

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

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**Financial Report  
with Supplemental Information  
December 31, 2007**

# **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 financial statements of the enterprise fund and internal service fund of the Genesee County Drain Commissioner Division of Water and Waste Services (a component unit of Genesee County, Michigan) (the "Division") as of December 31, 2007, which collectively comprise the Division's basic financial statements as listed in the table of contents. These basic financial statements are the responsibility of the Division's management. The prior year summarized comparative information has been derived from the Division's 2006 financial statements and, in our report dated April 21, 2006, we expressed unqualified opinions on the respective financial statements of the Enterprise Fund and Internal Service Fund.

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

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the respective financial position of the enterprise fund and internal service fund of the Genesee County Drain Commissioner Division of Water and Waste Services as of December 31, 2007 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 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.

In accordance with *Government Auditing Standards*, the report dated June 27, 2008 has been issued on our consideration of the enterprise fund and internal service fund of the Genesee County Drain Commissioner Division of Water and Waste Services' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide opinions on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audits.

*Plante & Moran, PLLC*

June 27, 2008

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

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## **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 ensure safe, reliable, and efficient operation of the utility.

The primary functions of the support services area are to efficiently and uniformly provide support to the 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 ensures 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**

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### **Management's Discussion and Analysis (Continued)**

**Finance** - Assists department heads to develop and administer annual budgets, maintains 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 ensure 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 IT system

The operation and maintenance department has two primary functions: water distribution/delivery and sanitary sewer collection/transportation. To ensure that 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**

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## **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 ensure safe conditions. The Division is studying dewatering and other options for proper, cost-effective disposal.

**District 3** - District 3 brought new plant facilities on line and into continued service to enhance treatment and better ensure compliance to higher flows and loading. Hartland Township began discharging to the Linden WWTP on March 20, 2007. The Livingston County septage receiving station began discharge on May 25, 2007.

**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 compliance with MDEQ regulations. There are approximately 23 significant industrial facilities discharging to GCDC-WWS sewer systems. The Sewer Use Ordinance was approved by the MDEQ in early 2006 and the Board of Commissioners approved the Ordinance in November 2006. The new ordinance will allow for best management practices in regulating silver and mercury from over 500 physician and dental offices and grease and oil from approximately 1,500 restaurants. A mercury minimization program and fats, oil, and grease (FOG) programs have been implemented through the Best Management Practices (BMP). The new position of IPP supervisor was created and filled in 2006.

# **Genesee County Drain Commissioner**

## **Division of Water and Waste Services**

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### **Management's Discussion and Analysis (Continued)**

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 ensure 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

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 440 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. The Division has been actively pursuing the information needed to make decisions regarding a long-term water supply solution, anticipating resolution through a joint study with other regional water supply partner(s) during 2007.



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

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## **Management's Discussion and Analysis (Continued)**

### **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 and a flat rate is paid to the City of Flint.

Beginning in 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 of 2004 through 2007. Under the 2004 agreement, Flint is to conduct and complete a study revision justifying their charges to the County based upon "true cost of service." This study is expected to modify the flat rate charged by the City in 2007. A sewer rate study has been completed and a rate adjustment was implemented in October 2007.

### **Rate Structure**

The Division established a water rate in 2005 that separates Division costs from purchasing costs from Detroit and Flint. The rate structure requires 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 completed in 2007. Sewer rate models have been developed for the next five years. The rate models for Districts 3 and 7 were completed and approved in May 2006. The I & T model is scheduled for an October 2008 approval.

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

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## **Management's Discussion and Analysis (Continued)**

### **Grant Acquisitions**

- The Michigan State Police Emergency Management and Homeland Security Division reimbursed Genesee County Water and Waste Services approximately \$560,000 under the Hazard Mitigation Grant Program for Pump Station I.
- 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 none had been collected. The Division has been advised of a STAG grant award for \$1.18 million. In 2007, \$1,178,600 was collected.
- Five Clean Water Revolving Fund Program loans were approved for \$22,180,000 and \$2,815,000, \$7,705,000, \$10,500,000, and \$4,335,000, respectively, to fund the Northeast Extension Sewer. Additionally, \$2,815,000, \$3,867,164, \$348,692, and \$3,874,780 were also collected in 2007. A single audit was conducted in accordance with standards applicable to *Government Auditing Standards* issued by the Comptroller General of the United States. Work was substantially complete in 2007. This report is available at the Drain Commissioner's office.

### **Using this Annual Report**

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



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

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## **Management's Discussion and Analysis (Continued)**

### **Major Capital Assets and Debt Activity**

The Northeast Sewer Extension, at a cost of \$60,329,800, 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 2007, bonds were issued in the amounts of \$6,000,000, \$8,000,000, and \$6,000,000 for the purpose of paying the costs of improvements and extensions to the County's water supply and sewer systems. 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 sewer treatment and collection. At December 31, 2007, the cost for water of \$10,759,792 and \$41,576,015 for the North Water Loop Phase III have been recognized as construction in progress.

During 2007, Capital Improvement Funds (CCIF) were used to pay the revenue debt associated with the Western Trunk and Water Supply III in the amounts of \$2,119,482.12 (water) and \$2,795,391.51 (sewer).

### **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:

### **Statement of Net Assets**

- Restricted cash assets increased in the current year by approximately \$5,416,000, primarily due to the issuance of Northeast Extension Sewer Project revenue bonds to cover a portion of prior year capital costs, the receipt of \$1,178,000 STAG grant and the issuance of Sewage Disposal System No. 3 revenue bonds of which a portion will be spent on capital costs in 2008. This activity is described in greater detail in the major capital assets and debt activity section.
- Other noncurrent assets also increased in the current year by approximately \$21,149,000, primarily due to the increase in the Division's construction in progress. This activity is described in greater detail in the major capital assets and debt activity section.

# Genesee County Drain Commissioner

## Division of Water and Waste Services

### Management's Discussion and Analysis (Continued)

- Long-term debt increased in the current year due to the issuance of the following new bonds for construction: \$8,000,000 Northeast Extension Sewer Project revenue bonds, \$12,027,000 Clean Water Revolving Fund Program loans, \$6,000,000 Sewage Disposal System No. 3 revenue bonds, and \$6,000,000 Water Supply System Revenue Bonds. These new debt issuances along with annual debt service payments resulted in a \$23,337,000 net increase to long-term debt.
- Overall, total net assets increased by \$2,356,000 which is 1.8 percent change. This increase is the result of more favorable results of operations due to the rate increases.

### Statement of Revenue, Expenses, and Changes in Net Assets

- Operating revenue in the current year increased by 20 percent primarily due to increased usage from customers and the increase in rates for sewage disposal and water supply.
- Operating expenses in the current year increased by 10 percent primarily due to increased water consumption and the recognition of approximately \$1,200,000 owed to the City of Flint for the Henderson Road storage tanks.
- Miscellaneous nonoperating revenue decreased 30 percent due to a decrease in CCIF revenue.
- Capital contributions of approximately \$1,876,000 are the result of STAG capital grant revenue and hazard mitigation capital grant revenue.

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

	Year Ended December 31		
	2005	2006	2007
Total costs charged to townships	\$ 16,420,098	\$ 16,758,576	\$ 20,928,508
Total flow (thousands of gallons)	12,172,890	12,323,140	10,759,035
Cost per thousand of gallons	\$ 1.35	\$ 1.36	\$ 1.94

In 2007, metered water customers were charged \$2.57 for readiness to serve and a commodity charge of \$1.32 per 100 cubic feet of sewer. The sewer flat rate was increased mid-year to \$19.05. These rates are needed to cover estimated future costs for the operations capable of repairing and updating methods of treatment for better efficiency.

# 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 efficiency of water purchased:

	Year Ended December 31		
	2005	2006	2007
Total costs charged to townships	\$ 14,923,675	\$ 14,375,301	\$ 15,326,315
Amount of purchased water (cu. ft.)	749,012,899	715,678,137	711,504,206
Amount of sold water	725,581,002	714,488,431	627,982,061
Water efficiency	97%	100%	88%

The Division purchases water from the City of Flint, which in turn purchases water from the City of Detroit. The Division's payment to Flint is a flat rate of \$112,786 per month plus a commodity charge equal to the charge from Detroit to Flint for water. For August 2006 through July 2007, the rate was \$11.09/mcf. As described previously, the flat rate will increase according to the CPI-W percentage. With these rates increasing each year, the Division had a water rate study completed in 2004. The study presented 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 from August 1, 2007 to the present and were \$11.35/mcf.

### 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			
	2007		2006	
	Enterprise Fund	Internal Service Fund	Total	Total
<b>Assets</b>				
Current assets:				
Cash and cash equivalents (Note 2)	\$ 8,200,287	\$ 614,071	\$ 8,814,358	\$ 2,612,035
Accounts receivable	7,216,179	13,621	7,229,800	4,899,782
Prepaid expenses	-	-	-	224,884
Due from other governmental units	71,519	-	71,519	183,678
Current portion of leases receivable	4,540,000	-	4,540,000	4,930,000
Inventory	11,654	-	11,654	44,251
Total current assets	20,039,639	627,692	20,667,331	12,894,630
Noncurrent assets:				
Restricted cash and cash equivalents (Note 2)	10,261,945	-	10,261,945	4,845,274
Due from other governmental units	3,619,306	-	3,619,306	8,090,529
Leases receivable - Net of current portion	38,920,000	-	38,920,000	43,370,000
Local unit construction in progress	36,479,176	-	36,479,176	35,144,469
Capital assets (Note 3):				
Land and other assets not being depreciated	126,645,209	-	126,645,209	105,496,450
Buildings and equipment - Net of depreciation	110,946,355	2,590,195	113,536,550	116,684,773
Total noncurrent assets	326,871,991	2,590,195	329,462,186	313,631,495
Total assets	346,911,630	3,217,887	350,129,517	326,526,125
<b>Liabilities</b>				
Current liabilities:				
Drafts payable	5,788,662	-	5,788,662	4,228,805
Accounts payable and accrued expenses	2,373,805	118,643	2,492,448	2,400,710
Due to other governmental units	557,838	-	557,838	507,095
Internal balances	(37,941)	37,941	-	-
Current portion of bonds payable (Note 4)	9,200,000	-	9,200,000	8,780,000
Total current liabilities	17,882,364	156,584	18,038,948	15,916,610
Noncurrent liabilities:				
Liabilities related to restricted assets	2,789,392	-	2,789,392	6,266,069
Due to other governmental units	477,703	-	477,703	97,623
Deferred revenue	629,658	-	629,658	629,658
Unearned leases	37,107,303	-	37,107,303	37,802,996
Bonds payable - Net of current portion (Note 4)	158,834,033	-	158,834,033	135,917,048
Total noncurrent liabilities	199,838,089	-	199,838,089	180,713,394
Total liabilities	217,720,453	156,584	217,877,037	196,630,004
<b>Net Assets</b>				
Invested in capital assets - Net of related debt	116,677,747	2,590,195	119,267,942	125,784,175
Restricted for capital outlay	10,315,242	-	10,315,242	12,586,322
Restricted for debt service	672,895	450,000	1,122,895	663,665
Unrestricted	1,525,293	21,108	1,546,401	(9,138,041)
Total net assets	<u>\$ 129,191,177</u>	<u>\$ 3,061,303</u>	<u>\$ 132,252,480</u>	<u>\$ 129,896,121</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				
	2007			2006	
	Enterprise Fund	Internal Service Fund	Eliminations	Total	Total
<b>Operating Revenue</b>					
Sewage disposal service	\$ 20,928,508	\$ -	\$ -	\$ 20,928,508	\$ 16,758,576
Billing services	162,808	-	-	162,808	97,127
Sewer and pumping station -					
Operation and maintenance	1,232,537	-	-	1,232,537	630,323
Inspection fees	2,500	-	-	2,500	6,550
Water sales	16,336,861	-	-	16,336,861	14,375,301
Water meter sales	88,207	-	-	88,207	115,745
Billing to Enterprise Fund	-	397,933	(397,933)	-	-
Other operating revenue	1,154,483	3,965	-	1,158,448	1,262,029
Total operating revenue	39,905,904	401,898	(397,933)	39,909,869	33,245,651
<b>Operating Expenses</b>					
Personnel services	12,856,893	-	-	12,856,893	12,017,862
Contractual services	1,783,105	2,210	-	1,785,315	1,944,656
Sludge disposal service	1,541,002	-	-	1,541,002	1,319,089
Cost of water	10,759,793	-	-	10,759,793	7,875,096
Repairs and maintenance	2,700,085	797	-	2,700,882	3,448,279
Utilities	3,329,689	-	-	3,329,689	2,964,778
Other supplies and expenses	1,076,221	-	(397,933)	678,288	865,852
Insurance claims and expenses	593,362	37,188	-	630,550	464,104
Depreciation	3,096,331	568,734	-	3,665,065	3,536,574
Total operating expenses	37,736,481	608,929	(397,933)	37,947,477	34,436,290
<b>Operating Income (Loss)</b>	2,169,423	(207,031)	-	1,962,392	(1,190,639)
<b>Nonoperating Revenue (Expense)</b>					
Interest and investment revenue	2,274,752	9,281	-	2,284,033	2,614,773
Miscellaneous revenue	1,853,250	-	-	1,853,250	2,702,837
Gain on sale of capital asset	-	13,621	-	13,621	-
Interest expense	(5,316,252)	-	-	(5,316,252)	(4,891,651)
Miscellaneous expense	(316,661)	-	-	(316,661)	-
Total nonoperating revenue (expense)	(1,504,911)	22,902	-	(1,482,009)	425,959
<b>Income - Before capital contributions</b>	664,512	(184,129)	-	480,383	(764,680)
<b>Capital Contributions</b>	1,875,976	-	-	1,875,976	-
<b>Operating Transfer</b>	(70,439)	70,439	-	-	-
<b>Change in Net Assets</b>	2,470,049	(113,690)	-	2,356,359	(764,680)
<b>Net Assets - Beginning of year</b>	126,721,128	3,174,993	-	129,896,121	130,660,801
<b>Net Assets - End of year</b>	<u>\$ 129,191,177</u>	<u>\$ 3,061,303</u>	<u>\$ -</u>	<u>\$ 132,252,480</u>	<u>\$ 129,896,121</u>



# Genesee County Drain Commissioner Division of Water and Waste Services

## Statement of Cash Flows - Proprietary Fund Types

	Year Ended December 31			
	2007		2006	
	Enterprise Fund	Internal Service Fund	Total	Total
<b>Cash Flows from Operating Activities</b>				
Cash received from customers	\$ 37,409,776	\$ 621,363	\$ 38,031,139	\$ 32,386,211
Cash payments to suppliers and others for goods and services	(22,478,007)	-	(22,478,007)	(12,132,037)
Cash payments to employees	(11,986,911)	-	(11,986,911)	(19,513,388)
Net cash provided by operating activities	2,944,858	621,363	3,566,221	740,786
<b>Cash Flows from Capital and Related Financing Activities</b>				
Purchases of capital assets	(24,486,180)	(236,440)	(24,722,620)	(53,061,056)
Proceeds from sale of capital assets	-	13,621	13,621	44,737
Capital contributions from (to) communities	4,430,229	-	4,430,229	(3,665,000)
County capital improvement fees	1,853,350	-	1,853,350	2,398,950
Collections of leases receivable from municipalities	6,900,845	-	6,900,845	6,991,402
Proceeds from issuance of bonded debt	36,278,588	-	36,278,588	36,120,628
Principal paid on bond maturities	(14,305,000)	-	(14,305,000)	(7,020,000)
Interest paid on bonds and other long-term liabilities	(5,632,913)	-	(5,632,913)	(4,891,651)
Premium on bonded debt	47,855	-	47,855	-
Proceeds on grants	1,315,873	-	1,315,873	259,150
Net cash provided by (used in) capital and related financing activities	6,402,647	(222,819)	6,179,828	(22,822,840)
<b>Cash Flows from Investing Activities</b>				
Investment income	303,807	9,281	313,088	483,371
Operating transfer	(70,439)	70,439	-	-
Net cash provided by investing activities	233,368	79,720	313,088	483,371
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	9,580,873	478,264	10,059,137	(21,598,683)
<b>Cash and Cash Equivalents - Beginning of year</b>	3,092,697	135,807	3,228,504	24,827,187
<b>Cash and Cash Equivalents - End of year</b>	<b>\$ 12,673,570</b>	<b>\$ 614,071</b>	<b>\$ 13,287,641</b>	<b>\$ 3,228,504</b>
<b>Reconciliation of Operating Income (Loss) to Net Cash from Operating Activities</b>				
Operating income (loss)	\$ 2,169,423	\$ (207,031)	\$ 1,962,392	\$ (1,190,639)
Adjustments to reconcile operating income (loss) to net cash from operating activities:				
Depreciation	3,096,331	568,734	3,665,065	3,536,574
Changes in assets and liabilities:				
Accounts receivable	(2,316,397)	(13,621)	(2,330,018)	(1,769,061)
Inventories	32,597	-	32,597	(20,521)
Prepaid assets	224,884	-	224,884	(224,884)
Accounts payable, accrued expenses, and deferred revenue	(63,908)	93,552	29,644	(68,951)
Internal balances	(179,731)	179,729	(2)	-
Due (from) to other governmental units - Net	(18,341)	-	(18,341)	478,268
Net cash provided by operating activities	<b>\$ 2,944,858</b>	<b>\$ 621,363</b>	<b>\$ 3,566,221</b>	<b>\$ 740,786</b>
<b>Composition of Cash and Cash Equivalents</b>				
Cash and cash equivalents	\$ 8,200,287	\$ 614,071	\$ 8,814,358	\$ 2,612,035
Restricted cash and cash equivalents	10,261,945	-	10,261,945	4,845,274
Drafts payable	(5,788,662)	-	(5,788,662)	(4,228,805)
Total cash and cash equivalents	<b>\$ 12,673,570</b>	<b>\$ 614,071</b>	<b>\$ 13,287,641</b>	<b>\$ 3,228,504</b>

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

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

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## **Notes to Financial Statements December 31, 2007**

### **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 basic financial statements.

# **Genesee County Drain Commissioner**

## **Division of Water and Waste Services**

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### **Notes to Financial Statements**

#### **December 31, 2007**

#### **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

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### Notes to Financial Statements December 31, 2007

#### 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 basic financial statements due to the short maturity of such instruments.

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

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

**Leases Receivable** - Leases receivable consist of amounts due to the Division from various municipalities for construction activity. The Division constructs assets for various municipalities under 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 basic financial statements and an asset is recorded by the local community.

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

# Genesee County Drain Commissioner

## Division of Water and Waste Services

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### Notes to Financial Statements December 31, 2007

#### 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 \$1,090,915 and \$969,132 for the years ended December 31, 2007 and 2006, respectively. The total number of eligible retirees amounted to 82 and 77 individuals during December 31, 2007 and 2006, 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, 2007 and 2006, the Division has recorded a liability of approximately \$473,000 and \$467,000, 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	25-100 years
Buildings	50 years
Machinery and equipment	3-15 years

# **Genesee County Drain Commissioner**

## **Division of Water and Waste Services**

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### **Notes to Financial Statements**

#### **December 31, 2007**

#### **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 \$12,919,786 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, 2007

#### Note 3 - Capital Assets

The following is a summary of proprietary fund type capital assets at December 31, 2007:

	Balance January 1, 2007	Increases	Decreases	Reclassifications and Adjustments	Balance December 31, 2007
Proprietary funds capital assets:					
Enterprise Fund:					
Capital assets not being depreciated:					
Land	\$ 1,111,300	\$ 57,697	\$ (187,743)	\$ -	\$ 981,254
Construction in progress	104,385,149	21,278,806	-	-	125,663,955
Subtotal	105,496,449	21,336,503	(187,743)	-	126,645,209
Capital assets being depreciated:					
Distribution and collections system	68,713,796	-	-	69,163,748	137,877,544
Buildings and equipment	73,025,226	280,399	-	(69,163,748)	4,141,877
Subtotal	141,739,022	280,399	-	-	142,019,421
Less accumulated depreciation for:					
Distribution and collections system	(10,847,996)	(2,488,268)	-	(16,055,346)	(29,391,610)
Buildings and equipment	(17,128,741)	(608,061)	-	16,055,346	(1,681,456)
Subtotal	(27,976,737)	(3,096,329)	-	-	(31,073,066)
Net capital assets being depreciated	113,762,285	(2,815,930)	-	-	110,946,355
Total capital assets - Net of depreciation	219,258,734	18,520,573	(187,743)	-	237,591,564
Internal Service Fund:					
Capital assets being depreciated - Buildings and equipment	6,625,910	236,440	(61,398)	10,489	6,811,441
Less accumulated depreciation - Buildings and equipment	(3,703,421)	(568,734)	61,398	(10,489)	(4,221,246)
Net capital assets being depreciated	2,922,489	(332,294)	-	-	2,590,195
Total capital assets - Net of depreciation	2,922,489	(332,294)	-	-	2,590,195
Total proprietary funds capital assets	\$ 222,181,223	\$ 18,188,279	\$ (187,743)	\$ -	\$ 240,181,759

**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, 2007, the Division's commitments with contractors are as follows:

# Genesee County Drain Commissioner

## Division of Water and Waste Services

### Notes to Financial Statements December 31, 2007

#### Note 3 - Capital Assets (Continued)

	Spent to Date	Remaining Commitment
Interceptor and treatment facilities	\$ 60,382,548	\$ 17,506,118
Sewage disposal system, District No. 3	16,978,918	912,673
Water supply system	23,172,337	444,629
Total	<u>\$ 100,533,803</u>	<u>\$ 18,863,420</u>

#### Note 4 - Bonds Payable

The Division issues bonds to provide for the construction of water and waste systems in Genesee County and certain areas in surrounding counties. General obligation bonds are direct obligations that pledge the full faith and credit of the government. Revenue bonds involve a pledge of specific income derived from the acquired or constructed assets to pay debt service and require certain financial covenants to be met. During the years ended December 31, 2007 and 2006, the Division was in violation of these covenants.

The following is a summary of bond transactions for the Division for the year ended December 31, 2007:

	Number of Issues	Interest Rate	Maturing Through	Balance January 1, 2007	Additions	Reductions	Balance December 31, 2007	Due Within One Year
Genesee County Drain Commissioner bonds payable:								
Interceptor and treatment facilities	9	1.625%-5.00%	2028	\$ 56,607,048	\$ 20,026,985	\$ (2,930,000)	\$ 73,704,033	\$ 3,555,000
District No. 3	1	4.00%	2027	-	6,000,000	-	6,000,000	-
Water supply system	4	2.50%-5.00%	2033	39,790,000	6,000,000	(920,000)	44,870,000	1,105,000
Subtotal				96,397,048	32,026,985	(3,850,000)	124,574,033	4,660,000
Community-related bonds payable:								
Interceptor and treatment facilities	15	3.75%-7.00%	2026	10,785,000	-	(2,145,000)	8,640,000	1,685,000
District No. 3	9	2.50%-7.375%	2024	36,735,000	5,615,000	(7,930,000)	34,420,000	2,455,000
District No. 7	1	3.70%-5.60%	2008	175,000	-	(75,000)	100,000	100,000
Water supply system	3	3.75%-8.00%	2008	605,000	-	(305,000)	300,000	300,000
Subtotal				48,300,000	5,615,000	(10,455,000)	43,460,000	4,540,000
Total				<u>\$ 144,697,048</u>	<u>\$ 37,641,985</u>	<u>\$ (14,305,000)</u>	<u>\$ 168,034,033</u>	<u>\$ 9,200,000</u>



# Genesee County Drain Commissioner

## Division of Water and Waste Services

### Notes to Financial Statements December 31, 2007

#### Note 4 - Bonds Payable (Continued)

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

Years Ending December 31	Principal	Interest	Total
2008	\$ 9,200,000	\$ 5,942,875	\$ 15,142,875
2009	7,865,000	5,559,910	13,424,910
2010	8,195,000	5,187,541	13,382,541
2011	8,420,000	5,012,189	13,432,189
2012	8,800,000	4,710,328	13,510,328
2013-2017	46,000,000	18,705,948	64,705,948
2018-2022	35,420,000	11,645,929	47,065,929
2023-2027	32,125,862	6,050,130	38,175,992
2028-2032	10,473,171	1,775,969	12,249,140
2033	1,535,000	75,406	1,610,406
Total	<u>\$ 168,034,033</u>	<u>\$ 64,666,225</u>	<u>\$ 232,700,258</u>

#### Defeased Debt

During 2005, the Division issued \$15,840,000 in Limited Tax General Obligation Refunding Bonds with an average interest rate of 4 percent. The Division defeased \$5,525,000 of outstanding Series 1998 Sewage Disposal System 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 \$190,000. Accordingly, the trust accounts' assets and liabilities for the defeased bonds are not included in the basic financial statements. The advance refunding reduced total debt service payments over the next 11 years by approximately \$382,000, which represents an economic gain of approximately \$289,000. At December 31, 2007 and 2006, \$5,525,000 and \$16,750,000, respectively, of bonds outstanding are considered defeased.

# **Genesee County Drain Commissioner**

## **Division of Water and Waste Services**

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### **Notes to Financial Statements**

#### **December 31, 2007**

#### **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.

**Annual Pension Cost** - During 2007 and 2006, the Division's annual pension cost of \$1,689,682 and \$1,582,066, respectively, was equal to the Division's required and actual contributions. The required contributions were determined as part of the December 31, 2006 and 2005 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 8.00 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, 2006 of 20 years.

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

**Notes to Financial Statements  
December 31, 2007**

**Note 5 - Pension Plan (Continued)**

**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
2005	2003	15.94	\$ 1,203,954	\$ 1,203,954
2006	2005	17.58	1,582,066	1,582,066
2007	2006	15.94	1,689,682	1,689,682

**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)
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
2006	37,578,528	42,770,145	5,191,617	87.9	8,245,848	63.0

# **Genesee County Drain Commissioner**

## **Division of Water and Waste Services**

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### **Notes to Financial Statements**

#### **December 31, 2007**

#### **Note 6 - New Accounting Pronouncement**

The Governmental Accounting Standards Board has recently released Statement Number 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.

#### **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 had collected approximately \$13,214,000 as of December 31, 2005. In 2006, a judgment in the Appellate Court was 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. In 2006, the case was in appeals with the Michigan Supreme Court, and the appeals were denied. No further action occurred during 2007. All other claims and lawsuits, in the opinion of management, will not have a significant effect on the Division's basic financial statements.

## **Supplemental Information**

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# Genesee County Drain Commissioner Division of Water and Waste Services

## Statement of Net Assets (Divisional Detail) - Enterprise Fund

	Year Ended December 31,					2006
	2007				Total	
	Interceptor and Treatment Facilities	Sewage Disposal Systems		Water Supply Systems		
	District No. 3	District No. 7		Total	Total	
<b>Assets</b>						
Current assets:						
Cash and cash equivalents	\$ 2,331,172	\$ -	\$ 177,379	\$ 5,691,736	\$ 8,200,287	\$ 2,476,228
Accounts receivable	4,036,912	520,181	39,599	2,619,487	7,216,179	4,899,782
Prepaid expenses	-	-	-	-	-	224,884
Internal balances	3,685,887	7,294	413	17,060	3,710,654	3,702,144
Due from other governmental units	-	-	-	71,569	71,569	183,678
Leases receivable	1,685,000	2,455,000	100,000	300,000	4,540,000	4,930,000
Inventory	-	-	-	11,654	11,654	44,251
Total current assets	11,738,971	2,982,475	317,391	8,711,506	23,750,343	16,460,967
Noncurrent assets:						
Restricted cash and cash equivalents	3,645,022	5,017,810	1,487	1,597,626	10,261,945	4,845,274
Due from other governmental units	2,266,419	616,413	-	736,474	3,619,306	8,090,529
Leases receivable	6,955,000	31,965,000	-	-	38,920,000	43,370,000
Local unit construction in progress	4,771,858	29,062,082	-	2,645,236	36,479,176	35,144,469
Capital assets:						
Land and other assets not being depreciated	68,611,531	2,315,000	-	55,718,678	126,645,209	105,496,450
Buildings and equipment - Net of depreciation	100,910,930	64,941	8,999	9,961,485	110,946,355	113,762,284
Total noncurrent assets	187,160,760	69,041,246	10,486	70,659,499	326,871,991	310,709,006
Total assets	198,899,731	72,023,721	327,877	79,371,005	350,622,334	327,169,973
<b>Liabilities</b>						
Current liabilities:						
Drafts payable	5,675,450	113,212	-	-	5,788,662	4,228,805
Accounts payable and accrued expenses	979,392	261,403	45,777	1,087,233	2,373,805	2,375,619
Due to other governmental units	460,265	97,623	-	-	557,888	507,095
Internal balances	10,004	3,658,552	971	3,186	3,672,713	3,843,932
Bonds payable	5,240,000	2,455,000	100,000	1,405,000	9,200,000	8,780,000
Total current liabilities	12,365,111	6,585,790	146,748	2,495,419	21,593,068	19,735,451
Noncurrent liabilities:						
Liabilities related to restricted assets	2,024,340	730,297	-	34,755	2,789,392	6,266,069
Due to other governmental units	170	474,908	-	2,625	477,703	97,623
Deferred revenue	271,800	-	-	357,858	629,658	629,658
Unearned lease	4,737,481	29,649,482	-	2,720,340	37,107,303	37,802,996
Bonds payable - Net of current portion	77,104,033	37,965,000	-	43,765,000	158,834,033	135,917,048
Total noncurrent liabilities	84,137,824	68,819,687	-	46,880,578	199,838,089	180,713,394
Total liabilities	96,502,935	75,405,477	146,748	49,375,997	221,431,157	200,448,845
<b>Net Assets</b>						
Invested in capital assets - Net of related debt	95,804,509	64,941	8,999	20,799,298	116,677,747	122,861,686
Restricted for capital outlay	5,857,946	-	-	4,457,296	10,315,242	12,586,322
Restricted for debt service	635,252	32,639	1,279	3,725	672,895	663,665
Unrestricted	99,089	(3,479,336)	170,851	4,734,689	1,525,293	(9,390,545)
Total net assets	<b>\$ 102,396,796</b>	<b>\$ (3,381,756)</b>	<b>\$ 181,129</b>	<b>\$ 29,995,008</b>	<b>\$ 129,191,177</b>	<b>\$ 126,721,128</b>

# 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					
	2007				2006	
	Interceptor and Treatment Facilities	Sewage Disposal Systems District No. 3	District No. 7	Water Supply Systems	Total	Total
<b>Operating Revenue</b>						
Sewage disposal service	\$ 16,833,208	\$ 3,351,491	\$ 743,809	\$ -	\$ 20,928,508	\$ 16,758,576
Billing services	82,653	2	3,346	76,807	162,808	97,127
Sewer and pumping station - Operation and maintenance	1,232,537	-	-	-	1,232,537	630,323
Inspection fees	2,500	-	-	-	2,500	6,550
Water sales	-	-	-	16,336,861	16,336,861	14,375,301
Water meter sales	-	-	-	88,207	88,207	115,745
Other operating revenue	917,200	23,388	186	213,709	1,154,483	1,256,709
Total operating revenue	19,068,098	3,374,881	747,341	16,715,584	39,905,904	33,240,331
<b>Operating Expenses</b>						
Personnel services	8,413,422	1,143,845	379,406	2,920,220	12,856,893	12,017,862
Contractual services	838,881	178,818	17,888	747,518	1,783,105	1,681,622
Sludge disposal service	1,418,322	122,680	-	-	1,541,002	1,319,089
Cost of water	-	-	-	10,759,793	10,759,793	7,875,096
Repairs and maintenance	1,882,238	165,346	105,632	546,869	2,700,085	3,435,933
Utilities	2,317,255	425,025	130,368	457,041	3,329,689	2,964,778
Other supplies and expenses	659,717	80,293	34,368	301,843	1,076,221	1,504,550
Insurance claims and expenses	389,002	59,083	10,281	134,996	593,362	402,778
Depreciation	2,860,833	25,792	1,766	207,940	3,096,331	2,947,534
Total operating expenses	18,779,670	2,200,882	679,709	16,076,220	37,736,481	34,149,242
<b>Operating Income (Loss)</b>	288,428	1,173,999	67,632	639,364	2,169,423	(908,911)
<b>Nonoperating Revenue (Expense)</b>						
Interest and investment revenue	418,421	1,604,408	10,223	241,700	2,274,752	2,608,931
Miscellaneous revenue	949,575	-	-	903,675	1,853,250	2,658,100
Interest expense	(1,752,068)	(1,547,558)	(8,300)	(2,008,326)	(5,316,252)	(4,891,651)
Miscellaneous expense	(152,259)	(93,538)	-	(70,864)	(316,661)	-
Total nonoperating revenue	(536,331)	(36,688)	1,923	(933,815)	(1,504,911)	375,380
<b>Income (Loss) - Before capital contributions</b>	(247,903)	1,137,311	69,555	(294,451)	664,512	(533,531)
<b>Capital Contributions</b>	1,875,976	-	-	-	1,875,976	-
<b>Operating Transfer</b>	(40,051)	(1,783)	(3,537)	(25,068)	(70,439)	(174,233)
<b>Change in Net Assets</b>	1,588,022	1,135,528	66,018	(319,519)	2,470,049	(707,764)
<b>Net Assets (Deficit) - Beginning of year</b>	100,808,774	(4,517,284)	115,111	30,314,527	126,721,128	127,428,892
<b>Net Assets (Deficit) - End of year</b>	<b>\$ 102,396,796</b>	<b>\$ (3,381,756)</b>	<b>\$ 181,129</b>	<b>\$ 29,995,008</b>	<b>\$ 129,191,177</b>	<b>\$ 126,721,128</b>

# Genesee County Drain Commissioner

## Division of Water and Waste Services

### Statement of Cash Flows (Divisional Detail) - Enterprise Fund

	Year Ended December 31					
	2007				2006	
	Interceptor and Treatment Facilities	Sewage Disposal Systems		Water Supply Systems	Total	Total
	District No. 3	District No. 7				
<b>Cash Flows from Operating Activities</b>						
Cash received from customers	\$ 17,015,789	\$ 3,302,713	\$ 886,468	\$ 16,204,806	\$ 37,409,776	\$ 31,832,116
Cash payments to suppliers and others for goods and services	(8,413,422)	(939,711)	(284,115)	(12,840,759)	(22,478,007)	(19,288,544)
Cash payments to employees	(7,543,440)	(1,143,845)	(379,406)	(2,920,220)	(11,986,911)	(11,945,989)
Net cash provided by operating activities	1,058,927	1,219,157	222,947	443,827	2,944,858	597,583
<b>Cash Flows from Capital and Related Financing Activities</b>						
Purchases of capital assets	(18,818,511)	(2,314,999)	-	(3,352,670)	(24,486,180)	(52,632,452)
Capital contributions from (to) communities	3,795,317	(1,431,002)	42,225	2,023,689	4,430,229	(3,665,000)
County capital improvement fees	949,575	-	-	903,775	1,853,350	2,398,950
Collections of leases receivable from municipalities	2,527,975	3,960,515	83,333	329,022	6,900,845	6,991,402
Proceeds from issuance of bonded debt	18,663,588	11,615,000	-	6,000,000	36,278,588	36,120,628
Principal paid on bond maturities	(5,075,000)	(7,930,000)	(75,000)	(1,225,000)	(14,305,000)	(7,020,000)
Interest paid on bonds	(1,904,327)	(1,641,096)	(8,300)	(2,079,190)	(5,632,913)	(4,891,651)
Premium on bonded debt	3,452	33,538	-	10,865	47,855	-
Proceeds from grants	1,315,873	-	-	-	1,315,873	259,150
Net cash provided by (used in) capital and related financing activities	1,457,942	2,291,956	42,258	2,610,491	6,402,647	(22,438,973)
<b>Cash Flows from Investing Activities</b>						
Investment income	35,446	48,893	1,890	217,578	303,807	477,529
Operating transfer	(40,051)	(1,783)	(3,537)	(25,068)	(70,439)	(174,233)
Net cash provided by (used in) investing activities	(4,605)	47,110	(1,647)	192,510	233,368	303,296
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	2,512,264	3,558,223	263,558	3,246,828	9,580,873	(21,538,094)
<b>Cash and Cash Equivalents - Beginning of year</b>	(2,211,520)	1,346,375	(84,692)	4,042,534	3,092,697	24,630,791
<b>Cash and Cash Equivalents - End of year</b>	<b>\$ 300,744</b>	<b>\$ 4,904,598</b>	<b>\$ 178,866</b>	<b>\$ 7,289,362</b>	<b>\$ 12,673,570</b>	<b>\$ 3,092,697</b>
<b>Reconciliation of Operating Income (Loss) to Net Cash from Operating Activities</b>						
Operating income (loss)	\$ 288,428	\$ 1,173,999	\$ 67,632	\$ 639,364	\$ 2,169,423	\$ (908,911)
Adjustments to reconcile operating income (loss) to net cash from operating activities:						
Depreciation	2,860,833	25,792	1,766	207,940	3,096,331	2,947,534
Changes in assets and liabilities:						
Accounts receivable	(1,934,381)	(52,200)	140,608	(470,424)	(2,316,397)	(1,769,061)
Inventories	-	-	-	32,597	32,597	(20,521)
Prepaid assets	224,884	-	-	-	224,884	(224,884)
Accounts payable, accrued expenses, and deferred revenue	(228,659)	91,534	14,422	58,795	(63,908)	5,235
Internal balances	(117,928)	(19,968)	(1,481)	(40,354)	(179,731)	89,923
Due to (from) other governmental units - Net	(34,250)	-	-	15,909	(18,341)	478,268
Net cash provided by operating activities	<b>\$ 1,058,927</b>	<b>\$ 1,219,157</b>	<b>\$ 222,947</b>	<b>\$ 443,827</b>	<b>\$ 2,944,858</b>	<b>\$ 597,583</b>
<b>Composition of Cash and Cash Equivalents</b>						
Cash and cash equivalents	\$ 2,331,172	\$ -	\$ 177,379	\$ 5,691,736	\$ 8,200,287	\$ 2,476,228
Restricted cash and cash equivalents	3,645,022	5,017,810	1,487	1,597,626	10,261,945	4,845,274
Drafts payable	(5,675,450)	(113,212)	-	-	(5,788,662)	(4,228,805)
Total cash and cash equivalents	<b>\$ 300,744</b>	<b>\$ 4,904,598</b>	<b>\$ 178,866</b>	<b>\$ 7,289,362</b>	<b>\$ 12,673,570</b>	<b>\$ 3,092,697</b>

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



# Genesee County Drain Commissioner Division of Water and Waste Services

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Description of Issue	Principal Outstanding January 1, 2007	Issued (Retired) During the Year	Principal Outstanding December 31, 2007
Total interceptor and treatment facilities (Pages 35-38)	\$ 67,392,048	\$ 14,951,985	\$ 82,344,033
Total District No. 3 (Pages 39-40)	36,735,000	3,685,000	40,420,000
District No. 7 - 3.70% to 4.50% 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	175,000	(75,000)	100,000
Total water supply systems (Pages 41-42)	40,395,000	4,775,000	45,170,000
Total	<b><u>\$ 144,697,048</u></b>	<b><u>\$ 23,336,985</u></b>	<b><u>\$ 168,034,033</u></b>

## Summary of Bonds Payable Year Ended December 31, 2007

	2008	2009	2010	2011	2012	Later	Total
Principal	\$ 5,240,000	\$ 4,420,000	\$ 4,620,000	\$ 4,695,000	\$4,900,000	\$ 58,469,033	\$ 82,344,033
Interest	2,200,446	2,028,395	1,888,381	1,745,106	1,592,181	9,657,133	19,111,644
Principal	2,455,000	2,310,000	2,400,000	2,515,000	2,640,000	28,100,000	40,420,000
Interest	1,726,147	1,564,151	1,370,657	1,381,744	1,280,095	6,874,407	14,197,201
Principal	100,000	-	-	-	-	-	100,000
Interest	4,500	-	-	-	-	-	4,500
Principal	1,405,000	1,135,000	1,175,000	1,210,000	1,260,000	38,985,000	45,170,000
Interest	2,011,782	1,967,364	1,928,503	1,885,339	1,838,052	21,721,841	31,352,880
Principal	9,200,000	7,865,000	8,195,000	8,420,000	8,800,000	125,554,033	168,034,033
Interest	5,942,875	5,559,910	5,187,541	5,012,189	4,710,328	38,253,381	64,666,225
	<b><u>\$ 15,142,875</u></b>	<b><u>\$ 13,424,910</u></b>	<b><u>\$ 13,382,541</u></b>	<b><u>\$ 13,432,189</u></b>	<b><u>\$ 13,510,328</u></b>	<b><u>\$ 163,807,414</u></b>	<b><u>\$ 232,700,258</u></b>

# Genesee County Drain Commissioner Division of Water and Waste Services

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Description of Issue	Principal Outstanding January 1, 2007	Issued (Retired) During the Year	Principal Outstanding December 31, 2007
Total Genesee County Drain Commissioner bonds payable:			
Included in interceptor and treatment facilities	\$ 56,607,048	\$ 17,096,985	\$ 73,704,033
Included in District No. 3	-	6,000,000	6,000,000
Included in water supply system	<u>39,790,000</u>	<u>5,080,000</u>	<u>44,870,000</u>
Subtotal	96,397,048	28,176,985	124,574,033
Total community-related bonds payable	48,300,000	(4,840,000)	43,460,000
Total	<u>\$ 144,697,048</u>	<u>\$ 23,336,985</u>	<u>\$ 168,034,033</u>

## Summary of Bonds Payable (Continued) Year Ended December 31, 2007

	2008	2009	2010	2011	2012	Later	Total
Principal	\$ 3,555,000	\$ 3,900,000	\$ 4,060,000	\$ 4,205,000	\$ 4,375,000	\$ 53,609,033	\$ 73,704,033
Interest	1,861,332	1,747,509	1,630,759	1,510,141	1,379,123	8,396,910	16,525,774
Principal	-	195,000	205,000	215,000	225,000	5,160,000	6,000,000
Interest	212,890	249,038	134,038	232,638	223,838	1,887,787	2,940,229
Principal	1,105,000	1,135,000	1,175,000	1,210,000	1,260,000	38,985,000	44,870,000
Interest	<u>2,004,514</u>	<u>1,967,364</u>	<u>1,928,503</u>	<u>1,885,339</u>	<u>1,838,052</u>	<u>21,721,841</u>	<u>31,345,613</u>
Principal	4,660,000	5,230,000	5,440,000	5,630,000	5,860,000	97,754,033	124,574,033
Interest	4,078,736	3,963,911	3,693,300	3,628,118	3,441,013	32,006,538	50,811,616
Principal	4,540,000	2,635,000	2,755,000	2,790,000	2,940,000	27,800,000	43,460,000
Interest	<u>1,864,139</u>	<u>1,595,999</u>	<u>1,494,241</u>	<u>1,384,071</u>	<u>1,269,315</u>	<u>6,246,843</u>	<u>13,854,608</u>
Principal	9,200,000	7,865,000	8,195,000	8,420,000	8,800,000	125,554,033	168,034,033
Interest	<u>5,942,875</u>	<u>5,559,910</u>	<u>5,187,541</u>	<u>5,012,189</u>	<u>4,710,328</u>	<u>38,253,381</u>	<u>64,666,224</u>
	<b><u>\$ 15,142,875</u></b>	<b><u>\$ 13,424,910</u></b>	<b><u>\$ 13,382,541</u></b>	<b><u>\$ 13,432,189</u></b>	<b><u>\$ 13,510,328</u></b>	<b><u>\$ 163,807,414</u></b>	<b><u>\$ 232,700,258</u></b>

# Genesee County Drain Commissioner

## Division of Water and Waste Services

Description of Issue	Principal Outstanding January 1, 2007	Issued (Retired) During the Year	Principal Outstanding December 31, 2007
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	\$ 8,880,000	\$ (605,000)	\$ 8,275,000
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	5,450,000	(365,000)	5,085,000
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	2,885,000	(25,000)	2,860,000
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 10/1/07 through 2026	22,052,636	(822,636)	21,230,000
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 4/1/07 through 2026	15,231,945	(386,945)	14,845,000
4.00% to 4.35% Genesee County Sanitary Sewage Disposal System No. 1 Western Trunk Extension Sewer Phase II Series 2006 dated 09/01/06 in the amount of \$3,665,000. Due serially in amounts ranging from \$110,000 to \$285,000 through 2026.	3,665,000	(110,000)	3,555,000
1.625% County of Genesee Sanitary Sewage Disposal System Revenue Bonds, Northeast Extension Sewer Project, Series 2007 dated 9/20/07. State Revolving Fund Program in the original amount of \$10,500,000. Due in amounts ranging from \$450,000 to \$610,000 once first draw is made through 2028	-	388,171	388,171
1.625% County of Genesee Sanitary Sewage Disposal System Revenue Bonds, Northeast Extension Sewer Project, Series 2006A dated 9/21/06. State Revolving Fund Program in the original amount of \$2,815,000. Due in amounts ranging from \$120,000 to \$165,000 once first draw is made through 2027. Interest accrues from the date principal is disbursed until paid	642,467	2,172,533	2,815,000
4.00% to 4.40% Sewage Disposal System Revenue Bonds Series 2007 dated 9/1/07 in the original amount of \$8,000,000. Due serially and term amounts ranging from \$240,000 to \$605,000 through 2028	-	8,000,000	8,000,000
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	275,000	(275,000)	-
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	595,000	(300,000)	295,000
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	200,000	(100,000)	100,000

**Schedule of Bonds Payable  
Interceptor and Treatment Facilities  
Year Ended December 31, 2007**

	2008	2009	2010	2011	2012	Later	Total
Principal	\$ 640,000	\$ 675,000	\$ 715,000	\$ 755,000	\$ 800,000	\$ 4,690,000	\$ 8,275,000
Interest	344,460	318,160	290,360	260,553	228,305	558,583	2,000,421
Principal	375,000	390,000	410,000	425,000	440,000	3,045,000	5,085,000
Interest	200,862	190,550	178,460	164,520	140,648	486,588	1,361,628
Principal	25,000	210,000	220,000	230,000	235,000	1,940,000	2,860,000
Interest	117,220	112,520	103,920	94,805	85,273	296,873	810,611
Principal	965,000	980,000	995,000	1,010,000	1,025,000	16,255,000	21,230,000
Interest	344,988	329,306	313,381	297,213	280,800	2,049,069	3,614,757
Principal	670,000	685,000	695,000	705,000	720,000	11,370,000	14,845,000
Interest	235,788	224,778	213,566	202,191	190,613	1,341,763	2,408,699
Principal	115,000	120,000	125,000	135,000	140,000	2,920,000	3,555,000
Interest	144,335	139,635	134,735	129,535	124,035	963,350	1,635,625
Principal	-	15,000	15,000	15,000	15,000	328,171	388,171
Interest	6,844	4,626	485	-	-	-	11,955
Principal	120,000	120,000	125,000	125,000	130,000	2,195,000	2,815,000
Interest	45,722	43,794	41,844	39,813	37,781	296,725	505,679
Principal	-	240,000	255,000	265,000	280,000	6,960,000	8,000,000
Interest	362,456	331,178	321,578	311,378	300,778	2,803,124	4,430,492
Principal	-	-	-	-	-	-	-
Interest	-	-	-	-	-	-	-
Principal	295,000	-	-	-	-	-	295,000
Interest	6,711	-	-	-	-	-	6,711
Principal	100,000	-	-	-	-	-	100,000
Interest	2,000	-	-	-	-	-	2,000

# Genesee County Drain Commissioner Division of Water and Waste Services

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Description of Issue	Principal Outstanding January 1, 2007	Issued (Retired) During the Year	Principal Outstanding December 31, 2007
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	\$ 80,000	\$ (40,000)	\$ 40,000
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	280,000	(140,000)	140,000
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	380,000	(280,000)	100,000
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	200,000	(100,000)	100,000
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	400,000	(200,000)	200,000
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	775,000	(300,000)	475,000
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	700,000	(100,000)	600,000
1.625% County of Genesee Sanitary Sewage Disposal System Revenue Bonds, Northeast Extension Sewer Project, Series 2006C dated 12/14/06. State Revolving Fund Program in the original amount of \$4,335,000. Due in amounts ranging from \$185,000 to \$250,000 once first draw is made through 2027	-	4,335,000	4,335,000
1.625% County of Genesee Sanitary Sewage Disposal System Revenue Bonds, Northeast Extension Sewer Project, Series 2006B dated 12/14/06. State Revolving Fund Program in the original amount of \$7,705,000. Due in amounts ranging from \$330,000 to \$445,000 once first draw is made through 2027	-	4,730,862	4,730,862
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	4,350,000	(350,000)	4,000,000
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	350,000	(175,000)	175,000
<b>Total</b>	<b><u>\$ 67,392,048</u></b>	<b><u>\$ 14,951,985</u></b>	<b><u>\$ 82,344,033</u></b>

**Schedule of Bonds Payable  
Interceptor and Treatment Facilities (Continued)  
Year Ended December 31, 2007**

	2008	2009	2010	2011	2012	Later	Total
Principal	\$ 40,000	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 40,000
Interest	1,000	-	-	-	-	-	1,000
Principal	140,000	-	-	-	-	-	140,000
Interest	7,700	-	-	-	-	-	7,700
Principal	100,000	-	-	-	-	-	100,000
Interest	5,500	-	-	-	-	-	5,500
Principal	100,000	-	-	-	-	-	100,000
Interest	2,000	-	-	-	-	-	2,000
Principal	200,000	-	-	-	-	-	200,000
Interest	5,900	-	-	-	-	-	5,900
Principal	295,000	90,000	90,000	-	-	-	475,000
Interest	14,918	6,232	2,092	-	-	-	23,242
Principal	100,000	100,000	125,000	125,000	150,000	-	600,000
Interest	27,500	22,500	16,875	10,625	3,750	-	81,250
Principal	185,000	190,000	190,000	195,000	200,000	3,375,000	4,335,000
Interest	64,329	67,438	64,350	61,263	58,094	455,650	771,124
Principal	200,000	205,000	210,000	210,000	215,000	3,690,862	4,730,862
Interest	73,883	79,679	74,235	68,710	63,104	301,408	661,019
Principal	400,000	400,000	450,000	500,000	550,000	1,700,000	4,000,000
Interest	182,000	158,000	132,500	104,500	79,000	104,000	760,000
Principal	175,000	-	-	-	-	-	175,000
Interest	4,331	-	-	-	-	-	4,331
Principal	5,240,000	4,420,000	4,620,000	4,695,000	4,900,000	58,469,033	82,344,033
Interest	2,200,446	2,028,395	1,888,381	1,745,106	1,592,181	9,657,133	19,111,644
	<b>\$ 7,440,446</b>	<b>\$ 6,448,395</b>	<b>\$ 6,508,381</b>	<b>\$ 6,440,106</b>	<b>\$ 6,492,181</b>	<b>\$ 68,126,166</b>	<b>\$ 101,455,677</b>



# Genesee County Drain Commissioner Division of Water and Waste Services

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Description of Issue	Principal Outstanding January 1, 2007	Issued (Retired) During the Year	Principal Outstanding December 31, 2007
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	\$ 12,865,000	\$ (1,035,000)	\$ 11,830,000
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	160,000	(80,000)	80,000
4.00% Sewage Disposal System Bonds, #3 Revenue Series 2007 original amount of \$6,000,000.00 Due serially in amounts ranging from \$195,000 to \$470,000 through 2027	-	6,000,000	6,000,000
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	720,000	(390,000)	330,000
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	950,000	(75,000)	875,000
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	6,040,000	(5,850,000)	190,000
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	7,750,000	(250,000)	7,500,000
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	4,500,000	(100,000)	4,400,000
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	3,750,000	(150,000)	3,600,000
4.00% Sewage Disposal System Bonds, #3 Refunding Series 2007 original amount of \$5,615,000. Due serially in amounts ranging from \$20,000 to \$915,000 through 2019	-	5,615,000	5,615,000
<b>Total</b>	<b>\$ 36,735,000</b>	<b>\$ 3,685,000</b>	<b>\$ 40,420,000</b>

**Schedule of Bonds Payable - Sewage Disposal Systems  
District No. 3  
Year Ended December 31, 2007**

	2008	2009	2010	2011	2012	Later	Total
Principal	\$ 1,210,000	\$ 1,260,000	\$ 1,315,000	\$ 1,340,000	\$ 1,350,000	\$ 5,355,000	\$ 11,830,000
Interest	483,600	443,400	398,338	346,850	289,688	526,138	2,488,014
Principal	80,000	-	-	-	-	-	80,000
Interest	2,360	-	-	-	-	-	2,360
Principal	-	195,000	205,000	215,000	225,000	5,160,000	6,000,000
Interest	212,890	249,038	134,038	232,638	223,838	1,887,787	2,940,229
Principal	330,000	-	-	-	-	-	330,000
Interest	15,015	-	-	-	-	-	15,015
Principal	75,000	75,000	75,000	75,000	75,000	500,000	875,000
Interest	45,350	41,488	37,569	33,594	33,594	98,294	289,888
Principal	190,000	-	-	-	-	-	190,000
Interest	140,532	-	-	-	-	-	140,532
Principal	300,000	300,000	325,000	325,000	350,000	5,900,000	7,500,000
Interest	311,250	299,250	286,750	273,750	260,250	1,694,625	3,125,875
Principal	100,000	100,000	100,000	150,000	150,000	3,800,000	4,400,000
Interest	183,000	179,000	175,000	170,000	164,000	1,122,000	1,993,000
Principal	150,000	175,000	175,000	175,000	200,000	2,725,000	3,600,000
Interest	136,025	132,275	127,463	122,213	116,525	774,363	1,408,863
Principal	20,000	205,000	205,000	235,000	290,000	4,660,000	5,615,000
Interest	196,125	219,700	211,500	202,700	192,200	771,200	1,793,425
Principal	2,455,000	2,310,000	2,400,000	2,515,000	2,640,000	28,100,000	40,420,000
Interest	1,726,147	1,564,151	1,370,657	1,381,744	1,280,095	6,874,407	14,197,201
	<b>\$ 4,181,147</b>	<b>\$ 3,874,151</b>	<b>\$ 3,770,657</b>	<b>\$ 3,896,744</b>	<b>\$ 3,920,095</b>	<b>\$ 34,974,407</b>	<b>\$ 54,617,201</b>

# Genesee County Drain Commissioner Division of Water and Waste Services

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Description of Issue	Principal Outstanding January 1, 2007	Issued (Retired) During the Year	Principal Outstanding December 31, 2007
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	\$ 7,585,000	\$ (510,000)	\$ 7,075,000
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	17,445,000	(205,000)	17,240,000
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	14,760,000	(205,000)	14,555,000
4.00% to 4.40% Water Supply System Revenue Bonds dated 1/1/07 in the original amount of 6,000,000. Due serially and term in amounts ranging from \$150,000 to \$450,000 through 2032	-	6,000,000	6,000,000
5.00% to 5.85% Water Supply System No. 2 dated 6/1/68 in the amount of \$420,000. Due serially in the amount of \$15,000 through 2008	30,000	(15,000)	15,000
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 the amount of \$40,000 through 2008	80,000	(40,000)	40,000
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	495,000	(250,000)	245,000
<b>Total</b>	<b><u>\$ 40,395,000</u></b>	<b><u>\$ 4,775,000</u></b>	<b><u>\$ 45,170,000</u></b>

**Schedule of Bonds Payable  
Water Supply Systems  
Year Ended December 31, 2007**

	2008	2009	2010	2011	2012	Later	Total
Principal	\$ 530,000	\$ 550,000	\$ 570,000	\$ 590,000	\$ 615,000	\$ 4,220,000	\$ 7,075,000
Interest	267,236	251,036	233,524	212,461	188,361	558,772	1,711,390
Principal	220,000	230,000	245,000	255,000	270,000	16,020,000	17,240,000
Interest	832,562	823,762	814,563	804,763	794,563	10,760,075	14,830,287
Principal	205,000	205,000	210,000	215,000	225,000	13,495,000	14,555,000
Interest	647,238	641,088	634,938	628,638	621,650	7,335,038	10,508,590
Principal	150,000	150,000	150,000	150,000	150,000	5,250,000	6,000,000
Interest	257,478	251,478	245,478	239,478	233,478	3,067,956	4,295,346
Principal	15,000	-	-	-	-	-	15,000
Interest	375	-	-	-	-	-	375
Principal	40,000	-	-	-	-	-	40,000
Interest	1,380	-	-	-	-	-	1,380
Principal	245,000	-	-	-	-	-	245,000
Interest	5,513	-	-	-	-	-	5,513
Principal	1,405,000	1,135,000	1,175,000	1,210,000	1,260,000	38,985,000	45,170,000
Interest	2,011,782	1,967,364	1,928,503	1,885,339	1,838,052	21,721,841	31,352,880
	<b>\$ 3,416,782</b>	<b>\$ 3,102,364</b>	<b>\$ 3,103,503</b>	<b>\$ 3,095,339</b>	<b>\$ 3,098,052</b>	<b>\$ 60,706,841</b>	<b>\$ 76,522,880</b>

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

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**Report to the Drain Commissioner  
December 31, 2007**



**Plante & Moran, PLLC**

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East Lansing, MI 48823  
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To the Drain Commissioner  
Genesee County Drain Commissioner  
Division of Water and Waste Services

We have recently completed our audit of the basic financial statements of Genesee County Drain Commissioner Division of Water and Waste Services (the "Division") for the year ended December 31, 2007. In addition to our audit report, we are providing the following letter of increased audit communications, required audit communication, summary of unrecorded possible adjustments, and other recommendations which impact the Division:

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Report on Internal Control	2-8
Results of the Audit	9-11
Summary of Unrecorded Possible Adjustments	12
Other Recommendations	13-14

We are grateful for the opportunity to be of service to the Genesee County Drain Commissioner Division of Water and Waste Services. Should you have any questions regarding the comments in this report, please do not hesitate to call.

*Plante & Moran, PLLC*

June 27, 2008

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*

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

We have audited the financial statements of the Enterprise Fund and Internal Service Fund of Genesee County Drain Commissioner Division of Water and Waste Services (a component unit of Genesee County, Michigan) (the "Division") as of and for the year ended December 31, 2007, which collectively comprise the Division's basic financial statements, and have issued our report thereon dated June 27, 2008. 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 the Division's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the basic financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Division's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Division's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies and other deficiencies that we consider to be material weaknesses.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal controls. We consider the control deficiencies described below as findings 2007-1/2006-3, 2007-2/2006-4, and 2007-3 to be significant deficiencies in internal control over financial reporting.

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

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control. Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. We believe the deficiency described below as finding 2007-4 constitutes a material weakness.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Division's basic 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, the Drain Commissioner, and others within the Division and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

**Plante & Moran, PLLC**



Leslie J. Pulver, CPA



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

Reference Number	Findings
2007- 1/2006-3	<p data-bbox="414 409 860 451"><b>Bond Premiums and Discounts</b></p> <p data-bbox="414 514 893 556"><b>Finding Type</b> - Significant deficiency</p> <p data-bbox="414 619 1443 735"><b>Criteria</b> - Bond premiums and discounts should be capitalized and amortized over the life of the bond as required by Governmental Accounting Standards Board regulations.</p> <p data-bbox="414 798 1443 871"><b>Condition</b> - Net bond premiums have not been recorded or amortized as of the balance sheet date for amounts incurred prior to December 31, 2006.</p> <p data-bbox="414 934 1443 1008"><b>Context</b> - A net premium of approximately \$187,000 has not been recorded or amortized over the life of its respective bonds.</p> <p data-bbox="414 1071 1443 1228"><b>Cause</b> - The Division's finance department was unaware that the premium amount needed to be recorded on the financial statements in conjunction with the debt from which the premiums arose. During 2007, the Division recorded premiums related to the issuances during the current fiscal year.</p> <p data-bbox="414 1291 1443 1365"><b>Effect</b> - Liabilities and expenses are understated in each of the years over which the unrecorded bond premiums would be amortized.</p> <p data-bbox="414 1428 1443 1585"><b>Recommendation</b> - We recommend that the bond premium and discount amounts be recorded and amortized over the life of their respective bonds as required by Governmental Accounting Standards Board regulations for the premiums and discounts incurred prior to December 31, 2006.</p> <p data-bbox="414 1648 1443 1837"><b>Views of Responsible Officials and Planned Corrective Actions</b> - The Division is now aware that these amounts be recorded in conjunction with the corresponding debt and amortized over the same time as the original debt issues, all new bonds with associated premiums and discounts have been recorded properly.</p>

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

Reference Number	Findings
2007- 2/2006-4	<p data-bbox="414 409 738 451"><b>Year End Adjustments</b></p> <p data-bbox="414 514 893 556"><b>Finding Type</b> - Significant deficiency</p> <p data-bbox="414 619 1442 693"><b>Criteria</b> - All appropriate activity should be accurately recorded in each accrued liability and receivable accounts at the balance sheet date.</p> <p data-bbox="414 756 1442 871"><b>Condition</b> - Adjustments for interest payable related to debt, interest receivable from local communities, and adjustments to deferred revenue was not properly recorded in the general ledger.</p> <p data-bbox="414 934 1442 1050"><b>Context</b> - Unrecorded amounts for interest payable related to debt, interest receivable from local communities, and adjustments to deferred revenue amounted to approximately \$495,000, \$155,000, and \$630,000, respectively.</p> <p data-bbox="414 1113 1442 1186"><b>Cause</b> - The Division did not review these receivable and accrued amounts to ensure that all necessary amounts had been properly recorded.</p> <p data-bbox="414 1249 1442 1323"><b>Effect</b> - Certain asset and liability accounts are under or overstated at the balance sheet date.</p> <p data-bbox="414 1386 1442 1501"><b>Recommendation</b> - The Division should develop a checklist that will enable them to make certain that all pertinent accounts have been reviewed for the appropriate activity, specifically at year end.</p> <p data-bbox="414 1564 1442 1795"><b>Views of Responsible Officials and Planned Corrective Actions</b> - The Division believes that the majority of these transactions were the cause of “nontriggering events” in which invoices had not been received by year end, or in which there would not have been any other indicator that money was owed or receivable from another entity. The Division will properly review these accounts at year end for proper adjustments.</p>

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

Reference Number	Findings
2007-3	<p data-bbox="414 415 649 451"><b>Bond Covenants</b></p> <p data-bbox="414 520 889 556"><b>Finding Type</b> - Significant deficiency</p> <p data-bbox="414 625 1443 730"><b>Criteria</b> - The Division has bond covenants related to various revenue bond series that require a certain level of bond reserves and rate structures to cover operating and debt service requirements.</p> <p data-bbox="414 800 1443 871"><b>Condition</b> - The Division does not monitor the bond covenant requirements at year end or throughout the year.</p> <p data-bbox="414 940 1443 976"><b>Context</b> - The Division currently does not meet all of the required covenants.</p> <p data-bbox="414 1045 1443 1186"><b>Cause</b> - The Division did not review their covenants throughout the year to determine that they were appropriately met. Specifically, two of the enterprise sub-funds did not charge a rate to cover the operating expenses in addition to the debt service requirements.</p> <p data-bbox="414 1255 1443 1327"><b>Effect</b> - Violation of bond covenants could trigger a call from borrowers of the bonds.</p> <p data-bbox="414 1396 1443 1501"><b>Recommendation</b> - The Division should monitor its bond covenants throughout the year and ensure that adequate rates are charged to cover the related bond requirements.</p> <p data-bbox="414 1570 1443 1757"><b>Views of Responsible Officials and Planned Corrective Actions</b> - The Division will review all bond covenant requirements and will develop a schedule to compute the bond reserve and rate structure requirements. These requirements will be monitored throughout the year. Rates will be adjusted as necessary to comply with these requirements.</p>

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

Reference Number	Findings
2007-4	<p data-bbox="414 415 1010 451"><b>Adequate and Timely Financial Reporting</b></p> <p data-bbox="414 520 863 556"><b>Finding Type</b> - Material weakness</p> <p data-bbox="414 625 1435 882"><b>Criteria</b> - The Division's general ledger was not balanced for the year ended December 31, 2007 until June 2008. Additionally, the Division required a significant number of entries to convert their general ledger from a cash basis to accrual basis in conformity with accounting principles generally accepted in the United States of America as applied to governmental units. Finally, the general ledger did not reconcile to the subsidiary systems of the Division for cash, accounts payable, accounts receivable, and other receivables/accruals.</p> <p data-bbox="414 951 1435 1060"><b>Condition</b> - The Division does not have the appropriate accounting processes in place to adequately record and report all required adjustments for completion of monthly, quarterly, and annual financial statements.</p> <p data-bbox="414 1129 1435 1344"><b>Context</b> - The Division converted general ledger software in the current year, and was unable to spend the appropriate time to verify the accuracy of the system before its use, creating unbalanced funds in the general ledger. Additionally, the Division does not have the appropriate accounting processes in place or the appropriate oversight for completion of monthly, quarterly, and annual financial statements.</p> <p data-bbox="414 1413 1435 1522"><b>Cause</b> - Technology issues in the current year went unresolved for the majority of the year, creating the inability for a proper year-end close as planned by the Division.</p> <p data-bbox="414 1591 1435 1780"><b>Effect</b> - The general ledger remained unbalanced for more than six months subsequent to year end, along with a significant number of adjusting entries being required to convert to an accrual basis in conformity with accounting principles generally accepted in the United States of America as applied to governmental units.</p>

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

Reference Number	Findings
2007-4 (Continued)	<p data-bbox="414 430 1177 462"><b>Adequate and Timely Financial Reporting</b> (Continued)</p> <p data-bbox="414 535 1435 682"><b>Recommendation</b> - The Division should perform monthly, quarterly, and annual processes to reconcile all accounts and record all appropriate entries. This will allow management to receive timely information to make timely and informed decisions.</p> <p data-bbox="414 714 1435 903"><b>Views of Responsible Officials and Planned Corrective Actions</b> - The Division changed Microsoft partners in 2008 and a complete audit of all financial software was completed resulting in a number of significant changes to the software. Additionally, extensive retraining will take place with Division staff to ensure proper recording of accounting transactions.</p> <p data-bbox="414 924 1435 1218">The Division will contract with an outside accounting consultant in 2008 to oversee that proper accounting processes are in place to adequately record and report financial data. The accounting consultant will be ensuring that the general ledger is balanced and reconciled to all subsidiary ledgers, and prepare monthly, quarterly, and annual financial statements. Additionally, the Division is interviewing for the position of assistant finance manager. Should the Division fill this position, that person would assume the responsibilities of the accounting consultant.</p> <p data-bbox="414 1239 1435 1425">Subsequent to the completion of the 2007 audit, the unrecorded receivables adjustment for current assets was reduced from (\$631,902), as reported in the summary of unrecorded possible adjustments, to (\$98,827). Additional reconciliation of subsidiary ledgers to the general ledger continues to take place in order to bring the two into balance.</p>

## Results of the Audit

June 27, 2008

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

Dear Mr. Wright:

We have audited the financial statements of Genesee County Drain Commissioner Division of Water and Waste Services (the "Division") for the year ended December 31, 2007, and have issued our report thereon dated June 27, 2008. Professional standards require that we provide you with the following information related to our audit.

### **Our Responsibility Under U.S. Generally Accepted Auditing Standards**

As stated in our engagement letter dated November 13, 2007, our responsibility, as described by professional standards, is to express an opinion about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. We are responsible for planning and performing the audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement. As part of our audit, we considered the internal control of Genesee County Drain Commissioner Division of Water and Waste Services. Our consideration of internal control was solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

We are responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures specifically to identify such matters and our audit of the financial statements does not relieve you or management of your responsibilities.

Our audit of the Division's financial statements has also been conducted in accordance with *Government Auditing Standards*, issued by the Comptroller General of the United States. Under *Government Auditing Standards*, we have made some assessments of the Division's compliance with certain provisions of laws, regulations, contracts, and grant agreements. While those assessments are not sufficient to identify all noncompliance with applicable laws, regulations, and contract provisions, we are required to communicate all noncompliance conditions that come to our attention. We are required to communicate any conditions in the report on internal control over financial reporting and on compliance and other matters included with this package. No such conditions were required to be communicated.

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

We also are obligated to communicate certain matters related to our audit to those responsible for the governance of the Division, including certain instances of error or fraud and significant deficiencies in internal control that we identify during our audit. In certain situations, *Government Auditing Standards* require disclosure of illegal acts to applicable government agencies. If such illegal acts were detected during our audit, we would be required to make disclosures regarding these acts to applicable government agencies. No such disclosures were required.

### **Planned Scope and Timing of the Audit**

We performed the audit according to the planned scope and timing previously communicated to you in our letter about planning matters dated April 8, 2008.

### **Significant Audit Findings**

#### ***Qualitative Aspects of Accounting Practices***

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by Genesee County Drain Commissioner Division of Water and Waste Services are described in Note I to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year.

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

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

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate affecting the financial statements was the recording of unbilled revenue at year end.

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

#### ***Difficulties Encountered in Performing the Audit***

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

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

### ***Corrected and Uncorrected Misstatements***

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. The attached schedule summarizes uncorrected misstatements of the financial statements. Management has determined that their effects are immaterial, both individually and in the aggregate, to the financial statements taken as a whole. There were significant material misstatements detected as a result of audit procedures that were corrected by management related to cash to accrual transactions, specifically receivables, payables, construction in progress, and classification of net assets.

### ***Disagreements with Management***

For the purpose of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

### ***Management's Representations***

We have requested certain representations from management that are included in the management representation letter dated June 27, 2008.

### ***Management's Consultations with Other Independent Accountants***

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the organization's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

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

Very truly yours,

**Plante & Moran, PLLC**



Leslie J. Pulver

Attachment



Client: **Genesee County Drain Commission**  
 Y/E: **December 31, 2007**

**SUMMARY OF UNRECORDED POSSIBLE ADJUSTMENTS**

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

Ref. #	Description of Misstatement	Current Assets	Long-Term Assets	Current Liabilities	Long-Term Liabilities	Equity	Revenue	Expenses	Net Income
<b>KNOWN MISSTATEMENTS:</b>									
A1	To properly record capital premiums/discounts related to bond issuances (non-community debt) for bond issuances prior to 2007 using straight-line method			187,161				187,161	(187,161)
A2	To adjust W&S revenue to agree to supporting receivable detail schedule	(631,902)					(631,902)		(631,902)
A3	To adjust cash to agree to general ledger balance per bank reconciliation	39,070					39,070		39,070
A4	To adjust accounts payable balance per general ledger to supporting documentation			56,290				56,290	(56,290)
									-
									-
<b>ESTIMATE ADJUSTMENTS:</b>									
B1	To record accrued payroll for calculated amount			173,290				173,290	(173,290)
B2	To adjust deferred revenue (actual amount not known)			(629,658)			629,658		629,658
B3	To record accrued interest payable and receivable, and the related expense and revenue	155,345		495,240			155,345	495,240	(339,895)
B4	To adjust interest income at year-end (including cash and investments) to supporting documentation	(59,158)					(59,158)		(59,158)
									-
									-
<b>IMPLIED ADJUSTMENTS</b>									
	None								-
									-
									-
	Combined Effect	\$ (496,645)	\$ -	\$ 282,323	\$ -	\$ -	\$ 133,013	\$ 911,981	\$ (778,968)

## **Other Recommendations**

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

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## **Other Recommendations**

During the course of our audit, and in addition to the above mentioned significant deficiencies and recommendations, we present the following observations and recommendations in order to increase the accuracy and integrity of the Division's financial reporting.

- Several bank reconciliations were not dated or signed by the preparer, nor were being reviewed by an independent individual. We recommend that the preparation of all bank reconciliations be evidenced with signatures and dates and that an individual independent of the cash receipts, cash disbursements, and general ledger review, date, and sign the bank reconciliations.
- Wire transfers are not dated or signed by the preparer, nor were being reviewed by an independent individual. We recommend that all wire transfers be evidenced with signatures and dates and that an individual independent of the cash receipts, cash disbursements, and general ledger review, date, and sign the transfers.
- General journal entries are not reviewed by an individual other than the preparer. We recommend that all general journal entries be reviewed by an individual other than the preparer of the general journal entry.
- Receivable balances owed from local units and compensated absences owed to employees, as detailed on supporting schedules prepared by the Division, did not agree to the general ledger. We recommend that all detail supporting schedules be reviewed and reconciled to the general ledger.
- The Division will be required to implement GASB No. 45, as described in the footnotes to the financial statements, for the year ended December 31, 2008. As such, we encourage the Division to consider two separate, yet related items. The first consideration is whether or not the pension liability will be funded. Should the Division decide to fund this liability, there will be a significant impact on the Division's budget. The ramifications of such an impact should be contemplated sooner rather than later. The second consideration is how the expense for this pension liability will be funded. There are several potential avenues the Division could pursue, ranging from funding it out of current operating revenues, to passing the cost along to the Division's consumers by funding through an increase in service rates. Regardless of the avenue the Division chooses, we recommend that the necessary and appropriate actions be initiated in the near future.
- Our review of the internal controls related to the Division's information technology systems have resulted in several recommendations that have been presented directly to the information technology department through a separate communication.