

AUDITING PROCEDURES REPORT

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Local Government Type: <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name: Genesee County Drain Commissioner, Division of Water and Waste Services	County Genesee
Audit Date December 31, 2005	Opinion Date April 21, 2006	Date Accountant Report Submitted To State: June 30, 2006	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations.

You must check the applicable box for each item below:

- | | |
|---------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91] or P.A. 55 of 1982, as amended [MCL 38.1132]) |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95). |

We have enclosed the following:	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Reports on individual federal assistance programs (program audits).	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Single Audit Reports (ASLGU).	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Certified Public Accountant (Firm Name): PLANTE & MORAN, PLLC			
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**Genesee County Drain Commissioner
Division of Water and Waste Services**

**Financial Report
with Supplemental Information
December 31, 2005**

Genesee County Drain Commissioner Division of Water and Waste Services

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Independent Auditor's Report

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

We have audited the accompanying basic financial statements of the Genesee County Drain Commissioner Division of Water and Waste Services (a component unit of Genesee County, Michigan) (the "Division") as of December 31, 2005 and for the year then ended, as listed in the table of contents. These financial statements are the responsibility of the Division's management. Our responsibility is to express an opinion on these financial statements based on our audits. The partial prior-year comparative information has been derived from the Division's 2004 financial statements and, in our report dated April 22, 2005, we expressed unqualified opinions on the respective financial statements of the business-type activities.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Genesee County Drain Commissioner Division of Water and Waste Services as of December 31, 2005 and the results of its operations and cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The financial statements include partial prior-year comparative information. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Division's financial statements for the year ended December 31, 2004, from which such partial information was derived.

The management's discussion and analysis is presented for the purpose of additional analysis and is not a required part of the basic financial statements of the Genesee County Drain Commissioner Division of Water and Waste Services. We did not examine this data and, accordingly, do not express an opinion thereon.



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

The accompanying supplemental information, as identified in the table of contents, is not a required part of the basic financial statements. The supplemental information is presented for the purpose of additional analysis. Our audits were conducted for the purpose of forming opinions on the financial statements that collectively comprise the Genesee County Drain Commissioner's basic financial statements. The supplemental information has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Plante & Moran, PLLC

April 21, 2006

Genesee County Drain Commissioner Division of Water and Waste Services

Management's Discussion and Analysis

The County Improvement Act established the Genesee County Drain Commissioner as a Public Act 342 Agency. That agency created the Division of Water and Waste Services (the "Division"). The Division provided public utility services of water and wastewater treatment in parts of Genesee, Saginaw, Shiawassee, 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 elected to have the Division act as County Enforcing Agency for Soil Erosion.

The Division of Water and Waste Services is responsible for the administration, operation, maintenance, and construction of infrastructure and treatment facilities for the communities located in Genesee County (the "County"), excluding the City of Flint, for the sanitary system and water supply. The Division is divided into six distinct cost centers (departments). These departments have been developed based upon revenue, responsibility, and definable core functions. The administration, support services, operation and maintenance, ARTP sewage treatment, Districts 3 and 7 sewage collection and treatment, and water supply operate autonomously, while sharing information with each of the other cost centers. In addition, the Division offers construction management and system operation services to local communities.

Some of the key administrative and engineering duties of both the sanitary sewer operation and the water department operation include comprehensive system planning, interaction and regulation of development, implementing capital improvement projects, and system budget management. The administration is responsible for the overall operation of the utilities 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 insure 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 six cost centers. These services can be grouped into these categories, whose core functions are as follows:

Safety - In support of the department heads, coordinates occupational safety, develops and coordinates safety training for new hires, and assures compliance with federal, state, and local safety regulations

Human Resources - In support of the department heads, prepares and updates job descriptions, compensation schedules, personnel policies, conducts recruitment for all personnel, develops training programs for supervisors and managers, and maintains Division records related to personnel

Genesee County Drain Commissioner

Division of Water and Waste Services

Management's Discussion and Analysis (Continued)

Finance - Assists department heads to develop and administer annual budgets, maintain all financial records of the Division within generally accepted accounting principles and presents these records for annual audit, bond issues, and required reports; prepares and issues water and sewer bills, payroll, accounts receivable, accounts payable and assists departments in making purchases and maintaining inventory; it is responsible for ensuring that accurate, timely bills are issued and is instrumental in answering customer questions about water and sewer bills, processing service requests, and requests for transfer of service, and works with various municipalities in the processing of questions concerning the users of the system

Permits, Soil Erosion, and Construction Inspection - Manages all permitting, serves as contact coordinator between developers, contractors, municipalities, and the Division as related to development and connection to utilities; inspects construction of water and sewer system extensions to assure compliance with Division standards

Information Technology - Installs and maintains Division computers, software systems, develops technical specifications, and provides training and technical support for all users of the Division's ITT system

The operation and maintenance department has two primary functions: water distribution/delivery and sanitary sewer collection/transportation. To ensure these primary functions are met, the operation and maintenance department performs the following tasks on a daily basis:

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

The Sanitary Sewer Treatment Sections are responsible for the collection and transmission of effluent through the sewer interceptor lines to the three disposal plants under the Division's jurisdiction. These plants are the Linden Facility, the Argentine/Deerfield Lagoons, and the Anthony Ragnone Treatment Plant (ARTP). The ARTP provides sewage treatment for all of the Division's service area with the exception of Districts 3 and 7. The District 3 and 7 facilities are two distinctly separate operations but are combined administratively due to topography and geography. The Division also manages two programs that impact its treatment facilities:

Genesee County Drain Commissioner Division of Water and Waste Services

Management's Discussion and Analysis (Continued)

Biosolids Disposal - The Division is responsible for disposing wastewater treatment plant biosolids in a manner that is considered beneficial reuse, in particular sludge application on farmland. In 2005, ARTP applied 37.7 MG of stabilized biosolids (9554 DT) on approximately 3,400 acres of approved fields. District 3 applied 4.95 MG of stabilized biosolids (664 DT) on approximately 250 acres of approved fields. Three biosolids storage tanks were cleaned at ARTP by the end of the year, all were emptied, and all tanks were inspected. Tank atmospheric monitoring and ventilation has been increased to further assure safe conditions. The Division is studying dewatering and other options for proper, cost-effective disposal.

Industrial Pretreatment Program - Under this program, the Division regulates and monitors industrial dischargers and nondomestic dischargers to the wastewater system. The Division is responsible for reviewing applications, issuing discharge permits, verifying compliance, and calculating fees and surcharge bills for the customers, as well as enforcing regulations through discharge permits, which protect the wastewater treatment facilities and the environment. Presently, there are 21 significant permits being monitored. An arsenic pilot program for drinking water systems was implemented to ensure compliancy with DEQ regulations. There are approximately 23 significant industrial facilities discharging to GCDCWWS sewer systems. MDEQ approval is pending for the revised sewer use ordinance that will allow for best management practices in regulating silver and mercury from over 500 physician offices and grease and oil from 1500+/- restaurants. A mercury minimization program and fats, oil, and grease (FOG) program are under development. The new position of IPP supervisor was created and filled in 2005.

The core function of all treatment facilities is to effectively and efficiently treat sewage in compliance with regulations established by its NPDES permit and maintain good working relationships with customers and elected officials of the districts to achieve the goals of accountability and credibility. These activities include:

- Facility operation and maintenance
- Analytical support to assure compliance with discharge limits and industrial pre-treatment
- Providing training in plant operation, maintenance, safety, and regulatory compliance
- Residuals management
- Addition of various treatment chemicals/other alternatives
- Planning for plant improvements, equipment replacement, and upgrades
- Emergency response plan
- Storage lagoon operation and maintenance
- Discharge limitations and monitoring
- Pollutant minimization

Genesee County Drain Commissioner

Division of Water and Waste Services

Management's Discussion and Analysis (Continued)

The water supply department is responsible for water supply acquisition from the City of Detroit through the City of Flint. The Division provides potable water to residential, commercial, and industrial customers with distribution of water to the outlying communities of Genesee County. It maintains a distribution system consisting of approximately 422 miles of water mains. The Division installs water connections at the request of customers, services and changes water meters, performs turn-ons and turn-offs at the request of customers, and oversees the backflow prevention program. In order to provide an uninterrupted supply of safe drinking water, this department also must look to the future to:

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

Through Genesee County, land was purchased along Lake Huron for the possible construction of a water plant and distribution system for Genesee County. The Division has first right of refusal on the property for development. A subcommittee of the Genesee County board of commissioners will address two major issues which are: (a) long-term water supply and the reliability of the water supply and (b) cost to build and cost to residents. The Division has been actively pursuing the information needed to make these decisions.

Objectives and Achievements

The main objectives of the Drain Commissioner are to maintain residential water and sewer rates that are fair and cost effective to all concerned. Although not required by law, the Division maintains a yearly budget of income and expenses. This helps with planning for new and improved systems. The rising cost of water from the City of Detroit to the City of Flint and then to the County has been and is of great concern. With continued efforts and negotiations with the City of Flint, the Drain Commissioner and the Division of Water and Waste Services were able to amend the 1973 city/county water supply agreement in 2003. The cost from the City of Detroit is passed through with no markup of cost and a flat rate will be paid to the City of Flint. The flat rate per month for 2005 was \$105,593. Beginning January 1, 2005 and each calendar year thereafter through August 2008, the flat rate shall be adjusted for inflation in the amount of any annual average percentage increase in the Consumer Price Index for urban wage earners and clerical workers (CPI-W) for the preceding calendar year. The rate per month for 2006 has been established at \$109,289. A water rate study was completed in 2004, which establishes the rates to be charged by the Division with the concept of a flat rate structure to replace the original declining block rate structure. The study updates the rates from the Division for the period from 2004 through 2007. A sewer rate study is to be completed in the year 2006.

Genesee County Drain Commissioner Division of Water and Waste Services

Management's Discussion and Analysis (Continued)

ARTP (Anthony Ragnone Treatment Plant)

Accomplishments:

- a. Improve security systems in the following areas:
 - Firewall operation control in computer systems - Progressing into 2006
 - Added eight additional video security cameras
- b. Perform preventive maintenance on major systems such as:
 - Systematically paint all outside structures - Progress ongoing
 - Made necessary repairs/replacement of various roofing systems-patching completed
- c. Made improvements to the electrical systems building - Install monitoring and upgrade 480 volt on motor control center buzz system
- d. Replaced and repaired damaged wall on wet weather treatment basin
- e. Replaced old hand rail on wet weather treatment basin
- f. Ran new fiber optic cable to outbuildings for better security and SCADA communications

Goals:

- a. Make improvements to the electrical systems:
 - Upgrade medium voltage switchgear circuit breaker at substation and blower buildings
 - Arc flash, infrared, and short circuit evaluation and studies to be performed
- b. Sewer rate study underway - Results in 2006
- c. Evaluate dewatering options for biosolids disposal
- d. Complete phase I of 3 for railing replacement
- e. Study treatment optimization and stress of east side plant
- f. Make structural repairs in the raw channel system - 2006
- g. Improve and expand employee training
- h. Evaluate and implement upgrade to CMMS program compatible with all facilities

Genesee County Drain Commissioner Division of Water and Waste Services

Management's Discussion and Analysis (Continued)

Linden Wastewater Plant (District #3)

Accomplishments:

- a. Completion of chemical room
- b. Security video camera system installed
- c. Generator installed for RAW pumps
- d. Receiving flow from Tyrone Township
- e. Started plant expansion for 7 to 11 MGD - Completion stated for 2007
- f. Replaces plant SCADA and improve overall operational reliability

Goals:

- a. Isolation transformers or harmonic filters on all three nitrification pumps
- b. Install additional plant security
- c. Institute a preventive maintenance program for all plant equipment
- d. Work order management system
- e. Training program (CEC credits approved) with Sacramento and developed programs for operators and mechanics coordinated with ARTP
- f. New primary tank drive clarifier #1 and new steel for diffusion chamber and top rake arm
- g. ACADA programming to improve communication between PLCs
- h. New gas monitors DAF & PT buildings
- i. SCADA for Rolston Road
- j. Move the air compressors in the service building and the digester building and relocate to a central building with airline throughout the plant

Genesee County Drain Commissioner Division of Water and Waste Services

Management's Discussion and Analysis (Continued)

District #7

Accomplishments:

- a. Bid and awarded contract for lagoon cleaning to take place in 2006
- b. Phase I of upgrade of District 7 panels and pumps
- c. Qualified sludge in Lagoon #1
- d. Developed and received MDEQ approval on residuals management plan

Goals:

- a. Continue to install new grinder pumps
- b. Continue replacing of level sensors, floats, chains, and related hardware in grinder stations to keep fully operational
- c. Work on installing rip-rap on the banks of the lagoon cells
- d. Install flow control structures for cells 1, 2, and 3
- e. Reduce station problem calls by 50 percent
- f. Rehabilitate cell 1 and 2 for increased capacity
- g. Maintain neat and tidy workplace
- h. Complete panel upgrades
- i. Purchase sickle bar for Ford tractor at Bird Road to mow incline on dikes
- j. Finish inspection of District 7 stations
- k. Build covered roof over aerator control panel at Bird Road
- l. Revise cell 3 to allow circulation and chemical addition
- m. Institute a preventive maintenance program for grinder pumps
- n. Work Order Management System (CMMS)
- o. Training program (CEC credits approved) with Sacramento and developed programs for operators and mechanics coordinated with ARTP
- p. Add algae baffle at discharge structure
- q. Fix discharge for cell 1
- r. Painting interior pump house

Genesee County Drain Commissioner Division of Water and Waste Services

Management's Discussion and Analysis (Continued)

Industrial Pretreatment Program (IPP)

Accomplishments:

- a. Best management practice for mercury submitted to MDEQ
- b. New SUO awaiting MDEQ approval
- c. Submittal of IPP procedures and enforcement response plan to DEQ
- d. Procedures for permitting
- e. Initiated IPP fee development
- f. Arsenic pilot programs
- g. Mercury, silver, and FOG sampling at pump stations
- h. Started FOG program
- i. IPP application available online

Goals:

- a. New sewer use ordinance - Submitted and approved May 2006
- b. Developed and implemented IPP fees, application process, best management practices permit system, and surcharge structure ongoing with SUO
- c. Update IPP of existing and new business in Fenton, Fenton Township, and City of Linden
- d. SUO target implementation date of July or August 2006
- e. Provide training on SUO and application to the advisory board, board of commissioners, and building officials scheduled July or August 2006
- f. Reissuance of all existing permits
- g. Provide training for community officials on ordinance revisions and application process - Following MDEQ approval - Scheduled July or August 2006
- h. Arsenic permits - Working on permitting 26 sites currently, up to 200 permits coming in 2006
- i. Mercury reduction program and silver best management program (BMP) implementation, submit silver program to DEQ for approval
- j. Complete the development and implement IPP fees for the IPP application process, permitting, BMP and mercury program participation, drinking water systems discharging arsenic, and surcharge structure ongoing with SUO
- k. Update IPP database for existing and new business connected to the county sewer system
- l. Start evaluating local initiative limits for TPH, MTBE
- m. Database training, link documents, set up new databases
- n. Web site:
 - Add links to IPP
 - Provide information for industrial users
 - Directions on how to fill out applications
 - Links to regulatory sites for assistance
 - Online submittal of IPP applications
- o. Fat, oil, and grease (FOG) BMP program implementation

Genesee County Drain Commissioner Division of Water and Waste Services

Management's Discussion and Analysis (Continued)

Operation and Maintenance

Accomplishments:

- a. Completed propagation study, started the design with the telemetry system upgrade
- b. Implemented 2nd shift June 2005
- c. Continued efforts to improve water supply system
- d. Installed automated water hauler sites
- e. Improved security at water storage/pumping facilities
- f. Houran Street elevated storage tank put online
- g. Henderson Road ground storage/pump station put on line
- h. Continue to collect interceptor flow data with the data available via the Web
- i. Completed assessment of the interceptor pump stations
- j. Continued efforts with pump station improvements
- k. Continue jetting/televising 2.5 miles lateral sewers per community
- l. Completed the installation of magnetic meters at the interceptor pump stations

Goals:

- a. Complete the CMOM guidelines
- b. Continue with pump station upgrades/improvements
- c. Continue sanitary sewer jetting, televising, manhole inspection/repair programs
- d. Implement a comprehensive pump station preventative maintenance programs
- e. Implement a comprehensive valve witness/repair program (additional staff required)
- f. Implement and maintain a comprehensive data management system (City Works)

The operation and maintenance department is responsible for maintaining the sanitary sewer and water infrastructure in the majority of the communities in Genesee County. The day-to-day activities involve installing/replacing water meters, repairing valves, repairing hydrants, repairing water mains, inspecting both water and sewer pumping stations, repairing pumps, maintaining radio telemetry system, jetting and televising, inspecting and repairing manholes, and responding to customer complaints. Performing these tasks and duties effectively and efficiently along with improvements to the water and sewer infrastructure continue as the O/M departments primary goals and objectives.

Genesee County Drain Commissioner Division of Water and Waste Services

Management's Discussion and Analysis (Continued)

Permitting

Accomplishments:

- a. Reorganized soil erosion and construction inspection by combining job functions into new title and job descriptions of construction observer. This classification of employee is within the bargaining unit, AFSCME 1918.0.
- b. Assumed responsibility for switchboard operation and receptionist
- c. Developed a database to track ongoing project inspection fees
- d. Developed a revised schedule of fees for plan review, construction observation, and soil erosion permit and review
- e. Incorporated City of Flint soil erosion program into county program.

Goals:

- a. Develop revised standard specifications in conjunction with engineering department
- b. Develop electronic process to coordinate project inspection between Division staff construction observers and consultants' inspection and project management teams
- c. Evaluate electronic record storage options
- d. Complete Phase III of GIS and Citiworks - Through 2006 - Summarization and compilation
- e. Continue field verification of GIS as implemented

Genesee County Drain Commissioner Division of Water and Waste Services

Management's Discussion and Analysis (Continued)

Grant Acquisitions

The Division will continue with the allocations from the acquisition of several grants that were received during fiscal years 2003, 2004, and 2005.

- A program grant by the Army Corp. of Engineers as a joint venture for the engineering/design of a compatible rain gage network covering Genesee County. This program is still ongoing into fiscal year 2005.
- A Hazard Mitigation Grant (FEMA Grant) for 75 percent of costs for Curwood pump station electrical improvements. A contractor was hired for the improvement and a final grant request of \$139,714 was submitted for reimbursement in 2004. This grant was disapproved as more than electrical improvements were done.
- A STAG grant for work associated with the western trunk sewer extension and northeast extension sewer was appropriated by the EPA for 2003 at \$1,403,700 and collected in 2004, \$625,000 for 2004, and \$250,000 for 2005 of which neither has been collected.
- Two Clean Water Revolving Fund Program loans were approved for \$22,180,000 and \$15,505,000 to fund the construction of the northeast extension sewer. At year end, \$4,167,463 and \$1,303,957 were respectively collected. A single audit was conducted in accordance with standards applicable to Government Auditing Standards issued by the comptroller general of the United States. Work should be completed in 2006. This report is available at the drain commissioner's office.

Rate Structure

The Division Agency established a water rate in 2005 that separates out division costs from purchasing costs from Detroit and Flint. The rate structure requires and automatic increases based upon Detroit/Flint increases. The rates also were developed on a five-year basis for the Division's operation and maintenance costs.

The sewer rate studies were begun in 2005 with an anticipated completion date in 2006. Recognizing the need for additional operating funds in District #3 until the rates were adjusted, I&T has loaned funds to District #3. This will allow the rate study to be completed and only one rate increase to the customer base. The loan will be included in the rate model and be paid back on a five-year basis with interest. Sewer rate models will also be developed on a five-year basis. The rate models for #3 and #7 were completed and approved in May 2006. The I&T model is scheduled for an October 2006 approval.

Division operation contracts with local municipalities were extended six months or until June 30, 2006 to allow communities time to approve new agreements.

Genesee County Drain Commissioner

Division of Water and Waste Services

Management's Discussion and Analysis (Continued)

Using this Annual Report

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

Condensed Financial Information

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

	December 31		Increase (Decrease)	Percent
	2005	2004		
Assets:				
Current assets	\$ 16,842,801	\$ 19,430,003	\$ (2,587,202)	(13.3)
Restricted assets	17,707,682	33,137,702	(15,430,020)	(46.6)
Other noncurrent assets	73,128,369	59,248,669	13,879,700	23.4
Capital assets	<u>183,471,592</u>	<u>156,551,967</u>	<u>26,919,625</u>	17.2
Total assets	291,150,444	268,368,341	22,782,103	8.5
Liabilities:				
Current liabilities	45,822,640	26,655,516	19,167,124	71.9
Liabilities payable from restricted assets	5,983,010	4,579,119	1,403,891	30.7
Other noncurrent liability	107,573	129,087	(21,514)	(16.7)
Long-term debt	<u>108,576,420</u>	<u>109,935,000</u>	<u>(1,358,580)</u>	(1.2)
Total liabilities	<u>160,489,643</u>	<u>141,298,722</u>	<u>19,190,921</u>	13.6
Net assets:				
Invested in capital assets - Net of related debt	119,164,169	107,923,141	11,241,028	10.4
Restricted for capital outlay	1,304,255	5,165,657	(3,861,402)	(74.8)
Restricted for debt service	620,895	696,535	(75,640)	(10.9)
Unrestricted	<u>9,571,482</u>	<u>13,284,286</u>	<u>(3,712,804)</u>	(27.9)
Total net assets	<u>\$ 130,660,801</u>	<u>\$ 127,069,619</u>	<u>\$ 3,591,182</u>	2.8

Genesee County Drain Commissioner

Division of Water and Waste Services

Management's Discussion and Analysis (Continued)

	Year Ended December 31		Increase (Decrease)	Percent
	2005	2004		
Revenue from operations	\$ 33,097,254	\$ 31,417,877	\$ 1,679,377	5.3
Interest on operating cash	866,599	567,738	298,861	52.6
Total revenue	33,963,853	31,985,615	1,978,238	6.2
Sludge disposal charges	1,093,821	976,889	116,932	12.0
Cost of water	9,159,871	8,272,341	887,530	10.7
Operating and maintenance	18,561,402	16,968,941	1,592,461	9.4
Administrative and depreciation	4,386,932	4,021,436	365,496	9.1
Total operating expenses	33,202,026	30,239,607	2,962,419	9.8
Other nonoperating revenue	2,253,939	1,603,316	650,623	40.6
Change in net assets - Before capital contributions	3,015,766	3,349,324	(333,558)	(10.0)
Capital contributions	575,416	499,734	75,682	100.0
Change in net assets	\$ 3,591,182	\$ 3,849,058	\$ (257,876)	(6.7)

Major Capital Assets and Debt Activity

In 2003, bonds were issued in the amount of \$9,000,000 for the purpose of defraying the cost of acquisition and construction of additional sewer interceptor mains, together with related sites, structures, equipment, and appurtenance, to be known as the western trunk relief sewer. These projects were started in 2003 and completed in 2005. At December 31, 2005, assets were recorded for the western trunk extension and the Curwood pump station at \$10,224,966 and \$1,623,917, respectively. The Stag Grant of \$1,403,700 was applied to this project.

The northeast sewer extension, at a cost of \$12,250,341, has been recognized as construction in progress, which has been funded by reserves and SRF funding from the state and federal governments. The SRF funding is described above under the acquisition of grants.

In 2003, bonds were issued in the amounts of \$9,000,000 and \$18,000,000 and in 2004 bonds were issued for \$14,960,000 for the purpose of paying the costs of improvements and extensions to the County's water supply system. These issues are being used for the construction of various water reservoirs and pumping stations for water distribution to the consumers of Genesee County and extension of the North Loop III. At December 31, 2005, costs of \$6,702,903 and \$40,607,622, respectively, have been recognized as construction in progress.

During the year 2005, Capital Improvement Funds (CCIF) were used to pay the revenue debt associated with the Western Trunk and Water Supply III in the amounts of \$1,084,798 and \$1,731,788, respectively.

Genesee County Drain Commissioner Division of Water and Waste Services

Management's Discussion and Analysis (Continued)

Financial Overview

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

- Restricted cash assets decreased in the current year by approximately \$15,430,000, primarily due to the retirement of debt related to capital projects and the increase of capital assets. This activity is described in greater detail in the major capital assets and debt activity section.
- Other noncurrent assets increased in the current year by approximately \$13,880,000, primarily due to the increase in local unit construction in progress.
- Capital assets increased by approximately \$26,920,000 in the current year due to several capital programs that are described in greater detail in the major capital assets and debt activity section.
- Long-term debt decreased in the current year due to completion and refinancing of community bond issues.
- Overall, net assets changed by 2.8 percent as restricted amounts were transferred to and invested in capital assets when completed and the change in net assets decreased by (6.7 percent), as major repairs and improvement were completed in 2005.
- Revenue in the current year increased primarily due to increased usage from customers and the increase in rates for water supply.
- Interest increased primarily due to current market conditions.
- Operating and maintenance costs increased as efforts were made for repairs needed for increased efficiency to the sewer systems, the increase of costs for water supply, and increase of personnel wages and fringe benefits.

Genesee County Drain Commissioner

Division of Water and Waste Services

Management's Discussion and Analysis (Continued)

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

	Year Ended December 31		
	2003	2004	2005
Total costs charged to townships	\$ 15,800,023	\$ 15,994,472	\$ 16,420,098
Total flow (thousands of gallons)	12,600,424	9,906,246	12,172,890
Cost per thousand of gallons	\$ 1.25	\$ 1.61	\$ 1.35

No increases of rates in 2005 were implemented, as a full sewer rate study being implemented in 2005 and to be completed in 2006 will show what rates are needed to cover estimated future costs for the operations capable of repairing and updating methods of treatment for better efficiency.

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

	Year Ended December 31		
	2003	2004	2005
Total costs charged to townships	\$ 12,223,273	\$ 13,776,788	\$ 14,923,675
Amount of purchased water (cu. ft.)	694,327,913	689,325,243	749,012,899
Amount of sold water	670,383,275	665,654,727	725,581,002
Water efficiency	97%	97%	97%

The division purchases water from the City of Flint, who, in turn, purchases water from the City of Detroit. The division's payment to Flint is a flat rate of \$105,593 per month plus a commodity charge equal to the charge from Detroit to Flint for the water. For August 2004 through July 2005, the rate was \$10.24/mcf. The rate was increased in July 2005 to \$10.56/mcf. As described previously, the flat rate will increase according to the CPI-W percentage. With these rates increasing each year, the division has a water rate study completed in 2004. The study presented with the concept of an inclining rate structure to which the division implemented the rate changes as of January 1, 2005. The rate increases from Detroit to the City of Flint and then to the County are a pass-through to the customers on August 1, 2005 and were increased to \$11.02/mcf.

Genesee County Drain Commissioner Division of Water and Waste Services

Management's Discussion and Analysis (Continued)

Contacting the Division's Management

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

Genesee County Drain Commissioner

Division of Water and Waste Services

Statement of Net Assets - Proprietary Fund Types

	December 31			
	2005		2004	
	Enterprise Fund	Internal Service Fund	Total	Total
Assets				
Current assets:				
Cash and cash equivalents (Note 2)	\$ 8,339,647	\$ 360,130	\$ 8,699,777	\$ 10,868,190
Accounts receivable	3,130,721	-	3,130,721	3,179,225
Prepaid expenses	-	-	-	36,688
Due from other governmental units	128,573	-	128,573	157,087
Current portion of leases receivable	4,860,000	-	4,860,000	5,180,000
Inventory	23,730	-	23,730	8,813
Total current assets	16,482,671	360,130	16,842,801	19,430,003
Noncurrent assets:				
Restricted cash and cash equivalents (Note 2)	17,707,682	-	17,707,682	33,137,702
Due from other governmental units	6,672,051	-	6,672,051	1,399,241
Leases receivable - Net of current portion	44,635,000	-	44,635,000	49,305,000
Local unit construction in progress	21,821,318	-	21,821,318	8,544,428
Capital assets (Note 3):				
Land and other assets not being depreciated	80,980,636	241,970	81,222,606	54,386,162
Buildings and equipment - Net of depreciation	99,408,031	2,840,955	102,248,986	102,165,805
Total noncurrent assets	271,224,718	3,082,925	274,307,643	248,938,338
Total assets	287,707,389	3,443,055	291,150,444	268,368,341
Liabilities				
Current liabilities:				
Drafts payable	1,416,538	163,734	1,580,272	-
Accounts payable and accrued expenses	2,906,710	21,041	2,927,751	2,600,939
Due to other governmental units	57,342	-	57,342	12,514
Unearned leases	34,237,275	-	34,237,275	16,512,063
Current portion of bonds payable (Note 4)	7,020,000	-	7,020,000	7,530,000
Total current liabilities	45,637,865	184,775	45,822,640	26,655,516
Noncurrent liabilities:				
Liabilities related to restricted assets	5,904,774	78,236	5,983,010	4,579,119
Internal balances	51,865	(51,865)	-	-
Deferred revenue	107,573	-	107,573	129,087
Bonds payable - Net of current portion (Note 4)	108,576,420	-	108,576,420	109,935,000
Total noncurrent liabilities	114,640,632	26,371	114,667,003	114,643,206
Total liabilities	160,278,497	211,146	160,489,643	141,298,722
Net Assets				
Invested in capital assets - Net of related debt	116,081,244	3,082,925	119,164,169	107,923,141
Restricted for capital outlay	1,304,255	-	1,304,255	5,165,657
Restricted for debt service	620,895	-	620,895	696,535
Unrestricted	9,422,498	148,984	9,571,482	13,284,286
Total net assets	<u>\$ 127,428,892</u>	<u>\$ 3,231,909</u>	<u>\$ 130,660,801</u>	<u>\$ 127,069,619</u>

Genesee County Drain Commissioner

Division of Water and Waste Services

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

	Year Ended December 31				
	2005			2004	
	Enterprise Fund	Internal Service Fund	Eliminations	Total	Total
Operating Revenue					
Sewage disposal service	\$ 16,420,098	\$ -	\$ -	\$ 16,420,098	\$ 15,994,472
Billing services	79,592	-	-	79,592	79,257
Sewer and pumping station -					
Operation and maintenance	522,110	-	-	522,110	599,580
Inspection fees	17,808	-	-	17,808	14,920
Water sales	14,923,675	-	-	14,923,675	13,776,788
Water meter sales	153,417	-	-	153,417	145,294
Billing to Enterprise Fund	-	573,155	(573,155)	-	-
Rental income	-	440,000	(440,000)	-	142,100
Other operating revenue	973,294	7,260	-	980,554	665,466
Total operating revenue	33,089,994	1,020,415	(1,013,155)	33,097,254	31,417,877
Operating Expenses					
Personnel services	11,768,203	-	-	11,768,203	10,624,753
Contractual services	1,250,314	903	-	1,251,217	880,114
Sludge disposal service	1,093,821	-	-	1,093,821	976,889
Cost of water	9,159,871	-	-	9,159,871	8,272,341
Repairs and maintenance	2,654,518	-	-	2,654,518	2,516,839
Utilities	2,885,422	-	-	2,885,422	2,616,654
Other supplies and expenses	2,122,091	144,323	(1,013,155)	1,253,259	1,210,695
Insurance claims and expenses	480,410	72,030	-	552,440	842,874
Depreciation	2,075,382	507,893	-	2,583,275	2,298,448
Total operating expenses	33,490,032	725,149	(1,013,155)	33,202,026	30,239,607
Operating Income (Loss)	(400,038)	295,266	-	(104,772)	1,178,270
Nonoperating Revenue (Expense)					
Interest and investment revenue	877,949	2,976	(14,326)	866,599	567,738
Miscellaneous revenue	5,055,885	5,290	-	5,061,175	3,828,893
Interest expense	(2,807,236)	(14,326)	14,326	(2,807,236)	(2,225,577)
Total nonoperating revenue (expense)	3,126,598	(6,060)	-	3,120,538	2,171,054
Income - Before capital contributions	2,726,560	289,206	-	3,015,766	3,349,324
Capital Contributions	575,416	-	-	575,416	499,734
Operating Transfer	(215,504)	215,504	-	-	-
Change in Net Assets	3,086,472	504,710	-	3,591,182	3,849,058
Net Assets - Beginning of year	124,342,420	2,727,199	-	127,069,619	123,220,561
Net Assets - End of year	\$ 127,428,892	\$ 3,231,909	\$ -	\$ 130,660,801	\$ 127,069,619

Genesee County Drain Commissioner Division of Water and Waste Services

Statement of Cash Flows - Proprietary Fund Types

	Year Ended December 31			
	2005			2004
	Enterprise Fund	Internal Service Fund	Total	Total
Cash Flows from Operating Activities				
Cash received from customers	\$ 33,475,521	\$ 660,051	\$ 34,135,572	\$ 32,373,152
Cash payments to suppliers and others for goods and services	(23,105,493)	(178,858)	(23,284,351)	(16,573,701)
Cash payments to employees	(11,768,203)	-	(11,768,203)	(10,624,753)
Net cash provided by (used in) operating activities	(1,398,175)	481,193	(916,982)	5,174,698
Cash Flows from Capital and Related Financing Activities				
Purchases of capital assets	(42,130,926)	(648,864)	(42,779,790)	(33,040,807)
Proceeds from sale of capital assets	-	5,290	5,290	400
Capital contributions from (to) communities	18,023,646	-	18,023,646	(1,385,496)
County capital improvement fees	4,677,005	-	4,677,005	3,766,660
Collections of leases receivable from municipalities	4,990,000	-	4,990,000	4,865,000
Amounts paid on behalf of municipalities	(5,492,537)	-	(5,492,537)	(11,000,000)
Proceeds from issuance of revenue bond	5,471,420	-	5,471,420	14,960,000
Proceeds from issuance of bonded debt	15,840,000	-	15,840,000	12,600,000
Principal paid on bond maturities	(17,435,000)	-	(17,435,000)	(10,260,000)
Interest paid on bonds and other long-term liabilities	(2,807,236)	(14,326)	(2,821,562)	(2,258,673)
Premium on bonded debt	382,223	-	382,223	78,760
Administrative costs associated with bond issues	(3,343)	-	(3,343)	(16,067)
Net cash used in capital and related financing activities	(18,484,748)	(657,900)	(19,142,648)	(21,690,223)
Cash Flows from Investing Activities				
Investment income	877,949	2,976	880,925	600,834
Proceeds from sale of investments	-	-	-	8,041,498
Operating transfer	(215,504)	215,504	-	-
Net cash provided by investing activities	662,445	218,480	880,925	8,642,332
Net Increase (Decrease) in Cash and Cash Equivalents	(19,220,478)	41,773	(19,178,705)	(7,873,193)
Cash and Cash Equivalents - Beginning of year	<u>43,851,269</u>	<u>154,623</u>	<u>44,005,892</u>	<u>51,879,085</u>
Cash and Cash Equivalents - End of year	\$ 24,630,791	\$ 196,396	\$ 24,827,187	\$ 44,005,892
Reconciliation of Operating Income (Loss) to Net Cash from Operating Activities				
Operating income (loss)	\$ (400,038)	\$ 295,266	\$ (104,772)	\$ 1,178,270
Adjustments to reconcile operating income (loss) to net cash from operating activities:				
Depreciation	2,075,382	507,893	2,583,275	2,298,449
Gain on sale of assets	-	-	-	(860)
Changes in assets and liabilities:				
Accounts receivable	41,100	7,404	48,504	46,002
Inventories	(14,917)	-	(14,917)	(2,953)
Accounts payable, accrued expenses, and deferred revenue	1,731,998	38,398	1,770,396	1,460,670
Internal balances	367,768	(367,768)	-	-
Due to (from) other governmental units - Net	(5,199,468)	-	(5,199,468)	195,120
Net cash provided by (used in) operating activities	\$ (1,398,175)	\$ 481,193	\$ (916,982)	\$ 5,174,698
Composition of Cash and Cash Equivalents				
Cash and cash equivalents	\$ 8,339,647	\$ 360,130	\$ 8,699,777	\$ 10,868,190
Restricted cash and cash equivalents	17,707,682	-	17,707,682	33,137,702
Drafts payable	(1,416,538)	(163,734)	(1,580,272)	-
Total cash and cash equivalents	\$ 24,630,791	\$ 196,396	\$ 24,827,187	\$ 44,005,892

During the year, there were no noncash operating, financing, or investing activities.

Genesee County Drain Commissioner Division of Water and Waste Services

Notes to Financial Statements December 31, 2005 and 2004

Note 1 - Summary of Significant Accounting Policies

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

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

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

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

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

Genesee County Drain Commissioner

Division of Water and Waste Services

Notes to Financial Statements

December 31, 2005 and 2004

Note 1 - Summary of Significant Accounting Policies (Continued)

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

The Division reports the following major proprietary funds:

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

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

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 revenues reported for the various functions concerned.

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

Genesee County Drain Commissioner

Division of Water and Waste Services

Notes to Financial Statements

December 31, 2005 and 2004

Note 1 - Summary of Significant Accounting Policies (Continued)

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

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

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

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

Leases Receivable - Leases receivable consist of amounts due to the Division from various municipalities for construction activity. The Division constructs assets for various municipalities under Acts 185 and 342. Under these acts, 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 financial statements and an asset is recorded by the local community.

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

Genesee County Drain Commissioner

Division of Water and Waste Services

Notes to Financial Statements December 31, 2005 and 2004

Note 1 - Summary of Significant Accounting Policies (Continued)

Postemployment Benefits - In addition to the pension benefits described in Note 5, the Division provides postemployment health care, dental, and life insurance benefits after retirement through a contractual agreement. The Division is responsible for 100 percent of the cost of postretirement benefits and funds these costs as they are incurred. Postretirement benefits for retired employees were \$803,913 and \$751,857 for the years ended December 31, 2005 and 2004, respectively. The total number of eligible retirees amounted to 66 and 63 individuals during December 31, 2005 and 2004, respectively.

Compensated Absences - The Division's employees are granted vacation and personal leave in graduated amounts based on length of service. Vacation pay is fully vested when earned. Upon termination, employees are paid accumulated vacation at current salary rates to a limit of 150 percent of their current annual earned vacation. At December 31, 2005 and 2004, the Division has recorded a liability of approximately \$496,000 and \$355,000, respectively, for accumulated vacation leave.

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

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

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

Land improvements and underground networks	50-100 years
Buildings	50 years
Machinery and equipment	3-15 years

Genesee County Drain Commissioner

Division of Water and Waste Services

Notes to Financial Statements

December 31, 2005 and 2004

Note 2 - Deposits and Investments

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

The drain commissioner 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 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 drain commissioner's deposits and investment policies are in accordance with statutory authority.

The drain commissioner'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 drain commissioner's deposits may not be returned to it. The drain commissioner does not have a deposit policy for custodial credit risk. At year end, the drain commissioner had \$8,071,627 of bank deposits (certificates of deposit, checking, and savings accounts) that were uninsured and uncollateralized. The drain commissioner believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the drain commissioner evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

Genesee County Drain Commissioner

Division of Water and Waste Services

Notes to Financial Statements December 31, 2005 and 2004

Note 2 - Deposits and Investments (Continued)

Custodial Credit Risk of Investments

Custodial credit risk is the risk that, in the event of the failure of the counterparty, the drain commissioner will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The drain commissioner does not have a policy for custodial credit risk. At year end, the following investment securities were uninsured and unregistered, with securities held by the counterparty or by its trust department or agent but not in the drain commissioner's name:

<u>Type of Investment</u>	<u>Carrying Value</u>	<u>How Held</u>
Commercial paper	\$13,533,462	Counterparty's trust dept`

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 drain commissioner'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:

<u>Investment</u>	<u>Fair Value</u>	<u>Weighted Average Maturity</u>
U.S. government or agency bond or note	\$ 2,999,314	Less than 1 year
Commercial paper	13,533,462	Less than 1 year

Credit Risk

State law limits investments in commercial paper to the top two ratings issued by nationally recognized statistical rating organizations. The drain commissioner 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:

<u>Investment</u>	<u>Fair Value</u>	<u>Rating</u>	<u>Rating Organization</u>
Commercial paper	\$10,551,242	A-1	S&P
Commercial paper	1,993,342	A-1+	S&P
Commercial paper	988,878	P-1	Moody's

Genesee County Drain Commissioner

Division of Water and Waste Services

Notes to Financial Statements December 31, 2005 and 2004

Note 2 - Deposits and Investments (Continued)

Concentration of Credit Risk

The drain commissioner places no limit on the amount the drain commissioner may invest in any one issuer. More than 5 percent of the drain commissioner's investments are as follows:

<u>Investment</u>	<u>Fair Value</u>	<u>Percentage</u>
Citigroup	\$ 4,981,584	30.1%
General Electric Credit	3,000,000	18.2%
U.S. governmental security	2,999,314	18.1%
American Express	2,563,000	15.5%
Prudential	2,000,000	12.1%
AIG Funding	988,878	6.0%

Note 3 - Capital Assets

The following is a summary of proprietary fund type capital assets at December 31, 2005:

	Balance January 1, 2005	Increases	Decreases	Balance December 31, 2005
Proprietary funds capital assets:				
Enterprise Fund:				
Capital assets not being depreciated:				
Land	\$ 615,854	\$ 187,742	\$ -	\$ 803,596
Distribution and collections systems	-	16,294,182	-	16,294,182
Construction in progress	53,646,356	27,912,757	(17,676,255)	63,882,858
Subtotal	54,262,210	44,394,681	(17,676,255)	80,980,636
Capital assets being depreciated:				
Distribution and collections system	50,986,839	1,432,775	-	52,419,614
Buildings and equipment	71,314,787	941,280	(238,445)	72,017,622
Subtotal	122,301,626	2,374,055	(238,445)	124,437,236
Less accumulated depreciation for:				
Distribution and collections system	(7,307,601)	(1,052,127)	-	(8,359,728)
Buildings and equipment	(15,646,222)	(1,023,255)	-	(16,669,477)
Subtotal	(22,953,823)	(2,075,382)	-	(25,029,205)
Net capital assets being depreciated	99,347,803	298,673	(238,445)	99,408,031
Total capital assets - Net of depreciation	153,610,013	44,693,354	(17,914,700)	180,388,667

Genesee County Drain Commissioner

Division of Water and Waste Services

Notes to Financial Statements December 31, 2005 and 2004

Note 3 - Capital Assets (Continued)

	Balance January 1, 2005	Increases	Decreases	Balance December 31, 2005
Proprietary funds capital assets (Continued):				
Internal Service Fund:				
Capital assets not being depreciated - Construction in progress	\$ 123,952	\$ 118,018	\$ -	\$ 241,970
Capital assets being depreciated - Buildings and equipment	5,717,440	530,846	(54,045)	6,194,241
Less accumulated depreciation - Buildings and equipment	<u>(2,899,438)</u>	<u>(507,893)</u>	<u>54,045</u>	<u>(3,353,286)</u>
Net capital assets being depreciated	<u>2,818,002</u>	<u>22,953</u>	<u>-</u>	<u>2,840,955</u>
Total capital assets - Net of depreciation	<u>2,941,954</u>	<u>140,971</u>	<u>-</u>	<u>3,082,925</u>
Total proprietary funds capital assets	<u>\$ 156,551,967</u>	<u>\$ 44,834,325</u>	<u>\$ (17,914,700)</u>	<u>\$ 183,471,592</u>

Construction Commitments - The Division has active construction projects at year end. The projects include improvements and extensions to the water and sewage disposal systems. At December 31, 2005, the Division's commitments with contractors are as follows:

	Spent to Date	Remaining Commitment
Interceptor and treatment facilities	\$ 23,906,551	\$ 33,853,746
Sewage disposal system, District 3	9,608,313	13,156,309
Water supply system	<u>29,230,686</u>	<u>2,616,782</u>
Total	<u>\$ 62,745,550</u>	<u>\$ 49,626,837</u>

Note 4 - Bonds Payable

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

Genesee County Drain Commissioner

Division of Water and Waste Services

Notes to Financial Statements December 31, 2005 and 2004

Note 4 - Bonds Payable (Continued)

The following is a summary of bond transactions for the Division for the year ended December 31, 2005:

	Number of Issues	Interest Rate	Maturing Through	Balance January 1, 2005	Additions	Reductions	Balance December 31, 2005	Due Within One Year
Genesee County Drain Commissioner bonds payable:								
Interceptor and treatment facilities	3	2.00%-5.00%	2018	\$ 21,650,000	\$ -	\$ (1,695,000)	\$ 19,955,000	\$ 1,275,000
Water supply system	2	2.50%-4.625%	2033	26,370,000	-	(655,000)	25,715,000	685,000
Subtotal				48,020,000	-	(2,350,000)	45,670,000	1,960,000
Community-related bonds payable:								
Interceptor and treatment facilities	18	1.625%-7.50%	2026	12,125,000	8,371,420	(5,745,000)	14,751,420	2,160,000
District No. 3	9	2.50%-7.375%	2024	40,805,000	12,940,000	(14,695,000)	39,050,000	2,315,000
District No. 7	1	3.70%-5.60%	2008	325,000	-	(75,000)	250,000	75,000
Water supply system	4	3.00%-8.00%	2030	16,190,000	-	(315,000)	15,875,000	510,000
Subtotal				69,445,000	21,311,420	(20,830,000)	69,926,420	5,060,000
Total				\$ 117,465,000	\$ 21,311,420	\$ (23,180,000)	\$ 115,596,420	\$ 7,020,000

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

Years Ending December 31	Principal	Interest	Total
2006	\$ 7,020,000	\$ 4,698,900	\$ 11,718,900
2007	8,670,000	5,911,344	14,581,344
2008	8,383,957	4,585,220	12,969,177
2009	5,930,000	4,208,131	10,138,131
2010	6,210,000	3,996,150	10,206,150
2011-2015	29,442,463	15,110,754	44,553,217
2016-2020	21,990,000	8,944,838	30,934,838
2021-2025	27,950,000	8,063,325	36,013,325
Total	\$ 115,596,420	\$ 55,518,662	\$ 171,115,082

Genesee County Drain Commissioner

Division of Water and Waste Services

Notes to Financial Statements

December 31, 2005 and 2004

Note 4 - Bonds Payable (Continued)

Defeased Debt

During the year, the Division issued \$15,840,000 in Refunding Bonds with an average interest rate of 4 percent. The Division defeased Series 1996A Sewage Disposal System Bonds and Series 1999 Mt. Morris Township Sewer Program Bonds by placing the proceeds of the new bonds in an irrevocable trust to provide for all future debt service payments. The remaining outstanding liability on the old bonds is \$950,000 and \$500,000, respectively. Accordingly, the trust accounts' assets and liabilities for the defeased bonds are not included in the basic financial statements. At December 31, 2005, \$16,750,000 of bonds outstanding are considered defeased. The advance refunding reduced total debt service payments over the next 14 years by approximately \$596,000, which represents an economic gain of approximately \$479,000.

Note 5 - Pension Plan

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

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

Genesee County Drain Commissioner

Division of Water and Waste Services

Notes to Financial Statements December 31, 2005 and 2004

Note 5 - Pension Plan (Continued)

Annual Pension Cost - During 2005 and 2004, the Division's annual pension cost of \$1,203,954 and \$985,616, respectively, was equal to the Division's required and actual contributions. The required contributions were determined as part of the December 31, 2003 and 2002 actuarial valuations, using the entry age actuarial cost method. Significant actuarial assumptions used include (a) a rate of return on the investment of present and future assets of 8 percent per year compounded annually and (b) projected salary increases of 5.00 percent to 9.03 percent per year compounded annually. Both (a) and (b) included an inflation component of 5.00 percent. The actuarial value of the Division's assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a four-year period. The Division's unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on a closed basis, with the remaining amortization period at December 31, 2005 of 20 years.

Schedule of Employer Contributions

Fiscal Year Ended December 31	Valuation Date December 31	Contribution Rate as Percentage of Valuation Payroll	Required Contribution	Actual Reported Contribution
2003	2001	4.71	\$ 316,445	\$ 316,445
2004	2002	14.00	985,616	985,616
2005	2003	15.94	1,203,954	1,203,954

Genesee County Drain Commissioner

Division of Water and Waste Services

Notes to Financial Statements December 31, 2005 and 2004

Note 5 - Pension Plan (Continued)

Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Valuation Payroll (c)	(UAAL) as a Percentage of Covered Payroll ((b-a)/c)
2001	\$ 35,333,000	\$ 31,210,000	\$ (4,123,000)	113.2	\$ 5,452,000	(75.6)
2002	34,360,035	34,969,330	609,295	98.3	6,452,516	9.4
2003	33,620,996	35,846,959	2,225,963	93.8	7,462,807	29.8
2004	33,560,800	37,135,406	3,574,606	90.4	7,736,745	46.2
2005	34,908,400	39,047,872	4,139,472	89.4	8,138,717	50.9

Note 6 - New Accounting Pronouncement

The Governmental Accounting Standards Board has recently released Statement No. 45, *Accounting and Reporting by Employers for Postemployment Benefits Other Than Pensions*. The new pronouncement provides guidance for local units of government in recognizing the cost of retiree health care, as well as any "other" postemployment benefits (other than pensions). The new rules will cause the government-wide financial statements to recognize the cost of providing retiree health care coverage over the working life of the employee, rather than at the time the health care premiums are paid. The new pronouncement is effective for the year ending December 31, 2008.

Note 7 - Risk Management

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

Genesee County Drain Commissioner Division of Water and Waste Services

Notes to Financial Statements December 31, 2005 and 2004

Note 8 - Contingencies and Commitments

Various claims and lawsuits are pending against the Division. One such lawsuit relates to the County Capital Improvement Fees (CCIF) reported in the I&T Division and the Water Division. These fees represent charges for connection to the water and sewer systems in relation to system expansion. The Division has collected approximately \$13,214,000 as of December 31, 2005. In 2005, a judgment in the Appellate Court has been rendered in favor of the Division. Therefore, no liability has been recognized in the financial statements. Because of the judgment, \$3,663,790 was used to pay on the debt issued for the Western Trunk Relief Sewer and Water Supply III. The case is now in appeals with the Michigan Supreme Court. All other claims and lawsuits, in the opinion of management, will not have a significant effect on the Division's financial statements.

Supplemental Information

Genesee County Drain Commissioner Division of Water and Waste Services

Statement of Net Assets (Divisional Detail) - Enterprise Fund

	December 31					
	2005				2004	
	Interceptor and Treatment Facilities	Sewage Disposal Systems		Water Supply Systems	Total	Total
	District No. 3	District No. 7				
Assets						
Current assets:						
Cash and cash equivalents	\$ 1,829,125	\$ -	\$ 16,788	\$ 6,493,734	\$ 8,339,647	\$ 10,713,567
Accounts receivable	1,351,037	385,865	32,995	1,360,824	3,130,721	3,171,821
Prepaid expenses	-	-	-	-	-	36,688
Due from other governmental units	-	-	-	128,573	128,573	157,087
Leases receivable	2,160,000	2,315,000	75,000	310,000	4,860,000	5,180,000
Inventory	-	-	-	23,730	23,730	8,813
Total current assets	5,340,162	2,700,865	124,783	8,316,861	16,482,671	19,267,976
Noncurrent assets:						
Restricted cash and cash equivalents	621,398	13,182,883	-	3,903,401	17,707,682	33,137,702
Due from other governmental units	5,429,385	899,345	34,634	308,687	6,672,051	1,399,241
Leases receivable	7,120,000	36,735,000	175,000	605,000	44,635,000	49,305,000
Local unit construction in progress	3,220,986	18,256,086	35,254	308,992	21,821,318	8,544,428
Capital assets:						
Land and other assets not being depreciated	32,677,549	-	-	48,303,087	80,980,636	54,262,210
Buildings and equipment - Net of depreciation	89,110,082	110,438	12,530	10,174,981	99,408,031	99,347,803
Total noncurrent assets	138,179,400	69,183,752	257,418	63,604,148	271,224,718	245,996,384
Total assets	143,519,562	71,884,617	382,201	71,921,009	287,707,389	265,264,360
Liabilities						
Current liabilities:						
Drafts payable	-	1,382,981	33,557	-	1,416,538	-
Accounts payable and accrued expenses	1,746,773	122,750	30,540	1,006,647	2,906,710	2,540,060
Due to other governmental units	1,965	-	877	54,500	57,342	12,514
Unearned leases	3,241,384	30,648,352	35,254	312,285	34,237,275	16,512,063
Bonds payable	3,435,000	2,315,000	75,000	1,195,000	7,020,000	7,530,000
Total current liabilities	8,425,122	34,469,083	175,228	2,568,432	45,637,865	26,594,637
Noncurrent liabilities:						
Liabilities related to restricted assets	3,415,096	1,687,222	-	802,456	5,904,774	4,579,119
Internal balances	41,643	4,527	1,742	3,953	51,865	(315,903)
Deferred revenue	-	-	-	107,573	107,573	129,087
Bonds payable - Net of current portion	31,271,420	36,735,000	175,000	40,395,000	108,576,420	109,935,000
Total noncurrent liabilities	34,728,159	38,426,749	176,742	41,308,982	114,640,632	114,327,303
Total liabilities	43,153,281	72,895,832	351,970	43,877,414	160,278,497	140,921,940
Net Assets						
Invested in capital assets - Net of related debt	96,361,211	110,438	12,530	19,597,065	116,081,244	104,981,187
Restricted for capital outlay	-	-	-	1,304,255	1,304,255	5,165,657
Restricted for debt service	618,202	-	-	2,693	620,895	696,535
Unrestricted	3,386,868	(1,121,653)	17,701	7,139,582	9,422,498	13,499,041
Total net assets	<u>\$ 100,366,281</u>	<u>\$ (1,011,215)</u>	<u>\$ 30,231</u>	<u>\$ 28,043,595</u>	<u>\$ 127,428,892</u>	<u>\$ 124,342,420</u>

Genesee County Drain Commissioner

Division of Water and Waste Services

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

	Year Ended December 31					
	2005				2004	
	Interceptor and Treatment Facilities	Sewage Disposal Systems		Water Supply Systems	Total	Total
	District No. 3	District No. 7				
Operating Revenue						
Sewage disposal service	\$ 13,635,931	\$ 2,160,171	\$ 623,996	\$ -	\$ 16,420,098	\$ 15,994,472
Billing services	47,725	680	1,407	29,780	79,592	79,257
Sewer and pumping station - Operation and maintenance	522,110	-	-	-	522,110	599,580
Inspection fees	17,808	-	-	-	17,808	14,920
Water sales	322,915	-	-	14,600,760	14,923,675	13,776,788
Water meter sales	-	-	-	153,417	153,417	145,294
Other operating revenue	498,411	201,050	1,500	272,333	973,294	660,466
Total operating revenue	15,044,900	2,361,901	626,903	15,056,290	33,089,994	31,270,777
Operating Expenses						
Personnel services	8,417,163	1,527,664	243,461	1,579,915	11,768,203	10,624,753
Contractual services	776,027	124,645	24,418	325,224	1,250,314	879,864
Sludge disposal service	827,540	266,281	-	-	1,093,821	976,889
Cost of water	-	-	-	9,159,871	9,159,871	8,272,341
Repairs and maintenance	1,756,278	289,185	114,752	494,303	2,654,518	2,516,839
Utilities	2,142,771	335,542	108,518	298,591	2,885,422	2,616,654
Other supplies and expenses	1,457,000	155,451	31,413	478,227	2,122,091	2,014,149
Insurance claims and expenses	352,870	47,460	10,471	69,609	480,410	767,342
Depreciation	1,910,881	15,212	926	148,363	2,075,382	1,823,126
Total operating expenses	17,640,530	2,761,440	533,959	12,554,103	33,490,032	30,491,957
Operating Income (Loss)	(2,595,630)	(399,539)	92,944	2,502,187	(400,038)	778,820
Nonoperating Revenue (Expense)						
Interest and investment revenue	261,267	24,133	118	592,431	877,949	599,110
Miscellaneous revenue	2,746,068	-	-	2,309,817	5,055,885	3,829,353
Interest expense	(889,390)	-	-	(1,917,846)	(2,807,236)	(2,225,577)
Total nonoperating revenue	2,117,945	24,133	118	984,402	3,126,598	2,202,886
Income (Loss) - Before capital contributions	(477,685)	(375,406)	93,062	3,486,589	2,726,560	2,981,706
Capital Contributions	1,264,804	(689,388)	-	-	575,416	499,734
Operating Transfer	(111,810)	(3,255)	(1,706)	(98,733)	(215,504)	(277,836)
Change in Net Assets	675,309	(1,068,049)	91,356	3,387,856	3,086,472	3,203,604
Net Assets (Deficit) - Beginning of year	99,690,972	56,834	(61,125)	24,655,739	124,342,420	121,138,816
Net Assets (Deficit) - End of year	\$ 100,366,281	\$ (1,011,215)	\$ 30,231	\$ 28,043,595	\$ 127,428,892	\$ 124,342,420

Genesee County Drain Commissioner Division of Water and Waste Services

Statement of Cash Flows (Divisional Detail) - Enterprise Fund

	Year Ended December 31					
	2005				2004	
	Interceptor and Treatment Facilities	Sewage Disposal Systems		Water Supply Systems	Total	Total
	District No. 3	District No. 7				
Cash Flows from Operating Activities						
Cash received from customers	\$ 15,046,521	\$ 2,375,083	\$ 606,514	\$ 15,447,403	\$ 33,475,521	\$ 31,833,565
Cash payments to suppliers and others for goods and services	(10,770,538)	(871,783)	(264,825)	(11,198,347)	(23,105,493)	(16,338,565)
Cash payments to employees	(8,417,163)	(1,527,664)	(243,461)	(1,579,915)	(11,768,203)	(10,624,753)
Net cash provided by (used in) operating activities	(4,141,180)	(24,364)	98,228	2,669,141	(1,398,175)	4,870,247
Cash Flows from Capital and Related Financing Activities						
Purchases of capital assets	(15,340,290)	(10,281,854)	(48,710)	(16,460,072)	(42,130,926)	(32,530,030)
Capital contributions from (to) communities	4,489,736	13,533,910	-	-	18,023,646	(1,385,496)
County capital improvement fees	2,365,745	-	-	2,311,260	4,677,005	3,766,660
Collections of leases receivable from municipalities	2,845,000	1,755,000	75,000	315,000	4,990,000	4,865,000
Amounts paid on behalf of municipalities	(5,745,000)	-	-	252,463	(5,492,537)	(11,000,000)
Proceeds from issuance of revenue bonds	5,471,420	-	-	-	5,471,420	14,960,000
Proceeds from issuance of bonded debt	2,900,000	12,940,000	-	-	15,840,000	12,600,000
Principal paid on bond maturities	(1,695,000)	(14,695,000)	(75,000)	(970,000)	(17,435,000)	(10,260,000)
Interest paid on bonds	(889,390)	-	-	(1,917,846)	(2,807,236)	(2,225,577)
Premium on bonded debt	382,223	-	-	-	382,223	78,760
Administrative costs associated with bond issues	(1,900)	-	-	(1,443)	(3,343)	(16,067)
Net cash provided by (used in) capital and related financing activities	(5,217,456)	3,252,056	(48,710)	(16,470,638)	(18,484,748)	(21,146,750)
Cash Flows from Investing Activities						
Investment income	261,267	24,133	118	592,431	877,949	599,110
Proceeds from sale of investments	-	-	-	-	-	8,041,498
Operating transfer	(111,810)	(3,255)	(1,706)	(98,733)	(215,504)	(277,836)
Net cash provided by (used in) investing activities	149,457	20,878	(1,588)	493,698	662,445	8,362,772
Net Increase (Decrease) in Cash and Cash Equivalents	(9,209,179)	3,248,570	47,930	(13,307,799)	(19,220,478)	(7,913,731)
Cash and Cash Equivalents - Beginning of year	11,659,702	8,551,332	(64,699)	23,704,934	43,851,269	51,765,000
Cash and Cash Equivalents - End of year	\$ 2,450,523	\$ 11,799,902	\$ (16,769)	\$ 10,397,135	\$ 24,630,791	\$ 43,851,269
Reconciliation of Operating Income (Loss) to Net Cash from Operating Activities						
Operating income (loss)	\$ (2,595,630)	\$ (399,539)	\$ 92,944	\$ 2,502,187	\$ (400,038)	\$ 778,820
Adjustments to reconcile operating income (loss) to net cash from operating activities:						
Depreciation	1,910,881	15,212	926	148,363	2,075,382	1,823,126
Changes in assets and liabilities:						
Accounts receivable	(126,267)	9,249	1,368	156,750	41,100	53,406
Inventories	-	-	-	(14,917)	(14,917)	(2,953)
Accounts payable, accrued expenses, and deferred revenue	1,582,503	944,126	24,747	(819,378)	1,731,998	1,502,186
Internal balances	127,888	3,933	1,584	234,363	367,768	520,542
Due to (from) other governmental units - Net	(5,040,555)	(597,345)	(23,341)	461,773	(5,199,468)	195,120
Net cash provided by (used in) operating activities	\$ (4,141,180)	\$ (24,364)	\$ 98,228	\$ 2,669,141	\$ (1,398,175)	\$ 4,870,247
Composition of Cash and Cash Equivalents						
Cash and cash equivalents	\$ 1,829,125	\$ -	\$ 16,788	\$ 6,493,734	\$ 8,339,647	\$ 10,713,567
Restricted cash and cash equivalents	621,398	13,182,883	-	3,903,401	17,707,682	33,137,702
Drafts payable	-	(1,382,981)	(33,557)	-	(1,416,538)	-
Total cash and cash equivalents	\$ 2,450,523	\$ 11,799,902	\$ (16,769)	\$ 10,397,135	\$ 24,630,791	\$ 43,851,269

During the year, there were no noncash operating, financing, or investing activities.

Genesee County Drain Commissioner Division of Water and Waste Services

Description of Issue	Principal Outstanding January 1, 2005	Issued (Retired) During the Year	Principal Outstanding December 31, 2005
Total interceptor and treatment facilities (Pages 43-48)	\$ 33,775,000	\$ 931,420	\$ 34,706,420
Total District No. 3 (Pages 49-50)	40,805,000	(1,755,000)	39,050,000
District No. 7 - 3.700% to 4.500% Sewage Disposal System Facility Bonds dated June 1, 1999 in the amount of \$675,000. Due serially in amounts ranging from \$50,000 to \$100,000 through 2008	325,000	(75,000)	250,000
Total water supply systems (Pages 51-52)	42,560,000	(970,000)	41,590,000
Total	<u>\$ 117,465,000</u>	<u>\$ (1,868,580)</u>	<u>\$ 115,596,420</u>

Summary of Bonds Payable Year Ended December 31, 2005

	2006	2007	2008	2009	2010	Later	Total
Principal	\$ 3,435,000	\$ 4,965,000	\$ 4,593,957	\$ 2,845,000	\$ 3,005,000	\$ 15,862,463	\$ 34,706,420
Interest	1,210,097	2,563,603	1,373,265	1,129,306	1,029,504	2,775,026	10,080,801
Principal	2,315,000	2,405,000	2,435,000	2,100,000	2,180,000	27,615,000	39,050,000
Interest	1,639,232	1,542,377	1,453,151	1,362,939	1,283,621	7,439,571	14,720,891
Principal	75,000	75,000	100,000	-	-	-	250,000
Interest	11,025	7,800	4,500	-	-	-	23,325
Principal	1,195,000	1,225,000	1,255,000	985,000	1,025,000	35,905,000	41,590,000
Interest	1,838,546	1,797,564	1,754,304	1,715,886	1,683,025	21,904,320	30,693,645
Principal	7,020,000	8,670,000	8,383,957	5,930,000	6,210,000	79,382,463	115,596,420
Interest	4,698,900	5,911,344	4,585,220	4,208,131	3,996,150	32,118,917	55,518,662
	\$ 11,718,900	\$ 14,581,344	\$ 12,969,177	\$ 10,138,131	\$ 10,206,150	\$ 111,501,380	\$ 171,115,082

Genesee County Drain Commissioner Division of Water and Waste Services

Description of Issue	Principal Outstanding January 1, 2005	Issued (Retired) During the Year	Principal Outstanding December 31, 2005
Total Genesee County Drain Commissioner bonds payable:			
Included in interceptor and treatment facilities	\$ 21,650,000	\$ (1,695,000)	\$ 19,955,000
Included in water supply system	<u>26,370,000</u>	<u>(655,000)</u>	<u>25,715,000</u>
Subtotal	48,020,000	(2,350,000)	45,670,000
Total community-related bonds payable	69,445,000	481,420	69,926,420
Total	<u>\$ 117,465,000</u>	<u>\$ (1,868,580)</u>	<u>\$ 115,596,420</u>

Summary of Bonds Payable (Continued)
Year Ended December 31, 2005

	2006	2007	2008	2009	2010	Later	Total
Principal	\$ 1,275,000	\$ 1,320,000	\$ 1,415,000	\$ 1,465,000	\$ 1,575,000	\$ 12,905,000	\$ 19,955,000
Interest	832,794	782,877	727,322	666,710	601,320	2,135,095	5,746,118
Principal	685,000	715,000	750,000	780,000	815,000	21,970,000	25,715,000
Interest	1,142,623	1,122,323	1,099,798	1,074,798	1,048,087	13,318,995	18,806,624
Principal	1,960,000	2,035,000	2,165,000	2,245,000	2,390,000	34,875,000	45,670,000
Interest	1,975,417	1,905,200	1,827,120	1,741,508	1,649,407	15,454,090	24,552,742
Principal	5,060,000	6,635,000	6,218,957	3,685,000	3,820,000	44,507,463	69,926,420
Interest	2,723,483	4,006,144	2,758,100	2,466,623	2,346,743	16,664,827	30,965,920
Principal	7,020,000	8,670,000	8,383,957	5,930,000	6,210,000	79,382,463	115,596,420
Interest	4,698,900	5,911,344	4,585,220	4,208,131	3,996,150	32,118,917	55,518,662
	\$ 11,718,900	\$ 14,581,344	\$ 12,969,177	\$ 10,138,131	\$ 10,206,150	\$ 111,501,380	\$ 171,115,082

Genesee County Drain Commissioner Division of Water and Waste Services

Description of Issue	Principal Outstanding January 1, 2005	Issued (Retired) During the Year	Principal Outstanding December 31, 2005
3.50% to 4.70% County of Genesee Sanitary Sewage Disposal System (Interceptor and Treatment Facilities) Revenue Bonds, Series 2002A dated 5-1-02 in the original amount of \$11,000,000. Due serially in various amounts ranging from \$485,000 to \$1,020,000 through 2017	\$ 10,000,000	\$ (545,000)	\$ 9,455,000
2.00% to 4.50% County of Genesee Sanitary Sewage Disposal System (Western Trunk Relief Sewer) Revenue Bonds, Series 2003 dated 8-1-03 in the original amount of \$9,000,000. Due serially in various amounts ranging from \$350,000 to \$2,350,000 through 2018	6,650,000	(850,000)	5,800,000
4.00% to 4.25% Mt. Morris Township - Refunding Series 2005 dated 12/22/05 in the original amount of \$2,900,000. Due serially in amounts ranging from \$15,000 to \$315,000 through 2019	-	2,900,000	2,900,000
1.625% Full Faith and Credit Revenue Bonds, Series 2005A dated 6/23/05 State Revolving Fund Program in the original amount of \$22,180,000. Due when fully received in amounts ranging from \$950,000 to \$1,285,000 beginning 10/07 through 2026	-	4,167,463	4,167,463
1.625% Full Faith and Credit Revenue Bonds, Series 2005B dated 9/22/05 State Revolving Fund Program in the original amount of \$15,505,000. Due when fully received in amounts ranging from \$660,000 to \$900,000 beginning 4/07 through 2026	-	1,303,957	1,303,957
4.40% to 5.00% Flint Township Arm dated 6/1/67 in the original amount of \$4,500,000. Due serially in amounts of \$200,000 through 2005	200,000	(200,000)	-
4.00% to 7.50% Flint Township Lateral System - Series 1971 dated 6/1/71 in the original amount of \$7,000,000. Due serially in amounts ranging from \$300,000 to \$400,000 through 2005	400,000	(400,000)	-
4.00% to 7.50% Flint Township Lateral System - Series 1972 dated 5/1/72 in the original amount of \$5,500,000. Due serially in amounts ranging from \$250,000 to \$300,000 through 2005	300,000	(300,000)	-

**Schedule of Bonds Payable
Interceptor and Treatment Facilities
Year Ended December 31, 2005**

	2006	2007	2008	2009	2010	Later	Total
Principal	\$ 575,000	\$ 605,000	\$ 640,000	\$ 675,000	\$715,000	\$ 6,245,000	\$ 9,455,000
Interest	390,672	368,755	344,460	318,160	290,360	1,047,479	2,759,886
Principal	350,000	365,000	375,000	390,000	410,000	3,910,000	5,800,000
Interest	216,622	209,622	200,862	190,550	178,460	800,116	1,796,232
Principal	15,000	25,000	25,000	210,000	220,000	2,405,000	2,900,000
Interest	102,116	118,220	117,220	112,520	103,920	476,950	1,030,946
Principal	-	950,000	965,000	980,000	995,000	277,463	4,167,463
Interest	-	991,460	337,147	321,344	305,297	148,606	2,103,854
Principal	-	660,000	643,957	-	-	-	1,303,957
Interest	-	504,849	120,616	-	-	-	625,465
Principal	-	-	-	-	-	-	-
Interest	-	-	-	-	-	-	-
Principal	-	-	-	-	-	-	-
Interest	-	-	-	-	-	-	-
Principal	-	-	-	-	-	-	-
Interest	-	-	-	-	-	-	-

Genesee County Drain Commissioner Division of Water and Waste Services

Description of Issue	Principal Outstanding January 1, 2005	Issued (Retired) During the Year	Principal Outstanding December 31, 2005
3.90% to 4.45% Sewage Disposal System No. 5, Village of Goodrich Refunding Bonds, dated 6/1/98 in the original amount of \$1,155,000. Due serially in amounts ranging from \$140,000 to \$155,000 through 2006	\$ 295,000	\$ (145,000)	\$ 150,000
5.00% to 7.00% Mt. Morris Township Local Sewer System dated 10/1/68 in the original amount of \$6,400,000. Due serially in various amounts through 2007	825,000	(275,000)	550,000
3.90% to 4.55% Sewage Disposal Refunding Bonds (Genesee Township) dated 7/1/98 in the original amount of \$3,175,000. Due serially in various amounts through 2008	1,205,000	(305,000)	900,000
4.00% to 5.50% Davison Township Sub-Truck System dated 6/1/68 in the original amount of \$2,300,000. Due serially in amounts ranging from \$75,000 to \$100,000 through 2008	400,000	(100,000)	300,000
5.00% Davison Township Lateral System dated 6/1/68 in the original amount of \$970,000. Due serially in amounts ranging from \$35,000 to \$40,000 through 2008	160,000	(40,000)	120,000
4.00% to 6.00% City of Burton Arm (Burton Township Arm) dated 1/1/68 and 4/1/69 in the original amounts of \$7,100,000 and \$3,400,000, respectively. Due serially in various amounts ranging from \$215,000 to \$515,000 through 2008	560,000	(140,000)	420,000
4.00% to 6.00% City of Burton Lateral System (Burton Township Lateral System) dated 1/1/68 and 4/1/69 in the original amounts of \$3,660,000 and \$2,340,000, respectively. Due serially in various amounts ranging from \$230,000 to \$280,000 through 2008	940,000	(280,000)	660,000
4.00% to 5.50% Southeast Extension to System No. 2 dated 10/1/68 in the original amount of \$2,500,000. Due serially in amounts of \$100,000 through 2008	400,000	(100,000)	300,000

**Schedule of Bonds Payable
Interceptor and Treatment Facilities (Continued)
Year Ended December 31, 2005**

	2006	2007	2008	2009	2010	Later	Total
Principal	\$ 150,000	\$ -	\$ -	\$ -	\$ -	\$ -	150,000
Interest	6,675	-	-	-	-	-	6,675
Principal	275,000	275,000	-	-	-	-	550,000
Interest	24,338	8,113	-	-	-	-	32,451
Principal	305,000	300,000	295,000	-	-	-	900,000
Interest	33,482	20,097	6,711	-	-	-	60,290
Principal	100,000	100,000	100,000	-	-	-	300,000
Interest	10,000	6,000	2,000	-	-	-	18,000
Principal	40,000	40,000	40,000	-	-	-	120,000
Interest	5,000	3,000	1,000	-	-	-	9,000
Principal	140,000	140,000	140,000	-	-	-	420,000
Interest	23,100	11,550	3,850	-	-	-	38,500
Principal	280,000	280,000	100,000	-	-	-	660,000
Interest	32,520	19,860	2,750	-	-	-	55,130
Principal	100,000	100,000	100,000	-	-	-	300,000
Interest	10,000	6,000	2,000	-	-	-	18,000

Genesee County Drain Commissioner Division of Water and Waste Services

Description of Issue	Principal Outstanding January 1, 2005	Issued (Retired) During the Year	Principal Outstanding December 31, 2005
5.70% to 6.00% Vienna Township Arm dated 2/1/69 in the original amount of \$4,350,000. Due serially in amounts ranging from \$175,000 to \$200,000 through 2008	\$ 800,000	\$ (200,000)	\$ 600,000
3.75% to 4.75% Sewage Disposal System Refunding Bonds dated 7/1/98 in the original amount of \$3,335,000. Due serially in amounts ranging from \$315,000 to \$330,000 through 2010	1,390,000	(310,000)	1,080,000
5.00% to 7.00% Mt. Morris Township - Frances/Webster Road Section dated 10/1/96 in the original amount of \$1,475,000. Due serially in amounts ranging from \$75,000 to \$150,000 through 2012	900,000	(100,000)	800,000
4.00% to 5.00% Full Faith and Credit Revenue Bonds, Series 2000, dated 8/31/00 in the amount of \$6,000,000. Due serially in amounts ranging from \$200,000 to \$600,000 through 2014	5,000,000	(300,000)	4,700,000
4.95% to 5.70% Mt. Morris Township Sewer Program Series 1999, dated 12/1/99 in the amount of \$3,800,000. Due serially in amounts ranging from \$100,000 to \$300,000 through 2019	3,350,000	(2,850,000)	500,000
Total	<u>\$ 33,775,000</u>	<u>\$ 931,420</u>	<u>\$ 34,706,420</u>

**Schedule of Bonds Payable
Interceptor and Treatment Facilities (Continued)
Year Ended December 31, 2005**

	2006	2007	2008	2009	2010	Later	Total
Principal	\$ 200,000	\$ 200,000	\$ 200,000	\$ -	\$ -	\$ -	\$ 600,000
Interest	29,500	17,700	5,900	-	-	-	53,100
Principal	305,000	300,000	295,000	90,000	90,000	-	1,080,000
Interest	41,615	28,230	14,918	6,232	2,092	-	93,087
Principal	100,000	100,000	100,000	100,000	125,000	275,000	800,000
Interest	37,500	32,500	27,500	22,500	16,875	14,375	151,250
Principal	350,000	350,000	400,000	400,000	450,000	2,750,000	4,700,000
Interest	225,500	204,500	182,000	158,000	132,500	287,500	1,190,000
Principal	150,000	175,000	175,000	-	-	-	500,000
Interest	21,457	13,147	4,331	-	-	-	38,935
Principal	3,435,000	4,965,000	4,593,957	2,845,000	3,005,000	15,862,463	34,706,420
Interest	1,210,097	2,563,603	1,373,265	1,129,306	1,029,504	2,775,026	10,080,801
	\$ 4,645,097	\$ 7,528,603	\$ 5,967,222	\$ 3,974,306	\$ 4,034,504	\$ 18,637,489	\$ 44,787,221

Genesee County Drain Commissioner Division of Water and Waste Services

Description of Issue	Principal Outstanding January 1, 2005	Issued (Retired) During the Year	Principal Outstanding December 31, 2005
2.50% to 5.00% Sewage Disposal System Bonds, Series 1996A - Refinancing - in the amount of \$12,940,000. Due serially in amounts ranging from \$75,000 to \$1,355,000 through 2016	\$ -	\$ 12,940,000	\$ 12,940,000
5.70% to 6.00% Torrey and Ponemah Road Arms dated 6/1/68 in the original amount of \$1,925,000. Due serially in various amounts ranging from \$70,000 to \$80,000 through 2008	320,000	(80,000)	240,000
5.20% to 7.00% Sewage Disposal System Bonds, Series 1996A in the original amount of \$17,445,000. Due serially in amounts ranging from \$280,000 to \$1,400,000 through 2016	14,850,000	(13,900,000)	950,000
3.70% to 4.55% Sewage Disposal System Refunding Bonds dated 5/1/98 in the original amount of \$3,370,000. Due serially in amounts ranging from \$280,000 to \$395,000 through 2008	1,465,000	(350,000)	1,115,000
5.00% to 7.375% Rolston and Ripley Road Arms dated 11/1/96 in the original amount of \$1,240,000. Due serially in various amounts ranging from \$25,000 to \$100,000 through 2017	1,075,000	(50,000)	1,025,000
4.50% to 5.00% Sewage Disposal System Bonds dated 7/1/98 in the original amount of \$7,140,000. Due serially in amounts ranging from \$80,000 to \$915,000 through 2019	6,495,000	(190,000)	6,305,000
4.00% to 5.00% Sewage Disposal System Bonds dated 12/1/04 in the original amount of \$8,000,000. Due serially in amounts ranging from \$250,000 to \$700,000 through 2024	8,000,000	-	8,000,000
4.00% to 5.00% Sewage Disposal System Bonds dated 12/1/04 in the original amount of \$4,600,000. Due serially in amounts ranging from \$100,000 to \$400,000 through 2024	4,600,000	-	4,600,000
2.50% to 4.50% Sewage Disposal System Bonds dated 12/1/03 in the original amount of \$4,000,000. Due serially in amounts ranging from \$125,000 to \$250,000 through 2024	4,000,000	(125,000)	3,875,000
Total	<u>\$ 40,805,000</u>	<u>\$ (1,755,000)</u>	<u>\$ 39,050,000</u>

**Schedule of Bonds Payable - Sewage Disposal Systems
District No. 3
Year Ended December 31, 2005**

	2006	2007	2008	2009	2010	Later	Total
Principal	\$ 75,000	\$ 1,035,000	\$ 1,210,000	\$ 1,260,000	\$ 1,315,000	\$ 8,045,000	\$ 12,940,000
Interest	531,150	515,981	483,600	443,400	398,338	1,162,675	3,535,144
Principal	80,000	80,000	80,000	-	-	-	240,000
Interest	11,800	7,080	2,360	-	-	-	21,240
Principal	950,000	-	-	-	-	-	950,000
Interest	24,700	-	-	-	-	-	24,700
Principal	395,000	390,000	330,000	-	-	-	1,115,000
Interest	49,750	32,370	15,015	-	-	-	97,135
Principal	75,000	75,000	75,000	75,000	75,000	650,000	1,025,000
Interest	52,887	49,138	45,350	41,488	37,569	131,888	358,320
Principal	265,000	325,000	190,000	190,000	190,000	5,145,000	6,305,000
Interest	302,795	288,783	276,551	267,526	258,501	1,447,282	2,841,438
Principal	250,000	250,000	300,000	300,000	325,000	6,575,000	8,000,000
Interest	332,250	322,250	311,250	299,250	286,750	2,228,625	3,780,375
Principal	100,000	100,000	100,000	100,000	100,000	4,100,000	4,600,000
Interest	191,000	187,000	183,000	179,000	175,000	1,456,000	2,371,000
Principal	125,000	150,000	150,000	175,000	175,000	3,100,000	3,875,000
Interest	142,900	139,775	136,025	132,275	127,463	1,013,101	1,691,539
Principal	2,315,000	2,405,000	2,435,000	2,100,000	2,180,000	27,615,000	39,050,000
Interest	1,639,232	1,542,377	1,453,151	1,362,939	1,283,621	7,439,571	14,720,891
	\$ 3,954,232	\$ 3,947,377	\$ 3,888,151	\$ 3,462,939	\$ 3,463,621	\$ 35,054,571	\$ 53,770,891

Genesee County Drain Commissioner Division of Water and Waste Services

Description of Issue	Principal Outstanding January 1, 2005	Issued (Retired) During the Year	Principal Outstanding December 31, 2005
2.50% to 4.375% Water Supply System Revenue Bonds dated 8/3/03 in the original amount of \$9,000,000. Due serially in amounts ranging from \$455,000 to \$775,000 through 2018	\$ 8,545,000	\$ (470,000)	\$ 8,075,000
4.00% to 4.625% Water Supply System Revenue Bonds dated 10/1/03 in the original amount of \$18,000,000. Due serially and term in amounts ranging from \$175,000 to \$10,495,000 through 2033	17,825,000	(185,000)	17,640,000
3.00% to 5.00% Water Supply System Revenue Bonds dated 9/1/04 in the original amount of \$14,960,000. Due serially in amounts ranging from \$200,000 to \$1,000,000 through 2030	14,960,000	-	14,960,000
5.00% to 5.85% Water Supply System No. 2 dated 6/1/68 in the amount of \$420,000. Due serially in amounts of \$15,000 through 2008	60,000	(15,000)	45,000
6.00% to 8.00% Water Supply System No. 4 - Vienna Township 11/21/78 in the original amount of \$790,000. Due serially in amounts of \$40,000 through 2008	160,000	(40,000)	120,000
3.75% to 4.50% Water Supply System Refunding Bonds dated 6/1/98 in the original amount of \$2,545,000. Due serially in amounts ranging from \$245,000 to \$270,000 through 2008	1,010,000	(260,000)	750,000
Total	<u>\$ 42,560,000</u>	<u>\$ (970,000)</u>	<u>\$ 41,590,000</u>

**Schedule of Bonds Payable
Water Supply Systems
Year Ended December 31, 2005**

	2006	2007	2008	2009	2010	Later	Total
Principal	\$ 490,000	\$ 510,000	\$ 530,000	\$ 550,000	\$570,000	\$ 5,425,000	\$ 8,075,000
Interest	294,061	281,561	267,236	251,036	233,524	959,594	2,287,012
Principal	195,000	205,000	220,000	230,000	245,000	16,545,000	17,640,000
Interest	848,562	840,762	832,562	823,762	814,563	12,359,401	16,519,612
Principal	200,000	205,000	205,000	205,000	210,000	13,935,000	14,960,000
Interest	659,388	653,388	647,238	641,088	634,938	8,585,325	11,821,365
Principal	15,000	15,000	15,000	-	-	-	45,000
Interest	1,875	1,125	375	-	-	-	3,375
Principal	40,000	40,000	40,000	-	-	-	120,000
Interest	6,900	4,140	1,380	-	-	-	12,420
Principal	255,000	250,000	245,000	-	-	-	750,000
Interest	27,760	16,588	5,513	-	-	-	49,861
Principal	1,195,000	1,225,000	1,255,000	985,000	1,025,000	35,905,000	41,590,000
Interest	1,838,546	1,797,564	1,754,304	1,715,886	1,683,025	21,904,320	30,693,645
	\$ 3,033,546	\$ 3,022,564	\$ 3,009,304	\$ 2,700,886	\$ 2,708,025	\$ 57,809,320	\$ 72,283,645

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

**Federal Awards
Supplemental Information
December 31, 2005**

Genesee County Drain Commissioner Division of Water and Waste Services

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Independent Auditor's Report

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

We have audited the basic financial statements of the Genesee County Drain Commissioner Division of Water and Waste Services for the year ended December 31, 2005 and have issued our report thereon dated April 14, 2006. Those basic financial statements are the responsibility of the management of the Genesee County Drain Commissioner Division of Water and Waste Services. Our responsibility was to express an opinion on those basic 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 basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements of the Genesee County Drain Commissioner Division of Water and Waste Services taken as a whole. The accompanying schedule of expenditures of federal awards is presented for the purpose of additional analysis and is not a required part of the basic financial statements. The information in this schedule has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Plante & Moran, PLLC

April 14, 2006

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Report on Internal Control Over Financial Reporting and on Compliance
and Other Matters Based on an Audit of Financial Statements
Performed in Accordance with *Government Auditing Standards*

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

We have audited the financial statements of Genesee County Drain Commissioner Division of Water and Waste Services as of and for the year ended December 31, 2005 and have issued our report thereon dated April 14, 2006. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Genesee County Drain Commissioner Division of Water and Waste Services' internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Genesee County Drain Commissioner Division of Water and Waste Services' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of management, federal awarding agencies, and other pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Plante & Moran, PLLC

April 14, 2006

Report on Compliance with Requirements Applicable
to Each Major Program and on Internal Control
Over Compliance in Accordance with OMB Circular A-133

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

Compliance

We have audited the compliance of Genesee County Drain Commissioner Division of Water and Waste Services with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended December 31, 2005. The major federal programs of Genesee County Drain Commissioner Division of Water and Waste Services are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of Genesee County Drain Commissioner Division of Water and Waste Services' management. Our responsibility is to express an opinion on Genesee County Drain Commissioner Division of Water and Waste Services' compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Genesee County Drain Commissioner Division of Water and Waste Services' compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Genesee County Drain Commissioner Division of Water and Waste Services' compliance with those requirements.

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

In our opinion, Genesee County Drain Commissioner Division of Water and Waste Services complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended December 31, 2005. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements that are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as items 2005-1 and 2005-2.

Internal Control Over Compliance

The management of Genesee County Drain Commissioner Division of Water and Waste Services is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Genesee County Drain Commissioner Division of Water and Waste Services' internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of management, federal awarding agencies, and other pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Plante & Moran, PLLC

April 14, 2006

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

**Schedule of Expenditures of Federal Awards
Year Ended December 31, 2005**

<u>Federal Agency/Pass-through Agency/Program Title</u>	<u>CFDA Number</u>	<u>Pass-through Entity Project/Grant Number</u>	<u>Award Amount</u>	<u>Federal Expenditures</u>
U.S. Environmental Protection Agency: Passed through Michigan Department of Environmental Quality - Capitalization Grants for Clean Water State Revolving Funds:				
Project 5229-01	66.458	5229-01	\$ 22,180,000	\$ 272,789
Project 5229-02	66.458	5229-02	15,505,000	871,833
Surveys - Studies - Investigations and Special Purpose Grants - Northeast Relief Sewer Project				
	66.606	N/A	1,403,700	<u>159,181</u>
Total federal awards				<u>\$ 1,303,803</u>

Genesee County Drain Commissioner Division of Water and Waste Services

Note to Schedule of Expenditures of Federal Awards Year Ended December 31, 2005

Note - Significant Accounting Policies

The accompanying schedule of expenditures of federal awards includes the federal grant activity of Genesee County Drain Commissioner Division of Water and Waste Services and is presented on the same basis of accounting as the basic financial statements. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

All federal revenue was reported as miscellaneous revenue in the basic financial statements.

Genesee County Drain Commissioner

Division of Water and Waste Services

Schedule of Findings and Questioned Costs Year Ended December 31, 2005

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

- Material weakness(es) identified? ___ Yes X No
- Reportable condition(s) identified that are not considered to be material weaknesses? ___ Yes X None reported

Noncompliance material to financial statements noted? ___ Yes X No

Federal Awards

Internal control over major program(s):

- Material weakness(es) identified? ___ Yes X No
- Reportable condition(s) identified that are not considered to be material weaknesses? ___ Yes X None reported

Type of auditor's report issued on compliance for major program(s): Unqualified

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133? X Yes ___ No

Identification of major program(s):

CFDA Number(s)	Name of Federal Program or Cluster
66.458	Clean Water State Revolving Fund - Project 5229
66.606	Surveys - Studies - Investigations and Special Purpose Grants

Dollar threshold used to distinguish between type A and type B programs: \$ 300,000

Auditee qualified as low-risk auditee? ___ Yes X No

Genesee County Drain Commissioner

Division of Water and Waste Services

Schedule of Findings and Questioned Costs (Continued)

Year Ended December 31, 2005

Section II - Financial Statement Audit Findings

None

Section III - Federal Program Audit Findings

Reference Number	Findings
2005-1	<p>Program Name - Clean Water State Revolving Fund</p> <p>CFDA Number - 66.458</p> <p>Pass-through Entity - Michigan Department of Environmental Quality</p> <p>Finding Type - Noncompliance</p> <p>Criteria - Drawdown requests should be limited to the Organization's immediate needs.</p> <p>Condition - One qualifying expenditure invoice totaled \$9,400. On the request reimbursement, the grantee accidentally requested \$94,000.</p> <p>Questioned Costs - None</p> <p>Cause and Effect - The grantee prematurely requested and received \$84,600 that would have been requested in a future drawdown request for another qualifying expenditure. Subsequent requests were not made as the grantee received the entire eligible amount. Ultimately, the error was self-correcting and there is no effect on the amount of funds the Commissioner will receive.</p> <p>Recommendation - The commissioner should implement a more detailed review process to ensure reimbursement requests are correct.</p> <p>Views of Responsible Officials and Planned Corrective Actions - Additional review processes will be included on future reimbursement requests.</p>

Genesee County Drain Commissioner Division of Water and Waste Services

Schedule of Findings and Questioned Costs (Continued) Year Ended December 31, 2005

Section III - Federal Program Audit Findings (Continued)

Reference Number	Findings
2005-2	<p>Program Name - Surveys - Studies - Investigations and Special Purpose Grants</p> <p>CFDA Number - 66.606</p> <p>Pass-through Entity - None</p> <p>Finding Type - Noncompliance</p> <p>Criteria - Grant requires periodic reports to be filed every six months and annually during the project period.</p> <p>Condition - None of the required reports have been filed with the Environmental Protection Agency.</p> <p>Questioned Costs - None</p> <p>Cause and Effect - Oversight by the grantee. No effect on the project</p> <p>Recommendation - The Commissioner should file the required reports as soon as possible.</p> <p>Views of Responsible Officials and Planned Corrective Actions - The reports will be filed as soon as possible.</p>