, Michigan
Proprietary Funds
Statement of Cash Flows
For the Year Ended June 30, 2017

	Enterprise Funds			Internal Service Funds
	Sewer	Water	Total	
Cash flows from operating activities				
Receipts from customers	\$ 26,897,161	\$ 23,659,817	\$ 50,556,978	\$ 55,240,758
Receipts from other funds	-	-	-	4,216,455
Payments to suppliers	(9,937,727)	(34,085,154)	(44,022,881)	(45,920,672)
Payments to employees	(13,423,921)	(11,906,498)	(25,330,419)	(2,747,968)
Claims paid	-	-	-	(490,955)
Net cash provided (used) by operating activities	<u>3,535,513</u>	<u>(22,331,835)</u>	<u>(18,796,322)</u>	<u>10,297,618</u>
Cash flows from noncapital financing activities				
Transfer from other funds	55,445	154,887	210,332	-
Transfers to other funds	(1,860,000)	(1,130,000)	(2,990,000)	(998,330)
Federal grant	-	1,253,227	1,253,227	-
State grant	287,809	18,821,340	19,109,149	-
Local grant	-	1,745,252	1,745,252	742,762
Net cash provided (used) by noncapital financing activities	<u>(1,516,746)</u>	<u>20,844,706</u>	<u>19,327,960</u>	<u>(255,568)</u>
Cash flows from capital and related financing activities				
Purchases/construction of capital assets	(692,031)	(6,103,887)	(6,795,918)	(466,375)
Principal and interest paid on long-term debt	(153,610)	(165,344)	(318,954)	(194,736)
Loss on sale of capital assets	-	(490)	(490)	-
Net cash used by capital and related financing activities	<u>(845,641)</u>	<u>(6,269,721)</u>	<u>(7,115,362)</u>	<u>(661,111)</u>
Cash flows from investing activities				
Interest received	188,906	171,735	360,641	105,231
Net change in cash and cash equivalents	1,362,032	(7,585,115)	(6,223,083)	9,486,170
Cash and cash equivalents – beginning of year	<u>37,081,909</u>	<u>34,639,448</u>	<u>71,721,357</u>	<u>23,251,761</u>
Cash and cash equivalents – end of year	<u>\$ 38,443,941</u>	<u>\$ 27,054,333</u>	<u>\$ 65,498,274</u>	<u>\$ 32,737,931</u>

See Accompanying Notes to the Financial Statements
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City of Flint, Michigan
Proprietary Funds
Statement of Cash Flows
For the Year Ended June 30, 2017

	Enterprise Funds			Internal Service Funds
	Sewer	Water	Total	
Reconciliation of operating income to net cash provided (used) by operating activities				
Operating income (loss)	\$ (1,080,597)	\$ (17,568,938)	\$ (18,649,535)	\$ 4,609,287
Adjustments to reconcile operating income to net cash from operating activities				
Depreciation and amortization expense	4,014,638	3,053,073	7,067,711	522,047
Changes in assets and liabilities				
Receivables (net)	(3,288,419)	(5,178,087)	(8,466,506)	(13,356)
Due from other units of government	(108,760)	98,801	(9,959)	(290,074)
Due from other funds	-	-	-	4,216,455
Inventories	(137,791)	58,442	(79,349)	2,976
Prepaid items	-	(757,203)	(757,203)	502,087
Deferred outflows	3,273,307	2,768,737	6,042,044	-
Accounts payable	734,052	2,419,261	3,153,313	585,357
Accrued and other liabilities	(270,414)	(6,711,875)	(6,982,289)	156,694
Unearned revenue	-	(897,062)	(897,062)	-
Customer deposits payable	-	69,091	69,091	6,145
Other post employment benefit obligation	288,813	260,299	549,112	-
Net pension liability	108,211	91,530	199,741	-
Compensated absences	2,473	(37,904)	(35,431)	-
Net cash provided (used) by operating activities	<u>\$ 3,535,513</u>	<u>\$ (22,331,835)</u>	<u>\$ (18,796,322)</u>	<u>\$ 10,297,618</u>
Reconciliation of cash and cash equivalents				
Cash and cash equivalents	\$ -	\$ -	\$ -	\$ 698,678
Pooled cash and investments	38,443,941	21,940,810	60,384,751	32,034,938
Restricted cash and cash equivalents	-	5,113,523	5,113,523	4,315
Cash and cash equivalents – end of year	<u>\$ 38,443,941</u>	<u>\$ 27,054,333</u>	<u>\$ 65,498,274</u>	<u>\$ 32,737,931</u>

See Accompanying Notes to the Financial Statements
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City of Flint, Michigan
Fiduciary Funds
Statement of Fiduciary Net Position
June 30, 2017

	Pension and Benefit Trust Funds	Agency Funds
Assets		
Cash and cash equivalents	\$ 1,935,889	\$ 1,279,125
Pooled cash and investments	-	902,620
Investments:		
U.S government obligations	6,169,495	-
Agency securities	8,185,356	-
Corporate stocks	29,904,714	-
Corporate bonds	14,474,162	-
Receivables		
Taxes	-	3,787,257
Accrued interest and other	203,276	796,064
Total assets	<u>60,872,892</u>	<u>6,765,066</u>
Liabilities		
Accounts payable	-	5,234,232
Checks written against future deposits	3,500	-
Due to other units of government	-	1,530,834
Accrued expenses	691,624	-
Total liabilities	<u>695,124</u>	<u>\$ 6,765,066</u>
Net position		
Net position restricted for pensions	<u>\$ 60,177,768</u>	

See Accompanying Notes to the Financial Statements
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City of Flint, Michigan
Fiduciary Funds
Statement of Changes in Fiduciary Net Position
For the Year Ended June 30, 2017

	Pension and Other Employee Benefit Trust Funds
Additions	
Contributions	
Employer	\$ 5,523,202
Retiree	<u>2,030,357</u>
Total contributions	<u>7,553,559</u>
Investment earnings (expenses)	
Interest and dividends	1,315,140
Change in fair value	4,411,718
Investment related expenses	<u>(339,371)</u>
Total investment earnings	<u>5,387,487</u>
Total additions	<u>12,941,046</u>
Deductions	
Benefits	<u>6,463,002</u>
Change in net position	6,478,044
Net position – beginning of year	<u>53,699,724</u>
Net position – end of year	<u>\$ 60,177,768</u>

See Accompanying Notes to the Financial Statements
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City of Flint, Michigan
Combining Statement of Net Position
Component Units
June 30, 2017

	Downtown Development Authority	Economic Development Corporation	Flint Area Enterprise Community	Hurley Medical Center	Total
Assets					
Cash and cash equivalents	\$ 162,950	\$ 447,059	\$ 1,062,333	\$ 82,526,972	\$ 84,199,314
Investments	-	-	-	119,570,663	119,570,663
Receivables					
Customers	38,294	-	-	51,094,001	51,132,295
Accrued interest receivable	-	-	-	519,661	519,661
Other	-	-	2,331	-	2,331
Notes and leases receivable, net	-	316,922	67,148	-	384,070
Inventories	-	-	-	5,193,318	5,193,318
Prepaid items	3,880	13,940	-	3,664,973	3,682,793
Restricted assets					
Cash and cash equivalents	300,437	501,298	-	12,640,856	13,442,591
Investments	-	-	-	24,188,557	24,188,557
Other assets	-	-	-	954,408	954,408
Investment in joint ventures	-	-	-	6,377,966	6,377,966
Capital assets not being depreciated	4,878,067	93,860	-	-	4,971,927
Capital assets, net of accumulated depreciation	<u>8,736,648</u>	<u>309,298</u>	<u>-</u>	<u>105,999,725</u>	<u>115,045,671</u>
Total assets	<u>14,120,276</u>	<u>1,682,377</u>	<u>1,131,812</u>	<u>412,731,100</u>	<u>429,665,565</u>
Deferred outflows of resources					
Deferred amount of pension expense related to net pension liability	-	-	-	40,696,525	40,696,525
Deferred amount on refunding	-	-	-	913,997	913,997
Total deferred outflows of resources	<u>-</u>	<u>-</u>	<u>-</u>	<u>41,610,522</u>	<u>41,610,522</u>
Total assets and deferred outflows of resources	<u>14,120,276</u>	<u>1,682,377</u>	<u>1,131,812</u>	<u>454,341,622</u>	<u>471,276,087</u>

See Accompanying Notes to the Financial Statements
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City of Flint, Michigan
Combining Statement of Net Position
Component Units
June 30, 2017

	Downtown Development Authority	Economic Development Corporation	Flint Area Enterprise Community	Hurley Medical Center	Total
Liabilities					
Accounts payable	\$ 54,203	\$ 9,178	\$ -	\$ 18,983,018	\$ 19,046,399
Accrued and other liabilities	80,450	6,169	-	34,809,015	34,895,634
Estimated third-party payor settlements	-	-	-	34,251,657	34,251,657
Due to primary government	8,025,000	55,686	-	-	8,080,686
Deposits and advances	22,820	-	-	-	22,820
Payable from restricted assets	-	501,298	-	-	501,298
Unearned revenue	-	11,407	-	-	11,407
Noncurrent liabilities					
Net pension liability	-	-	-	174,742,143	174,742,143
Due within one year	87,606	-	-	6,427,155	6,514,761
Due in more than one year	596,566	-	-	79,690,919	80,287,485
Claims payable	-	-	-	24,285,365	24,285,365
Total liabilities	8,866,645	583,738	-	373,189,272	382,639,655
Deferred inflows of resources					
Deferred amount of pension expense related to net pension liability	-	-	-	2,936,055	2,936,055
Total liabilities and deferred inflows of resources	8,866,645	583,738	-	376,125,327	385,575,710
Net position					
Net investment in capital assets	5,205,980	403,158	-	24,391,101	30,000,239
Restricted					
Community development	-	741,763	36,832	-	778,595
Revolving loan program	-	-	1,094,980	-	1,094,980
Donor restricted and other	-	-	-	8,128,180	8,128,180
Unrestricted (deficit)	47,651	(46,282)	-	45,697,014	45,698,383
	<u>\$ 5,253,631</u>	<u>\$ 1,098,639</u>	<u>\$ 1,131,812</u>	<u>\$ 78,216,295</u>	<u>\$ 85,700,377</u>

See Accompanying Notes to the Financial Statements
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City of Flint, Michigan
Combining Statement of Activities
Component Units
For the Year Ended June 30, 2017

Functions/Programs	Expenses	Charges for services	Operating grants and contributions	Net (expense) revenue	
Downtown Development Authority	\$ 1,990,328	\$ 918,968	\$ -	\$ (1,071,360)	
Economic Development Corporation	173,553	136,548	47,745	10,740	
Flint Area Enterprise Community	17,317	-	-	(17,317)	
Hurley Medical Center	<u>477,457,260</u>	<u>491,442,931</u>	<u>-</u>	<u>13,985,671</u>	
Total component unit activities	\$ 479,638,458	\$ 492,498,447	\$ 47,745	\$ 12,907,734	
Component Units					
	Downtown Development Authority Activities	Economic Development Corporation Activities	Flint Area Enterprise Community Activities	Hurley Medical Center Activities	Total
Changes in net position					
Net expense	<u>\$ (1,071,360)</u>	<u>\$ 10,740</u>	<u>\$ (17,317)</u>	<u>\$ 13,985,671</u>	<u>\$ 12,907,734</u>
General revenues:					
Property taxes	427,091	-	-	-	427,091
Unrestricted investment earnings	821	9,087	31,071	6,082	47,061
Miscellaneous	11,479	-	1,767	1,125,776	1,139,022
Gain (loss) on extinguishment of debt	<u>371,694</u>	<u>-</u>	<u>(26,495)</u>	<u>-</u>	<u>345,199</u>
Total general revenues	811,085	9,087	6,343	1,131,858	1,958,373
Change in net position	(260,275)	19,827	(10,974)	15,117,529	14,866,107
Net position beginning of year	<u>5,513,906</u>	<u>1,078,812</u>	<u>1,142,786</u>	<u>63,098,766</u>	<u>70,834,270</u>
Net position, end of year	\$ 5,253,631	\$ 1,098,639	\$ 1,131,812	\$ 78,216,295	\$ 85,700,377

See Accompanying Notes to the Financial Statements
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City of Flint, Michigan
Notes to the Financial Statements
June 30, 2017

Note 1 - Summary of Significant Accounting Policies

The accounting policies of the City of Flint, Michigan (the "City") conform to accounting principles generally accepted in the United States of America ("GAAP") as applicable to governmental units. The Governmental Accounting Standards Board is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The following is a summary of the significant accounting policies used by the City of Flint:

Reporting Entity

As of the end of April 2015, the City moved from being under the control of the Emergency Manager (EM) to the transitional state of oversight by a Receivership Transition Advisory Board (RTAB), as defined by Public Act 436. The City remains under state receivership.

The accompanying financial statements present the government and its component units, entities for which the government is considered to be financially accountable. Although blended component units are legal separate entities, in substance, they are part of the government's operations. Each discretely presented component unit is reported in a separate column in the government-wide financial statements to emphasize that it is legally separate from the government (see discussion below for description).

Blended Component Units

The City of Flint Retirees Health Care Plan is a defined benefit plan that provides retiree healthcare benefits to certain City retirees. The Health Care Plan was established and is governed by City ordinance, with the board of trustees comprised of City officials and two members from each participating collective bargaining unit. The plan is reported as a Fiduciary Fund.

Discretely Presented Component Units

The component unit column in the government-wide financial statements include the financial data of the City's four component

units. These units are reported in a separate column to emphasize that they are legally separate from the City. Separately issued financial statements are prepared for all of the discretely presented component units.

The Flint Downtown Development Authority (the "DDA") was created under state law to promote and rehabilitate the downtown area. The DDA sponsors downtown events and manages parking facilities. State law provides for a specific tax levy for the operations of the DDA. The City appoints the board and has to approve the annual budget and the issuance of any debt. Any surplus funds remaining at the termination of the DDA vest to the City. The DDA has both governmental and business-type activities.

The City of Flint Economic Development Corporation (the "Corporation") was created under state law to provide financing and development opportunities for businesses located within the City. The City appoints the board. The Corporation provides loans to start-up or expanding businesses and manages rental property that leases space to commercial and light industrial manufacturing companies. Surplus funds existing at the termination of the Corporation vest to the City. The Corporation has both governmental and business-type activities.

The Flint Area Enterprise Community (FAEC) is a non-profit organization, established under state law. FAEC is responsible for coordinating and implementing a strategic plan to advocate and develop business and community development in a federally designated zone that includes portions of Mt. Morris Township and the City of Flint. The City appoints a majority of the board of directors, provides the majority of its funding for operations, and any assets remaining at the cessation of its operating activities would be returned to the City of Flint. The FAEC is presented as a governmental activity. The FAEC plans to cease operations during the fiscal year ending 2018. They are currently working with the State to determine which organization will take over the loans.

City of Flint, Michigan
Notes to the Financial Statements
June 30, 2017

Hurley Medical Center (HMC or the "Medical Center") provides inpatient, outpatient, and emergency care services in Genesee and surrounding counties. The financial statements present HMC and its wholly owned subsidiary, Hurley Health Services, Inc., on a consolidated basis. HMC is the sole member of Hurley Health Services, Inc. (HHS), a municipal support organization organized on a non-profit, non-stock membership basis. HHS, on a consolidated basis, is comprised of two non-profit entities (HHS and The Hurley Clinics, THC) and one "for-profit" corporation (Hurley Practice Management Services). HHS began operations January 1, 1998. The City appoints the board of directors and there is an ongoing financial benefit/burden relationship between the City and Hurley Medical Center. HMC is presented as a governmental activity.

Complete financial statements for the following individual component units may be obtained at the entity's administrative offices:

Flint Downtown Development Authority
Suite 206
412 S. Saginaw Street
Flint, Michigan 48502

Flint Economic Development Corporation
1101 S. Saginaw Street
Flint, Michigan 48502

Flint Area Enterprise Community
805 Welch Boulevard
Flint, Michigan 48504

Hurley Medical Center
One Hurley Plaza
Flint, MI 48503

Joint Ventures

Hurley Medical Center participates in a privately held joint venture. The corporate joint venture is recorded in the financial statements under the equity method of accounting. Joint venture financial statement can be obtained by contacting the Medical Center. The Medical Center is unaware of any circumstances that would cause an additional financial benefit or burden to the Medical Center in the near future.

Genesys Hurley Cancer Institute (GHCI) is a joint venture between Hurley Medical Center and Genesys Regional Medical Center. The venture was established during 2001 to provide outpatient oncology services, including laboratory and radiation oncology. The Medical Center's net investment at June 30, 2017 was \$6,337,966. The arrangement provides that the two entities will share equally in the income or losses of the joint venture. The equity income to the Medical Center from this joint venture was \$(137,435) for the year ending June 30, 2017. A total of \$0 was distributed to the Medical Center during the year ended June 30, 2017. GHCI paid the Medical Center \$775,000 for leased employees for the year ended June 30, 2017. The following is a summary of financial position and results of operations of GHCI as of and for the year ended June 30, 2017 (in thousands):

Total assets	\$	21,406
Total liabilities		<u>8,757</u>
Net assets	\$	<u>12,649</u>
Operating revenue	\$	7,936
Operating expenses		<u>8,432</u>
Operating loss		(496)
Nonoperating revenue		<u>199</u>
Deficiency of revenue over expenses	\$	<u>(297)</u>

City of Flint, Michigan
Notes to the Financial Statements
June 30, 2017

Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component units. *Government activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support. Likewise, the *primary government* is reported separately from certain legally separate *component units* for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segments are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for

which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period for property taxes and within 90 days for all other sources. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, franchise taxes, licenses, intergovernmental revenues, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The government reports the following major governmental funds:

The General Fund is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

City of Flint, Michigan
Notes to the Financial Statements
June 30, 2017

The Grant Fund accounts for entitlement and specific purpose grants received from the U.S. Department of Housing and Urban Development and other grantors.

The Major Streets Fund accounts for the maintenance and improvement activities for streets designated as "major" within the City. Funding is primarily through state-shared gas and weight taxes.

The government reports the following major proprietary funds:

The Water Fund accounts for the activities of the government's water distribution and treatment system.

The Sewer Fund accounts for the activities of the government's sewage disposal and treatment system.

Additionally, the government reports the following:

The Special Revenue Funds account for the proceeds of specific revenue sources requiring separate accounting because of legal or regulatory provisions or administrative requirements. These include the local streets, neighborhood policing, State Act 251 – forfeiture, EDA revolving loan, public improvement, parks and recreation, senior citizen centers, building department, garbage collection, street light, and public safety funds.

The Debt Service Funds account for the accumulation of resources for, and payment of governmental activities principal, interest, and related cost.

Internal service funds account for data processing, self-insurance, central maintenance garage, and fringe benefit provided to other departments or agencies of the government, or to other governments, on a cost reimbursement basis.

The pension and other employee benefits trust funds account for the activities of the three different funds utilized to pay death and healthcare benefits for the City of Flint and Hurley Medical Center retirees, which accumulate resources for pension and health benefit payments for qualified employees.

Agency funds are used to account for assets held for other governments in an agency capacity, including tax collections.

Pension and other employee benefits trust funds and agency funds are reported as fiduciary funds and are not included in the government-wide statement of net position and statement of activities.

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

Amounts reported as *program revenues* include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the sewer and water funds and the internal service funds are charges to customers for sales and services. The enterprise funds also recognizes as operating revenue the portion of tap fees intended to recover the cost of connecting new

City of Flint, Michigan
Notes to the Financial Statements
June 30, 2017

customers to the system. Operating expenses for sewer and water funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Property Tax Revenue

Property taxes are levied on each July 1 on the taxable valuation of property as of the preceding December 31. Taxes are considered delinquent on March 1 of the following year, at which time penalties and interest are assessed.

Taxes on the operating, public improvement, parks, public safety, and neighborhood police levies are billed July 1 and may be paid in three equal installments due by July 31, October 31, and February 28, following the levy date. Taxes on the paramedic service levy are billed on December 1 and due in one installment by February 28. Property tax receivables are recorded as a receivable and offsetting deferred revenue when levied and due. Property taxes are recognized as revenues when collected or when considered measurable and available. The City considers property taxes as available if they are collected within 60 days after year end.

The 2016 taxable valuation of the City totaled \$710 million. Taxes were levied as follows:

Purpose	Millage Rate	Revenue
General operating	7.5	\$ 4,759,236
Public improvement	2.5	1,644,708
Parks and recreation	0.5	329,177
Public safety	6.0	3,948,193
Neighborhood police	2.0	1,320,222
Total	18.5	\$ 12,001,536

Assets, Liabilities, and Net Position or Equity

Cash and cash equivalents – The City's cash and cash equivalents include cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

Pooled cash and investments – Cash resources of certain individual funds are combined to form a pool of cash and investments which is managed by the city treasurer. Investments in the pooled cash and investments account consist primarily of certificates of deposit with a maturity date greater than three months from the date acquired by the City, top grade commercial paper and government securities, and money market funds, and are carried at fair value.

At June 30, 2017, some funds have overdrawn their share of the pooled cash and investments. Fund overdrafts of pooled cash and investments are reported as checks written against future deposits.

Interest income earned as a result of pooling cash and investments is distributed to the participating funds monthly utilizing a formula based on the average daily balance of each fund's share of the total pooled cash and investments. Funds that have overdrawn their share of pooled cash and investments are charged interest costs.

For the purpose of the statement of cash flows, pooled cash and investments have been considered as cash and cash equivalents.

Investments – Investments for the City, as well as for its component units, are stated at fair market value (national or international exchange rates). Investments that do not have an established market are reported at estimated fair market value. Gains or losses on investments sold or exchanged are recognized when the transactions are completed (settlement date). Certificates of deposit with a maturity date of greater than three months at time of purchase are recorded as investments on the financial statements.

City of Flint, Michigan
Notes to the Financial Statements
June 30, 2017

Receivables and payables – All receivables are recorded at their gross value and, where appropriate, are reduced by the estimated portion that is expected to be uncollectible.

Activity between funds that are representative of lending / borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to / from other funds" (i.e., the current portion of interfund loans) or "advances to / from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to / from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances".

All trade and property tax receivables are shown as net of allowance for uncollectible amounts.

Inventories and prepaid items – Inventories are valued at cost (Special Revenue Funds) or at the lower of cost or market using the first-in/first out method (Enterprise and Internal Service Funds). Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased.

Certain payments to vendors reflect costs applicable to future fiscal years. For such payments in governmental funds the City follows the consumption method, and they therefore are capitalized as prepaid items in both entity-wide and fund financial statements.

Restricted assets – These assets are restricted through bond or grant agreements or represent donated assets whose disposition is specified by the donor. Restricted assets recorded in the Grant Fund are restricted through grant agreements.

Restricted assets recorded in the Hurley Medical Center discretely presented component unit consist of (1) proceeds of debt issues and funds of HMC deposited with a trustee and limited to use in accordance with the requirements of an indenture (2) assets restricted by outside donors.

Restricted assets recorded in the Water Fund consist of amounts set aside for equipment replacement and debt service as required by the Drinking Water Revolving Fund Revenue Bonds.

Capital assets – Capital assets, which include property, plant and equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items) are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost, if purchased or constructed.

The reported value excludes normal maintenance and repairs which are essentially amounts spent in relation to capital assets that do not increase the capacity or efficiency of the item or extend its useful life beyond the original estimate. In the case of donations the government values these capital assets at the estimated acquisition value of the item at the date of its donation.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities, if any, is included as part of the capitalized value of the assets constructed. No such interest expense was incurred during the current fiscal year.

City of Flint, Michigan
Notes to the Financial Statements
June 30, 2017

Property, plant and equipment are depreciated using the straight-line method over the following useful lives:

Buildings	50 years
Building improvements	40 – 50 years
Improvements other than buildings	5 – 50 years
Land improvements	5 – 50 years
Public domain infrastructure	10 – 50 years
Water and sewer infrastructure	10 – 75 years
Machinery and equipment	3 – 20 years
Other furnishings	5 – 7 years

Deferred outflows of resources – A deferred outflow of resources is a consumption of net position by the government that is applicable to a future reporting period. The City reports deferred outflows of resources as a result of pension earnings. This amount is the result of a difference between what the plan expected to earn from the plan investments and what the plan actually earned. This amount will be amortized over the next four years and included in pension expense. The City also reported deferred outflows of resources for pension contributions made after the measurement date. This amount will reduce net pension liability in the following year. Changes in assumptions and experience differences relating to the net pension liability are deferred and amortized over the expected remaining service lives of the employees and retirees in the plan.

In addition, deferred amounts on bond refunding are included in the government-wide financial statements. The amounts represent the difference between the reacquisition price and net carrying amount of the prior debt.

Compensated absences – The City's policy concerning compensated absences changed as of July 1, 2014. All time off including vacation, personal time as well as health, maternity leave and FMLA was reclassified to Paid Time off (PTO). All employees had up to 200 hours of their accumulated annual bank placed in the employee's

Maximum Accumulation Hours Bank. PTO time in excess of 200 hours was placed in a holding bank to be paid out at retirement, death, termination of employment at the rate of 100% of the employee's straight time hourly rate in effect as of July 1, 2014. Such payment shall not be included as final average compensation for the purpose of computing retirement benefits. PTO time is computed and accrued on a basis of each payroll period that a regular employee has at least 72 straight time hours or a part time employee has at least 29 straight time hours. PTO time is based on City Seniority as defined in the Article entitled Seniority of this Agreement.

Long-term obligations – In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Deferred inflows of resources – A deferred inflow of resources is an acquisition of net position by the government that is applicable to a future reporting period. For governmental funds this includes unavailable revenue in connection with receivables for revenues that are not considered available to liquidate liabilities of the current period.

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The City also reports deferred inflows of resources as a result of pension earnings. This amount is the result of a difference between what the plan expected to earn from the plan investments and what the plan actually earned. This amount will be amortized over the next four years and included in pension expense. Changes in assumptions and experience differences relating to the net pension liability are deferred and amortized over the expected remaining services lives of the employees and retirees in the plan.

Pension and Retiree Healthcare Benefits – The City offers both pension and retiree healthcare benefits to retirees. The City receives an actuarial valuation to compute the annual determined contribution necessary to fund the obligations over the remaining amortization period. In the governmental funds, pension and OPEB costs are recognized as contributions are made. For the government-wide statements and proprietary funds, the City reports the full accrual cost equal to the current year required contribution, adjusted for interest and "adjustment to the annual determined contribution" on the beginning of year underpaid amount, if any. The net pension obligation and the net OPEB obligation will be liquidated from the funds that the individual employee's salaries are paid from, the general fund and certain special revenue funds.

Fund Equity – In the fund financial statements, governmental funds report fund balance in the following categories:

Non-spendable – amounts that are not available in a spendable form.

Restricted – amounts that are legally imposed or otherwise required by external parties to be used for a specific purpose.

Committed – amounts constrained by the government's highest level decision-makers, the Mayor/City Council/City Administrator, subject to the approval of the RTAB. A fund balance commitment

may be established, modified, or rescinded by a resolution, subject to approval of the RTAB.

Assigned – amounts intended to be used for specific purposes. The City Council may assign fund balance for a specific purpose, subject to the approval of the RTAB. Residual amounts in governmental funds other than the general fund are automatically assigned by their nature.

Unassigned – all other resources; the remaining fund balances after non-spendable restrictions, restrictions, commitments and assignments. The general fund is the only fund that reports a positive unassigned fund balance amount. In governmental funds, other than the general fund, if expenditures incurred for specific purposes exceed the amounts that are restricted, committed, or assigned to those purposes, it may be necessary to report a negative unassigned fund balance in that fund.

While the City remains under state receivership, emergency manager orders remain in effect and any actions taken by the Mayor/City Council must comply with Public Act 436 and emergency manager orders, and receive approval by the RTAB.

When an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available, the government's policy is to consider restricted funds spent first.

When an expenditure is incurred for purposes for which committed, assigned, or unassigned amounts could be used, the government's policy is to consider the funds to be spent in the following order: (1) committed, (2) assigned, (3) unassigned.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the

City of Flint, Michigan
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reported amounts of assets, deferred outflows, liabilities, deferred inflows and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

Hurley Medical Center – Patient Accounts Receivable

Patient accounts receivable at June 30, 2017 and revenues for the year then ended include estimated amounts due from various third-party payors which are computed in accordance with their respective reimbursement formulas. In addition, the Medical Center has established an estimated allowance for uncollectible accounts of approximately \$11,000,000 for 2017. The Medical Center grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payer agreements.

Hurley Medical Center – Net Patient Service Revenue

The Medical Center has agreements with third-party payers that provide for payments to the Medical Center at amounts different from its established rates. Cost report settlements result from the adjustment of interim payments to final reimbursement under the Medicare, Medicaid, and Blue Cross/Blue Shield of Michigan programs and are subject to audit by fiscal intermediaries. The Medical Center recognized decreases in net patient service revenue of approximately \$1.9 million during 2017, as a result of unfavorable and favorable changes to prior year settlement estimates and activity.

Hurley Medical Center – Charity Care

The Medical Center provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Because the Medical Center does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue. Charity care is determined based on established policies, using patient income and assets to determine payment ability. The amount reflects the cost of free or discounted health services, net of contributions and other revenue received, as

direct assistance for the provision of charity care. The estimated cost of providing charity services is based on data derived from the Medical Center's cost accounting system using the ratio of cost to charges.

Adoption of New Accounting Standards

Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans* addresses the other postemployment benefit plans (OPEB), defined benefit and defined contribution, administered through trusts. This Statement will improve the financial reporting primarily through enhanced note disclosures and schedules of required supplementary information that will be presented by OPEB plans that are administered through trusts. This information will enhance the transparency by providing information about measures of net OPEB liabilities and explanations of how and why those liabilities changed from year to year. Statement No. 74 is effective for the fiscal year ending June 30, 2017.

Statement No. 77, *Tax Abatement Disclosures* requires disclosure of tax abatement information about (1) a reporting government's own tax abatement agreements and (2) those that are entered into by other governments and that reduce the reporting government's tax revenues. The requirements of this Statement are effective for the fiscal year ending June 30, 2017.

Statement No. 80, *Blending Requirements for Certain Component Units—an amendment of GASB Statement No. 14* amends the blending requirements for the financial statement presentation of component units of all state and local governments. The additional criterion requires blending of a component unit incorporated as a not-for-profit corporation in which the primary government is the sole corporate member. The requirements of this Statement are effective for the fiscal year ending June 30, 2017.

Upcoming Accounting and Reporting Changes

Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* establishes standards

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for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures. For defined OPEB plans, this Statement identifies the methods and assumptions that are required to be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee services. It also requires additional note disclosures and required supplementary information. Statement No. 75 is effective for the fiscal year ending June 30, 2018.

Statement No. 81, *Irrevocable Split-Interest Agreements*. The objective of this Statement is to improve accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement. Statement No. 81 is effective for the fiscal year ending June 30, 2018.

Statement No. 83, *Certain Asset Retirement Obligations* establishes criteria for determining the timing and pattern of recognition of a liability and a corresponding deferred outflow of resources for asset retirement obligations (AROs). An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset. The requirements of this Statement are effective for the fiscal year ending June 30, 2019.

Statement No. 84, *Fiduciary Activities* improves the guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. The focus of the criteria includes the following: (1) is the government controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. The four fiduciary funds that should be reported, if applicable: (1) pension (and other employee benefit) trust funds, (2) investment trust funds, (3) private-purpose trust funds, and (4) custodial funds. Custodial funds generally will report fiduciary activities that are not held in a trust or

similar arrangement that meets specific criteria. The requirements of this Statement are effective for the fiscal year ending June 30, 2020.

Statement No. 85, *Omnibus 2017* addresses practice issues that were identified during implementation and application of certain GASB Statements. This statement covers issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits), which is effective for the fiscal year ending June 30, 2018.

Statement No. 86, *Certain Debt Extinguishment Issues* is to improve consistency in accounting and financial reporting for in-substance defeasance of debt. The statement provides uniform guidance for derecognizing debt that is defeased in substance, regardless of how cash and other monetary assets placed in an irremovable trust for the purpose of extinguishing that debt were acquired. The effective date is for the fiscal year ending June 30, 2018.

The Government is evaluating the impact that the above GASBs will have on its financial reporting.

Note 2 - Stewardship, Compliance, and Accountability

Budgetary Information

The City followed these procedures in establishing the budgetary data reflected in the financial statements:

On June 13, 2016, the City Council approved adopting the operating budget for the fiscal year commencing the following July 1. The legally adopted operating budgets included expenditures and the means of financing them for the General and Special Revenue Funds (these funds are required to have budgets per Michigan law). Informational summaries of projected revenue and expenditures/expenses were provided for all City funds, as well as estimated total costs and proposed methods of financing all capital construction projects.

City of Flint, Michigan
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Department heads are authorized to transfer budgeted amounts with departmental appropriation accounts, except as those designated by the City's newly adopted "Amendment of Adopted Budgets" ordinance. Revisions that require Council approval must be adopted by resolution, and confirmed by the RTAB.

Formal budgetary integration was employed as a management control device during the year for all budgetary funds. Also, all budgets, except for the Grant Funds, were adopted on a basis consistent with generally accepted accounting principles. The Grant budgets were rolled from the prior year based on the budget balances of the grants at year end. Budget appropriations lapse at year end, except for certain projects which are appropriated on a project length basis.

Encumbrance accounting is employed in governmental funds. Encumbrances (e.g., purchase orders, contracts) outstanding at year end do not constitute expenditures or liabilities because the goods or services have not been received as of year-end; the commitments will be re-appropriated and honored during the subsequent year.

State Construction Code Act

The City oversees building construction, in accordance with the State's Construction Code Act, including inspection on building construction renovation to ensure compliance with the building codes. The City charges fees for these services. Beginning January 1, 2000, the law requires that collection of these fees be used only for construction code costs, including an allocation of estimated overhead costs.

Shortfall at July 1, 2016	\$ 3,059,305
Current year building permit revenue	2,203,157
Related expenditures	<u>(1,890,010)</u>
Restricted fund balance at June 30, 2017	<u>\$ 3,372,452</u>

Note 3 - Pooled Cash and Investments

The pooled cash and investments account at June 30, 2017 is comprised of the following:

Cash deposits and restricted cash	\$ 42,801,481
Investments	86,402,713
Total	<u>\$ 129,204,194</u>

Note 4 - Deposits and Investments

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

The investment policy adopted by the City Council, in accordance with Public Act 196 of 1997, is in accordance with statutory authority.

The City's investment policy authorizes the City and its component units to invest in obligations of the U.S. Treasury and obligation of U.S. agencies, where the principal and interest are fully guaranteed by the United States, deposit agreements with federally insured financial institutions within the State of Michigan, high grade commercial paper, repurchase agreements secured by obligations of the U.S. Government and U.S. Agencies, banker's acceptances of

City of Flint, Michigan
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U.S. banks, and mutual funds comprised of the above authorized investments.

The City's investment policy further requires that investments held in the pooled investment fund be limited by the investment type and financial institution. The City's pooled cash investments are limited as follows:

- Negotiable certificates of deposit cannot exceed 25% of investment holdings
- Commercial paper cannot exceed 50% of investment holdings
- Bankers acceptances cannot exceed 10% of investment holdings
- Mutual funds cannot exceed 15% of the investment holdings
- Banker acceptances cannot exceed a maturity of 270 days
- Bankers acceptances in one financial institution cannot exceed 10% of investment holdings
- Commercial paper holdings of any one corporation cannot exceed 10% of investment holdings

The City was in compliance with all aspects of its investment policy at June 30, 2017. The City deals only with qualified banks and primary investment firms that adhere to the specific guidelines established by industry practice for repurchase agreements.

The Medical Center's Retiree Healthcare Fund is also authorized by Michigan Public Act 314 of 1965, as amended, to invest in certain reverse repurchase agreements, stocks, diversified investment companies, annuity investment contracts, real estate leased to public entities, mortgages, real estate (if the trust fund's assets exceed \$250 million), debt or equity of certain small businesses, certain state and local government obligations, and certain other specified investment vehicles.

The Medical Center has designated three banks for the deposit of its funds. The investment policy adopted by the board in accordance with Public Act 196 of 1997 has authorized investment in all of the items

listed above. The Medical Center's deposits and investment policies are in accordance with statutory authority.

The Medical Center's investment policy limits any single investment to 10 percent of the portfolio, with the exception of cash or U.S. treasuries, and further restricts that combined mortgage-backed securities may not exceed 50 of the portfolio. No single investment exceeded 5 percent of the investment portfolio at June 30, 2017.

The cash and investments are subject to several types of risk, which are examined in more detail below.

Custodial Credit Risk of Deposits

Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The City does not have a deposit policy for custodial credit risk. At year end, the City's bank deposits, including its component units, (certificates of deposit, checking, and savings) totaling \$161,634,727 were uninsured and uncollateralized. The City believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the city evaluates each financial institution it deposits its funds, and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

Custodial Credit Risk of Investments

Custodial credit risk is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The City does not have a policy for custodial credit risk.

Hurley does have a deposit policy for custodial credit risk that requires the investments be held by a nationally chartered custodian bank. The chief investment officer shall select the custodian bank based on various factors including bank stability.

City of Flint, Michigan
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The balance of investment securities that were uninsured and unregistered held by the counterparty or by its trust department is as follows:

Investment Type	Carrying Value	How Held
Primary government:		
U.S. government or agency bonds	\$ 9,202,383	Counterparty trust dept.
Commercial paper	14,924,189	Counterparty trust dept.
Corporate bonds	2,992,450	Counterparty trust dept.
Total	<u>\$ 27,119,022</u>	
Fiduciary fund – corporate stocks	\$ 518,420	Counterparty trust dept.
Component unit:		
U.S. government or agency bonds	\$ 132,474,680	Counterparty trust dept.
Corporate stocks	28,320,078	Counterparty trust dept.
Corporate bonds	15,539,998	Counterparty trust dept.
Repurchase agreements	40,098,635	Counterparty
Municipal bonds	5,062,607	Counterparty trust dept.
Total	<u>\$ 221,495,998</u>	

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 City's investment policy for investment of general City monies limits investments in securities with maturities greater than five years to 15% of the balance available to invest. Hurley Medical Center's investment policy indicates that each investment account should approximate the duration of its specific benchmark within a range of 80 to 120 percent.

As of June 30, 2017, the following securities were subject to interest rate risk:

Investment	Fair Value	Weighted Average Maturity (Years)
Primary government:		
U.S. government or agency bonds	\$ 9,202,383	5.76
Corporate bonds	2,992,450	< 1 year
Commercial paper	14,924,189	< 1 year
Money market funds	32,518,103	< 1 year
Certificates of deposit	5,528,693	2.47
Total	<u>\$ 65,165,818</u>	
Fiduciary fund:		
Money market funds	<u>\$ 380</u>	< 1 year
Component unit:		
U.S. government or agency bonds	\$ 132,474,680	3.70
GNMA pool	7,736,048	15.31
U.S. government mortgage backed securities	12,840,735	19.11
Corporate bonds	15,539,998	5.65
Money market funds	15,951,049	< 1 year
Repurchase agreement	40,098,635	< 1 year
Municipal bonds	5,062,607	< 1 year
Total	<u>\$ 229,703,752</u>	

Credit Risk

Credit risk is the risk that the government will not be able to recover the value of its securities. The City follows state law, which limits investments in commercial paper to the top two ratings issued by nationally recognized statistical rating organizations. The City has no investment policy that would further limit its investment choices for general City funds.

City of Flint, Michigan
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June 30, 2017

As of June 30, 2017, the following are credit quality ratings of the City's debt securities subject to credit risk:

Investment	Fair Value	Rating	Rating Organization
Primary government:			
U.S. government bonds	\$ 8,363,160	AA+	S&P
U.S. government bonds	839,223	AAA	S&P
Corporate bonds	1,995,090	A1+	S&P
Corporate bonds	997,360	A2	S&P
Money market funds	30,756,983	AAA	S&P
Money market funds	662,218	AAA/AA	S&P
Commercial paper	3,973,367	A1+	S&P
Commercial paper	4,984,407	A2	S&P
Commercial paper	5,966,416	A1	S&P
Total	<u>\$ 58,538,224</u>		
Fiduciary fund:			
Money market funds	<u>\$ 380</u>	AAA/AA	S&P
Component unit:			
U.S. agency bonds	\$ 10,397,233	AA+	S&P
U.S. agency bonds	122,077,447	Not rated	Not rated
U.S. government mortgage backed securities	12,840,735	Not rated	Not rated
Corporate bonds	6,376,389	AA+/A-	S&P
Corporate bonds	655,293	AAA	S&P
Corporate bonds	5,151,125	BBB+/B-	S&P
Corporate bonds	171,244	CCC+	S&P
Corporate bonds	3,185,947	Not rated	Not rated
Money market funds	15,951,049	Not rated	Not rated
Repurchase agreements	40,098,635	Not rated	Not rated
Total	<u>\$ 216,905,097</u>		

The City of Flint Economic Development Corporation's (EDC) cash is subject to one type of risk, which is examined in more detail below:

Custodial credit risk is the risk that in the event of a bank failure, EDC's deposits may not be returned to it. The government does not have a deposit policy for custodial credit risk. At year end, EDC had \$66,536 bank deposits (certificates of deposit, checking, and savings accounts) that were uninsured and uncollateralized. As a result, the EDC evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

The Flint Area Enterprise Community's (FAEC) cash is subject to one type of risk, which is examined in more detail below:

Custodial credit risk is the risk that in the event of a bank failure, FAEC's deposits may not be returned to it. FAEC has a deposit policy for custodial credit risk. At year end, FAEC had \$562,332 of bank deposits (checking and savings accounts) that were uninsured and uncollateralized. FAEC believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, FAEC evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

The Flint Downtown Development Authority's (DDA) cash and investments are subject to various types of risk.

Custodial Credit Risk of Bank Deposits

Custodial credit risk is the risk that in the event of a bank failure, DDA's deposits may not be returned to it. DDA does not have a deposit policy for custodial credit risk. At year end, DDA had \$10,469 that was uninsured and uncollateralized.

City of Flint, Michigan
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June 30, 2017

Credit Risk

State law limits investments in commercial paper to the top two ratings issued by nationally recognized statistical rating organizations. DDA has no investment policy that would further limit its investment choices. As of year-end, the credit quality ratings of debt securities (other than the U.S. government) are as follows:

Investment	Fair Value	Rating
Money market	\$ 39,968	Not Available

Note 5 - Fair Value Measurements

The City categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; and Level 3 inputs are significant unobservable inputs. Investments that are measured at fair value using the net asset value per share (or its equivalent) as a practical expedient are not classified in the fair value hierarchy below.

In instances whereby inputs used to measure fair value fall into different levels in the above fair value hierarchy, fair value measurements in their entirety are categorized based on the lowest level input that is significant to the valuation. The City's assessment of the significance of particular inputs to these fair value measurements requires judgment and considers factors specific to each asset.

The City has the following recurring fair value measurements as of June 30, 2017:

- U.S. governmental and agency securities of \$9,202,383 and money markets of \$1,761,544 are valued using quoted market prices (Level 1 inputs).

- The local government investment pool (Michigan CLASS) of \$30,756,939 are valued using a pricing model utilizing observable fair value measures of fund/pool investments and other observable inputs to determining the fair value of the securities making up the investments fund/pool (Level 2 inputs).

The City does not have any investments that report fair value based on significant unobservable inputs (Level 3 inputs).

The Downtown Development Authority has the following recurring fair value measurements as of June 30, 2017:

- Money market mutual funds of \$39,968 are valued using quoted market prices (Level 1 inputs).

Hurley Medical Center has the following recurring fair value measurements as of June 30, 2017:

- Domestic equity securities of \$22,943,510, international private equity funds of \$5,046,754, and money market mutual funds of \$15,951,049 are valued using quoted market prices (Level 1 inputs).
- The U.S. treasury securities of \$137,537,287, government mortgage-backed securities of \$20,576,783, corporate bonds of \$15,539,998, and international private equity funds of \$329,814 were determined based on other observable inputs. The Medical Center estimates the fair value of these estimates by automatic methods using other inputs such as interest rates and yield curves that are observable at commonly quoted intervals. (Level 2 inputs).

City of Flint, Michigan
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Note 6 - Receivables

Receivables as of year-end for the City's governmental and business-type activities in the aggregate, are as follows:

	Governmental Activities	Business Type Activities	Component Units
Primary government			
Income taxes, net of allowance of \$4,075,910	\$ -	\$ -	\$ -
Accounts receivable, net of allowance of \$19,046	-	23,178,081	51,132,295
Property taxes	2,277,576	-	-
Other receivables, net of allowance of \$308,969	3,749,717	387	2,331
Accrued interest and other	17,035	61,538	519,661
Due from other units of governments	7,296,679	4,342,366	-
Due from component units, net of allowance of \$1,780,318	6,350,368	-	-
Notes			
Due within one year	553,000	-	-
Due after one year	8,350,279	-	384,070
Total receivables, net	\$ 28,544,654	\$ 27,582,372	\$ 52,038,357

Note 7 - Capital Assets

Capital assets activity of the primary government for the current year was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental activities				
Capital assets not being depreciated				
Land	\$ 14,409,836	\$ -	\$ -	\$ 14,409,836
Construction in progress	436,576	192,380	227,673	401,283
Total capital assets not being depreciated	14,846,412	192,380	227,673	14,811,119
Capital assets being depreciated				
Land improvements	14,719,446	390,636	-	15,110,082
Infrastructure	379,233,284	2,175,070	-	381,408,354
Buildings, additions and improvements	21,686,838	22,227	-	21,709,065
Machinery and equipment	11,112,508	445,399	-	11,557,907
Vehicles	12,024,322	376,513	521,074	11,879,761
Total capital assets being depreciated	438,776,398	3,409,845	521,074	441,665,169
Less accumulated depreciation for				
Land improvements	12,017,275	386,340	-	12,403,615
Infrastructure	282,222,591	10,137,305	-	292,359,896
Buildings, additions and improvements	16,915,162	323,979	-	17,239,141
Machinery and equipment	9,455,696	498,439	-	9,954,135
Vehicles	10,731,556	413,367	521,074	10,623,849
Total accumulated depreciation	331,342,280	11,759,430	521,074	342,580,636
Net capital assets being depreciated	107,434,118	(8,349,585)	-	99,084,533
Governmental activities capital assets, net	\$ 122,280,530	\$ (8,157,205)	\$ 227,673	\$ 113,895,652

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	Beginning Balance	Increases	Decreases	Ending Balance		Beginning Balance	Increases	Decreases	Ending Balance
Business-type activities					Component Units				
Capital assets not being depreciated					Capital assets not being depreciated				
Land	\$ 762,394	\$ -	\$ -	\$ 762,394	Land	\$ 10,017,536	\$ -	\$ 115,237	\$ 9,902,299
Capital assets being depreciated					Construction in progress	8,279,388	12,149,935	9,989,897	10,439,426
Land improvements	5,432,597	-	-	5,432,597	Total capital assets not being depreciated	18,296,924	12,149,935	10,105,134	20,341,725
Infrastructure	117,974,223	5,699,579	-	123,673,802	Capital assets being depreciated				
Buildings, additions and improvements	65,390,482	44,190	-	65,434,672	Land improvements	13,855,382	125,683	-	13,981,065
Machinery and equipment	102,393,117	841,817	-	103,234,934	Office furnishings	1,646,086	57,986	-	1,704,072
Vehicles	6,889,394	210,332	-	7,099,726	Buildings, additions and improvements	182,533,234	3,922,811	2,841,957	183,614,088
Total capital assets being depreciated	298,079,813	6,795,918	-	304,875,731	Machinery and equipment	114,968,230	6,564,492	2,821,973	118,710,749
Less accumulated depreciation for					Leasehold improvements	6,928,670	3,160	-	6,931,830
Land improvements	2,314,843	160,338	-	2,475,181	Vehicles	314,209	-	57,511	256,698
Infrastructure	81,787,651	2,428,746	-	84,216,397	Total capital assets being depreciated	320,255,811	10,674,132	5,721,441	325,208,502
Buildings, additions and improvements	49,313,367	1,342,558	-	50,655,925	Less accumulated depreciation for				
Machinery and equipment	62,217,215	2,643,464	-	64,860,679	Land improvements	4,343,083	494,309	-	4,837,392
Vehicles	5,444,387	492,605	-	5,936,992	Office furnishings	610,372	105,190	-	715,562
Total accumulated depreciation	201,077,463	7,067,711	-	208,145,174	Buildings, additions and improvements	121,412,456	4,921,337	2,802,528	123,531,265
Net capital assets being depreciated	97,002,350	(271,793)	-	96,730,557	Machinery and equipment	80,697,251	11,832,746	2,636,926	89,893,071
Business-type capital assets, net	\$ 97,764,744	\$ (271,793)	\$ -	\$ 97,492,951	Leasehold improvements	6,325,107	53,244	-	6,378,351
					Vehicles	211,913	22,586	57,511	176,988
					Total accumulated depreciation	213,600,182	17,429,412	5,496,965	225,532,629
					Net capital assets being depreciated	106,655,629	(6,755,280)	224,476	99,675,873
					Component unit capital assets, net	\$ 124,952,553	\$ 5,394,655	\$ 10,329,610	\$ 120,017,598

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City of Flint, Michigan
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June 30, 2017

Depreciation expense was charged to programs of the primary government as follows:

Governmental activities	
General government	\$ 105,329
Police	324,944
Judicial	1,970
Fire	25,142
Transportation	32,956
Emergency dispatch	71,933
Economic development	-
Parks and recreation	501,766
Public works	10,106,697
Community enrichment and development	66,646
Capital assets held by the government's internal service funds are charged to the various functions based on their usage of the assets	522,047
Total governmental activities	<u>11,759,430</u>
Business-type activities	
Sewer	4,014,638
Water	3,053,073
Total business-type activities	<u>7,067,711</u>
Total primary government	<u>\$ 18,827,141</u>
Component unit activities	
Downtown Development Authority	\$ 388,106
Hurley Medical Center	17,005,994
Economic Development Corporation	35,312
	<u>\$ 17,429,412</u>

Note 8 - Construction Commitments

The city had active construction projects as of June 30, 2017. The projects and City commitments with contractors were as follows:

	Spent to Date	Remaining Commitment
Bridge Work	\$ 102,660	\$ 3,480
Road Rehabilitation	2,042,676	3,138
	<u>\$ 2,145,336</u>	<u>\$ 6,618</u>

Note 9 - Interfund Receivables, Payable, and Transfers

The composition of interfund balances is as follows:

Receivable Fund	Payable Entity	Amount
Due to/from primary government and component units		
Nonmajor governmental funds	Component unit - DDA	\$ 8,025,000
General fund	Component unit - EDC	55,686
Total		<u>\$ 8,080,686</u>

The outstanding balances between funds result mainly from the time lag between the dates that 1) interfund goods and services are provided or reimbursable expenditures occur, 2) transactions are recorded in the accounting system, and 3) payments between funds are made. At June 30, 2017, there was an allowance related to the due from DDA of \$1,780,318, which reduces the total due from DDA to \$6,244,682.

The above contractual obligations to the City of Flint (the "City") for the James Rutherford Parking Deck are the result of the City's issuance of bonds on the Authority's behalf. The Authority has pledged tax increment revenue and net operating revenue of the parking system to repay the obligations. Based upon the amount

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City of Flint, Michigan
Notes to the Financial Statements
June 30, 2017

drawn through June 30, 2017, principal and interest to be paid on the bonds is a total of \$11,610,156.

The details for interfund transfers are as follows:

Funds Transferred From	Funds Transferred To	Amount
General fund	Nonmajor governmental funds	\$ 64,848
General fund	Grant fund	15,641
Major street fund	Nonmajor governmental funds	500,000
Sewer fund	General fund	1,860,000
Water fund	General fund	1,130,000
Internal service funds	Sewer fund	55,445
Internal service funds	Water fund	154,887
Nonmajor governmental funds	Nonmajor governmental funds	734,176
Internal service funds	General fund	787,998
Total		\$ 5,302,995

Transfers between funds were primarily for operating purposes or to cover operating deficits. The transfer from General Fund to the Grant Fund was to cover the interest on debt reported under the Grant Fund. The transfers from the Public Improvement Fund (nonmajor) to the Debt Service Fund (nonmajor) was for the payment of principal and interest on the parking deck debt, the Fiscal Stabilization Loan and the emergency loan note. The transfers from the Water & Sewer Funds to the General Fund represent a return on equity and reimbursement for the billing and collection of water sewer bills.

Note 10 - Unearned Revenue

Governmental funds report unearned revenue in connection with resources that have been received but not yet earned.

At the end of the current fiscal year, the components of unearned revenue are as follows:

Primary government	
Grants received prior to meeting eligibility requirements	<u>\$ 1,223,327</u>
Component Units	
Other revenue	<u>\$ 11,407</u>

Note 11 - Leases

Operating Leases

Hurley Medical Center and Hurley Health Services lease office space under various operating leases. Certain operating leases contain rental escalation clauses that are based on prime rate at a future date and purchase options at fair market value. The future minimum rental payments are as follows:

Year ending June 30,	
2018	\$ 1,168,536
2019	1,188,446
2020	1,122,537
2021	1,007,097
2022	755,495
Thereafter	<u>2,006,301</u>
Total	\$ 7,248,412

Total rent expense under these leases was approximately \$936,000 for the year ended June 30, 2017.

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City of Flint, Michigan
Notes to the Financial Statements
June 30, 2017

Note 12 - Long-Term Debt

The City issues bonds to provide for the acquisition and construction of major capital projects. General obligation bonds are direct obligations and pledge the full faith and credit of the City. City contractual agreements, capital leases, and installment purchase agreements are also general obligations of the City. Special assessment bonds provide for capital improvements that benefit specific properties, and will be repaid from amounts levied against those properties benefited from the construction. Revenue bonds involve a pledge of specific income derived from the acquired or constructed assets to pay debt service.

Long-term obligation activity is summarized as follows:

	Interest Rate Ranges	Principal Maturity Ranges	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental activities							
Section 108 loan	0.56 - 2.66%	\$150,000 - 154,000	\$ 154,000	\$ -	\$ 154,000	\$ -	\$ -
Section 108 loan - 500 Block	1.34 - 4.13%	295,000 - 296,000	2,955,000	-	295,000	2,660,000	295,000
Section 108 loan - Ok Industries	2.38 - 5.67%	21,000 - 22,000	22,000	-	22,000	-	-
Section 108 loan - Guaranteed Funds	0.56 - 4.28%	75,000 - 2,416,000	4,805,000	-	115,000	4,690,000	160,000
Section 108 loan - W. Carpenter Rd	LIBOR + 1.5%	54,745 - 100,000	1,290,000	-	98,000	1,192,000	98,000
General obligation Capital Improvements							
Capital Improvements Bonds	4.00 - 6.00%	310,000 - 710,000	8,355,000	-	330,000	8,025,000	345,000
Local government loan program	3.50 - 6.00%	200,000 - 585,000	7,210,000	-	220,000	6,990,000	225,000
SIB 3rd avenue reconstruction loan	0.50%	110,072 - 118,032	1,489,451	-	111,175	1,378,276	111,731
Emergency Loan - General Obligation							
Limited Tax 2014-15 Series I	2.09%	390,000 - 540,000	6,610,000	-	410,000	6,200,000	420,000
Total bond payable			32,890,451	-	1,755,175	31,135,276	1,654,731
Accrued sick and vacation payable			3,168,787	22,528	98,373	3,092,942	870,000
Capital leases							
Enterprise vehicles			324,118	-	103,308	220,810	105,094
Street sweepers			273,530	-	60,603	212,927	63,030
Total governmental activities			\$ 36,656,886	\$ 22,528	\$ 2,017,459	\$ 34,661,955	\$ 2,692,855

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City of Flint, Michigan
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Internal service funds predominately serve the governmental funds. Accordingly, long-term liabilities for those funds are included as part of the above totals for governmental activities.

	Interest Rate Ranges	Principal Maturity Ranges	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Business-type activities							
General obligation bonds							
2001 MMBA Drinking Water Revolving Fund Revenue Bonds	0.00%	\$395,000 – 448,994	\$ 2,543,994	\$ -	\$ -	\$ 2,543,994	\$ -
2002 MMBA Drinking Water Revolving Fund Revenue Bonds	0.00%	435,000 – 505,000	3,275,000	-	-	3,275,000	-
2003 MMBA Drinking Water Revolving Fund Revenue Bonds	0.00%	485,000 – 581,408	4,256,408	-	-	4,256,408	-
2004 MMBA Drinking Water Revolving Fund Revenue Bonds	0.00%	905,000 – 1,504,934	10,694,934	-	-	10,694,934	-
Total bonds payable			20,770,336	-	-	20,770,336	-
Capital leases							
Vector trucks			559,303	-	86,119	473,184	88,413
Enterprise vehicles			629,170	-	200,539	428,631	207,111
Accrued sick and vacation payable							
			524,910	-	35,431	489,479	130,000
Total business-type activities			\$ 22,483,719	\$ -	\$ 322,089	\$ 22,161,630	\$ 425,524

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City of Flint, Michigan
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For the governmental activities, compensated absences are generally liquidated by the general fund and certain special revenue funds.

	Interest Rate Ranges	Principal Maturity Ranges	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Component unit activities							
Bonds payable							
Series 2010	5.84 – 7.50%	500,000 – 3,555,000	\$ 32,715,000	\$ -	\$ 500,000	\$ 32,215,000	\$ 500,000
Series 2011	4.19%	707,513 – 802,103	1,985,158	-	769,245	1,215,913	802,103
Series 2013A	5.00 – 5.25%	15,000 – 930,000	21,940,000	-	-	21,940,000	-
Series 2013B	3.50 – 5.00%	1,235,000 – 1,305,000	34,800,000	-	4,810,000	29,990,000	4,980,000
Parking System Improvement Revenue Bonds	2.50%	\$64,896	-	648,964	-	648,964	64,896
Total bonds payable			91,440,158	648,964	6,079,245	86,009,877	6,346,999
Capital leases							
			3,334,653	123,255	3,358,619	99,289	41,085
Mortgage payable							
			1,079,173	-	98,501	980,672	103,967
Key State Bank loan – Kearsly Street Lights							
			62,500	-	27,292	35,208	22,710
Special assessment obligations							
			9,301	-	9,301	-	-
Unamortized bond premium							
			618,395	-	100,508	517,887	-
Unamortized bond discount							
			(893,116)	52,429	-	(840,687)	-
Total component unit activities			\$ 95,651,064	\$ 824,648	\$ 9,673,466	\$ 86,802,246	\$ 6,514,761

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City of Flint, Michigan
Notes to the Financial Statements
June 30, 2017

Annual debt service requirements to maturity for the above bonds are as follows:

Year Ending June 30,	Governmental Activities		Business-type Activities		Component Unit	
	Principal	Interest	Principal	Interest	Principal	Interest
2018	\$ 1,654,731	\$ 1,178,004	\$ -	\$ -	\$ 6,346,999	\$ 4,625,547
2019	1,695,290	1,131,169	-	-	6,143,706	4,370,262
2020	1,735,851	1,081,023	-	-	6,444,896	4,063,868
2021	1,770,416	1,027,069	254,399	-	7,089,896	3,720,771
2022	1,821,983	969,584	581,899	-	2,519,898	3,594,561
2023 – 2027	10,055,520	3,840,412	7,176,688	-	14,604,482	15,819,093
2028 – 2032	9,546,481	1,699,284	9,548,869	-	14,200,000	11,677,719
2033 – 2037	2,855,004	284,600	3,208,481	-	16,070,000	6,804,557
2038 – 2042	-	-	-	-	12,590,000	925,350
	<u>\$ 31,135,276</u>	<u>\$ 11,211,145</u>	<u>\$ 20,770,336</u>	<u>\$ -</u>	<u>\$ 86,009,877</u>	<u>\$ 55,601,728</u>

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City of Flint, Michigan
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The City has a capital lease for computer equipment, Vector trucks, street sweepers, and vehicles. The interest rates range from 2.665% and 3.333%. Leases mature in 2020. The future minimum lease payments are as follows:

Year ending June 30,	
2018	\$ 502,644
2019	519,093
2020	389,554
Total minimum lease payments	1,411,291
Less amount representing interest	(75,739)
Present value of minimum lease payments	<u>\$ 1,335,552</u>
Assets	
Machinery and equipment	\$ 2,780,085
Less accumulated depreciation	(1,668,049)
Total	<u>\$ 1,112,036</u>

The leases are recorded in both governmental and business-type funds.

During 2015, Hurley Medical Center entered into a mortgage note payable to acquire real property and a building in Lapeer, Michigan. The mortgage payable is due in monthly installments of \$7,135, including interest of 5.75 percent. The mortgage note payable is collateralized by the building and real property and is due on December 1, 2024. The balance of the mortgage note payable was paid in full during 2017.

During 2016, Hurley entered into a mortgage note payable to acquire real property and a building in Lapeer, Michigan. The mortgage note payable is due in monthly installment of \$5,728, including interest of 5

percent. The mortgage note payable is collateralized by the building and real property and is due on August 3, 2025.

The following is a schedule of the future principal and interest payments for capital leases and mortgage payable for Hurley Medical Center:

Year Ending June 30,	Hurley Medical Center	
	Principal	Interest
2018	\$ 145,052	\$ 50,384
2019	150,820	44,615
2020	132,946	38,524
2021	122,258	32,093
2022	129,048	25,302
2023 - 2027	399,837	31,859
	<u>\$ 1,079,961</u>	<u>\$ 222,777</u>

During 2016, the Flint Downtown Development Authority entered into a bank loan to fund street lights. The loan is due in monthly installments of \$2,083. The loan was issued with a 0% interest rate and is due on October 25, 2018. The following is a schedule of the future principal payments to the recorded liability:

Year Ending June 30,	Flint Downtown Development Authority Principal
2018	\$ 22,708
2019	12,500
	<u>\$ 35,208</u>

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City of Flint, Michigan
Notes to the Financial Statements
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The City has an agreement with Karegnondi Water Authority (KWA) to purchase water. As a part of this agreement, KWA issued bonds for which the City will be paying a portion. Payments began in 2017. The City's payment was \$3,966,054, which is included in 'Costs of materials and services rendered' on the Statement of Net Position for the water fund. The debt is recorded on the books of the Genesee County Drain Commission. The terms of the agreement and the City's participation in the KWA are under discussion as of the issuance of the financial statements.

Future Revenues Pledged for Debt Payments:

Revenue Bond – In February 2016, the MDEQ restructured the City's outstanding DWRLF as follows: The loan terms would be extended to 30 years from the original issue date for each of the loans; the interest rate would be 0 percent retroactive to October 1, 2015; and the loan repayments would cease until April 1, 2021. The remaining principal to be paid on the bonds is \$20,770,336.

Revenues Pledged in Connection with Component Unit Debt – The City has pledged, as security for bonds issued by the City on behalf of the Flint Downtown Development Authority, a portion of the City's state-shared revenues. The bonds issued during 2008 in the amount of \$10,000,000 were used to provide funding for the James Rutherford Parking Deck capital project and upgrade of the Riverfront Parking Deck. The bonds are payable through 2033. The Flint Downtown Development Authority has pledged tax increment revenues and net operating revenues of the parking system to repay the obligations. Based upon the amount drawn through June 30, 2017, principal and interest to be paid on the bonds total \$11,610,156. During the current year, the net loss from the parking operations was \$371,695. Cash flow projections indicate that the DDA's annual debt service to the City for repayment of the bonds will not coincide with the City's annual debt service obligation. During the current year, the City has forgiven a portion of the debt payment made by the City on behalf of the DDA.

Section 108 Loans – The Section 108 loans were obtained through an economic development loan program administered by the U.S. Department of Housing and Urban Development (HUD). The proceeds of the loans were then loaned to private entities for economic development purposes. Loans under the programs are owed to HUD and are secured by future federal grant allocations to the City through the Community Development Block Grant Program. During the current year, net revenues from the Community Development Block Grant Programs were \$3,293,610 as compared to the annual debt requirements of \$553,000.

Section 7-302 of the City Charter, adopted November 4, 1975, limits "net" debt to 7 percent of the assessed value of all real and personal property in the City, but does not define "net" debt. The following computation is based on previous practice and is consistent with the requirements of the State of Michigan Public Act 279 of 1909.

Assessed valuation at May 27, 2014	\$ 709,805,046
Legal debt limit (7 percent of assessed valuation)	49,686,353
Total bonded debt at June 30, 2017	\$ 120,356,249
Less debt not subject to limitation under City charter and State statute:	
Revenue bonds and notes	106,131,249
Debt subject to limitation	14,225,000
Unused debt limitation	<u>\$ 35,461,353</u>

Hurley Medical Center Revenue Refunding Bonds – The revenue refunding bonds are payable from the revenue of the Medical Center pursuant to lease/purchase agreements between the Medical Center and the City of Flint Hospital Building Authority (the "Authority"). Under terms of the lease/purchase agreements, the Medical Center transferred title to substantially all of its facilities to the Authority and leases such facilities from the Authority. Ownership of the facilities reverts to the Medical Center upon payment of the bonds. The net revenue of the Medical Center is pledged for payment of principal and interest on the revenue rental and revenue refunding bonds. Accordingly, the basic financial statements of the Medical Center

City of Flint, Michigan
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include the facilities as if owned by the Medical Center and the bonds as if issued by the Medical Center.

The lease purchase agreements contain certain restrictive covenants, including maintaining a certain minimum debt service ratio and minimum days of cash on hand. The Medical Center entered into two leases for buildings, which included a rider for transfer ownership of the property at the end of the lease term. The leases required monthly lease payments totaling \$74,440. During 2017, the Medical Center accelerated its lease payments under the agreement and full title was transferred to the Medical Center and the lease obligation was paid in full.

Note 13 - Restricted Assets

The balances of the restricted assets accounts in the governmental, business-type activities, and component units are as follows:

	Governmental Activities	Business-type Activities	Component Units
Section 108 business loan proceeds	\$ 383,698	\$ -	\$ -
Insurance escrow	4,315	-	-
Equipment replacement and improvement	-	-	534,567
Retirement	-	-	28,953
Self-insurance	-	-	19,293,550
Revenue bond indenture held by trustee	-	-	16,972,343
Unspent bond proceeds	-	-	801,735
Revenue bond equipment replacement account – pooled cash	-	3,036,489	-
Debt service reserve – pooled cash	-	2,077,034	-
	<u>\$ 388,013</u>	<u>\$ 5,113,523</u>	<u>\$ 37,631,148</u>

Note 14 - Risk Management

The City is a defendant in various civil and administrative legal actions arising during the normal course of its activities. In accordance with FASB Statement 5, *Accounting for Contingencies*, the City accrues for loss contingencies when it is probable that a liability has been incurred and the amount of the loss can be reasonably estimated. The city is exposed to various risks of loss related to property loss torts, errors and omissions, employee injuries, unemployment benefits, as well as medical and worker's compensation benefits provided to employees. The City has purchased commercial insurance for fleet equipment and tort claims, boiler and machinery, certain property and equipment damage and theft, employee theft, and limited tort claims for specific City facilities or events. See separate disclosures below for Hurley Medical Center.

The City Attorney protects the legal interests of the City by vigorously defending these actions. The City has estimated the claims that have been incurred through the end of the year, including both those claims that have been reported as well as those that have not yet been reported to the City. The estimate is based on legal counsel's recommendation and past settlement history. Often, the City Attorney negotiates expedient settlements on behalf of the City in amounts substantially less than the amount sought by the claimants. The City does not admit liability, however, in any of the cases settled.

The City has a commercial insurance policy that covers certain general tort liability. The per claim limit is \$10,000,000 with a \$3,000,000 deductible per occurrence and a \$10,000,000 aggregate claim annually. The commercial policy covers public officials, employment practices, employee benefits, law enforcement, and commercial auto.

City of Flint, Michigan
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Risk Management of Component Units

The Flint Economic Development Corporation 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 government has purchased commercial insurance for all claims. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three years.

The Flint Downtown Development Authority 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 government has purchased commercial insurance for all claims.

The Flint Area Enterprise Community is exposed to various risks of loss related to property loss and torts. The FAEC has purchased commercial insurance for tort claims and certain property damage and theft. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years. There was no reduction in coverage obtained through commercial insurance during the year.

The Medical Center is exposed to various risks of loss, including hospital professional and patient general liability claims. The Medical Center has established an irrevocable trust to assist in accumulating resources to fund excess insurance premiums and to pay claims.

Conditional Asset Retirement Obligation

The Medical Center has an obligation related to the removal of asbestos within various buildings on campus upon reconstruction, demolition, or abandonment of the buildings. The Medical Center has not recorded a liability related to the potential costs associated with the asbestos abatement, as the amount of the liability cannot currently be reasonably estimated. The Medical Center currently has no plans or expectation of plans to undertake a major renovation that would

require significant removal of the asbestos or demolition of the buildings. The Medical Center will recognize a liability in the period sufficient information is available to reasonably estimate the amount of the liability.

Note 15 - Self-Insurance

General Liability

The self-insurance program for general liability is accounted for in the self-insurance internal service fund for claims not covered by the commercial insurance policy. The revenues for this fund's operation are reimbursements from various funds and a transfer from the general fund. Funds are charged for general liability insurance based on total budget. Losses, deductibles, legal and administrative fees are paid from this fund. The liability for known claims is estimated by the City as determined by the City Attorney.

The changes in the claims liability for the fiscal years ended June 30, 2017 and 2016 are as follows:

June 30,	Beginning Claims Liability	Current Year Claims and Changes in Reserves	Claims Paid	Ending Claims Liability
2016	\$ 1,124,352	\$ 274,785	\$ (218,794)	\$ 1,180,343
2017	1,180,343	279,940	(273,795)	1,186,488

As of June 30, 2017, general liability insurance has \$395,101 of current claims payable, and the remaining \$791,387 is classified as long-term. Other types of risk are covered by commercial insurance. There were no insurance settlements that exceeded coverage in the last three years.

City of Flint, Michigan
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Health, Dental and Eye Insurance

The City is self-insured for medical benefits provided to active employees and retirees. The benefits are funded on a pay-as-you-go basis. Claims are being paid out of the fringe benefits internal service fund for active employee claims and out of the retiree health care trust fund for retirees. The two plans are administered by Blue Cross/Blue Shield (BCBSM) and HAP of Michigan. Once the individual contract or aggregate stop-loss amount is reached. Reinsurance provides the remaining benefits. The City is protected from catastrophic claims by an excess insurance policy which provides \$2,000,000 in coverage per specific contract with a \$175,000 self-insured retention (SIR). The City did not have any claims in excess of the stop-loss deductible during the year. The self-insured coverages provided through BCBSM were protected by specific stop-loss coverage, which provided an unlimited excess with a \$175,000 deductible. No City also provides fully insured HMO health insurance coverage to a limited number of employees.

The changes in the claims liability for the fiscal years ended June 30, 2017 and 2016 are as follows:

June 30,	Beginning Claims Liability	Current Year Claims and Changes in Reserves	Claims Paid	Ending Claims Liability
2016	\$ 1,513,116	\$ 10,633,731	\$(10,797,197)	\$ 1,349,650
2017	1,349,650	10,128,375	(10,300,520)	1,177,505

The claims payable as of June 30, 2017 are included in accounts payable on the financial statements.

The City is self-insured for active employee dental and eye care benefits on a pay-as-you-go basis. The self-insurance program is administered by a third-party administrator. All claims and benefits are paid out of the fringe benefits internal service fund. The amount of estimated claims payable at June 30, 2017 was not material.

Workers' Compensation

The City is self-insured for worker's compensation on a pay-as-you-go basis for claims up to \$1,000,000, with reinsurance coverage provided once claims exceed \$1,000,000 in the aggregate. The self-insurance program is administered by a third-party administrator. All workers' compensation benefits are paid out of the fringe benefits internal service fund. The claims liability for fiscal year ended June 30, 2017 was not material.

The changes in the claims liability for the fiscal years ended June 30, 2017 are as follows:

June 30,	Beginning Claims Liability	Current Year Claims and Changes in Reserves	Claims Paid	Ending Claims Liability
2016	\$ 1,173,669	\$ 242,014	\$ (284,386)	\$ 1,131,297
2017	1,131,297	165,005	(154,879)	1,141,423

The claims payable as of June 30, 2017 are included in accounts payable on the financial statements.

Hurley Medical Center

The Medical Center is exposed to various risks of loss, including hospital professional and patient general liability claims. The Medical Center has established an irrevocable trust to assist in accumulating resources to fund excess insurance premiums and to pay claims. The Medical Center's self-insured retention is \$6 million per occurrence annually with excess claims made coverage up to \$20 million

City of Flint, Michigan
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annually. The Medical Center employs the use of an actuary to provide an analysis of the existing claims and to estimate the liability for incurred but not reported (IBNR) claims. The changes in the aggregate malpractice claims for the fiscal years ended June 30, 2017 and 2016 are as follows:

	2017	2016
Estimated liability – beginning of year	\$ 26,025,399	\$ 29,833,112
(Decrease) increase in claims liability	293,984	(1,350,545)
Defense costs and other fund expenses	(695,684)	(284,852)
Excess insurance premium payments	(681,525)	(1,053,166)
Claims paid	(496,250)	(1,119,150)
Estimated liability – end of year	<u>\$ 24,445,924</u>	<u>\$ 26,025,399</u>

Professional liability for claims is reported in other long-term liabilities, net of \$1,600,000 included as a current liability in accrued expenses. The carrying amount of the insurance trust assets (at market) amounted to \$19,346,545 and \$18,924,344 at June 30, 2017 and 2016, respectively.

The Medical Center is self-insured for workers' compensation claims with a self-insured retainer of \$600,000 per claim. As of June 30, 2017 and 2016, the Medical Center has recorded long-term accrued liabilities for workers' compensation of \$1,439,441 and \$1,175,972, respectively. The changes in the aggregate workers' compensation claims for the fiscal years ended June 30, 2017 and 2016 are as follows:

	2017	2016
Estimated liability – beginning of year	\$ 1,175,972	\$ 1,093,257
Increase in claims liability	1,273,341	847,606
Excess insurance premium payments	(99,725)	(99,694)
Claims paid	(910,147)	(665,197)
Estimated liability – end of year	<u>\$ 1,439,441</u>	<u>\$ 1,175,972</u>

Total long-term accrued liabilities as of June 30, 2017 and 2016 are \$24,285,365 and \$27,201,371, respectively.

There are various legal actions pending against the Medical Center, its subsidiaries, and certain employees. Due to the inconclusive nature of these actions, it is not possible for legal counsel of the Medical Center to determine in the aggregate either the probable outcome of these actions or a reasonable estimate of the Medical Center's ultimate liability, if any. The Medical Center maintains what it believes to be adequate coverage of malpractice, errors and omissions, and directors and officers insurances to cover any possible claims.

Note 16 - Employee Retirement And Benefit Systems

Michigan Municipal Employees' Retirement System

Plan description – The City participates in the Michigan Municipal Employees' Retirement System (MERS), an agent multiple-employer defined benefit pension plan that covers all employees of the government. The plan was established by the Michigan Legislature under Public Act 135 of 1945 and administered by a nine member Retirement Board. The system provides retirement, disability and death benefits to plan members and their beneficiaries. MERS issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to MERS at 1134 Municipal Way, Lansing, Michigan 48917 or on the web at <http://www.mersofmich.com>.

Benefits provided – Benefits provided include plans with multipliers ranging from 1.50% to 2.60%. Vesting periods range from 10 to 15 years. Normal retirement age ranging from 55 to 60 years with early retirement ranging from 50 to 60 with 10 to 30 years of service, including some plans that have 23 to 25 years and out options. Final average compensation is calculated based on 3 years. Member contributions range from 0% to 12%.

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Employees covered by benefit terms – At the December 31, 2016 valuation date, the following employees were covered by benefit terms:

Inactive employees or beneficiaries currently receiving benefits	1,800
Inactive employees entitled to but not yet receiving benefits	121
Active employees	414

Contributions – The employer is required to contribute amounts at least equal to the actuarially determined rate, as established by MERS Retirement Board. The actuarially determined rate is the estimated amount necessary to finance the cost of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The employer may establish contribution rates to be paid by its covered employees. The City is required to contribute an amount equal to a percentage of covered payroll, which is based on a flat rate as determined by the actuary. The contribution requirements of the City are established and may be amended by the Retirement Board of MERS. The contribution requirements of plan members are established and may be amended by the City, depending on the MERS contribution program adopted by the City.

Net pension liability – The employer's net pension liability was measured as of December 31, 2016, and the total pension liability used to calculate the net pension liability was determined by an annual actuarial valuation as of that date.

Actuarial assumptions – The total pension liability in the December 31, 2016 annual actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement include: 1) Inflation 2.5%; 2) Salary increases 3.75% in the long-term, gross of administrative expenses, including inflation; 3) Investment rate of return of 8%, net of investment expense, including inflation.

Although no explicit price inflation assumption is used in this valuation, the long-term annual rate of price inflation implicit in the 3.75% base wage inflation is 2.5%.

The mortality table used to project the mortality experience of non-disabled plan members is a 50% Male – 50% Female blend of the following tables: 1) RP-2014 Healthy Annuitant Mortality Tables, with rates multiplied by 105%; 2) RP-2014 Employee Mortality Tables; 3) RP-2014 Juvenile Mortality Tables. The mortality table used to project the mortality experience of disabled plan members is a 50% Male – 50% Female blend of the RP-2014 Disabled Retiree Mortality Tables.

The actuarial assumptions used in valuation were based on the results of the most recent actuarial experience study.

The long-term expected rate of return on pension plan investments was determined using a model method in which the best-estimate ranges of expected future real rates of return (expected returns, net of investment and administrative expenses and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates or arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Long-term	
	Target Allocation	Expected Real Rate of Return
Global equity	57.5%	5.02%
Global fixed income	20.0%	2.18%
Real assets	12.5%	4.23%
Diversifying strategies	10.0%	6.56%

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Discount rate – The discount rate used to measure the total pension liability is 8.00%. The projection of cash flows used to determine the discount rate assumes that employer and employee contributions will be made at the rates agreed upon for employees and the actuarially determined rates for employers. Based on these assumptions, the pension plans fiduciary net position was projected to be available to pay all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Schedule of changes in net pension liability and related ratios	2017
Total Pension Liability	
Service cost	\$ 2,233,013
Interest on the total pension liability	42,351,721
Experience differences	1,729,337
Change in actuarial assumptions	-
Other changes	(882)
Benefit payments and refunds	(51,497,082)
Net change in total pension liability	(5,183,893)
Total pension liability – beginning	554,028,549
Total pension liability – ending (a)	<u>\$ 548,844,656</u>
Plan Fiduciary Net Position	
Employer contributions	\$ 22,022,738
Employee contributions	1,665,719
Pension plan net investment income	22,386,661
Benefit payments and refunds	(51,497,082)
Pension plan administrative expense	(443,862)
Net change in plan fiduciary net position	(5,865,826)
Plan fiduciary net position – beginning	208,965,319
Plan fiduciary net position – ending (b)	<u>\$ 203,099,493</u>
Net pension liability (a-b)	<u>\$ 345,745,163</u>
Plan fiduciary net position as a percentage of total pension liability	37.00%
Covered employee payroll	\$ 21,427,792
Net pension liability as a percentage of covered employee payroll	1,614%

Sensitivity of the net pension liability to changes in the discount rate – The following presents the net pension liability of the employer, calculated using the discount rate of 8.00%, as well as what the employer's net pension liability would be using a discount rate that is 1% point lower (7.00%) or 1% higher (9.00%) than the current rate.

	1% Decrease	Current Discount Rate	1% Increase
Total pension liability	\$ 598,333,704	\$ 548,844,656	\$ 506,331,020
Fiduciary net position	203,099,493	203,099,493	203,099,493
Net pension liability	<u>\$ 395,234,211</u>	<u>\$ 345,745,163</u>	<u>\$ 303,231,527</u>

Pension expense and deferred outflows of resources and deferred inflows of resources related to pensions – For the year ended June 30, 2017, the employer recognized pension expense of \$16,964,535. The employer reported deferred outflows and inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Total to Amortize
Differences in experience	\$ 864,668	\$ 864,668
Excess investment returns	9,567,117	9,567,117
Contributions subsequent to the measurement date*	8,477,316	-
Total	<u>\$ 18,909,101</u>	<u>\$ 10,431,785</u>

*The amount reported as deferred outflows of resources resulting from contributions subsequent to the measurement date will be recognized as a reduction in the net pension liability for the year ended 2018.

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Amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended,	
2018	\$ 4,813,286
2019	3,948,616
2020	3,029,790
2021	(1,359,907)
	<u>\$ 10,431,785</u>

Hurley Medical Center Municipal Employees' Retirement System

In an effort to control future costs, effective January 1, 2014, the Medical Center amended the existing defined benefit plans. The significant plan provisions prior to January 1, 2014 were as follows:

Plan Description – The Medical Center participates in an agent multiple-employer defined benefit pension plan administered by the Municipal Employees Retirement System of Michigan (MERS of Michigan) that covers all employees of the Medical Center. MERS of Michigan was established as a statewide public employee pension plan by the Michigan Legislature under PA 135 of 1945 and is administered by a nine member retirement board. MERS of Michigan issues a publicly available financial report which includes the financial statements and required supplementary information of this defined benefit plan. This report can be obtained at www.mersofmich.com or in writing to MERS of Michigan at 1134 Municipal Way, Lansing, Michigan 48917.

Benefits Provided – The Plan provides certain retirement, disability, and death benefits to plan members and beneficiaries. PA 427 of 1984, as amended, established and amends the benefit provisions of the participants in MERS of Michigan. The MERS of Michigan plan covers all bargaining and non-bargaining unit employees.

The Medical Center offers a defined benefit plan (the "Plan") that was established by City of Flint ordinances, which includes three benefit options. The basic plan option, the Old Contributory Pension Plan (OCPP), provides for employer contributions and requires employee contributions. Under OCPP, employees may retire with 25 years of credited service or at age 55 with 10 years of credited service. The monthly retirement benefit is 2.2 percent of final average compensation (FAC) for the first 25 years of credited service and 1 percent for every year thereafter.

The second plan option, the Modified Contributory Pension Plan (MCPP), provides for employer contributions and requires a higher rate of employee contributions. Benefits fully vest after 15 years of service or at age 55 with 10 years of service. Employees may retire any time after completion of 25 years of credited service or at age 55 with 10 years of credited service. The monthly retirement benefit is 2.2 percent of the FAC for the first 15 years of credited service, plus 2.4 percent of the next 10 years, and 1 percent of every year beyond year 25.

The third plan option, the Hurley Alternative Pension Plan (HAPP), provides for employer contributions. Benefits fully vest after 10 years of credited service and a normal retirement age of 60. There are provisions for early retirement at age 55 with a reduced benefit. The monthly retirement benefit is 1.7 percent of FAC for the first 25 years of credited service and 1.7 percent for every year thereafter.

Bargaining unit employees may participate in either the MCPP or HAPP option. Employees may participate in any of the three plan options (MCP, HAPP, or OCPP).

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Employees Covered by Benefit Terms – At the December 31, 2016 measurement date, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	1,913
Inactive employees entitled to but not yet receiving benefits	278
Active employees	<u>1,980</u>
	<u><u>4,171</u></u>

Contributions – Article 9, Section 24 of the State of Michigan constitution requires that financial benefits arising on account of employee service rendered in each year be funded during that year. Accordingly, MERS retains an independent actuary to determine the annual contribution. The employer is required to contribute amounts at least equal to the actuarially determined rate, as established by the MERS retirement board. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by plan members during the year, with an additional amount to finance any unfunded accrued liability. The employer may establish contribution rates to be paid by its covered employees.

Payable to the Pension Plan – At June 30, 2017, the Medical Center reported a payable of \$2,295,722 for the outstanding amount of contributions to the Plan required for the year ended June 30, 2017.

Net Pension Liability – The total pension liability reported at June 30, 2017 was determined using a measure of the total pension liability and the pension net position as of December 31, 2016. The December 31, 2016 total pension liability was determined by an actuarial valuation performed as of that date.

Changes in the net pension liability during the measurement year were as follows:

Schedule of changes in net pension liability and related ratios	2017
Total Pension Liability	
Service cost	\$ 7,542,280
Interest on the total pension liability	44,306,689
Experience differences	(3,480,197)
Other changes	(1,066)
Benefit payments and refunds	<u>(39,469,485)</u>
Net change in total pension liability	8,898,221
Total pension liability – beginning	<u>569,797,218</u>
Total pension liability – ending (a)	<u><u>\$ 578,695,439</u></u>
Plan Fiduciary Net Position	
Employer contributions	\$ 21,315,066
Employee contributions	6,487,981
Pension plan net investment income	42,015,304
Benefit payments and refunds	(39,469,485)
Pension plan administrative expense	<u>(829,764)</u>
Net change in plan fiduciary net position	29,519,102
Plan fiduciary net position – beginning	<u>374,434,194</u>
Plan fiduciary net position – ending (b)	<u><u>\$ 403,953,296</u></u>
Net pension liability (a-b)	<u><u>\$ 174,742,143</u></u>
Plan fiduciary net position as a percentage of total pension liability	69.80%
Covered employee payroll	\$ 113,422,810
Net pension liability as a percentage of covered employee payroll	154%

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Pension Expense and Deferred Outflows of Resources Related to Pensions – For the year ended June 30, 2017, the Medical Center recognized pension expense of \$29,729,534. At June 30, 2017, the Medical Center reported deferred outflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources	Total to Amortize
Differences in experience	-	\$ 2,936,055	\$ (2,936,055)
Differences in assumptions	14,582,064	-	14,582,064
Excess investment returns	15,485,713	-	15,485,713
Contributions subsequent to the measurement date*	<u>10,628,748</u>	-	-
Total	<u>\$ 40,696,525</u>	<u>\$ 2,936,055</u>	<u>\$ 27,131,722</u>

*Amounts reported as deferred outflows of resources related to pensions will be recognized in pension expense as follows. These amounts are exclusive of the employer contributions to the plan made subsequent to the measurement date \$10,628,748, which will impact the net pension liability in fiscal year 2018, rather than pension expense.

Year Ended,	
2018	\$ 12,994,736
2019	12,994,737
2020	4,350,372
2021	<u>(3,208,123)</u>
	<u><u>\$ 27,131,722</u></u>

Actuarial Assumptions – The total pension liability in the December 31, 2016 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

- Inflation 2.5%
- Salary increases 3.75%
- Investment rate of return 8.00%, net of investment expense, gross of administrative expense, including inflation

Mortality rates were based on a 50 percent male and 50 percent female blend of the following tables:

- RP-2014 healthy annuitant mortality tables, with rates multiplied by 105 percent
- RP-2014 employee mortality tables
- RP-2014 juvenile mortality tables

For disabled retirees, the mortality rates were based on the 50 percent male – 50 percent female blend of the RP-2014 disabled retiree mortality tables.

Discount Rate – The discount rate used to measure the total pension liability was 8.00 percent. The projection of cash flows used to determine the discount rate assumes that employee contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the difference between actuarially determined contribution rates and the employee rate.

Projected Cash Flows – Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

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The long-term expected rate of return on pension plan investments was determined using a model in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return as of December 31, 2016, the measurement date, for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Long-term Expected Real Rate of Return
Global equity	55.0%	7.00%
Global fixed income	18.0%	2.00%
Real assets	14.0%	8.00%
Diversifying strategies	13.0%	6.00%

The preceding target allocation was amended as of January 1, 2017 to reduce the previous allocation to global equity and global fixed income and to increase the allocation of real assets and diversifying strategies. The target allocation as of January 1, 2017 will be 55.5 percent global equity, 18.5 percent global fixed income, 13.5 percent real assets, and 12.5 percent diversifying strategies.

Sensitivity of the Net Pension Liability to Changes in the Discount Rate – The following presents the net pension liability of the Medical Center, calculated using the discount rate of 8.00 percent, as well as what the Medical Center's net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower (7.00 percent) or 1 percentage point higher (9.00 percent) than the current rate:

	Current		
	1% Decrease	Discount Rate	1% Increase
Net pension liability	\$ 234,156,808	\$ 174,742,143	\$ 123,942,346

Pension Plan Fiduciary Net Position – Detailed information about the Plan's fiduciary net position is available in the separately issued financial report. For the purpose of measuring the net pension liability, deferred outflows of resources, and deferred inflows or resources related to pension and pension expense, information about the Plan's fiduciary net position and addition to/deduction from fiduciary net position have been determined on the same basis as they are reported by the Plan. The Plan uses the economic resources measurement focus and the full accrual basis of accounting. Investments are stated at fair value. Contribution revenue is recorded as contributions are due pursuant to legal requirements. Benefit payments and refunds of employee contributions are recognized as expense when due and payable in accordance with the benefit terms.

Charter Retirement Plan

The Charter Retirement Plan, a single employer defined benefit pension plan, covers firemen and policemen employed by the City prior to July 1, 1947. The plan was adopted under City code. All employees covered by this plan have retired. Benefits are provided under a special City ordinance with retirees receiving a monthly benefit. The current membership of the plan at June 30, 2017 is one member. The City intends to pay retirement benefits as they become due from future years' General Fund revenue. The City's contribution to the plan for the year ended June 30, 2017 was \$37,288 and was calculated based on actual current pension benefits due to be paid. The present value of vested benefits has not been determined. The City has not requested an actuarial valuation of the plan since 1985 because of the decreasing nature and the immateriality of the plan's potential unfunded pension benefit obligation and the fact that the City is paying benefits as they become due. Net position available for pension benefits at June 30, 2017 was \$37,288.

Hurley Medical Center Defined Contribution Plan

The Medical Center has a defined contribution plan established under a City of Flint ordinance for employees who meet certain requirements as to date of hire. Contributions to the plan are 4.5 percent of the

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employee's annual compensation. Each employee's interest is vested as specified in the plan. Pension expense included in the statement of revenue, expenses, and changes in net position was approximately \$1,400,000 for the year ended June 30, 2017. The defined contribution plan is no longer offered to employees hired after January 1, 2014.

Hurley Medical Center Profit Sharing and 403(b) Plan

Hurley Health Services (HHS), a component unit of Hurley Medical Center, has a qualified 401(k) profit-sharing plan for HPMS employees. Eligible employees, those that have attained the age of 21 and completed 90 days of service, may defer up to the federal pension law limitations. HHS may make a discretionary contribution. HHS' contributions to the 401(k) plan were approximately \$74,000 for 2017.

HHS also maintains two qualified deferred compensation plans under Section 403(b) of the Internal Revenue Code. Under the plans, HHS and THC employees may elect to defer a percentage of their salary, subject to the Internal Revenue Service limits. HHS may make a discretionary contribution. HHS' contributions to the 403(b) plans amounted to approximately \$465,000 for 2017.

Retiree Death Benefit Plan

The City provides postretirement death benefits to certain retirees who retired after July 1, 1978, under the terms of collective bargaining agreements with two employee unions. If the retiree was a member of one of the bargaining units at the time of retirement, his or her designated beneficiary will receive a death benefit at the time of the retiree's death. The death benefit ranges from \$2,000 to \$10,000 depending on the retirement date. As of June 30, 2012, this benefit is no longer offered to active employees.

As of June 30, 2017, there were 990 retirees who were eligible for this benefit. Employee contributions for the year ended June 30, 2017 were \$0. Net position available for benefits, reported at fair value, was

\$515,300 at year end. No actuarial valuation has been performed to determine the present value of vested benefits. During the year ended, the City paid death benefits of \$133,500.

Other Postemployment Benefits

Plan description – The City provides retiree healthcare benefits to eligible employees and their spouses through the Retiree Health Care Fund. Benefits are provided to public safety and general employees. Currently, the plan has 1,765 members, including 302 employees in active service and 1,463 retired employees and beneficiaries currently receiving benefits.

This is a single employer defined benefit plan administered by the City. The benefits are provided under collective bargaining agreements of Local 1799, Local 1600, and Fire Local 352. The plan does not issue a separate stand-alone financial statement. Administrative costs are paid by the plan through employer contributions. The plan does not cover Hurley Medical Center employees.

Funding Policy – The collective bargaining agreements require a contribution of 20% of premiums toward retiree health plan insurance. The City has no obligation to make contributions in advance of when the insurance premiums are due for payment. The City recognizes the expenses in the funds on a "pay-as-you-go" basis. The costs of administered the plan are borne by the City's general fund.

Funding Progress – For the year ended June 30, 2017, the City has estimated the cost of providing retiree healthcare benefits through an actuarial valuation as of July 1, 2016. The valuation computes an annual required contribution, which represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities not to exceed 25 years.

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This valuations computed contribution and actual funding are summarized as follows:

Annual required contribution	\$ 20,617,796
Interest on net OPEB obligation	6,387,096
Adjustment to annual required contribution	<u>(9,875,882)</u>
Annual OPEB cost	17,129,010
Contribution made	<u>(15,027,068)</u>
Change in net OPEB obligation	2,101,942
Net OPEB obligation, beginning of year	<u>150,284,614</u>
Net OPEB obligation, end of year	<u>\$ 152,386,556</u>

The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation of the current year are as follows:

Fiscal Year Ending June 30,	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2010	\$ 55,252,592	37.0%	\$ 113,615,741
2011	61,351,938	32.1%	155,284,670
2012	22,105,930	92.4%	156,975,216
2013	18,942,499	89.8%	158,901,714
2014	13,896,769	139.4%	153,431,369
2015	14,219,784	114.2%	151,416,390
2016	15,569,923	107.3%	150,284,614
2017	17,129,010	114.0%	152,386,556

Funded Status – The funded status of the plan as of the date of the latest actuarial valuation, was as follow:

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (Percent) (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll
7/1/2009	\$ -	\$ 774,606,738	\$ 774,606,738	-	\$ 41,166,662	1882%
7/1/2010	-	862,302,934	862,302,934	-	36,252,274	2379%
7/1/2011	-	366,832,597	366,832,597	-	37,339,842	982%
7/1/2012	166,903	320,190,757	320,013,854	0.1%	N/A	-
7/1/2013	14,237	240,639,434	240,525,197	-	N/A	-
7/1/2014	137,927	240,734,057	240,596,130	0.1%	N/A	-
7/1/2015	137,998	273,817,859	273,679,861	0.1%	17,892,129	1530%
7/1/2016	-	293,607,373	293,607,373	0.0%	16,418,398	1788%

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

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.

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In the July 1, 2016 actuarial valuation, the entry age actuarial cost method was used. The actuarial assumptions included a 4.25 percent investment rate of return (net of administrative expenses), which is a blended rate of the expected long-term investment returns on plan assets and on employer's own investments calculated based on the funded level of the plan at the valuation date, an annual healthcare cost trend rate of 9.0 percent initially, reduced by decrements to an ultimate rate of 4.5 percent, and an inflation rate of 3 percent. The actuarial value of assets was determined using techniques that spread the effects of short-term volatility in the market value of invests over a five-year period. The UAAL is being amortized as a level percentage dollar on a closed basis. The remaining amortization period at July 1, 2016 was 25 years.

Following are the condensed financial statements for the individual pension plans and postemployment healthcare plans for the year ended June 30, 2017:

Statement of Plan Net Position

	Death Benefit	Retiree Health Care	Hurley Medical Center Retiree Benefit Trust Fund	Total
Cash and cash equivalents	\$ -	\$ -	\$ 1,935,889	\$ 1,935,889
Investments, at fair value	518,800	-	58,214,927	58,733,727
Other assets	-	-	203,276	203,276
Liabilities	(3,500)	-	(691,624)	(695,124)
Net position held in trust for pension benefits	<u>\$ 515,300</u>	<u>\$ -</u>	<u>\$ 59,662,468</u>	<u>\$ 60,177,768</u>

Statement of Changes in Plan Net Position

	Death Benefit	Retiree Health Care	Hurley Medical Center Retiree Benefit Trust Fund	Total
Contributions	\$ -	\$ -	\$ 7,553,559	\$ 7,553,559
Investment income (loss)	78,807	-	5,308,680	5,387,487
Benefit payments	-	(138,008)	(6,324,994)	(6,463,002)
Net change in net position	<u>\$ 78,807</u>	<u>\$ (138,008)</u>	<u>\$ 6,537,245</u>	<u>\$ 6,478,044</u>

Other Postemployment Benefits – Hurley Medical Center

Plan Description – The Medical Center provides retiree health insurance premiums to eligible retirees and their spouses through the Retiree Health Benefit Plan (the "Plan"). Retirees receive full or partial health insurance coverage depending on the employee's date of employment and union affiliation. During the year ended June 30, 2010, the Plan was amended to eliminate the full coverage benefits to those eligible employees. Eligible retirees prior to December 31, 2009 were grandfathered into the Plan with full health insurance benefits. The number of participants was 604 at June 30, 2017.

The Plan's activity is accounted for in an irrevocable trust and the activity is reported in the fiduciary fund financial statements. The Plan is a single-employer defined benefit plan administered by the Medical Center. The Plan does not issue a separate stand-alone financial statement.

Funding Policy – The Medical Center expenses the cost of the Plan in its proprietary fund. The cost of providing retiree healthcare benefits is estimated through an actuarial valuation issued on June 30, 2015 based on participant data as of June 30, 2015. The valuation computes the annual required contribution, which represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed 30 years. The Medical Center has no obligation to make contributions in advance of when the insurance

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Notes to the Financial Statements
June 30, 2017

premiums are due for payment (in other words, this may be financed on a pay-as-you-go basis). However, as shown below, the Medical Center has made contributions to advance fund certain of these benefits.

This valuation's computed contribution and actual funding are summarized as follows for the year ended June 30, 2017:

For the years ended June 30, 2017, the annual required contribution, as determined by the supplemental actuarial valuation, was \$5,523,153.

The funding progress of the Plan as of the most recent valuation dates is as follows:

	June 30, 2013
Actuarial value of assets	\$ 37,529,448
Actuarial accrued liability	92,812,089
Unfunded AAL	(55,282,641)
Funded ratio	40%

Actuarial Methods and Assumptions – Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented above, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

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 June 30, 2013 actuarial valuation, the individual entry age actuarial cost method was used. The actuarial assumptions included an 8 percent investment rate of return (net of administrative expenses), which is a blended rate of the expected long-term investment returns on plan assets and on the Medical Center's own investments calculated based on the funded level of the plan at the valuation date and an annual healthcare cost trend rate of 6 percent initially, reduced by decrements to an ultimate rate of 3.75 percent after 10 years. Both rates included a 3.75 percent inflation assumption. The UAAL is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at June 30, 2013 was 22 years.

Hurley Medical Center's Retiree Health Insurance Trust

Plan Description – The Hurley Medical Center board of managers established Hurley Medical Center Retiree's Health Insurance Trust (RHI Trust), a single-employer defined benefit plan that is used to provide postemployment healthcare benefits to eligible retirees and their beneficiaries. Hurley Medical Center's Chief Financial Officer serves as the trust administrator. The board of managers consists of 15 members that are appointed by the mayor and approved by the Flint City Council and such body has the powers granted under the State of Michigan Public Employees' Retirement System Act including but not limited to make rules with respect to the trust to be consistent with the Act, to determine the consistency with the applicable laws, rules and regulations, to invest all RHI Trust assets and to adopt, establish, and abide by investment policies.

City of Flint, Michigan
Notes to the Financial Statements
June 30, 2017

Benefits Provided – The healthcare benefits are provided by the Medical Center's self-insurance plan. The third party that administers the RHI Trust formulates an illustrative rate based on the coverage provided. RHI Trust members receive full or partial health coverage (illustrative rate) depending on the member's date of employment and union affiliation. Those members that were employed by 1989 and retired on or before December 31, 2009, are eligible to receive full healthcare benefits. All other members may receive a specified stipend that is used to offset the cost of the healthcare benefit illustrative rate and the retiree contributes the remainder. Once RHI Trust members reach the age 65, the member's coverage is converted to a fully insured product and the stipend is reduced.

Plan Membership Covered by Benefit Terms – The following members were covered by the benefit terms as of the June 30, 2015 participant data:

Inactive employees or beneficiaries currently receiving benefits	542
Inactive employees entitled to but not yet receiving benefits	62
Active employees	2,561
	3,165

Contributions – The RHI Trust is funded based on discretionary contributions as determined by the Hurley Medical Center board of managers. The cost of providing retiree healthcare benefits was estimated through an actuarial valuation issued August 8, 2017, based on participant data as of June 30, 2015. The valuation computes the annual required contribution, which represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost each year and amortize any unfunded actual liabilities over 20 years.

Net OPEB Liability – The Medical Center reports OPEB expense based on funding requirements, as directed by GASB Statement No. 45. Beginning in 2018, the Medical Center will adopt GASB Statement No. 75, which will require the measurement of OPEB expense as it is earned, rather than as it is funded. The net OPEB liability of the Medical Center has been measured as of June 30, 2017 and is composed of the following:

Changes in the net OPEB liability during the measurement year were as follows:

Total OPEB liability	94,503,927
Plan fiduciary net position	59,662,468
Net OPEB liability	\$ 34,841,459
Plan fiduciary net position as a percentage of the total OPEB liability	63.13%

Actuarial Assumptions – The total OPEB liability was determined by an actuarial valuation as of June 30, 2015. Updated procedures were used to roll forward the total OPEB liability to the OPEB plan's fiscal year end of June 30, 2017. The valuation used the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

- Inflation 2.75%
- Healthcare cost trend rate 9% decreasing to 3.25%
- Salary increases 3.25% average, including inflation
- Investment rate of return 6.75% net of OPEB plan investment expense, including inflation

City of Flint, Michigan
Notes to the Financial Statements
June 30, 2017

Discount Rate – The discount rate used to measure the total OPEB liability was 6.75 percent. The projection of cash flows used to determine the discount rate assumed that the Medical Center contributions will be made at rates equal to the actuarially determined contribution rates. Based on those assumptions, the RHI Trust's fiduciary net position was projected to be available to make all projected future benefit payments of current members. Therefore, the long-term expected rate of return on RHI Trust investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

Investment Rate of Return – The long-term expected rate of return on OPEB plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Long-term Expected Real Rate of Return
U.S. equities	40.0%	10.20%
International equities	10.0%	8.90%
U.S. convertibles	10.0%	8.60%
U.S. fixed income	40.0%	4.00%

Sensitivity of the Net OPEB Liability to Changes in the Discount Rate – The following presents the net OPEB liability, calculated using the discount rate of 6.75 percent, depending on the plan option. The following also reflects what the Medical Center's net OPEB liability would be if it were calculated using a discount rate that is 1

percentage point lower (5.75 percent) or 1 percentage point higher (7.75 percent) than the current rate:

	1% Decrease	Current Discount Rate	1% Increase
Net OPEB liability	\$ 44,446,818	\$ 34,841,459	\$ 26,654,494

Sensitivity of the Net OPEB Liability to Changes in the Healthcare Cost Trend – Regarding the sensitivity of the net OPEB liability to changes in the healthcare cost trend rates, the following presents the Medical Center's net OPEB liability, calculated using the assumed trend rates as well as what the Medical Center's net OPEB liability would be if it were calculated using the trend rate that is 1 percentage lower or 1 percentage higher:

	1% Decrease	Current Discount Rate	1% Increase
Net OPEB liability	\$ 28,686,110	\$ 34,841,459	\$ 42,065,674

Investment Policy – The RHI Trust's investment policy indicates that the RHI Trust investment must be in compliance with Public Acts 149 and 314. The investment policy and future changes shall be approved by the board of managers. The ongoing responsibility of the review of the investment activity has been delegated to its finance committee and the Chief Investment Officer (CIO) is responsible for the implementing the investment strategy including the investment allocation. The investment policy and asset allocation are reviewed annually.

City of Flint, Michigan
Notes to the Financial Statements
June 30, 2017

The following is the board of managers' adopted asset allocation policy as of June 30, 2017:

Asset Class	Target Allocation	Long-term Expected Real Rate of Return
U.S. equities	40.0%	10.20%
International equities	10.0%	8.90%
U.S. convertibles	10.0%	8.60%
U.S. fixed income	40.0%	4.00%

Investment Policy Changes – During the annual investment policy update, the allocation of investments increased U.S. equities by 5 percent and international equities by 5 percent and decreased the U.S. fixed income by 10 percent.

Rate of Return – For the year ended June 30, 2017, the annual money weighted rate of return on investments, net of investment expense, was 10.58 percent. The money weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

Note 17 - Contingent Liabilities

Amounts received or receivable from grant agencies are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures that may be disallowed by the grantor cannot be determined at this time, although the government expects such amounts, if any, to be immaterial.

Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation. Hurley Medical Center's management believes that it is in compliance with all applicable laws and regulations. Compliance with such laws and regulations can be subject to future government review and interpretation as well as significant regulatory action including fines, penalties, and exclusion from the Medicare and Medicaid programs.

The City is currently a defendant in a lawsuit concerning allegations that the City illegally increased water rates in 2011. Subsequent to year end, the Court issued a preliminary ruling against the City and the City has appealed that ruling. However, the City is currently working with the Court to determine what numbers are to be used to determine what, if any, obligation the City will have. As of the date of this report, neither City Management nor their attorney could reasonably determine the dollar amount or any liability or any further probability as to the outcome of the case.

Note 18 - Related Party Transactions

The Medical Center pays subsidies and management fees for services rendered by HHS to the Medical Center. Management fees and contributions from the Medical Center to HHS for the years ended June 30, 2017 amounted to \$27,905,865. Amounts paid by HHS to the Medical Center for rent and other miscellaneous expenses for the years ended June 30, 2017 amounted to \$145,284.

As of June 30, 2017, the Medical Center had accounts receivable from HHS of \$297,098, and accounts payable to HHS of \$178,404.

City of Flint, Michigan
Notes to the Financial Statements
June 30, 2017

Note 19 - Prior Period Adjustments

The City's beginning fund equity has been restated to correct an error in the recording of a prior year revenue amount previously allocated to the wrong funds. Beginning fund equity for the general fund was increased by \$163,488, beginning fund equity of other aggregate remaining funds was decreased by the same amount. There was no effect on governmental activities net position.

Hurley Medical Center's beginning net position has been restated to correct an error in the recording of a capital lease previously recorded as an operating lease in a prior year. Capital assets were increased by \$6,448,010, current portion of long-term debt increased by \$484,859, long-term debt – net of current portion increased by \$2,849,794, and total net position increased by \$3,113,357.

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City of Flint, Michigan
Required Supplementary Information
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual
General Fund
For the Year Ended June 30, 2017

	Budgeted Amounts		Actual	Actual Over (Under) Final Budget
	Original	Final		
Revenues				
Taxes	\$ 4,400,000	\$ 4,400,000	\$ 4,759,236	\$ 359,236
Income taxes	14,535,783	14,535,783	15,644,292	1,108,509
Licenses and permits	95,531	95,531	66,515	(29,016)
State revenue sharing	14,777,939	14,777,939	14,899,242	121,303
Other state grants	3,000,675	3,677,511	3,317,435	(360,076)
Local contributions	-	100,000	50,590	(49,410)
Charges for services	8,006,321	8,006,321	8,290,092	283,771
Fines and forfeitures	106,500	346,500	288,387	(58,113)
Investment income	235,000	235,000	282,178	47,178
Cable franchise fees	1,050,000	1,050,000	1,022,650	(27,350)
Miscellaneous	519,458	399,458	455,231	55,773
Transfers in	2,777,998	2,777,998	3,777,998	1,000,000
	<u>49,505,205</u>	<u>50,402,041</u>	<u>52,853,846</u>	<u>2,451,806</u>
Expenditures				
Current				
General government				
Mayor's office	342,549	560,347	352,961	(207,386)
Finance	4,570,866	4,871,096	3,870,443	(1,000,653)
City clerk	1,000,661	1,000,661	843,196	(157,465)
Law office	846,425	846,425	703,794	(142,631)
Human resources	683,034	683,034	456,787	(226,247)
General government	4,126,479	3,881,012	3,810,312	(70,700)
City administrator	320,051	326,657	302,040	(24,617)
	<u>11,890,065</u>	<u>12,169,232</u>	<u>10,339,533</u>	<u>(1,829,699)</u>

City of Flint, Michigan
Required Supplementary Information
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual
General Fund
For the Year Ended June 30, 2017

	Budgeted Amounts		Actual	Actual Over (Under) Final Budget
	Original	Final		
Judicial - 68th District Court	\$ 829,681	\$ 901,361	\$ 901,361	\$ -
Public safety				
Police department	24,022,378	23,514,627	21,966,606	(1,548,021)
Fire	9,674,356	9,782,399	9,034,111	(748,288)
Emergency dispatch	-	177,244	88,622	(88,622)
Total public safety	<u>33,696,734</u>	<u>33,474,270</u>	<u>31,089,339</u>	<u>(2,384,931)</u>
Legislative - City council	715,403	973,459	870,950	(102,509)
Community development	812,524	911,329	729,330	(181,999)
Facilities maintenance	1,480,309	1,891,901	1,643,145	(248,756)
Transfers out	80,489	80,489	80,489	-
Total expenditures	<u>49,505,205</u>	<u>50,402,041</u>	<u>45,654,147</u>	<u>(4,747,894)</u>
Excess of revenues over expenditures	-	-	7,199,699	7,199,699
Fund balance – beginning of year	9,874,093	9,874,093	9,874,093	-
Fund balance – end of year	<u>\$ 9,874,093</u>	<u>\$ 9,874,093</u>	<u>\$ 17,073,792</u>	<u>\$ 7,199,699</u>

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City of Flint, Michigan
Required Supplementary Information
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual
Grant Fund
For the Year Ended June 30, 2017

	Original Budget	Final Budget	Actual	Actual Over (Under) Final Budget
Revenues				
Federal grants	\$ 299,262	\$ 81,347,527	\$ 5,783,334	\$ (75,564,193)
Other state grants	-	2,937,740	645,660	(2,292,080)
Local contributions	-	5,073,138	646,435	(4,426,703)
Charges for services	40,400	103,800	70,174	(33,626)
Interest income	241,785	241,785	291,404	49,619
Miscellaneous	393,000	393,000	393,000	-
Transfers in	(15,641)	(15,641)	15,641	31,282
Total revenues	<u>958,806</u>	<u>90,081,349</u>	<u>7,845,648</u>	<u>(82,235,701)</u>
Expenditures				
Current				
Public safety	-	19,407,404	2,914,599	(16,492,805)
Public works	-	40,008,300	-	(40,008,300)
Community development	-	29,605,707	4,842,583	(24,763,124)
Debt service				
Principal retirement	684,000	684,000	684,000	-
Interest and fiscal charges	306,088	306,088	306,773	685
Total expenditures	<u>990,088</u>	<u>90,011,499</u>	<u>8,747,955</u>	<u>(81,263,544)</u>
Excess (deficiency) of revenues over expenditures	(31,282)	69,850	(902,307)	(972,157)
Fund balance – beginning of year	1,578,416	1,578,416	1,578,416	-
Fund balance – end of year	<u>\$ 1,547,134</u>	<u>\$ 1,648,266</u>	<u>\$ 676,109</u>	<u>\$ (972,157)</u>

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City of Flint, Michigan
Required Supplementary Information
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget to Actual
Major Streets
For the Year Ended June 30, 2017

	Original Budget	Final Budget	Actual	Actual Over (Under) Final Budget
Revenues				
Licenses and permits	\$ -	\$ -	\$ 1,400	\$ 1,400
State revenue sharing	8,510,766	8,510,766	8,121,363	(389,403)
Other state grants	701,400	701,400	321,345	(380,055)
Local contributions	-	-	17,756	17,756
Charges for services	31,506	31,506	36,601	5,095
Investment income	-	-	26,062	26,062
Other revenue	196,210	214,046	73,855	(140,191)
Total revenues	<u>9,439,882</u>	<u>9,457,718</u>	<u>8,598,382</u>	<u>(859,336)</u>
Expenditures				
Current				
Transportation	8,250,473	9,193,634	6,552,517	(2,641,117)
Debt service				
Principal retirement	111,175	111,175	111,173	(2)
Interest and fiscal charges	7,447	7,447	7,447	-
Transfers out	500,000	500,000	500,000	-
Total expenditures	<u>8,869,095</u>	<u>9,812,256</u>	<u>7,171,137</u>	<u>(2,641,119)</u>
Excess (deficiency) of revenues over expenditures	570,787	(354,538)	1,427,245	1,781,783
Fund balance – beginning of year	<u>7,078,072</u>	<u>7,078,072</u>	<u>7,078,072</u>	<u>-</u>
Fund balance – end of year	<u>\$ 7,648,859</u>	<u>\$ 6,723,534</u>	<u>\$ 8,505,317</u>	<u>\$ 1,781,783</u>

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City of Flint, Michigan
Required Supplementary Information
Municipal Employees Retirement System of Michigan
Schedule of Employer Contributions
June 30, 2017

Actuarial Valuation Date	Annual Determined Contribution	Actual Contribution	Contribution Deficiency	Covered Payroll	Actual Contribution as a % of Covered Payroll
6/30/2014	\$ 16,409,676	\$ 16,409,676	\$ -	23,285,420	70.47%
12/31/2014	16,676,472	16,545,459	131,013	18,635,475	88.78%
12/31/2015	17,194,662	16,598,425	596,237	18,783,674	88.37%
12/31/2016	17,325,673	16,964,535	361,138	21,427,792	79.17%

Notes: Actuarially determined contribution amounts are calculated as of December 31 each year, which is 6 months prior to the beginning of the fiscal year in which contributions are reported.

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Individual entry-age
Amortization method	Level-dollar closed
Remaining amortization period	22 years
Asset valuation method	5-year smoothed value of assets
Inflation	2.50%
Salary increases	3.75%
Investment rate of return	7.75%
Retirement age	50 - 60 years old
Mortality	RP-2014 Group annuity mortality table of 50% male and 50% female blend

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City of Flint, Michigan
Required Supplementary Information
Municipal Employees Retirement System of Michigan
Schedule of Changes in Net Pension Liability and Related Ratios
June 30, 2017

Fiscal year ended June 30,	2017	2016	2015
Total Pension Liability			
Service cost	\$ 2,233,013	\$ 2,240,734	\$ 2,288,673
Interest on the total pension liability	42,351,721	41,160,626	41,626,038
Experience differences	1,729,337	(3,016,376)	-
Change in actuarial assumptions	-	24,031,996	-
Other changes	(882)	1,705,992	1,293,199
Benefit payments and refunds	<u>(51,497,082)</u>	<u>(50,963,762)</u>	<u>(51,039,410)</u>
Net change in total pension liability	(5,183,893)	15,159,210	(5,831,500)
Total pension liability – beginning	<u>554,028,549</u>	<u>538,869,339</u>	<u>544,700,839</u>
Total pension liability – ending (a)	<u>\$ 548,844,656</u>	<u>\$ 554,028,549</u>	<u>\$ 538,869,339</u>
Plan Fiduciary Net Position			
Employer contributions	\$ 22,022,738	\$ 8,119,213	\$ 20,420,923
Employee contributions	1,665,719	2,128,481	2,999,208
Pension plan net investment income (loss)	22,386,661	(3,316,770)	16,151,453
Benefit payments and refunds	(51,497,082)	(50,963,762)	(51,039,410)
Pension plan administrative expense	<u>(443,862)</u>	<u>(512,817)</u>	<u>(584,862)</u>
Net change in plan fiduciary net position	(5,865,826)	(44,545,655)	(12,052,688)
Plan fiduciary net position – beginning	<u>208,965,319</u>	<u>253,510,974</u>	<u>265,563,662</u>
Plan fiduciary net position – ending (b)	<u>203,099,493</u>	<u>208,965,319</u>	<u>253,510,974</u>
Net pension liability (a-b)	<u>\$ 345,745,163</u>	<u>\$ 345,063,230</u>	<u>\$ 285,358,365</u>
Plan fiduciary net position as a percentage of total pension liability	37.00%	37.72%	47.04%
Covered employee payroll	\$ 21,427,792	\$ 18,783,674	\$ 18,635,475
Net pension liability as a percentage of covered employee payroll	1,614%	1,837%	1,531%

*GASB Statement No. 68 was implemented for the fiscal year ended June 30, 2015 and does not require retroactive implementation. Data will be added as information is available until 10 years of such data is available.

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City of Flint, Michigan
Required Supplementary Information
Municipal Employees Retirement System of Michigan
Schedule of Employers' Net Pension Liability
June 30, 2017

Fiscal Year Ending June 30,	Total Pension Liability	Plan Net Position	Net Pension Liability	Plan Net Position as a % of Total Pension Liability	Covered Payroll	Net Pension Liability as a % of Covered Payroll
2015	\$ 538,869,339	\$ 253,510,974	\$ 285,358,365	47.04%	\$ 18,635,475	1,531%
2016	554,028,549	208,965,319	345,063,230	37.72%	18,783,674	1,837%
2017	548,844,656	203,099,493	345,745,163	37.00%	21,427,792	1,614%

*GASB Statement No. 68 was implemented for the fiscal year ended June 30, 2015 and does not require retroactive implementation. Data will be added as information is available until 10 years of such data is available.

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City of Flint, Michigan
Required Supplementary Information
Municipal Employees Retirement System of Michigan – Hurley Medical Center
Schedule of Employer Contributions
June 30, 2017

Fiscal Year End	Actuarially Determined Contribution	Actual Contribution	Contribution Deficiency (Excess)	Covered Payroll	Actual Contribution as a % of Covered Payroll
6/30/2008	\$ 10,926,397	\$ 3,266,993	\$ 7,659,404	\$ 111,456,399	2.93%
6/30/2009	12,198,479	21,212,789	(9,014,310)	41,524,209	51.09%
6/30/2010	13,041,452	11,828,597	1,212,855	123,943,771	9.54%
6/30/2011	6,059,456	9,450,835	(3,391,379)	114,100,876	8.28%
6/30/2012	11,808,875	10,809,936	998,939	116,841,151	9.25%
6/30/2013	12,682,496	10,412,640	2,269,856	82,825,759	12.57%
6/30/2014	9,333,014	10,776,547	(1,443,533)	107,836,591	9.99%
6/30/2015	7,720,716	7,087,266	633,450	103,276,871	6.86%
6/30/2016	7,609,493	14,609,493	(7,000,000)	109,316,532	13.36%
6/30/2017	8,315,067	21,315,067	(13,000,000)	113,422,810	18.79%

Actuarial valuation information relative to the determination of contributions:

Valuation date Actuarially determined contribution rates are calculated as of December 31, two years prior to the end of the fiscal year in which the contributions are reported. Contributions for the Medical Center's fiscal year ended June 30, 2017 were determined based on the actuarial valuation as of December 31, 2014. The most recent valuation is as of December 31, 2016.

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Entry age
Amortization method	Level percentage of pay
Remaining amortization period	23 years
Asset valuation method	10-year smoothed market
Inflation	2.50%
Salary increases	3.75%
Investment rate of return	8.0% - gross of pension plan investment expense, including inflation
Retirement age	Experience -based table of rates are specific to the type of eligibility condition
Mortality	RP-2014 Disabled Retiree Mortality Tables of a 50 percent male and 50 percent female blend

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City of Flint, Michigan
Required Supplementary Information
Municipal Employees Retirement System of Michigan – Hurley Medical Center
Schedule of Changes in Net Pension Liability and Related Ratios
June 30, 2017

Fiscal year ended June 30,	2017	2016	2015
Total Pension Liability			
Service cost	\$ 7,542,280	\$ 7,442,132	\$ 7,262,751
Interest on the total pension liability	44,306,689	42,384,435	41,412,276
Experience differences	(1,066)	(303,795)	-
Change in actuarial assumptions	(3,480,197)	29,164,128	-
Other changes	-	(1,010)	-
Benefit payments and refunds	(39,469,485)	(37,836,677)	(36,129,561)
Net change in total pension liability	8,898,221	40,849,213	12,545,466
Total pension liability – beginning	569,797,218	528,948,005	516,402,539
Total pension liability – ending (a)	\$ 578,695,439	\$ 569,797,218	\$ 528,948,005
Plan Fiduciary Net Position			
Employer contributions	\$ 21,315,066	\$ 14,609,493	\$ 5,979,573
Employee contributions	6,487,981	6,197,682	5,883,466
Pension plan net investment income (loss)	42,015,304	(5,694,176)	24,690,814
Benefit payments and refunds	(829,764)	(37,836,677)	(36,129,561)
Pension plan administrative expense	(39,469,485)	(854,403)	(901,753)
Net change in plan fiduciary net position	29,519,102	(23,578,081)	(477,461)
Plan fiduciary net position – beginning	374,434,194	398,012,275	398,489,736
Plan fiduciary net position – ending (b)	403,953,296	374,434,194	398,012,275
Net pension liability (a-b)	\$ 174,742,143	\$ 195,363,024	\$ 130,935,730
Plan fiduciary net position as a percentage of total pension liability	69.80%	65.71%	75.25%
Covered employee payroll	\$ 113,422,810	\$ 109,316,532	\$ 103,276,871
Net pension liability as a percentage of covered employee payroll	154.06%	178.71%	126.78%

*GASB Statement No. 68 was implemented for the fiscal year ended June 30, 2015 and does not require retroactive implementation.

Data will be added as information is available until 10 years of such data is available.

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E-49

City of Flint, Michigan
Required Supplementary Information
Other Postemployment Benefits - Hurley Medical Center
Schedule of Employers' Net OPEB Liability and Related Ratios
June 30, 2017

Fiscal year ended June 30,	2017	2016
Total OPEB Liability		
Service cost	\$ 715,842	\$ 787,997
Interest on the total OPEB liability	6,088,805	5,916,624
Benefit payments and refunds	<u>(4,294,637)</u>	<u>(3,940,800)</u>
Net change in total OPEB liability	2,510,010	2,763,821
Total OPEB liability – beginning	<u>91,993,917</u>	<u>89,230,096</u>
Total OPEB liability – ending (a)	<u>\$ 94,503,927</u>	<u>\$ 91,993,917</u>
Plan Fiduciary Net Position		
Employer contributions	\$ 5,523,202	\$ 5,613,665
Employee contributions	-	-
OPEB plan net investment income (loss)	5,308,681	(53,346)
Benefit payments and refunds	<u>(4,294,637)</u>	<u>(3,940,800)</u>
Net change in plan fiduciary net position	6,537,246	1,619,519
Plan fiduciary net position – beginning	<u>53,125,222</u>	<u>51,505,703</u>
Plan fiduciary net position – ending (b)	<u>59,662,468</u>	<u>53,125,222</u>
Net OPEB liability (a-b)	<u>\$ 34,841,459</u>	<u>\$ 38,868,695</u>
Plan fiduciary net position as a percentage of total OPEB liability	63.13%	57.75%
Covered employee payroll	\$ 169,685,956	\$ 166,189,110
Net OPEB liability as a percentage of covered employee payroll	20.53%	23.39%

*GASB Statement No. 74 was implemented for the fiscal year ended June 30, 2017 and does not require retroactive implementation. Data will be added as information is available until 10 years of such data is available.

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City of Flint, Michigan
Required Supplementary Information
Other Postemployment Benefits - Hurley Medical Center
Schedule of OPEB Investment Returns
June 30, 2017

Fiscal Year End	Annual Money- Weighted Rate of Return*
6/30/2016	0.6%
6/30/2017	10.6%

* Net of investment expenses

*GASB Statement No. 74 was implemented for the fiscal year ended June 30, 2017 and does not require retroactive implementation. Data will be added as information is available until 10 years of such data is available.

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City of Flint, Michigan
Required Supplementary Information
Other Postemployment Benefits
June 30, 2017

Annual required contribution (recommended)	\$ 20,617,796
Interest on the prior year's net OPEB obligation	6,387,096
Less adjustment to the annual required contribution	<u>(9,875,882)</u>
Annual OPEB cost	17,129,010
Amounts contributed - payments of current premiums	<u>(15,027,068)</u>
Change in net OPEB obligation	2,101,942
OPEB obligation – beginning of year	<u>150,284,614</u>
OPEB obligation – end of year	<u>\$ 152,386,556</u>

Schedule of Employer Contributions

Year Ended June 30,	Annual OPEB Costs	Percentage OPEB Costs Contributed	Net OPEB Obligation
2010	55,252,592	37.00%	113,615,741
2011	61,351,938	32.10%	155,284,670
2012	22,105,830	92.40%	156,975,216
2013	18,942,499	89.80%	158,901,714
2014	13,896,769	139.40%	153,431,369
2015	14,219,784	114.20%	151,416,390
2016	15,569,923	107.30%	150,284,614
2016	17,129,010	113.99%	152,386,556

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAAL) (b-a)	Funded Ratio (Percent) (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll
7/1/2016	\$ -	\$ 293,607,373	\$ 293,607,373	0.0%	\$ 16,418,398	1788%
7/1/2015	137,998	273,817,859	273,679,861	0.1%	17,892,129	1530%
7/1/2014	137,927	240,734,057	240,596,130	0.1%	-	-
7/1/2013	14,237	240,539,434	240,525,197	-	-	-
7/1/2012	166,903	320,180,757	320,013,854	0.1%	-	-
7/1/2011	-	366,832,597	366,832,597	-	37,339,842	982%
7/1/2010	-	862,302,934	862,302,934	-	36,252,274	2379%
7/1/2009	-	774,606,738	774,606,738	-	41,166,662	1882%

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NONMAJOR GOVERNMENTAL FUNDS
SPECIAL REVENUE FUNDS

LOCAL STREETS FUNDS

The Local Streets Fund accounts for the City's share of proceeds from gas and weight taxes levied by the State and distributed to local government units for local street construction and maintenance.

NEIGHBORHOOD POLICING FUND

The Neighborhood Policing Fund is used to account for a special property tax levy approved by voters to provide additional police protection for neighborhoods.

STATE ACT 251 – FOREFEITURE FUND

The State Act 251 – Forfeiture Fund is used to account for proceeds from the sale of confiscated property seized in drug-related crimes.

EDA REVOLVING LOAN FUND

The EDA Revolving Loan Fund is used to account for monies received from the U.S. Economic Development Administration. The grant was used to establish a revolving loan fund to loan money to economic development projects which meet program criteria.

PARKS AND RECREATION FUND

The Parks and Recreation Fund was established to account for the annual ½ mil tax levy for the purpose of providing dedicated funds for the improvement and maintenance of City parks, forestry, and recreation services. This original tax levy for a period of 10 years, from 1997 through 2006, but was renewed for an additional 10 years, from 2007 through 2017.

SENIOR CITIZEN CENTERS FUND

The Senior Citizen Centers Fund was established to account for grants received from Genesee County for senior citizens services.

BUILDING DEPARTMENT FUND

The Building Department Fund accounts for the operational revenues and expenditures of the City's code inspection and building inspection department.

NONMAJOR GOVERNMENTAL FUNDS
(continued)

SPECIAL REVENUE FUNDS

GARBAGE COLLECTION FUND

The Garbage Collection Fund accounts for a special property tax assessment allowed to provide garbage and compost collection services.

STREET LIGHT FUND

The Street Light Fund accounts for a special property tax assessment allowed to provide support for utility cost of the City's street lighting.

PUBLIC SAFETY FUND

The Public Safety Fund accounts for a special property tax levy approved by voters to provide support for public safety departments

DEBT SERVICE FUNDS

PUBLIC IMPROVEMENT FUND

The Public Improvement Fund was established to account for the annual 2 1/2 mill tax levy reserved by Section 7 201 of the City Charter for capital improvements and servicing of general obligation debt.

PARKING DECK DEBT SERVICE FUND

The Parking Deck Debt Service Fund was established to accumulate resources for the payment of bonds issued to construct a parking deck facility.

THE WINDMILL PLACE DEBT SERVICE FUND

The Windmill Place Debt Service Fund was established to accumulate resources for the payment of the tax increment bond issue utilized to finance the construction of Windmill Place, a festival marketplace.

BUICK CITY DEBT SERVICE FUND

The Buick City Debt Service Fund was established to accumulate resources for the payment of the tax increment bond issue utilized to finance the Buick City improvements.

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APPENDIX F

FORMS OF CONTINUING DISCLOSURE UNDERTAKINGS

KAREGNONDI WATER AUTHORITY

This Continuing Disclosure Undertaking (the “Undertaking”) is executed and delivered by the Karegnondi Water Authority, Counties of Genesee, Lapeer and Sanilac, State of Michigan (the “Authority”), in connection with the issuance of the Authority’s Water Supply System Bonds (Karegnondi Water Pipeline), Series 2018 (the “Bonds”). The Authority covenants and agrees for the benefit of the Bondholders, as hereinafter defined, as follows:

(a) *Definitions.* The following terms used herein shall have the following meanings:

“Audited Financial Statements” means the annual audited financial statements pertaining to the Authority prepared by an individual or firm of independent certified public accountants as required by Act 2, Public Acts of Michigan, 1968, as amended, which presently requires preparation in accordance with generally accepted accounting principles.

“Bondholders” shall mean the registered owner of any Bond or any person (a) with the power, directly or indirectly, to vote or consent with respect to, or to dispose of ownership of, any Bond (including any person holding a Bond through a nominee, depository or other intermediary) or (b) treated as the owner of any Bond for federal income tax purposes.

“EMMA” shall mean the MSRB’s Electronic Municipal Market Access system or such other system, internet web site, or repository hereafter prescribed by the MSRB for the submission of electronic filings pursuant to the Rule.

“MSRB” means the Municipal Securities Rulemaking Board.

“Rule” means Rule 15c2-12 promulgated by the SEC pursuant to the Securities Exchange Act of 1934, as amended.

“SEC” means the United States Securities and Exchange Commission.

(b) *Continuing Disclosure.* The Authority hereby agrees, in accordance with the provisions of the Rule, to provide or cause to be provided to the MSRB through EMMA, on or before the last day of the sixth month after the end of its fiscal year, commencing with the fiscal year ending September 30, 2018, the Audited Financial Statements, or in the event Audited Financial Statements are not available, the Authority agrees to provide unaudited financial statements and to provide Audited Financial Statements immediately after they become available.

Such annual financial information described above is expected to be provided directly by the Authority or by specific reference to documents available to the public through EMMA or filed with the SEC.

If the fiscal year of the Authority is changed, the Authority shall send a notice of such change to the MSRB through EMMA, prior to the earlier of the ending date of the fiscal year prior to such change or the ending date of the fiscal year as changed.

(c) *Notice of Failure to Disclose.* The Authority agrees to provide or cause to be provided, in a timely manner, to the MSRB through EMMA, in an electronic format as prescribed by the MSRB, notice of a failure by the Authority to provide the annual financial information with respect to the Authority described in subsection (b) above on or prior to the dates set forth in subsection (b) above.

(d) *Occurrence of Events.* The Authority agrees to provide or cause to be provided to the MSRB through EMMA, in an electronic format as prescribed by the MSRB, in a timely manner not in excess of ten business days after the occurrence of the event, notice of the occurrence of any of the following events listed in (b)(5)(i)(C) of the Rule with respect to the Bonds:

- (1) principal and interest payment delinquencies;
- (2) non-payment related defaults, if material;
- (3) unscheduled draws on debt service reserves reflecting financial difficulties;
- (4) unscheduled draws on credit enhancements reflecting financial difficulties;
- (5) substitution of credit or liquidity providers, or their failure to perform;
- (6) adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the Bonds, or other material events affecting the tax status of the Bonds;
- (7) modifications to rights of holders of the Bonds, if material;
- (8) bond calls, if material, and tender offers;
- (9) defeasances;
- (10) release, substitution, or sale of property securing repayment of the Bonds, if material;
- (11) rating changes;
- (12) bankruptcy, insolvency, receivership or similar event of the Authority, which is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent or similar officer for the Authority in a proceeding under the U.S. Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the Authority, or if such jurisdiction has been assumed by leaving the existing governing body and officials or officers in possession but subject

to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the Authority;

- (13) the consummation of a merger, consolidation, or acquisition involving the Authority or the sale of all or substantially all of the assets of the Authority, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; or
- (14) appointment of a successor or additional trustee or the change of name of a trustee, if material.

(e) *Materiality Determined Under Federal Securities Laws.* The Authority agrees that its determination of whether any event listed in subsection (c) is material shall be made in accordance with federal securities laws.

(f) *Termination of Reporting Obligation.* The Authority reserves the right to terminate its obligation to provide annual financial information and notices of material events, as set forth above, if and when the Authority is no longer an “obligated person” with respect to the Bonds within the meaning of the Rule, including upon legal defeasance of all Bonds.

(g) *Identifying Information.* All documents provided to the MSRB through EMMA shall be accompanied by the identifying information prescribed by the MSRB.

(h) *Benefit of Bondholders.* The Authority agrees that its undertaking pursuant to the Rule set forth in this Undertaking is intended to be for the benefit of the Bondholders and shall be enforceable by any Bondholder; provided that, the right to enforce the provisions of this Undertaking shall be limited to a right to obtain specific enforcement of the Authority’s obligations hereunder and any failure by the Authority to comply with the provisions of this Undertaking shall not constitute a default or an event of default with respect to the Bonds.

(i) *Amendments to the Undertaking.* Amendments may be made in the specific types of information provided or the format of the presentation of such information to the extent deemed necessary or appropriate in the judgment of the Authority, provided that the Authority agrees that any such amendment will be adopted procedurally and substantively in a manner consistent with the Rule, including any interpretations thereof by the SEC, which, to the extent applicable, are incorporated herein by reference. Such interpretations currently include the requirements that (a) the amendment may only be made in connection with a change in circumstances that arises from a change in legal requirements, change in law, or change in the identity, nature, or status of the Authority or the type of activities conducted thereby, (b) the undertaking, as amended, would have complied with the requirements of the Rule at the time of the primary offering of the Bonds, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances, and (c) the amendment does not materially impair the interests of Bondholders, as determined by parties unaffiliated with the Authority (such as independent legal counsel), but such interpretations may be changed in the future. If the

accounting principles to be followed by the Authority in the preparing of the Audited Financial Statements are modified, the annual financial information for the year in which the change is made shall present a comparison between the financial statements as prepared on the prior basis and the statements as prepared on the new basis, and otherwise shall comply with the requirements of the Rule, in order to provide information to investors to enable them to evaluate the ability of the Authority to meet its obligations. A notice of the change in accounting principles shall be sent to the MSRB through EMMA.

IN WITNESS WHEREOF, the Authority has caused this Undertaking to be executed by its authorized officer.

KAREGNONDI WATER AUTHORITY
Counties of Genesee, Lapeer and Sanilac
State of Michigan

By: _____

Its: Chief Executive Officer

Dated: April 10, 2018

COUNTY OF GENESEE

This Continuing Disclosure Undertaking (the “Undertaking”) is executed and delivered by the County of Genesee, State of Michigan (the “County”) in connection with the issuance by the Karegnondi Water Authority (the “Authority”) of its Water Supply System Bonds (Karegnondi Water Pipeline), Series 2018 (the “Bonds”) issued on behalf of the County and the City of Flint, County of Genesee, State of Michigan. The County covenants and agrees for the benefit of the Bondholders, as hereinafter defined, as follows:

(a) *Definitions.* The following terms used herein shall have the following meanings:

“Audited Financial Statements” means the annual audited financial statements pertaining to the County prepared by an individual or firm of independent certified public accountants as required by Act 2, Public Acts of Michigan, 1968, as amended, which presently requires preparation in accordance with generally accepted accounting principles.

“Bondholders” shall mean the registered owner of any Bond or any person (a) with the power, directly or indirectly, to vote or consent with respect to, or to dispose of ownership of, any Bond (including any person holding a Bond through a nominee, depository or other intermediary) or (b) treated as the owner of any Bond for federal income tax purposes.

“EMMA” shall mean the MSRB’s Electronic Municipal Market Access system or such other system, internet web site, or repository hereafter prescribed by the MSRB for the submission of electronic filings pursuant to the Rule.

“MSRB” means the Municipal Securities Rulemaking Board.

“Rule” means Rule 15c2-12 promulgated by the SEC pursuant to the Securities Exchange Act of 1934, as amended.

“SEC” means the United States Securities and Exchange Commission.

(b) *Continuing Disclosure.* The County hereby agrees, in accordance with the provisions of the Rule, to provide or cause to be provided to the MSRB through EMMA, in an electronic format as prescribed by the MSRB, on or before the last day of the sixth month after the end of its fiscal year, commencing with the fiscal year ending September 30, 2018, the following annual financial information and operating data or data of substantially the same nature:

(1) Updates of the numerical financial information and operating data included in APPENDIX B to the Official Statement of the Authority relating to the Bonds (the “Official Statement”) appearing in the tables or under the headings in the Official Statement as described below:

- a. Property Valuations – History of Valuations;
- b. Major Taxpayers;

- c. Tax Rates (Per \$1,000 of Valuation);
- d. Tax Rate Limitations;
- e. Tax Levies and Collections;
- f. Revenues from the State of Michigan – General Fund Revenues from the State;
- g. Labor Force;
- h. Retirement Plan;
- i. Debt Statement – Direct Debt; and
- j. Legal Debt Margin.

(2) Audited Financial Statements, or in the event Audited Financial Statements are not available, the County agrees to provide unaudited financial statements and to provide Audited Financial Statements immediately after they become available.

Such annual financial information and operating data described above is expected to be provided directly by the County or by specific reference to documents available to the public through EMMA or filed with the SEC, including official statements of debt issues of the County or related public entities.

If the fiscal year of the County is changed, the County shall send a notice of such change to the MSRB through EMMA, prior to the earlier of the ending date of the fiscal year prior to such change or the ending date of the fiscal year as changed.

(c) *Notice of Failure to Disclose.* The County agrees to provide or cause to be provided, in a timely manner, to the MSRB through EMMA, in an electronic format as prescribed by the MSRB, notice of a failure by the County to provide the annual financial information with respect to the County described in subsection (b) above on or prior to the dates set forth in subsection (b) above.

(d) *Occurrence of Events.* The County agrees to provide or cause to be provided to the MSRB through EMMA, in an electronic format as prescribed by the MSRB, in a timely manner not in excess of ten business days after the occurrence of the event, notice of the occurrence of any of the following events listed in (b)(5)(i)(C) of the Rule with respect to the Bonds:

- (1) principal and interest payment delinquencies;
- (2) non-payment related defaults, if material;
- (3) unscheduled draws on debt service reserves reflecting financial difficulties;
- (4) unscheduled draws on credit enhancements reflecting financial difficulties;
- (5) substitution of credit or liquidity providers, or their failure to perform;
- (6) adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or

- determinations with respect to the tax status of the Bonds, or other material events affecting the tax status of the Bonds;
- (7) modifications to rights of holders of the Bonds, if material;
 - (8) bond calls, if material, and tender offers;
 - (9) defeasances;
 - (10) release, substitution, or sale of property securing repayment of the Bonds, if material;
 - (11) rating changes;
 - (12) bankruptcy, insolvency, receivership or similar event of the County, which is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent or similar officer for the County in a proceeding under the U.S. Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the County, or if such jurisdiction has been assumed by leaving the existing governing body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the County;
 - (13) the consummation of a merger, consolidation, or acquisition involving the County or the sale of all or substantially all of the assets of the County, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; or
 - (14) appointment of a successor or additional trustee or the change of name of a trustee, if material.

(e) *Materiality Determined Under Federal Securities Laws.* The County agrees that its determination of whether any event listed in subsection (d) is material shall be made in accordance with federal securities laws.

(f) *Termination of Reporting Obligation.* The County reserves the right to terminate its obligation to provide annual financial information and notices of material events, as set forth above, if and when the County is no longer an “obligated person” with respect to the Bonds within the meaning of the Rule, including upon legal defeasance of all Bonds.

(g) *Identifying Information.* All documents provided to the MSRB through EMMA shall be accompanied by the identifying information prescribed by the MSRB.

(h) *Benefit of Bondholders.* The County agrees that its undertaking pursuant to the Rule set forth in this Section is intended to be for the benefit of the Bondholders and shall be enforceable by any Bondholder; provided that, the right to enforce the provisions of this Undertaking shall be limited to a right to obtain specific enforcement of the County’s obligations

hereunder and any failure by the County to comply with the provisions of this Undertaking shall not constitute a default or an event of default with respect to the Bonds.

(i) *Amendments to the Undertaking.* Amendments may be made in the specific types of information provided or the format of the presentation of such information to the extent deemed necessary or appropriate in the judgment of the County, provided that the County agrees that any such amendment will be adopted procedurally and substantively in a manner consistent with the Rule, including any interpretations thereof by the SEC, which, to the extent applicable, are incorporated herein by reference. Such interpretations currently include the requirements that (a) the amendment may only be made in connection with a change in circumstances that arises from a change in legal requirements, change in law, or change in the identity, nature, or status of the County or the type of activities conducted thereby, (b) the undertaking, as amended, would have complied with the requirements of the Rule at the time of the primary offering of the Bonds, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances, and (c) the amendment does not materially impair the interests of Bondholders, as determined by parties unaffiliated with the County (such as independent legal counsel), but such interpretations may be changed in the future. If the accounting principles to be followed by the County in the preparing of the Audited Financial Statements are modified, the annual financial information for the year in which the change is made shall present a comparison between the financial statements as prepared on the prior basis and the statements as prepared on the new basis, and otherwise shall comply with the requirements of the Rule, in order to provide information to investors to enable them to evaluate the ability of the County to meet its obligations. A notice of the change in accounting principles shall be sent to the MSRB through EMMA.

COUNTY OF GENESEE
State of Michigan

By: _____

Its:

Dated: April 10, 2018

CITY OF FLINT

This Continuing Disclosure Undertaking (the “Undertaking”) is executed and delivered by the City of Flint, County of Genesee, State of Michigan (the “City”) in connection with the issuance by the Karegnondi Water Authority (the “Authority”) of its Water Supply System Bonds (Karegnondi Water Pipeline), Series 2018 (the “Bonds”) issued on behalf of the City and the County of Genesee, State of Michigan. The City covenants and agrees for the benefit of the Bondholders, as hereinafter defined, as follows:

(a) *Definitions.* The following terms used herein shall have the following meanings:

“Audited Financial Statements” means the annual audited financial statements pertaining to the City prepared by an individual or firm of independent certified public accountants as required by Act 2, Public Acts of Michigan, 1968, as amended, which presently requires preparation in accordance with generally accepted accounting principles.

“Bondholders” shall mean the registered owner of any Bond or any person (a) with the power, directly or indirectly, to vote or consent with respect to, or to dispose of ownership of, any Bond (including any person holding a Bond through a nominee, depository or other intermediary) or (b) treated as the owner of any Bond for federal income tax purposes.

“EMMA” shall mean the MSRB’s Electronic Municipal Market Access System or such other system, internet web site, or repository hereafter prescribed by the MSRB for the submission of electronic filings pursuant to the Rule.

“MSRB” means the Municipal Securities Rulemaking Board.

“Rule” means Rule 15c2-12 promulgated by the SEC pursuant to the Securities Exchange Act of 1934, as amended.

“SEC” means the United States Securities and Exchange Commission.

(b) *Continuing Disclosure.* The City hereby agrees, in accordance with the provisions of the Rule, to provide or cause to be provided to the MSRB through EMMA, in an electronic format as prescribed by the MSRB, on or before the last day of the sixth month after the end of its fiscal year, commencing with the fiscal year ending June 30, 2018, the following annual financial information and operating data or data of substantially the same nature:

(1) Updates of the numerical financial information and operating data included in APPENDIX D to the Official Statement of the Authority relating to the Bonds (the “Official Statement”) appearing in the tables or under the headings in the Official Statement as described below:

- a. Property Valuations – History of Valuations;
- b. Major Taxpayers;
- c. Tax Rates (Per \$1,000 of Valuation);

- d. Tax Rate Limitations;
- e. Tax Levies and Collections;
- f. City Income Tax;
- g. Revenues from the State of Michigan;
- h. Labor Force;
- i. Pension Fund;
- j. Debt Statement – Direct Debt; and
- k. Legal Debt Margin.

(2) Audited Financial Statements, or in the event Audited Financial Statements are not available, the City agrees to provide unaudited financial statements and to provide Audited Financial Statements immediately after they become available.

Such annual financial information and operating data described above is expected to be provided directly by the City or by specific reference to documents available to the public through EMMA or filed with the SEC, including official statements of debt issues of the City or related public entities.

If the fiscal year of the City is changed, the City shall send a notice of such change to the MSRB through EMMA, prior to the earlier of the ending date of the fiscal year prior to such change or the ending date of the fiscal year as changed.

(c) *Notice of Failure to Disclose.* The City agrees to provide or cause to be provided, in a timely manner, to the MSRB through EMMA, in an electronic format as prescribed by the MSRB, notice of a failure by the City to provide the annual financial information with respect to the City described in subsection (b) above on or prior to the dates set forth in subsection (b) above.

(d) *Occurrence of Events.* The City agrees to provide or cause to be provided to the MSRB through EMMA, in an electronic format as prescribed by the MSRB, in a timely manner not in excess of ten business days after the occurrence of the event, notice of the occurrence of any of the following events listed in (b)(5)(i)(C) of the Rule with respect to the Bonds:

- (1) principal and interest payment delinquencies;
- (2) non-payment related defaults, if material;
- (3) unscheduled draws on debt service reserves reflecting financial difficulties;
- (4) unscheduled draws on credit enhancements reflecting financial difficulties;
- (5) substitution of credit or liquidity providers, or their failure to perform;
- (6) adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the Bonds, or other material events affecting the tax status of the Bonds;
- (7) modifications to rights of holders of the Bonds, if material;

- (8) bond calls, if material, and tender offers;
- (9) defeasances;
- (10) release, substitution, or sale of property securing repayment of the Bonds, if material;
- (11) rating changes;
- (12) bankruptcy, insolvency, receivership or similar event of the City, which is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent or similar officer for the City in a proceeding under the U.S. Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the City, or if such jurisdiction has been assumed by leaving the existing governing body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the City;
- (13) the consummation of a merger, consolidation, or acquisition involving the City or the sale of all or substantially all of the assets of the City, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; or
- (14) appointment of a successor or additional trustee or the change of name of a trustee, if material.

(e) *Materiality Determined Under Federal Securities Laws.* The City agrees that its determination of whether any event listed in subsection (d) is material shall be made in accordance with federal securities laws.

(f) *Termination of Reporting Obligation.* The City reserves the right to terminate its obligation to provide annual financial information and notices of material events, as set forth above, if and when the City is no longer an “obligated person” with respect to the Bonds within the meaning of the Rule, including upon legal defeasance of all Bonds.

(g) *Identifying Information.* All documents provided to the MSRB through EMMA shall be accompanied by the identifying information prescribed by the MSRB.

(h) *Benefit of Bondholders.* The City agrees that its undertaking pursuant to the Rule set forth in this Section is intended to be for the benefit of the Bondholders and shall be enforceable by any Bondholder; provided that, the right to enforce the provisions of this undertaking shall be limited to a right to obtain specific enforcement of the City’s obligations hereunder and any failure by the City to comply with the provisions of this undertaking shall not constitute a default or an event of default with respect to the Bonds.

(i) *Amendments to the Undertaking.* Amendments may be made in the specific types of information provided or the format of the presentation of such information to the extent deemed necessary or appropriate in the judgment of the City, provided that the City agrees that any such amendment will be adopted procedurally and substantively in a manner consistent with the Rule, including any interpretations thereof by the SEC, which, to the extent applicable, are incorporated herein by reference. Such interpretations currently include the requirements that (a) the amendment may only be made in connection with a change in circumstances that arises from a change in legal requirements, change in law, or change in the identity, nature, or status of the City or the type of activities conducted thereby, (b) the undertaking, as amended, would have complied with the requirements of the Rule at the time of the primary offering of the Bonds, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances, and (c) the amendment does not materially impair the interests of Bondholders, as determined by parties unaffiliated with the City (such as independent legal counsel), but such interpretations may be changed in the future. If the accounting principles to be followed by the City in the preparing of the Audited Financial Statements are modified, the annual financial information for the year in which the change is made shall present a comparison between the financial statements as prepared on the prior basis and the statements as prepared on the new basis, and otherwise shall comply with the requirements of the Rule, in order to provide information to investors to enable them to evaluate the ability of the City to meet its obligations. A notice of the change in accounting principles shall be sent to the MSRB through EMMA.

CITY OF FLINT
County of Genesee
State of Michigan

By: _____

Its:

Dated: April 10, 2018

APPENDIX G

FORM OF APPROVING OPINION

Karegnondi Water Authority
Counties of Genesee, Lapeer, and Sanilac
State of Michigan

We have acted as bond counsel to the Karegnondi Water Authority, Counties of Genesee, Lapeer and Sanilac, State of Michigan (the “Issuer”) in connection with the issuance by the Issuer of bonds in the aggregate principal sum of \$65,735,000, designated Water Supply System Bonds (Karegnondi Water Pipeline), Series 2018 (the “Bonds”). In such capacity, we have examined the transcript of proceedings relating to the issuance of the Bonds and such other proceedings, certifications and documents, and such matters of law, as we have deemed necessary to render this opinion.

The Bonds are in fully-registered form in the denomination of \$5,000 each or multiples thereof, numbered in order of registration, bearing an original issue date of April 10, 2018, payable as to principal and interest as provided in the Bonds, subject to redemption prior to maturity in the manner, at the times and at the prices specified in the Bonds.

The Bonds are issued under the provisions of Act 233, Public Acts of Michigan, 1955, as amended, and Act 34, Public Acts of Michigan, 2001, as amended, in anticipation of and are payable as to both principal and interest solely from the proceeds of certain specified contractual payments (the “Contractual Payments”) to be made to the Issuer by the County of Genesee, Michigan (the “County”) and the City of Flint, Michigan (the “City,” and together with the County, the “Local Units”), pursuant to that certain Karegnondi Water Authority Financing Contract, dated as of August 1, 2013, as supplemented by a First Supplement to Karegnondi Water Authority Financing Contract, dated as of September 1, 2017, by and among the Issuer and the Local Units (the “Contract”). The Issuer has pledged the Contractual Payments for the payment of the principal of and interest on the Bonds.

As to questions of fact material to our opinion, we have relied on the certified proceedings and other certifications of public officials and others furnished to us.

Based upon the foregoing, we are of the opinion that, under existing law:

1. The Bonds have been duly authorized and executed by the Issuer and are valid and binding obligations of the Issuer, payable as to both principal and interest solely from the proceeds of the Contractual Payments to be paid to the Issuer by the Local Units under the Contract. The Bonds are of equal standing as to the Contractual Payments with the Issuer’s outstanding Water Supply System Bonds (Karegnondi Water Pipeline), Series 2014A, dated April 16, 2014, issued pursuant to the Contract.

2. The Contract is a valid and binding obligation of the Issuer and the Local Units. The Local Units have each pledged their full faith and credit for the payment of their share of the Contractual Payments to be paid by the Local Units under the Contract. The County’s

obligations under the Contract to which the County has pledged its full faith and credit include the requirement to make all payments that the City fails to make to the Issuer under the Contract as described in Exhibit B of the Contract. The full faith and credit pledges of the Local Units are limited tax general obligations of the Local Units, and each of the Local Units is required to pay its respective debt service commitments on the Bonds as a first budget obligation from its general funds, including the collection of any ad valorem taxes which each is authorized to levy. However, the ability of each Local Unit to levy such taxes is subject to applicable constitutional, statutory, and charter tax rate limitations.

3. The interest on the Bonds (a) is excludable from gross income for federal income tax purposes and (b) is not an item of tax preference for purposes of the federal alternative minimum tax. It should be noted, however, that with respect to corporations (as defined for federal income tax purposes), such interest is taken into account in determining adjusted current earnings for the purpose of computing the alternative minimum tax imposed on such corporations for tax years beginning prior to January 1, 2018. Further, the Bonds and the interest thereon are exempt from all taxation by the State of Michigan or by any taxing authority within the State of Michigan, except inheritance and estate taxes and taxes on gains realized from the sale, payment or other disposition thereof. The opinions set forth in this paragraph are subject to the condition that the Issuer and the Local Units comply with all requirements of the Internal Revenue Code of 1986, as amended, that must be satisfied subsequent to the issuance of the Bonds in order that interest thereon be (or continue to be) excludable from gross income for federal and Michigan income tax purposes. The Issuer and the Local Units have covenanted to comply with all such requirements. Failure to comply with certain of such requirements could cause the interest on the Bonds to be included in gross income retroactively to the date of issuance of the Bonds.

Except as stated in paragraph 3 above, we express no opinion regarding other federal or state tax consequences arising with respect to the Bonds and the interest thereon.

The rights or remedies of bondholders may be affected by bankruptcy, insolvency, fraudulent conveyance or other laws affecting creditors' rights generally, now existing or hereafter enacted, and by the application of general principles of equity, including those relating to equitable subordination.

This opinion is given as of the date hereof, and we assume no obligation to revise or supplement this opinion to reflect any facts or circumstances that may hereafter come to our attention, or any changes in law that may hereafter occur.

Very truly yours,

APPENDIX H

BOOK-ENTRY-ONLY SYSTEM

General

The information under “General” in this Appendix H has been furnished by The Depository Trust Company, New York, New York (“DTC”). No representation is made by the Issuer or the Transfer Agent as to the completeness or accuracy of such information or as to the absence of material adverse changes in such information subsequent to the date hereof. No attempt has been made by the Issuer or the Transfer Agent to determine whether DTC is or will be financially or otherwise capable of fulfilling its obligations. Neither the Issuer nor the Transfer Agent will have any responsibility or obligation to Direct Participants, Indirect Participants (both as defined below) or the persons for which they act as nominees with respect to the Series 2018 Bonds, or for any principal, premium, if any, or interest payment thereof.

DTC will act as securities depository for the Series 2018 Bonds. The Series 2018 Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC’s partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Bond certificate will be issued for each maturity of the Series 2018 Bonds, each in the aggregate principal amount of such maturity and will be deposited with DTC.

DTC, the world’s largest depository, is a limited-purpose trust company organized under the New York Banking Law, a “banking organization” within the meaning of the New York Banking Law, a member of the Federal Reserve System, a “clearing corporation” within the meaning of the New York Uniform Commercial Code and a “clearing agency” registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity, corporate and municipal debt issues and money market instruments (from over 100 countries) that DTC’s participants (“Direct Participants”) deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities through electronic computerized book-entry transfers and pledges between Direct Participants’ accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation (“DTCC”). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly (“Indirect Participants”). DTC has a Standard & Poor’s rating of AA+. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com.

Purchases of Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Series 2018 Bonds on DTC’s records. The

ownership interest of each actual purchaser of each Bond (“Beneficial Owner”) is in turn to be recorded on the Direct and Indirect Participants’ records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Series 2018 Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the Series 2018 Bonds, except in the event that use of the book-entry system for the Series 2018 Bonds is discontinued.

To facilitate subsequent transfers, all Bonds deposited by Direct Participants with DTC are registered in the name of DTC’s partnership nominee, Cede & Co. or such other name as may be requested by an authorized representative of DTC. The deposit of Bonds with DTC and their registration in the name of Cede & Co. or such other nominee do not affect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Series 2018 Bonds; DTC’s records reflect only the identity of the Direct Participants to whose accounts such Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Series 2018 Bonds, such as redemptions, tenders, defaults and proposed amendments to the Bond documents. For example, Beneficial Owners of Bonds may wish to ascertain that the nominee holding the Series 2018 Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of the notices be provided directly to them.

Redemption notices shall be sent to DTC. If less than all of the Series 2018 Bonds within a maturity are being redeemed, DTC’s practice is to determine by lot the amount of the interest of each Direct Participant in such maturity to be redeemed.

Neither DTC nor Cede & Co. (nor such other DTC nominee) will consent or vote with respect to the Series 2018 Bonds unless authorized by a Direct Participant in accordance with DTC’s MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the Issuer as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.’s consenting or voting rights to those Direct Participants to whose accounts the Series 2018 Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Payments of principal, interest and redemption amounts, if any, on the Series 2018 Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC’s practice is to credit Direct Participants’ accounts, upon DTC’s

receipt of funds and corresponding detail information from the Issuer or Transfer Agent on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC (nor its nominee), Transfer Agent, or Issuer, subject to any statutory or regulatory requirements as may be in effect from time to time. Payments of principal, interest and redemption amounts, if any, to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) are the responsibility of the Issuer or Transfer Agent, disbursement of such payments to Direct Participants will be the responsibility of DTC and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as securities depository with respect to the Series 2018 Bonds at any time by giving reasonable notice to the Issuer or Transfer Agent. Under such circumstances, in the event that a successor securities depository is not obtained, Bond certificates are required to be printed and delivered.

The Issuer may decide to discontinue use of the DTC system of book-entry-only transfers through DTC (or a successor securities depository). In that event, Bond certificates will be printed and delivered to DTC.

The information in this section concerning DTC and DTC's book-entry-only system has been obtained from sources that the Issuer believes to be reliable, but the Issuer takes no responsibility for the accuracy thereof.

THE ISSUER AND THE TRANSFER AGENT CANNOT AND DO NOT GIVE ANY ASSURANCES THAT DTC, THE DIRECT PARTICIPANTS OR THE INDIRECT PARTICIPANTS WILL DISTRIBUTE TO THE BENEFICIAL OWNERS OF THE SERIES 2018 BONDS (i) PAYMENTS OF PRINCIPAL OF OR INTEREST AND PREMIUM, IF ANY, ON THE SERIES 2018 BONDS, (ii) ANY DOCUMENT REPRESENTING OR CONFIRMING BENEFICIAL OWNERSHIP INTERESTS IN BONDS, OR (iii) REDEMPTION OR OTHER NOTICES SENT TO DTC OR CEDE & CO., ITS NOMINEE, AS THE REGISTERED OWNER OF THE SERIES 2018 BONDS, OR THAT THEY WILL DO SO ON A TIMELY BASIS OR THAT DTC, DIRECT PARTICIPANTS OR INDIRECT PARTICIPANTS WILL SERVE AND ACT IN THE MANNER DESCRIBED IN THIS OFFICIAL STATEMENT. THE CURRENT "RULES" APPLICABLE TO DTC ARE ON FILE WITH THE SECURITIES AND EXCHANGE COMMISSION, AND THE CURRENT "PROCEDURES" OF DTC TO BE FOLLOWED IN DEALING WITH THE PARTICIPANTS ARE ON FILE WITH DTC.

NEITHER THE ISSUER NOR THE TRANSFER AGENT WILL HAVE ANY RESPONSIBILITY OR OBLIGATION TO ANY DIRECT PARTICIPANT, INDIRECT PARTICIPANT OR ANY BENEFICIAL OWNER OR ANY OTHER PERSON WITH RESPECT TO: (1) THE SERIES 2018 BONDS; (2) THE ACCURACY OF ANY RECORDS MAINTAINED BY DTC OR ANY DIRECT PARTICIPANT OR INDIRECT PARTICIPANT; (3) THE PAYMENT BY DTC TO ANY PARTICIPANT, OR BY ANY DIRECT PARTICIPANT OR INDIRECT PARTICIPANT TO ANY BENEFICIAL OWNER OF ANY AMOUNT DUE WITH RESPECT TO THE PRINCIPAL OF, PREMIUM, IF ANY, OR

INTEREST ON THE SERIES 2018 BONDS; (4) THE DELIVERY BY DTC TO ANY PARTICIPANT, OR BY ANY DIRECT PARTICIPANT OR INDIRECT PARTICIPANT TO ANY BENEFICIAL OWNER OF ANY NOTICE WHICH IS REQUIRED OR PERMITTED UNDER THE TERMS OF THE RESOLUTION TO BE GIVEN TO BONDHOLDERS; (5) THE SELECTION OF THE BENEFICIAL OWNERS TO RECEIVE PAYMENT IN THE EVENT OF ANY PARTIAL REDEMPTION OF THE SERIES 2018 BONDS; OR (6) ANY CONSENT GIVEN OR OTHER ACTION TAKEN BY DTC AS BONDHOLDER.

Transfer Agent and Bond Registration

Principal and interest shall be payable and the Series 2018 Bonds shall be registered and transferred as described under the heading “General” in this Appendix I until the book-entry-only system is discontinued. The Issuer has appointed the Transfer Agent shown on the cover. In the event the book-entry-only system is discontinued, the Transfer Agent will also act as bond registrar and transfer agent.

Transfer Outside Book-Entry-Only System

In the event that the book-entry-only system is discontinued, the following provisions would apply to the Series 2018 Bonds. The Transfer Agent shall keep the registration books for the Series 2018 Bonds (the “Bond Register”) at its corporate trust office. Subject to the further conditions contained in the Resolution, the Series 2018 Bonds may be transferred or exchanged for one or more Bonds in different authorized denominations upon surrender thereof at the corporate trust office of the Transfer Agent by the registered owners or their duly authorized attorneys; upon surrender of any Bonds to be transferred or exchanged, the Transfer Agent shall record the transfer or exchange in the Bond Register and shall authenticate replacement bonds in authorized denominations; during the 15 days immediately preceding the date of mailing of any notice of redemption or any time following the mailing of any notice of redemption, the Transfer Agent shall not be required to effect or register the transfer or exchange of any Bond which has been selected for such redemption, except the Series 2018 Bonds properly surrendered for partial redemption may be exchanged for new Bonds in authorized denominations equal in the aggregate to the unredeemed portion; the Issuer and Transfer Agent shall be entitled to treat the registered owners of the Series 2018 Bonds, as their names appear in the Bond Register as of the appropriate dates, as the owners of such Bonds for all purposes under the Resolution. No transfer or exchange made other than as described above in the Resolution shall be valid or effective for any purposes under the Resolution.

APPENDIX I

KWA FINANCING CONTRACT

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KAREGNONDI WATER AUTHORITY FINANCING CONTRACT

THIS CONTRACT, dated as of August 1, 2013, by and among the Karegnondi Water Authority, a municipal authority and public body corporate of the State of Michigan (hereinafter referred to as the "Authority"), the City of Flint in the County of Genesee and the County of Genesee (collectively, the "Local Units" and each a "Local Unit").

WITNESSETH:

WHEREAS, the Authority has been incorporated under the provisions of Act No. 233, Public Acts of Michigan, 1955, as amended (hereinafter referred to as "Act 233"), for the purposes set forth in Act 233; and

WHEREAS, the Authority will acquire, construct and operate a water supply system to be known as the Karegnondi Water Supply System that provides untreated water to the Local Units, each of which is a constituent municipality of the Authority; and

WHEREAS, it is immediately necessary and imperative for the public health and welfare of the present and future residents of each of the Local Units that a certain water supply system, as more fully described on Exhibit A hereto, together with all necessary interests in land, appurtenances and attachments thereto (the "System") be acquired, installed and constructed; and

WHEREAS, plans and an estimate of cost of the System have been prepared by the Authority's consulting engineers, Wade Trim (the "Consulting Engineers"), which said estimate of aggregate cost totals an amount not to exceed \$300,000,000; and

WHEREAS, each of the Local Units is desirous of having the Authority acquire and own the System in order to continue to operate the System in order to furnish the Local Units with untreated raw water; and

WHEREAS, the parties hereto have determined that the System is essential to the general health, safety and welfare of each of the Local Units; and

WHEREAS, the Authority and each of the Local Units are each agreeable to the execution of this Contract by and among themselves which provides, among other things, for the financing of all or a portion of the cost of the System; and

WHEREAS, this Contract contemplates the issuance of bonds in one or more series by the Authority to pay all or part of the costs of the System; and

WHEREAS, each of the Local Units has or will approve and authorize the execution of this Contract by resolution of its governing body; and

WHEREAS, each of the Local Units has published or will publish, individually or jointly, a notice of intention to enter into this Contract in a newspaper of general circulation in the territory encompassed by each Local Unit; and

WHEREAS, this Contract will become effective for each Local Unit upon expiration of a period of forty-five (45) days following publication by each Local Unit of its notice of intention without filing of a petition for referendum on the question of its entering into this Contract, or if such referendum election be required, then upon approval by the qualified electors of the Local Unit.

NOW, THEREFORE, IN CONSIDERATION OF THE PREMISES AND THE COVENANTS MADE HEREIN, THE PARTIES HERETO AGREE AS FOLLOWS:

SECTION 1. The Authority and the Local Units hereby approve the acquisition, construction and operation of System, together with all necessary interests in land, appurtenances and attachments thereto.

SECTION 2. Each of the Local Units hereby consents to the use by the Authority and any parties contracting with the Authority of the public streets, alleys, lands and rights-of-way in each Local Unit for the purpose of constructing, operating and maintaining the System including any improvements, enlargements and extensions thereto.

SECTION 3. The System is designed to provide and transport untreated raw water to each of the Local Units and the System is immediately necessary to protect and preserve the public health.

SECTION 4. The Authority and each of the Local Units hereby approve and confirm the plans for the System prepared by the Consulting Engineers and the total estimated cost thereof in the sum of not to exceed \$300,000,000. Said cost estimate includes all surveys, plans, specifications, acquisition of property for rights-of-way, physical construction necessary to acquire and construct the System, the acquisition of all materials, machinery and necessary equipment, and all engineering, engineering supervision, administrative, legal and financing expenses necessary in connection with the acquisition and construction of the System and the financing thereof.

SECTION 5. The Authority shall not enter into any final contract or contracts for the acquisition and construction of the System if such contract price or prices will be such as to cause the actual cost thereof to exceed the estimated cost as approved in Section 4 of this Contract unless the Authority has sufficient funds to cover such excess, or, each of the Local Units, by resolution of its respective legislative body, (a) approves said increased total cost, and (b) agrees to pay such excess over the estimated cost, either in cash or by specifically authorizing the maximum principal amount of bonds to be issued, as provided in Sections 9 and 14 of this Contract, to be increased to an amount which will provide sufficient funds to meet said increased cost, and approves a similar increase in the installment obligations of each Local Unit, if any, pledged under the terms of this Contract to the payment of such bonds.

SECTION 6. The System shall be acquired and constructed by the Authority substantially in accordance with the plans and specifications therefor approved by this Contract. All matters relating to engineering plans and specifications, together with the making and letting of final construction contracts, the approval of work and materials thereunder, and construction supervision, shall be in the

control of the Authority. All acquisition of sites and rights-of-way, if any, shall be done by the Authority. Each Local Unit's share of the costs of such acquisition in each Local Unit, if any, shall be paid from the Local Unit's share of bond proceeds and, in addition, any costs incurred by any Local Unit in connection with the acquisition or construction of the System, including, but not limited to, engineering expenses, shall be promptly reimbursed to the Local Unit by the Authority from the proceeds of the Authority's Bonds with the approval of the Authority board.

SECTION 7. The Authority shall operate, maintain and administer the System for and on behalf of the Local Units. The System shall be maintained in good condition and repair. The Authority shall provide insurance as part of its obligation to operate the System. The Authority will furnish reports to the Local Units at periodic intervals corresponding with the reporting periods of the Local Units in detail sufficient to inform the Local Units of the operations of the System and to permit the Local Units to meet their financing requirements hereunder.

SECTION 8. To provide for the construction and financing of the System in accordance with the provisions of Act 233, the Authority shall take the following steps:

(a) The Authority will take steps to adopt a resolution or resolutions providing for the issuance of its bonds in one or more series in the principal amount of not to exceed \$300,000,000 (except as otherwise authorized pursuant to Section 5 of this Contract) to finance all or part of the costs of the System. Said bonds shall mature serially or be subject to mandatory sinking fund redemption as authorized by law, and shall be secured by the contractual obligations of each Local Unit in this Contract. After due adoption of the resolution or resolutions, the Authority will take all necessary legal procedures and steps necessary to effectuate the sale or sales and delivery or deliveries of said bonds.

(b) The Authority shall take all steps necessary to take bids for and enter into and execute final acquisition and construction contracts for the acquisition and construction of the System as specified and approved hereinbefore in this Contract, in accordance with the plans and specifications therefor based on the plans as approved by this Contract.

(c) The Authority will require and procure from the contractor or contractors undertaking the actual construction and acquisition of the System necessary and proper bonds to guarantee the performance of the contract or contracts and such labor and material bonds as may be required by law.

(d) The Authority, upon receipt of the proceeds of sale of each series of bonds, will comply with all provisions and requirements provided for in the resolution authorizing the issuance of such series of bonds and this Contract relative to the disposition and use of the proceeds of sale of such series of bonds.

(e) The Authority may temporarily invest any bond proceeds or other funds held by it for the benefit of each Local Unit as permitted by law and investment income shall accrue to and follow the fund producing such income. The Authority shall not, however, invest, reinvest or accumulate any moneys deemed to be proceeds of the bonds pursuant to §148 of the Internal Revenue Code of 1986, as amended, and the applicable regulations thereunder (the "Code"), in such a manner as to cause the bonds to be "arbitrage bonds" within the meaning of Code §

103(b)(2) and §148, or otherwise as may jeopardize the tax status of the bonds.

SECTION 9. Each Local Unit irrevocably covenants and agrees to pay to the Authority its Local Unit share of each series of bonds to be issued by the Authority pursuant to this Contract. The share of each Local Unit shall be determined as set forth on Exhibit B hereto.

The cost of the System to be financed with the issuance of bonds of the Authority in the aggregate principal amount of not to exceed \$300,000,000 shall be paid in annual installments on the dates and in the amounts as established in the Authority's bond authorizing resolution.

Each Local Unit covenants that it will make or cause to be made its payments as required by this Contract not less than 30 days prior to the dates on which the Authority is required to make payments on the bonds described herein to the transfer agent for the bonds.

It is understood and agreed that the bonds of the Authority hereinbefore referred to will be issued in anticipation of the above contractual obligation, with principal maturities on the dates established by the Authority corresponding to the principal amount of the installments then coming due, and there shall also be paid in addition to said principal installments, on such dates as shall be determined by the Authority, commencing on such date as determined by the Authority, as accrued interest on the principal amount remaining unpaid, an amount sufficient to pay all interest at an interest rate not to exceed ten percent (10%) per annum, due on the next succeeding interest payment date on the bonds from time to time outstanding.

It is further understood and agreed that the bonds of the Authority may be secured by a debt service reserve fund or funds to provide additional security for the timely payment thereof if the Authority determines, in consultation with its financial advisor, that the provision of such debt service reserve fund or funds is advisable. If the bonds of the Authority are secured by a debt service reserve fund or funds, each Local Unit covenants and agrees to provide for the replenishment of such debt service reserve funds as described in Exhibit B.

From time to time as the Authority is billed by the transfer agent for its services for the bonds, and as other costs and expenses accrue to the Authority from handling of the payments made by the Local Units, or from other actions taken in connection with the System, the Authority shall promptly notify the Local Units of the amount of such paying agent fees and other costs and expenses, and the Local Units shall promptly remit to the Authority sufficient funds to meet such fees and other costs and expenses in the proportions hereinabove provided to the extent sufficient funds are not available to the Authority. Each Local Unit warrants and represents that the amount of its obligations under this Contract, when taken together with other indebtedness of such Local Unit, will not cause its obligations under this Contract to exceed any constitutional, statutory or charter debt limitation applicable to such Local Unit.

The Authority shall, within thirty (30) days after the delivery of each series of the bonds of the Authority hereinbefore referred to, furnish each Local Unit with a complete schedule of installments of principal and interest thereon, and the Authority shall also at least sixty (60) days prior to each principal and/or interest installment due date, advise the Local Units, in writing, of the exact amount of principal and interest installments due on each series of bonds on the next succeeding bond principal and/or interest due date, and payable on the first day of the month immediately preceding, as hereinbefore

provided. Failure of the Authority to notify the Local Units of any such payment shall not relieve the Local Units of the obligation to make such payment.

If any principal installment or interest installment is not paid when due, the amount not so paid shall be subject to a penalty, in addition to interest, of one percent (1%) thereof for each month or fraction thereof that the same remains unpaid after the due date.

SECTION 10. Each Local Unit states its intention to pay its obligations under this Contract from sources of moneys as are provided by Act 233 and applicable law, including the levy and collection of rates and charges to users of its respective water supply system for operating and maintaining its system provided by each Local Unit to customers in the Local Unit. Nevertheless, pursuant to the authorization contained in Act 233, each Local Unit hereby irrevocably pledges its full faith and credit for the prompt and timely payment of its obligations pledged for bond payments as expressed in this Contract, and, subject to the provisions of the last sentence of this paragraph, shall each year, commencing with the first tax levy after issuance of the bonds by the Authority, levy an ad valorem tax on all the taxable property in the Local Unit in an amount which, taking into consideration estimated delinquencies in tax collections, will be sufficient to pay such obligations under this Contract becoming due before the time of the following year's tax collections. Such annual tax levies shall be subject to applicable constitutional, statutory, and charter tax limitations. Nothing herein contained shall be construed to prevent a Local Unit from using any, or any combination of, the means and methods provided in Section 7 of Act 233, as now or hereafter amended, for the purpose of providing funds to meet its obligations under this Contract, and, if at the time of making the annual tax levy there shall be either other funds on hand earmarked and set aside, or funds provided in the annual budget of the water supply system of the Local Unit, for the payment of the contractual obligations due prior to the next tax collection period, then such annual tax levy may be reduced by such amount.

In the event a Local Unit shall fail for any reason to pay to the Authority at the times specified the amounts required to be paid by the provisions of this Contract, the Authority shall immediately give notice of such default and the amount thereof, to the Treasurer of each Local Unit, the Treasurer of the State of Michigan, and such other officials charged with the disbursement to such Local Unit of funds returned by the State and now or hereafter under Act 233 available for pledge as provided in this Section and in Section 12a of Act 233, and if such default is not corrected within ten (10) days after such notification, the State Treasurer, or other appropriate official charged with disbursement to such Local Unit of the aforesaid funds, is, by these presents, specifically authorized by the Local Unit, to the extent permitted by law, to withhold from the aforesaid funds the maximum amount necessary to cure said deficit and to pay said sums so withheld to the Authority, to apply on the obligations of the Local Unit as herein set forth. Any such moneys so withheld and paid shall be considered to have been paid to the Local Unit within the meaning of the Michigan Constitution and statutes, the purpose of this provision being voluntarily to pledge and authorize the use of said funds owing to the Local Unit to meet any past-due obligations of such Local Unit due under the provisions of this Contract. In addition to the foregoing, the Authority shall have all other rights and remedies provided by law to enforce the obligations of the Local Unit to make its payments in the manner and at the times required by this Contract, including the right of the Authority to direct the Local Unit to make a tax levy to reimburse the Authority for any funds advanced.

SECTION 11. Each Local Unit may pay in advance any of the payments required to be made by this Contract, in which event the Authority shall credit the respective Local Unit with such advance

payment on future due payments to the extent of such advance payment, or use such advances to call bonds without credit to the extent provided in relevant series of bonds.

SECTION 12. Each Local Unit may pay additional moneys over and above any of the payments specified in this Contract, with the written request that such additional funds be used to prepay installments, in which event the Authority shall be obligated to apply and use said moneys for such purpose to the fullest extent possible. Such moneys shall not then be credited as advance payments under the provisions of Section 11 of this Contract.

SECTION 13. It is specifically recognized by each Local Unit that the debt service payments required to be made by each pursuant to the terms of Section 9 of this Contract are to be pledged for and used to pay the principal installments of and interest on with respect to the bonds to be issued by the Authority as provided by this Contract and authorized by law, and each Local Unit covenants and agrees that it will make all required payments to the Authority promptly and at the times herein specified without regard to whether the System is actually completed or placed in operation.

SECTION 14. If the proceeds of the sale of the bonds in one or more series in aggregate amount not to exceed \$300,000,000 to be issued by the Authority are for any reason insufficient to complete each Local Unit's share of the cost of the System, subject to each Local Unit's approval required by Section 5 hereof, the Authority shall automatically be authorized to issue additional bonds in an aggregate principal amount sufficient to pay the cost of completing the System and to increase the annual payments required to be made by each Local Unit in an amount so that the total payments required to be made as increased will be sufficient to meet the annual principal and interest requirements on the bonds herein authorized plus the additional bonds to be issued. It is expressly agreed between the parties hereto that the Authority shall issue bonds pursuant to this Contract and each Local Unit shall be committed to retire such amount of bonds as may be necessary to pay each Local Unit's share of the costs of the System whether or not in excess of those presently estimated herein. Any such additional bonds shall comply with the requirements of Act 233 and any increase in the annual payments shall be made in the manner and at the times specified in this Contract. In lieu of such additional bonds, each Local Unit may pay over to the Authority, in cash, sufficient moneys to complete each Local Unit's share of the cost of the System.

SECTION 15. After completion of the System and payment of all costs thereof, any surplus remaining from the proceeds of sale of bonds shall be used by the Authority for either of the following purposes: (a) for improvements or enhancements to the System or for other projects of the Authority undertaken on behalf of the Local Units, subject to approval of the Authority; or (b) credited by the Authority toward the next payments due the Authority by said Local Units hereunder.

SECTION 16. The obligations and undertakings of each of the parties to this Contract shall be conditioned on the successful issuance and sale of the first series of bonds pursuant to Act 233, and if for any reason whatsoever the first series of bonds are not issued and sold within three (3) years from the date of this Contract, this Contract, except for payment of preliminary expenses and ownership of engineering data, shall be considered void and of no force and effect.

SECTION 17. The Authority and each Local Unit each recognize that the owners from time to time of each series of bonds issued by the Authority under the provisions of Act 233 to finance the cost of the System will have contractual rights in this Contract, and it is, therefore, covenanted and agreed by

the Authority and each Local Unit that so long as any of series of bonds shall remain outstanding and unpaid, the provisions of this Contract shall not be subject to any alteration or revision which would in any manner materially affect either the security of such series of bonds or the prompt payment of principal or interest thereon. Each Local Unit and the Authority each further covenant and agree that each will comply with its respective duties and obligations under the terms of this Contract promptly at the times and in the manner herein set forth, and will not suffer to be done any act which would in any way impair the said bonds, the security therefor, or the prompt payment of principal and interest thereon. It is hereby declared that the terms of this Contract insofar as they pertain to the security of any such bonds shall be deemed to be for the benefit of the owners of said bonds.

SECTION 18. This Contract shall remain in full force and effect from the effective date hereof (as provided in Section 21) until each series bonds issued by the Authority are paid in full, but in any event not to exceed a period of thirty (30) years for each series of bonds. At such time within said 30-year term as any of the series of said bonds are paid, this Contract shall be terminated. In any event, the obligation of each Local Unit to make payments required by this Contract shall be terminated at such time as all of said bonds are paid in full, together with any deficiency or penalty thereon.

SECTION 19. This Contract shall inure to the benefit of and be binding upon the respective parties hereto, their successors and assigns.

SECTION 20. This Contract shall become effective upon (i) approval by the legislative body of each Local Unit, (ii) approval by the Board of the Authority and (iii) due execution by authorized officers of each Local Unit and by the Chairman and Secretary of the Authority.

SECTION 21. This Contract may be executed in several counterparts.

SECTION 21. This Contract may be executed in several counterparts.

IN WITNESS WHEREOF, the parties hereto have caused this instrument to be executed as of the day and year first above written.

In the presence of:

KAREGNONDI WATER AUTHORITY

[Redacted signature line]

Chairman

[Redacted signature line]

Secretary

In the presence of:

CITY OF FLINT

[Redacted signature line]

Mayor

[Redacted signature line]

City Clerk

In the presence of:

COUNTY OF GENESEE

[Redacted signature line]

Chairperson of Board of Commissioners

[Redacted signature line]

Clerk

MILLER, CANFIELD, PADDOCK AND STONE, P.L.L.C.

EXHIBIT A

SYSTEM

The Karegnondi Water System is a raw water supply system. It will deliver untreated Lake Huron water 65 miles inland to the population centers of Lapeer and Genesee Counties, including the Cities of Lapeer and Flint, and the County Agency of Genesee County with 17 local municipal systems. The system will also be capable of delivering water along the route to customers in Sanilac and Lapeer County, as well as future customers in Saint Clair County.

The system will consist of a lake intake, two pumping stations, and over 65 miles of large diameter transmission watermain. The system will include fire hydrants, metering stations, reservoirs, and the appurtenances necessary to operate the system efficiently. The lake intake portion of the project and the land where the two pumping stations are located will be acquired, constructed, designed and financed by the County of Genesee and made available for use by the Karegnondi Water System.

All land and required right-of-ways and easements have been acquired.

EXHIBIT B

LOCAL UNIT ESTIMATED SHARE OF IMPROVEMENT COST

The following is a breakdown of the percent each Local Unit is required to pay of the aggregate debt service, including the obligation to replenish a debt service reserve fund(s), if any, on the Authority's bonds authorized by this Contract:

<u>Local Unit</u>	<u>Bond Issue</u>
County of Genesee	65.8%
City of Flint	34.2%

In the event the City of Flint fails to fulfill its payment obligations under this Contract, the County of Genesee irrevocably covenants and agrees to make such missed payment within 15 days of being notified of the missed payment. Further, the Authority covenants and agrees to undertake all legal action and make use of all remedies available under this Contract to enforce the payment obligations of the City of Flint under this Contract. The Authority also covenants and agrees to undertake all legal action and make use of all remedies available to it under the Raw Water Supply Contract between the Authority and the City of Flint dated as of June 28, 2013 ("Raw Water Supply Contract"), as amended, specifically sections 7.08 and 7.09 of such contract. If the County of Genesee is required to make a payment for the City of Flint under this Contract and the Authority recovers any funds from the pursuit of such remedies described above, the Authority shall reimburse the County of Genesee from such funds for any payments made. To the extent permitted by law, the capacity that the City of Flint acquired in the System pursuant to the Raw Water Supply Contract shall be transferred to the County of Genesee until the City of Flint has repaid the County of Genesee for any additional payments made hereunder. The City of Flint shall also pay a penalty of one percent (1%) thereof for each month or fraction thereof that the same remains unpaid after the due date of the amount paid by the County of Genesee as a result of the failure of the City of Flint to fulfill its payment obligations hereunder. Further, if a Local Unit fails to pay its contractual obligation causing a shortfall and the debt service reserve fund(s) is drawn upon to pay the Authority's bonds, the replenishment of such debt service reserve fund shall be an obligation of the Local Unit that failed to pay, as provided in the resolution authorizing the bonds. Provided, however, if the City of Flint fails to fulfill its debt service reserve fund replenishment obligation, as with other payment obligations under the Contract, the County of Genesee agrees to make such payments.

Additionally, if the Authority sells raw untreated water capacity to other parties, to the extent funds are available from payments received from those parties, each Local Unit shall be credited on each day payment is due hereunder as agreed to by the Authority and the Local Units towards each Local Unit's payment obligations hereunder.

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**FIRST SUPPLEMENT TO
KAREGNONDI WATER AUTHORITY FINANCING CONTRACT**

THIS FIRST SUPPLEMENT, dated as of September 1, 2017 (this “Supplement”), is entered into by and among the KAREGNONDI WATER AUTHORITY, a municipal authority and public body corporate of the State of Michigan (the “Authority”), the CITY OF FLINT, located in the County of Genesee, State of Michigan (the “City of Flint”), and the COUNTY OF GENESEE, State of Michigan (the “County of Genesee”). The City of Flint and the County of Genesee may be referred to herein individually as a “Local Unit” or collectively as the “Local Units.”

WITNESSETH:

WHEREAS, the Authority has been incorporated under the provisions of Act No. 233, Public Acts of Michigan, 1955, as amended (“Act 233”); and

WHEREAS, in accordance with the provisions of Act 233, the Authority and the Local Units have entered into that certain Karegnondi Water Authority Financing Contract, dated as of August 1, 2013 (the “Financing Contract”), wherein the Authority agreed to acquire, construct and equip a water supply system to provide untreated water to the Local Units, as more particularly described in the Financing Contract (the “System”); and

WHEREAS, in order to finance the costs of the acquisition, construction and equipping of the System, the Financing Contract authorizes the issuance of bonds of the Authority, in one or more series, in the aggregate principal amount of not to exceed \$300,000,000, to be secured by the contractual obligations of each Local Unit as specified in the Financing Contract; and

WHEREAS, pursuant to the Financing Contract, the Authority has previously issued its Water Supply System Bonds (Karegnondi Water Pipeline), Series 2014A, dated April 16, 2014, in the aggregate principal amount of \$220,500,000; and

WHEREAS, pursuant to the Financing Contract, the Authority has previously issued its Water Supply System Bonds (Karegnondi Water Pipeline), Series 2016, dated June 10, 2016, in the aggregate principal amount of \$74,370,000 (the “Series 2016 Bonds”); and

WHEREAS, the Series 2016 Bonds have a stated maturity date of May 1, 2018, and the Authority and the Local Units have determined that it is necessary and in the best interests of the Authority and the Local Units that the Authority refund all of the outstanding Series 2016 Bonds in order to establish permanent long-term financing for the capital costs of the System; and

WHEREAS, the Authority and the Local Units have further determined that it is necessary for the Authority to issue additional bonds under and pursuant to the terms of the Financing Contract, in the aggregate principal amount of not to exceed \$4,200,000, to pay or to reimburse the Authority for the costs of completing the acquisition, construction and equipping of the System; and

WHEREAS, in order to finance the costs of completing the acquisition, construction and equipping of the System, and to pay the costs of refunding the Series 2016 Bonds, the Authority and the Local Units have determined that it is necessary for the Authority to issue additional bonds under and pursuant to the terms of the Financing Contract, as supplemented by this Supplement, in one or more series, in the aggregate principal amount of not to exceed \$79,000,000 (the "Series 2017 Bonds"); and

WHEREAS, the Authority and the Local Units desire, by the execution of this Supplement, to approve of the issuance of the Series 2017 Bonds by the Authority for the aforesaid purposes and to confirm the contractual obligations of each Local Unit with respect to the Series 2017 Bonds as specified in the Financing Contract; and

WHEREAS, prior to execution of this Supplement, each Local Unit has duly authorized and approved the execution and delivery of this Supplement.

NOW, THEREFORE, in consideration of the premises and the covenants made herein, THE PARTIES HERETO AGREE THAT THE FINANCING CONTRACT SHALL BE SUPPLEMENTED AND AMENDED AS FOLLOWS:

1. Issuance of Series 2017 Bonds by the Authority. Each Local Unit hereby approves of the issuance of the Series 2017 Bonds by the Authority under and pursuant to the terms of the Financing Contract, as supplemented by this Supplement, in one or more series, in the aggregate principal amount of not to exceed \$79,000,000, for the purposes of: (i) paying the costs of completing the acquisition, construction and equipping of the System; (ii) refunding all of the outstanding Series 2016 Bonds; (iii) making any required deposit to the debt service reserve account established for the purpose of securing the Series 2017 Bonds and other bonds of the Authority issued pursuant to the Financing Contract (the "Debt Service Reserve Account"); and (iv) paying costs incidental to the issuance and sale of the Series 2017 Bonds, including the cost of obtaining a municipal bond insurance policy for the Series 2017 Bonds, if determined to be advisable by the Authority in consultation with the Authority's financial advisor (collectively, the "Plan of Financing").

In order to accomplish the issuance of the Series 2017 Bonds for the foregoing purposes in accordance with the provisions of Act 233 and Act 34, Public Acts of Michigan, 2001, as amended, the Authority shall take the following steps:

(a) The Authority will adopt a resolution (the "Series 2017 Bond Resolution") providing for the issuance of the Series 2017 Bonds, in one or more series, in the aggregate principal amount of not to exceed \$79,000,000, to pay the costs of the Plan of Financing. The Series 2017 Bonds shall mature serially or be subject to mandatory sinking fund redemption, as authorized by law, and shall have a final maturity date of not later than November 1, 2045. The Series 2017 Bonds shall be issued in anticipation of and shall be secured by the contractual obligations of each Local Unit as provided in the Financing Contract and as hereinafter provided in this Supplement. After due adoption of the Series 2017 Bond Resolution, the Authority will take all legal procedures and steps within its control necessary to effectuate the sale and delivery of the Series 2017 Bonds.

(b) The Authority, upon receipt of proceeds of sale of the Series 2017 Bonds, will comply with all provisions and requirements of law, the Series 2017 Bond Resolution, the Financing Contract and this Supplement relative to the disposition and use of the proceeds of sale thereof.

(c) The Authority may temporarily invest any proceeds of the Series 2017 Bonds or other funds held by it for the benefit of each Local Unit as permitted by law, and investment income shall accrue to and follow the fund producing such income. The Authority shall not, however, invest, reinvest or accumulate any moneys deemed to be proceeds of the Series 2017 Bonds pursuant to Section 148 of the Internal Revenue Code of 1986, as amended, and the applicable regulations thereunder (the "Code"), in such a manner as to cause the Series 2017 Bonds to be "arbitrage bonds" within the meaning of Section 148 of the Code.

(d) The Authority, upon receipt of the proceeds of sale of the Series 2017 Bonds, shall take all steps necessary to refund the Series 2016 Bonds.

2. Continuing Effectiveness of Financing Contract; Series 2017 Bonds Governed by Financing Contract. Except as amended by or expressly provided to the contrary in this Supplement, all of the provisions of the Financing Contract shall remain in full force and effect and shall apply with equal effect to the Series 2017 Bonds the same as though the provisions of this Supplement were fully set forth therein. The Series 2017 Bonds constitute "bonds" of the Authority as described in and as contemplated by the Financing Contract, and each reference in the Financing Contract to the "bonds" or to a "series of bonds" shall be construed as referring to, and shall be deemed to include, the Series 2017 Bonds.

Without limiting the foregoing, each Local Unit acknowledges and confirms its contractual obligation, as specified in Section 9 of the Financing Contract and in Exhibit B to the Financing Contract, to pay to the Authority, in the manner and at the times required by the Financing Contract, (i) its share of each annual installment of principal coming due on the Series 2017 Bonds by maturity or mandatory redemption, and (ii) in addition to said principal installments, as accrued interest on the principal amount of the Series 2017 Bonds remaining unpaid, an amount sufficient to pay its share of all interest due on the Series 2017 Bonds on the next succeeding interest payment date for the Series 2017 Bonds. In addition to the foregoing, each Local Unit acknowledges and confirms its contractual obligation as provided in Exhibit B to the Financing Contract to replenish the Debt Service Reserve Account in the event that the Authority is required to draw funds from the Debt Service Reserve Account due to such Local Unit's failure to pay any of its contractual obligations required by the Financing Contract. In the event that the City of Flint fails to fulfill its payment obligations under the Financing Contract, including the obligation of the City of Flint to pay its share of principal of and interest on the Series 2017 Bonds in accordance with the Financing Contract, the County of Genesee has irrevocably covenanted and agreed, in accordance with Exhibit B of the Financing Contract, to make such missed payment within 15 days of being notified of the missed payment.

Pursuant to Section 10 of the Financing Contract, each Local Unit has irrevocably pledged its full faith and credit for the prompt and timely payment of its obligations pledged for

payment of the bonds of the Authority issued pursuant to the Financing Contract, including the Series 2017 Bonds. Pursuant to such pledge, each Local Unit acknowledges and confirms its obligation, as specified in Section 10 of the Financing Contract, to levy an ad valorem tax on all the taxable property in such Local Unit in an amount which, taking into consideration estimated delinquencies in tax collections, will be sufficient to pay such obligations under the Financing Contract becoming due before the time of the following year's tax collections. Such annual tax levies shall be subject to applicable constitutional, statutory and charter tax limitations. Nothing in the Financing Contract or in this Supplement shall be construed to prevent a Local Unit from using any, or any combination of, the means and methods provided in Section 7 of Act 233, as now or hereafter amended, for the purpose of providing funds to meet its obligations under the Financing Contract, and, if at the time of making the annual tax levy there shall be either funds on hand earmarked and set aside, or funds provided in the annual budget of the water supply system of the Local Unit, for the payment of the contractual obligations due prior to the next tax collection period, then such annual tax levy may be reduced by such amount.

Each Local Unit and the Authority covenants and agrees that it will comply with its respective duties and obligations under the terms of the Financing Contract, as supplemented by this Supplement, promptly at the times and in the manner therein set forth. The Authority shall be vested with all rights and remedies provided by the Financing Contract, and as otherwise provided by law or contract, to enforce the obligation of each Local Unit to make its payment obligations with respect to the Series 2017 Bonds in the manner and at the times required by the Financing Contract.

3. Surplus Proceeds. After payment of all costs of the Plan of Financing, any surplus remaining from the proceeds of sale of the Series 2017 Bonds shall be credited by the Authority toward the next payments due to the Authority by the Local Units under the Financing Contract for the payment of debt service on the Series 2017 Bonds.

4. Amendment to Section 18 of the Financing Contract. . Section 18 of the Financing Contract is hereby amended and restated in its entirety as follows:

“This Contract shall remain in full force and effect from the effective date hereof (as provided in Section 20) until each series of bonds issued by the Authority is paid in full, together with any deficiency or penalty thereon, at which time this Contract shall terminate.”

5. Binding Upon Successors. This Supplement shall inure to the benefit of and be binding upon the respective parties hereto, their successors and assigns.

6. Effective Date of Supplement. This Supplement shall become effective upon (i) due authorization and approval by each Local Unit, (ii) due authorization and approval by the Board of the Authority and (iii) due execution by the authorized officers of each Local Unit and by the Chairman and Secretary of the Authority.

7. Counterparts. This Contract may be executed in several counterparts.

IN WITNESS WHEREOF, the parties hereto have cause this instrument to be executed as of the day and year first above written.

In the presence of: KAREGNORDI WATER AUTHORITY
[Redacted]

Its: Chairman

[Redacted]

Its: Secretary

In the presence of: CITY OF FLINT

By _____
Its: Mayor

By _____
Its: Clerk

In the presence of: COUNTY OF GENESEE
[Redacted]

Its: Chairman, Board of Commissioners

[Redacted]

Its: Clerk

IN WITNESS WHEREOF, the parties hereto have cause this instrument to be executed as of the day and year first above written.

In the presence of : **KAREGNONDI WATER AUTHORITY**

By _____
Its: Chairman

By _____
Its: Secretary

In the presence of : **CITY OF FLINT**

Its: Mayor

Its: Clerk

In the presence of : **COUNTY OF GENESEE**

By _____
Its: Chairperson, Board of Commissioners

By _____
Its: Clerk

APPENDIX J

CERTAIN DOCUMENTS RELATING TO FLINT LONG-TERM WATER SUPPLY ARRANGEMENT

Flint, the Department of Environmental Quality of the State of Michigan (“MDEQ”), the Genesee County Drain Commissioner, as County Agency of Genesee under Act 342, Public Acts of Michigan, 1939, as amended (the “County Agency”), the Great Lakes Water Authority (“GLWA”), and the Issuer (collectively, the “Master Agreement Parties”) worked in collaboration to effectuate the overall agreement described in the Statement of Principles for Long Term Water Delivery to the City of Flint (“Statement of Principles”), signed by the parties and dated April 18, 2017, to enter into several inter-related transactions resulting in primary and backup water for Flint and system improvements for all the Master Agreement Parties. The Master Agreement between and among the Master Agreement Parties, effective December 1, 2017 (the “Master Agreement”), and the exhibits attached thereto and incorporated therein (collectively, referred to as the “Transaction Documents”) implemented the Statement of Principles.

The Transaction Documents include, but are not limited to: (1) a Water Service Contract by and between GLWA and Flint dated as of December 1, 2017 (the “GLWA Water Service Contract”), (2) a Reciprocal Backup Service Water Contract between GLWA and the County Agency dated as of December 1, 2017 (the “Reciprocal Backup Water Contract”), (3) a Baseline and All Receipts Trust Agreement by and among Flint, GLWA, the County Agency, the Issuer, and U.S. Bank National Association, as Trustee (the “Trustee”) dated as of December 1, 2017 (the “Trust Agreement”), and (4) a Three Party Agreement by and among the Issuer, GLWA and Flint dated as of December 1, 2017 (the “Three Party Agreement”).

Master Agreement

The Master Agreement fully incorporates the Transaction Documents. The Master Agreement may not be amended without the consent of all Master Agreement Parties. Amendment of any document attached as an exhibit to the Master Agreement may not, with certain exceptions, be done without the consent of all Master Agreement Parties. Notwithstanding anything in the Master Agreement to the contrary, the provisions with respect to amendment of the Master Agreement and of any document attached as an exhibit to the Master Agreement apply only to the GLWA Water Service Contract, the Reciprocal Backup Water Contract, the Trust Agreement, and the Three Party Agreement which are attached as exhibits to the Master Agreement, and shall not apply to any other exhibits.

GLWA Water Service Contract

The primary purpose of the GLWA Water Service Contract is to provide for the delivery by GLWA of potable water to Flint under a long-term service contract. In addition, GLWA will provide a portion of Flint’s redundant secondary source of potable water, which the MDEQ and the EPA require Flint to maintain in case of emergency. GLWA receives such redundant secondary water supply from the County Agency pursuant to the Reciprocal Backup Water Contract.

Flint has agreed to pay for all water supplied by GLWA from the GLWA System at such charges as GLWA may establish. GLWA will incur monthly service charges from the County Agency under the Reciprocal Backup Water Contract; those charges will be assessed to Flint on a direct pass through basis from GLWA at the time they are incurred by GLWA, and Flint will pay such charges in accordance with the provisions of the GLWA Water Service Contract. Flint’s obligation to pay these assessed charges shall survive any termination of the GLWA Water Service Contract.

If Flint fails to pay all of its debt service obligations to the Issuer when due, and as a result the County of Genesee acquires Flint's rights pursuant to the KWA Financing Contract, then GLWA will be relieved of its obligation to provide emergency backup service to Flint.

The term of the GLWA Water Service Contract is for a period of thirty years effective beginning December 1, 2017, and automatically renews every ten years after the end of the initial 30-year term for an additional ten-year term, unless GLWA or Flint provides written notification to the other of termination (collectively the "Contract Term"). Flint and GLWA may mutually agree upon a longer renewal term.

Security Deposit Account

Flint funded an interest bearing security deposit account in an amount equal to \$3,750,000.00, which is held by GLWA (the "Security Deposit Account") as security for payments due GLWA under the GLWA Water Service Contract in accordance with the terms and conditions set forth therein. GLWA will maintain the Security Deposit Account for a period of no less than 2 years and no greater than 6 years provided that if Flint satisfies the metrics set forth in the GLWA Water Service Contract, then the funds held by GLWA in the Security Deposit Account will be returned to Flint. Flint acknowledges and agrees that GLWA may grant certain rights in and to the Security Deposit Account in connection with Flint's obligations to the Issuer for debt service payable from the Trust Accounts (defined below), as described below in "*Credits to Wholesale Billing Account Resulting from Trust Account Payments.*"

Credits to Wholesale Billing Account Resulting from Trust Account Payments

Flint is obligated to make, or cause to be made, payments to GLWA, the Issuer and the County Agency under the terms of trust accounts established pursuant to the terms of the Trust Agreement (the "Trust Accounts") described below. If Flint timely and fully pays, directly or via the Trust Accounts, its monthly amounts (i) due to GLWA for water supplied under the GLWA Water Service Contract, which includes the County Agency Pass-Through Charges (defined below) from the County Agency that are assessed on a direct pass through basis from GLWA to Flint pursuant to the provisions of the GLWA Water Service Contract; however for purposes of this section, amounts due will be considered timely and fully paid if Flint has deposited funds as provided in the GLWA Water Service Contract equal to the Pass-Through Charges from the County Agency and the balance of the monthly amounts due to GLWA on such bill that is not in dispute, and (ii) due to the Issuer for KWA Designated Debt Service (defined below under the caption "Trust Agreement"), then GLWA shall in the current or subsequent month issue a credit to Flint's wholesale billing account equal to the lesser of (y) the KWA Designated Debt Service paid by or on behalf of Flint through the Trust Agreement or (z) in the event of any bond issue not consented to by GLWA in accordance with the GLWA Water Service Contract, when such consent is required, the debt service payment currently scheduled as set forth in the Trust Agreement, all under (ii) above.

Raw Water, License and Representation

Subject to the KWA Financing Contract and Flint's Water Purchase Contract with the Issuer, Flint makes an irrevocable grant to GLWA of an exclusive license of a portion of Flint's rights related to raw water capacity in the KWA System, delivery and use of the raw water capacity under Flint's Water Purchase Contract, to the extent of Flint's rights therein, whether now existing or hereafter arising, to use in any way GLWA determines in its sole discretion and otherwise in compliance with Flint's Water Purchase Contract. Flint may not terminate the license. The license will survive the termination of the GLWA Water Service Contract and any default by Flint under Flint's Water Purchase Contract. GLWA will have a license related to, and be entitled to receive delivery of 17.46 MGD and Flint will retain 0.54

MGD of the raw water provided for under Flint's Water Purchase Contract for the term of the GLWA Water Service Contract and thereafter as provided for in the GLWA Water Service Contract.

After Flint fulfills all of its debt service payment obligations to the Issuer pursuant to the KWA Financing Contract, (a) all of Flint's remaining interest in the 17.46 MGD shall transfer to GLWA upon GLWA delivering written notice to the Issuer of such transfer and (b) GLWA shall have, within 6 months after the date of City's fulfillment of its debt service obligation, the exclusive right to purchase the remaining 0.54 MGD for \$3,000,000.

Flint will consult with GLWA and GLWA will recommend and approve of each of Flint's appointments to the Issuer's Board of Trustees, which selection cannot at any time be modified by Flint without the prior written approval of GLWA. Subsequent to GLWA's approval, Flint will execute a letter to the Issuer confirming the appointment of each new Board representative.

Flint will consult with GLWA in connection with any proposed amendments to the articles of incorporation or bylaws of the Issuer, and shall not consent to any such changes without receipt of prior written consent of GLWA.

New and Refunding Bonds

In the event that Flint consents to the issuance of any KWA Refunding Bonds (defined below), other than for the purpose of refunding the outstanding Series 2016 Bonds in accordance with the parameters set forth in the GLWA Water Service Contract, that would have the effect of (i) extending the term of the bonds to be refunded, or (ii) increasing any annual debt service obligation of Flint with respect to the bonds to be refunded, such event shall not constitute a breach or default by Flint under the GLWA Water Service Contract; provided, however, that in such event (y) the monthly credits to Flint's wholesale billing account shall be calculated in accordance with the GLWA Water Service Contract as described in "*Credits to Wholesale Billing Account Resulting from Trust Account Payments*" and (z) if the maturity date of such KWA Refunding Bonds is extended beyond the term of the GLWA Water Service Contract, the term of the GLWA Water Service Contract is automatically and without further action extended to the new maturity date. Furthermore, Flint shall provide prior written notice to GLWA of any proposed consent by Flint to any KWA Refunding Bonds.

In the event that Flint becomes contractually obligated for the payment of debt service on any New KWA Bonds (as hereinafter defined), it shall not be entitled to any additional credits to its wholesale billing account for its debt service payment obligations with respect to such New KWA Bonds, unless consented to in writing by GLWA.

Neither (a) the KWA Financing Contract, nor any amendment thereto, related to the Series 2014A Bonds and the Series 2016 Bonds and/or KWA Refunding Bonds nor (b) Flint's Water Purchase Contract shall be amended by Flint without GLWA's consent in a way that changes the 18 MGD of capacity or adversely impacts GLWA's rights or obligations under the GLWA Water Service Contract.

"KWA Bonds" means, collectively, the Series 2014A Bonds and the Series 2016 Bonds, each issued by the Issuer pursuant to the KWA Financing Contract and any KWA Refunding Bonds.

"KWA Refunding Bonds" mean any bonds issued by the Issuer pursuant to the KWA Financing Contract (including any future supplement or amendment thereto) to refund, directly or indirectly through a series of refundings, all or any portion of the KWA Bonds. "KWA Refunding Bonds" includes the Series 2018 Bonds described in this Official Statement.

“New KWA Bonds” mean any bonds issued after the effective date of the GLWA Water Service Contract by the Issuer for which Flint has agreed or agrees, by contract or otherwise, to pay all or a portion of the debt service on such bonds. New KWA Bonds do not include the KWA Bonds or the KWA Refunding Bonds.

Trust Agreement

Flint, GLWA, the County Agency, the Issuer, and the Trustee (collectively the “Trust Parties”) entered into the Trust Agreement to provide for the orderly payment of amounts due to (i) GLWA under the GLWA Water Service Contract, (ii) the Issuer under the KWA Financing Contract, and (iii) the County Agency under the Reciprocal Backup Water Contract.

The Trust Agreement will continue in effect until no amounts are due pursuant to the GLWA Water Service Contract, the KWA Financing Contract, Flint’s Water Purchase Contract and the Reciprocal Backup Water Contract (collectively, the “Underlying Contracts”). Notwithstanding the foregoing, the Trust Parties agree that at such time that no further amounts are due under the KWA Financing Contract and Flint’s Water Purchase Contract for debt service related to the KWA Bonds, then Flint, GLWA, the Issuer and the County Agency may, by mutual written consent, which consent is subject to the sole discretion of each such Trust Party, terminate the Trust Agreement.

Payments Due under the Underlying Contracts

Flint’s obligations under the Underlying Contracts include obligations to make payments as described in (a), (b) and (c) below:

(a) The monthly payments under the GLWA Water Service Contract vary from month to month based on, among other factors, the amount of water supplied by GLWA to Flint and the County Agency Pass-Through Charge. GLWA agrees to provide a monthly statement to Flint by no later than the 20th day of the calendar month following the applicable month in which the water was supplied (each such date, the “Applicable Monthly Statement Date”) and Flint agrees to pay such amount prior to the respective Monthly Due Date, subject to the provisions of the GLWA Water Service Contract. Each such monthly statement shall provide for a credit equal to (i) the payment, if any, actually made by the Trustee to the County Agency for the County Agency Pass-Through Charge reflected on such monthly statement, and (ii) the payment, if any, actually made by the Trustee to the Issuer for debt service on the KWA Bonds on the Monthly Due Date.

(b) The monthly payments for the KWA Designated Debt Service (defined below) are fixed amounts based on Flint’s share of the debt service on the KWA Bonds. In the event that the failure of Flint to pay its share of debt service on the KWA Bonds as required by the KWA Financing Contract results in a draw on any debt service reserve fund for the KWA Bonds, and Flint is obligated to replenish such debt service reserve fund pursuant to the terms of the KWA Financing Contract, then the monthly payments shall be adjusted for any additional payments required to be made by Flint to the Issuer to replenish such debt service reserve fund.

(c) The County Agency Pass-Through Charges vary from month to month based on, among other factors, the volume of water provided by the County Agency to GLWA. The County Agency Pass-Through Charge is the monthly service charge for operation and maintenance that is billed from the County Agency to GLWA under the terms of the Reciprocal Backup Water Contract, and is assessed on a direct pass through basis from GLWA to Flint pursuant to the GLWA Water Service Contract.

The “Monthly Due Date” means the 30th day of each month immediately following the month in which the Applicable Monthly Statement Date occurs except for the month of February, in which case the Monthly Due Date is the last day of the month of February. For example, the Applicable Monthly Statement Date for water supplied in January would be February 20 and the Monthly Due Date for such payment would be March 30.

“KWA Designated Debt Service” is the sum of (1) Flint’s share of the debt service on the KWA Bonds required to be paid by Flint under the KWA Financing Contract, (2) Flint’s share of the annual transfer agent fees with respect to the KWA Bonds, and (3) in the event the failure of Flint to pay its share of debt service on the KWA Bonds as required by the KWA Financing Contract results in a draw on any debt service reserve fund for the KWA Bonds, and Flint is obligated to replenish such debt service reserve fund pursuant to the terms of the KWA Financing Contract, then any such payments required to be paid by Flint to the Issuer to replenish such debt service reserve fund.

Establishment of Baseline Trust Fund

The Trustee established and holds the Baseline Trust Fund in accordance with the Trust Agreement for the benefit of Flint, GLWA, the Issuer and the County Agency. Under the Trust Agreement, Flint will pay to the Trustee, three Business Days prior to each Monthly Due Date, an amount equal to the Aggregate Monthly Amount Due. All payments made to the Trustee as described in this section will be deposited in the Baseline Trust Fund, except and until otherwise provided in the Trust Agreement.

The “Aggregate Monthly Amount Due,” as of any Monthly Due Date, is the total of (i) the amount then due to GLWA under the GLWA Water Service Contract, which includes the County Agency Pass-Through Charge, and (ii) the amount then due to the Issuer for KWA Designated Debt Service.

A “Business Day” is any day other than (i) a Saturday, Sunday or legal holiday on which banking institutions in Detroit, Michigan or the designated corporate trust office of the Trustee is located are authorized by law to close, or (ii) a day on which the New York Stock Exchange or the Federal Reserve Bank is closed.

Payment by the Trustee to GLWA, the Issuer and the County Agency

The Trustee shall use the amounts deposited by Flint into the Baseline Trust Fund to pay to GLWA, the Issuer and the County Agency on the Monthly Due Date, or on the preceding Business Day if such Monthly Due Date is not a Business Day, the monthly amounts due to GLWA, the Issuer and the County Agency as described above in “*Payments Due under the Underlying Contracts*”. In the event that the amount deposited by Flint into the Baseline Trust Fund is less than the Aggregate Monthly Amount Due, the Trustee shall use the amount on deposit in the Baseline Trust Fund to pay GLWA, the Issuer and the County Agency on a pro-rata basis based on the total amounts due to GLWA, the Issuer and the County Agency on that Monthly Due Date. In the event that the amount deposited by Flint into the Baseline Trust Fund is more than the sum of the Aggregate Monthly Amount Due, the Trustee shall refund the excess to Flint.

First Instance of the Failure of Flint to Timely Deposit Amount Due

If Flint does not deposit with the Trustee the Aggregate Monthly Amount Due by 10:00 a.m., Eastern Time, on the respective Monthly Due Date, the Trust Agreement provides for the Trustee to immediately upon the first instance of such failure (the “First Instance of Failure to Deposit”) send to all of the Trust Parties a Notice of First Failure to Deposit in the Baseline Trust Agreement.

Second Instance of the Failure of Flint to Timely Deposit Amount Due

If during the term of the Trust Agreement, Flint (i) fails to cure the First Instance of Failure to Deposit within sixty (60) days of the First Instance of Failure to Deposit, or (ii) fails on a second occasion to deposit with the Trustee the Aggregate Monthly Amount Due by 10:00 a.m., Eastern Time, on the respective Monthly Due Date, then the Trustee shall send to all of the Trust Parties a Notice of Second Failure to Deposit in the Baseline Trust Agreement together with Notice of Conversion to All Receipts Trust Agreement. The date on which the Trustee mails the Notice of Second Failure to Deposit in the Baseline Trust Agreement together with Notice of Conversion to All Receipts Trust Agreement is referred to herein as the “Conversion Date.”

Establishment of All Receipts Trust Fund

Following the Conversion Date, the Trustee shall establish and hold the All Receipts Trust Fund for the benefit of Flint, GLWA, the Issuer and the County Agency. All payments made to the Trustee by Flint shall be deposited in the All Receipts Trust Fund after the Conversion Date until otherwise provided under the Trust Agreement.

Deposits to the All Receipts Trust Fund

Within 60 days following the Conversion Date, Flint shall provide for all receipts from all of its sewer and water customers to be paid directly to the Trustee and upon receipt by the Trustee such funds shall be deposited in the All Receipts Trust Fund. Additionally, any receipts received by Flint from its sewer and water customers during the 60 days following the Conversion Date that are not paid directly to the Trustee shall be deposited by Flint into the Flint All Receipts Receiving Account and then paid by Flint to the Trustee for deposit in the All Receipts Trust Fund, on a weekly basis, and such weekly transfer shall be made on the Thursday of each week, except that if any given Thursday falls on a day that is not a Business Day, then on the first Business Day thereafter.

At least five (5) Business Days prior to each Monthly Due Date following the Conversion Date, Flint shall provide a statement to the Trustee, GLWA, the Issuer and the County Agency of the amount of money in the All Receipts Trust Fund received from payments on invoices (including the allocable share of any penalties or fines paid with respect to such invoices) from Flint’s sanitary sewer system enterprise fund. Within twenty (20) calendar days following the Conversion Date, the Trust Parties will agree on a methodology for how the Trustee shall notify Flint of receipts into the All Receipts Trust Fund and how Flint shall determine the amount of such receipts allocable to its sanitary sewer system enterprise fund, provided that such allocation shall be based on the same methodology that Flint uses as of the effective date of the Trust Agreement to allocate receipts between its sanitary sewer system enterprise fund and its water system enterprise fund.

Payment by the Trustee from the All Receipts Trust Fund

On each Monthly Due Date, the Trustee shall use the amounts deposited in the All Receipts Trust Fund to make the following payments, in the following order:

(a) The amount of money in the All Receipts Trust Fund received from payments on invoices (including the allocable share of any penalties or fines paid with respect to such invoices) from Flint’s sanitary sewer system shall be transferred to Flint, for deposit in Flint’s sanitary sewer system enterprise fund or as otherwise directed in writing by Flint;

(b) Next, remaining amounts in the All Receipts Trust Fund shall be used to pay GLWA, the Issuer and the County Agency the monthly amounts due to GLWA, the Issuer and the County Agency on that Monthly Due Date in accordance with the provisions of the Trust Agreement;

(c) Any remaining amounts after the transfers set forth in (a) and (b) above shall be transferred to or at the direction of Flint, for deposit in Flint's water system enterprise fund or as otherwise directed in writing by Flint;

(d) In the event that after the transfer required by (a) above, there are not sufficient funds to pay the amounts due in (b) above, then all available funds after the transfer in (a) shall be used to pay GLWA, the Issuer and the County Agency on a pro rata basis based on the total amounts due to GLWA, the Issuer and the County Agency on that Monthly Due Date, including any amounts due as a result of insufficient payments on prior Monthly Due Dates.

At all times following the Conversion Date, the Trustee shall provide all Trust Parties, within five Business Days of the end of each calendar month, a statement showing all deposits to and payments from the All Receipts Trust Fund.

Reestablishment of Baseline Trust Agreement

On the six-year anniversary date of the Conversion Date, Flint, GLWA, the Issuer and the County Agency may, by mutual written consent, which consent is subject to the sole discretion of each such Trust Party, provide for the reestablishment of the Baseline Trust Fund to replace the All Receipts Trust Fund.

Continuing Effectiveness of Underlying Contracts; No Third Party Beneficiaries

Flint and each of the other Trust Parties acknowledge and agree in the Trust Agreement that nothing contained in the Trust Agreement constitutes or is intended to constitute a modification, amendment or waiver of any of the Underlying Contracts, or of any term or provision of any of the Underlying Contracts, each of which shall remain in full force and effect in accordance with the terms thereof and shall be enforceable by the applicable Trust Parties thereto in accordance with the terms thereof. Further, nothing in the Trust Agreement is intended or shall be construed to confer upon, or to give to any person or entity, other than the Trust Parties, any right, remedy or claim under or by reason of the Trust Agreement or any covenant, condition or stipulation thereof, and all covenants, stipulations, promises and agreements in the Trust Agreement are for the sole and exclusive benefit of the Trust Parties.

Three Party Agreement

In the Three Party Agreement, Flint, the Issuer and GLWA acknowledge that Flint remains responsible for payment of its portion of the debt associated with the construction of the KWA System as set forth in the KWA Financing Contract and Flint's Water Purchase Contract, including, but not limited to, the Series 2014A Bonds, the Series 2016 Bonds, and any future refunding of the Series 2014A Bonds and the Series 2016 Bonds (including, without limitation, the Series 2018 Bonds described in this Official Statement) or any refundings thereof. The KWA Financing Contract, and Flint's obligations thereunder, remain in full force and effect, and payments related thereto shall be payable thereunder and pursuant to the Trust Agreement. GLWA (a) is not financially obligated, directly or indirectly, under the KWA Financing Contract, Flint's Water Purchase Contract, or otherwise, for payment of KWA System Bonds or KWA Refunding Bonds or other obligations of Flint thereunder, and (b) is not a material obligated person with respect to such bonds, and has no obligation under federal securities laws or otherwise related to offering or disclosure documents for such bonds.

In accordance with Flint's Water Purchase Contract, Flint is obligated to continue to pay its Capacity Fee and any applicable Debt Fund fee to the Issuer, to the extent that Flint's obligations for its share of the debt service on the KWA Bonds is not paid with payments to the Issuer from the Trust Agreement or otherwise. Additionally, Flint will also pay operating and maintenance fees to the County Agency, which are paid as the County Agency pass-through charges under the Reciprocal Backup Water Agreement, the GLWA Water Service Contract and the Trust Agreement (the "County Agency Pass-Through Charge"). The Three Party Agreement provides that the Issuer (a) does not currently anticipate charging Flint or GLWA an Annual Requirement Fee, a Water Transmission Fee (other than with respect to the 0.54 MGD), a fee for Volume for Exempt Purposes or any other fee authorized by Flint's Water Purchase Contract, and (b) shall not impose any such fee on Flint without prior written notice to GLWA.

GLWA and Flint each agree to pay the Issuer for the raw water each may use that is received from the Raw Water Main (as defined in the Three Party Agreement) at the then current rates established by the KWA Board pursuant to Flint's Water Purchase Contract. The parties acknowledge GLWA shall not constitute a successor to Flint under Flint's Water Purchase Contract or the KWA Financing Contract, but shall have such obligations as set forth in the Three Party Agreement and in the documents and agreements executed by GLWA pursuant to the Master Agreement.

Issuer Rights to Pro-Rata Application of Security Deposit Account Balance

In the event of an ongoing failure of Flint to pay its obligations to GLWA under the GLWA Water Service Contract and to the Issuer under the KWA Financing Contract and Flint's Water Purchase Contract, then following:

- (i) the Conversion Date;
- (ii) the application of the entire portion of any available debt service reserve fund monies available for payment of the bonds as listed in the Three Party Agreement, which portion was funded by or is allocable to Flint, to Flint's obligations under the KWA Financing Contract; and
- (iii) commencement by the Issuer and pursuit of its available remedies for collection from Flint under the terms of the applicable Issuer bond indentures and/or resolutions,

GLWA and the Issuer agree that any then-remaining balance in the Security Deposit Account shall be split pro-rata between GLWA and the Issuer for application to Flint's respective financial obligations then due and payable to GLWA under the GLWA Water Service Contract and to the Issuer under the KWA Financing Contract.



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