

**NORTHWEST OTTAWA WATER
TREATMENT PLANT**

FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2009 AND 2008

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November 1, 2009

Honorable Mayor and City Council
Northwest Ottawa Water System Administrative Committee

It is with great pleasure that we present the Northwest Ottawa Water System (NOWS) Financial Statements for the fiscal year ended June 30, 2009.

NOWS is a joint venture of Northwest Ottawa area local units of government to provide water treatment services for their respective communities. As the City of Grand Haven, by contract, is the fiscal agent for NOWS, this report has been prepared by City Administration, particularly the Finance Office. City Administration holds full responsibility for the completeness and accuracy for all statements, schedules, notes and analysis herein. To provide a reasonable basis for making these representations, City Administration maintains a system of internal controls to protect NOWS assets from theft, loss, or misuse and to compile reliable information for the presentation of their financial statements in conformity with generally accepted accounting principles. The cost of internal controls should not exceed the benefits received; therefore the internal controls have been designed to provide reasonable assurance rather than absolute assurance that the financial statements will be free from material misstatement. As City Administration, we assert, to the best of our knowledge and belief, that this financial report is complete and reliable in all material respects.

The Reporting Entity

NOWS was established March 1, 1988, through a joint venture agreement between the City of Grand Haven, the City of Ferrysburg, the Charter Township of Grand Haven and the Township of Spring Lake to provide regional water treatment services. The Village of Spring Lake joined NOWS on April 24, 1992. In 1986, the current water treatment plant was built. Over the years the plant has been upgraded and modified to its current rated capacity of 15.5 million gallons per day. It presently operates at an average capacity of 50% during the majority of the year and at 80% capacity during the summer. In 1991, the north intake bed and pumping station was built. The City's Ranney Wells and Crows Foot intakes were dismantled in 2002, due to high maintenance and poor production. In 2005, the south intake bed was repaired after the initial project failed to operate properly. NOWS presently serves a population of approximately 40,000.

The City of Grand Haven provides management and financial administration under contractual agreement to NOWS and, also, to the following organizations:

Grand Haven/Spring Lake Sewer Authority, a separate governmental entity providing wastewater treatment services, and,
Ottawa County Central Dispatch Authority, a component unit of Ottawa County providing "911" emergency dispatch services.

The financial reports of these entities as well as the City of Grand Haven are reported elsewhere and are not included here.

Budgeting and Financial Planning

As part of the City's financial planning process, the NOWS Administrative Committee adopts an annual budget including a six year Capital Improvement Plan. These two documents address the Administrative Committee's strategy to improve water treatment operations and maintain the water plant. The budget document provides the financial framework for planning and control, as well as defining NOWS efforts for the future. The Capital Improvement Plan provides the Administrative Committee and staff with a strategy for future major capital items and related financial resources that will be required over the next six years to implement the Administrative Committee vision.

The budget process begins in late fall with a goal-setting session. The Water Plant Manager, the Grand Haven City Manager, Grand Haven Director of Public Works and Finance Director draft the budget on a line item basis, considering capital and operational priorities separately and combining both into a preliminary budget document. The NOWS Administrative Committee adopts the budget on a whole fund basis, which is included in the overall City of Grand Haven annual budget document for ease of public review.

After the close of the fiscal year, the annual Financial Statements are prepared to report on the financial condition of NOWS and the fiscal results of its operations. Included in the report are comparisons of actual revenues and expenditures of the audit year and the prior year.

Economic Condition and Outlook

The current state economic conditions continue to present employment challenges for displaced employees and the local economy as a whole. Economic forecasts indicate a continuation of challenging conditions for 2009 and beyond in Michigan, some estimates indicating at least a four year cycle until improvements occur. Keys to these forecasts are reductions in auto and furniture industry jobs and capital plans and a continuing retrenching in Michigan's manufacturing economy. Losses of Eagle Ottawa Leather operations in November, 2007 and the closing of the Magna Donnelly division plant point to continuing economic stress locally.

NOWS has noted a continuing increase in water treatment demand from its local municipal customers. The south intake and the remodeled pump station were reconstructed under Ottawa County Public Utilities direction and efforts to utilize this intake began in early winter 2005. The south intake was reconstructed later in 2005 as the initial construction failed to perform effectively. Litigation is ongoing regarding the construction.

A water plant expansion and renovation project began at the end of the fiscal year and will continue until 2011. NOWS anticipates a future need for an additional infiltration bed intake system to match the increased pumping capacity for the proposed expanded 23.25 million gallon treatment facility. Likewise, requirements to install a redundant transmission pipe from the Lake Pumping Station to the plant are being considered. NOWS can receive additional water from water system interconnects and operating agreements with Muskegon and Grand Rapids water systems. NOWS notes that continuing population increases in the townships and future economic growth will provide increasing demand for water in the future.

2008-09 Initiatives:

- Assessed existing high and low service pumps for repairs and upgrades.
- Upheld the cross-training efforts of prospective public works staff as water plant operators.
- Assisted and completed the City's water distribution sampling program (IDSE) for the EPA's Stage 2 Disinfection By-Products (DBP) Rule.
- Completed the preliminary design for the raw water pumping system improvements.
- Re-established the Crew Leader position.
- Continued with the construction of the 23.25 million gallon water treatment facility expansion project, which is to be completed in May of 2011.

Future Initiatives:

- Evaluate staff's additional responsibilities, and if necessary hire new operators to meet plant goals.
- Begin the Source Water Intake Protection Plan (SWIPP) through the Michigan Rural Water Association with possible funding through state and federal grants.

- Submit and help implement the City's Stage 2 Disinfection By-Products (DBP) Sampling Program.
- Assist and implement the City's and NOWS Lead and Copper Sampling Program.
- Begin the EPA's UCMR2 Sampling Program.
- Begin the raw water pumping system improvements (estimated at \$5,600,000), which includes a new second raw water main, backwash tank and VFD pump rehabilitation work.
- Evaluate and implement a computer maintenance management software system for the facility and staff.

Reporting Model Format

The objective of the Financial Statements of NOWS under GASB Statement 34 is to highlight the accountability of NOWS by providing useful information to a wide range of users. A few of the more significant reporting requirements include:

- This transmittal letter and the "Management's Discussion and Analysis" (MD&A). These documents provide an in-depth review and discussion of the NOWS' financial position. GASB Statement 34 provides very specific guidance for topics that must be covered in the MD&A. Many of the key financial topics are covered by the MD&A which can be found immediately after the auditor's opinion letter.
- Consistent with the appropriate accounting basis for enterprise funds, NOWS statements are presented on a full accrual basis of accounting. The full accrual method addresses overall operating results and the financial position of the NOWS as an economic entity, as is done in the private sector.
- NOWS has only one operating fund, a proprietary fund.

The NOWS report is significantly less complex than other municipal reports due to the single fund included in the report and the proprietary fund format.

Independent Audit

State statutes and the City Charter require an annual financial audit by an independent certified public accounting firm. In March 2009, City Council selected the accounting firm of Rehmann Robson, Certified Public Accountants to provide auditing services for this and the next four CAFR reports. The former auditing firm, Pridnia LaPres, PLLC, was merged with Rehmann Robson during the fiscal year. The same Audit Partner and auditing staff continue on the City's audit this year, under Rehmann Robson, providing efficient auditing in a cost effective manner.

Acknowledgments

The work of preparing the financial report has required the help and assistance of many people. The staff of the City of Grand Haven Finance and City Treasurer Departments in particular spent many hours working on this project. Katrina Robinson, Accounting Supervisor, deserves special thanks for her efforts in organizing and directing the audit preparation work.

Sincerely,

Patrick McGinnis
 City Manager and
 Chairman of the NOWS
 Administrative Committee
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 Finance Director
 City of Grand Haven
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INDEPENDENT AUDITORS' REPORT

November 9, 2009

To the Members of the Administrative Committee
Northwest Ottawa Water Treatment Plant
Grand Haven, Michigan

We have audited the accompanying financial statements of the *Northwest Ottawa Water Treatment Plant* as of and for the year ended June 30, 2009, as listed in the table of contents. These financial statements are the responsibility of the *Northwest Ottawa Water Treatment Plant's* management. Our responsibility is to express an opinion on these financial statements based on our audit. The June 30, 2008 financial statements of the Northwest Ottawa Water Treatment Plant were audited by Pridnia LaPres, PLLC, who merged with Rehmann Robson as of January 1, 2009 and whose report dated October 27, 2008, expressed an unqualified opinion on those financial statements.

We conducted our audit of the June 30, 2009 financial statements in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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 audit of the June 30, 2009 financial statements provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the *Northwest Ottawa Water Treatment Plant* as of June 30, 2009, and the respective changes in financial position and cash flows thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis on pages 5 through 8 is not a required part of the basic financial statements but is supplementary information required by the *Governmental Accounting Standards Board*. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit this information and express no opinion thereon.

The letter of transmittal has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on it.



**Northwest Ottawa Water Treatment Plant
Management's Discussion and Analysis
June 30, 2009 and 2008**

1) Financial Highlights

- a) The Northwest Ottawa Water System ("NOWS") operates a Treatment Plant Fund to account for costs of operation and maintenance of a joint purchase venture water treatment facility serving the following Northwest Ottawa communities: the City of Grand Haven, the Village of Spring Lake, the City of Ferrysburg, the Charter Township of Grand Haven and the Township of Spring Lake and their end-user water customers.

The NOWS Fund ended the fiscal year in better financial position than the prior year and under budget. Overall debt was lower at June 30, 2009, however, in July, 2009, issuance of a County of Ottawa Capital Improvement (Building America) Bond to fund the plant renovation and expansion project in the amount of \$15,420,000 occurred.

- b) Business-type activities net assets increased from \$5,815,344 to \$6,262,220.
- c) Total operating expenses for business-type activities increased from \$1,431,325 to \$1,450,313 primarily in intake and treatment costs.

2) Overview of Financial Statements

a) Overall financial picture

The financial statements provide the NOWS financial position using the full accrual method of accounting. This method of accounting is similar to private sector for-profit accounting.

i) Statements of Net Assets

The *Statements of Net Assets* provide information on assets, liabilities and the difference between assets and liabilities, which is called net assets. Over time, increases and decreases in net assets can serve as a barometer of financial health. A trend of increasing net assets is viewed as a sign of improving condition. The *Statements of Net Assets* are similar to a balance sheet in private sector accounting.

ii) Statements of Revenues, Expenses and Changes in Net Assets

The *Statements of Revenues, Expenses and Changes in Net Assets* report the underlying causes of the change in net assets. All changes in net assets are reported as the change occurs and include depreciation on the assets. This statement does not report any capital projects. Capital projects are reported on the *Statements of Net Assets*.

b) Notes to the Financial Statements

Immediately after the financial statements are the Notes to the Financial Statements. The Notes are an integral part of the financial statements. The Notes contain many additional disclosures about the financial health of NOWS.

3) Financial Analysis

a) Net Assets

The *Statements of Net Assets* provides an overview of NOWS assets, liabilities and net assets. As mentioned above, over time, this can provide a good indicator of fiscal health. A comparative analysis between the current report year and the prior year is herein presented.

On the next page is a summarized version of the *Statements of Net Assets*.

**Northwest Ottawa Water Treatment Plant
Management's Discussion and Analysis
June 30, 2009 and 2008**

June 30,	2009	2008
Net Assets		
Assets		
Current and other assets	\$1,416,320	\$1,413,404
Capital assets, net	5,812,328	6,180,645
Total Assets		
	7,228,648	7,594,049
Liabilities		
Long-term debt	803,750	1,627,500
Other liabilities	162,678	151,205
Total Liabilities		
	966,428	1,778,705
Net Assets		
Invested in capital assets, net of related debt	5,812,328	5,376,896
Restricted	226,858	218,161
Unrestricted	223,034	220,288
Total Net Assets		
	\$6,262,220	\$5,815,344

The total assets of NOWS are \$7,228,648, however, \$5,812,328 represents net investment in capital assets including infrastructure. Of the more liquid net assets, \$226,858 is restricted. Total net assets increased by \$446,876 during the fiscal year as NOWS prepares for plant renovation and expansion from its current 15 MGD capacity to 22 MGD.

b) **Changes in Net Assets**

Significant changes in net assets are shown in the table on the next page.

**Northwest Ottawa Water Treatment Plant
Management's Discussion and Analysis
June 30, 2009 and 2008**

Changes in Net Assets

Year ended June 30,	2009	2008
Revenue		
Operating Revenue – Earned revenue	\$959,216	\$1,045,039
Operating Expenses		
Purchased water	27,520	81,355
Intake	289,282	275,781
Treatment	465,905	430,520
Administrative	287,144	263,307
Depreciation	380,462	380,362
Total Operating Expenses	1,450,313	1,431,325
Non-Operating Revenue (Expenses)		
Debt service charge	894,593	952,524
Capital replacement charge	124,827	132,910
Interest income on investments	9,225	42,326
Interest expense	(50,790)	(74,463)
Deferred charge on refunding	(41,250)	(41,250)
Non-operating grants - state	800	4,342
Other	568	120
Total Non-Operating Revenue	937,973	1,016,509
Changes in Net Assets	446,876	630,223
Net Assets, beginning of year	5,815,344	5,185,121
Net Assets, end of year	\$6,262,220	\$5,815,344

c) Business-type Activities – Highlights

The business-type activities had an increase in net assets of \$446,876 from revenues of \$1,989,229. The largest source of revenue was from earned revenue, \$959,216 or 48.22% of revenues for business-type activities.

4) Financial Analysis

NOWS had revenues of \$1,989,229, a decrease of \$188,033 from the prior fiscal year.

**Northwest Ottawa Water Treatment Plant
Management's Discussion and Analysis
June 30, 2009 and 2008**

5) Capital Assets and Debt Administration

a) Capital assets

NOWS has \$5,812,328 invested in capital assets net of depreciation. Capital assets include all purchases of assets that exceed \$1,000 and have an expected useful life greater than one year. Capital assets includes: land, land improvements, buildings, equipment, and utility systems such as water distribution lines. NOWS uses straight line depreciation for all depreciable assets. In FY2009, capital assets decreased by \$368,317 in business-type activities, primarily in depreciation.

b) More detailed information about changes in capital assets can be found in Note 3 of the footnotes.

6) Debt

a) Summary of debt

NOWS had \$803,750 in debt outstanding as of June 30, 2009. After the fiscal year end, the County of Ottawa issued \$15,420,000 in Capital Improvement (Build America) Bonds for a plant renovation and expansion project. The Build America component will reduce annual interest cost by approximately 35% through a funding from the Federal government.

b) Note 5 of the footnotes provides more detailed information on debt and other obligations

7) Economic Forecast

NOWS has one main source of revenue, water treatment utility charges. Utility sales are affected by the economy and the weather conditions and can experience large swings of revenue from year to year. Winter conditions produce less consumption. Increasing consumption is noted during the late spring, peaking in summer and declining in autumn. Additionally, in recent years, NOWS constructed a second intake bed and installed a connection with the Grand Rapids Water System to confirm their ability to meet anticipated future consumer demand. Emergency interconnects with Norton Shores, Muskegon Heights and Grand Rapids water systems are also in place to ensure continuing service. For the FY2009-10 budget, the NOWS Administrative Committee anticipates that sales will be roughly equal to FY2008-09 volumes.

8) Contacting the NOWS Financial Management Staff

The City of Grand Haven, by contract, provides fiscal and administrative services to NOWS. This financial report is designed to provide interested individuals including citizens, taxpayers, customers, investors and creditors, with a general overview of NOWS finances and to show NOWS Administrative Committee accountability for the money it receives. If you have questions about this report or need additional financial information, please contact us at 519 Washington Avenue, Grand Haven, MI 49417, or call or e-mail us as noted below:

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Finance Director
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**NORTHWEST OTTAWA WATER
TREATMENT PLANT**

STATEMENTS OF NET ASSETS

	June 30	
	2009	2008
ASSETS		
Current assets		
Cash and cash equivalents	\$ 70,131	\$ 109,403
Due from other governmental units	239,855	192,355
Inventories	52,812	62,610
Prepaid items	148	-
Billing adjustment due from member units	18,541	-
Total current assets	381,487	364,368
 Noncurrent assets		
Capital assets not being depreciated	26,000	26,000
Capital assets being depreciated, net	5,786,328	6,154,645
Restricted assets:		
Cash and cash equivalents	835,424	854,352
Due from other governmental units	199,409	194,684
Total noncurrent assets	6,847,161	7,229,681
Total assets	\$ 7,228,648	\$ 7,594,049

The accompanying notes are an integral part of these financial statements.

	June 30	
	2009	2008
LIABILITIES AND NET ASSETS		
Current liabilities		
Accounts payable	\$ 82,855	\$ 69,662
Accrued and other liabilities	72,415	62,257
Due to other governmental units	3,183	2,670
Billing adjustment due to member units	-	9,491
Current liabilities payable from restricted assets	807,975	830,875
Total current liabilities	966,428	974,955
Long-term debt, net of current portion	-	803,750
Total liabilities	966,428	1,778,705
Net assets		
Invested in capital assets, net of related debt	5,008,578	4,553,145
Restricted	1,030,608	1,041,911
Unrestricted	223,034	220,288
Total net assets	6,262,220	5,815,344
Total liabilities and net assets	\$ 7,228,648	\$ 7,594,049

The accompanying notes are an integral part of these financial statements.

**NORTHWEST OTTAWA WATER
TREATMENT PLANT**

**STATEMENTS OF REVENUES, EXPENSES, AND
CHANGES IN NET ASSETS**

	Years ended June 30	
	2009	2008
Operating revenues	\$ 959,216	\$ 1,045,039
Operating expenses		
Purchased water	27,520	81,355
Intake	289,282	275,781
Treatment	465,905	430,520
Administrative	287,144	263,307
Depreciation	380,462	380,362
Total operating expenses	1,450,313	1,431,325
Operating loss	(491,097)	(386,286)
Non-operating revenue (expense)		
Debt service charge	894,593	952,524
Capital replacement charge	124,827	132,910
Interest income on investments	9,225	42,326
Interest expense	(50,790)	(74,463)
Deferred charge on refunding	(41,250)	(41,250)
Non-operating grants – state	800	4,342
Other	568	120
Total non-operating revenue	937,973	1,016,509
Changes in net assets	446,876	630,223
Net assets, beginning of year	5,815,344	5,185,121
Net assets, end of year	\$ 6,262,220	\$ 5,815,344

The accompanying notes are an integral part of these financial statements.

**NORTHWEST OTTAWA WATER
TREATMENT PLANT**

STATEMENTS OF CASH FLOWS

	Years ended June 30	
	2009	2008
Cash flows from operating activities		
Receipts from customers and users	\$ 893,743	\$ 1,183,393
Payments to suppliers	(407,945)	(406,921)
Payments to employees	(637,883)	(707,905)
Net cash (used in) provided by operating activities	(152,085)	68,567
Cash flows from noncapital financing activities		
Proceeds from non-operating grants	800	4,342
Cash flows from capital and related financing activities		
Purchase of capital assets	(12,145)	(21,929)
Principal paid on long-term debt	(865,000)	(880,000)
Interest paid on long-term debt	(53,690)	(78,130)
Proceeds from debt service charge	889,868	1,003,069
Proceeds from capital replacement charge	124,827	132,910
Net cash provided by capital and related financing activities	83,860	155,920
Cash flows from investing activities		
Interest received on investments	9,225	42,326
Net (decrease) increase in cash and cash equivalents	(58,200)	271,155
Cash and cash equivalents, beginning of year	963,755	692,600
Cash and cash equivalents, end of year	\$ 905,555	\$ 963,755
Statements of net assets classification of cash and cash equivalents		
Cash and cash equivalents	\$ 70,131	\$ 109,403
Restricted assets	835,424	854,352
Total cash and cash equivalents	\$ 905,555	\$ 963,755

The accompanying notes are an integral part of these financial statements.

**NORTHWEST OTTAWA WATER
TREATMENT PLANT**

STATEMENTS OF CASH FLOWS

	Years ended June 30	
	2009	2008
Reconciliation of operating loss to net cash (used in) provided by operating activities:		
Operating loss	\$ (491,097)	\$ (386,286)
Adjustments to reconcile operating loss to net cash (used in) provided by operating activities		
Depreciation	380,462	380,362
Other revenues	568	120
Changes in operating assets and liabilities which provided (used) cash:		
Due from other governmental units	(66,041)	138,234
Inventories	9,798	(8,651)
Prepaid items	(148)	-
Accounts payable	13,193	(26,388)
Accrued and other liabilities	10,158	(7,444)
Due to other governmental units	(8,978)	(21,380)
Net cash (used in) provided by operating activities	\$ (152,085)	\$ 68,567

The accompanying notes are an integral part of these financial statements.

NORTHWEST OTTAWA WATER TREATMENT PLANT

NOTES TO FINANCIAL STATEMENTS

1. NATURE OF BUSINESS AND SIGNIFICANT ACCOUNTING POLICIES

The *Northwest Ottawa Water Treatment Plant* (the “Plant”) was established for the purpose of constructing, owning, and operating a water treatment system for its participating municipalities: the City of Grand Haven, the Village of Spring Lake, the City of Ferrysburg, the Township of Spring Lake, and the Township of Grand Haven. The economic resources measurement focus and the accrual basis of accounting are used in preparing the financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

The Plant distinguishes operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services in connection with the Plant's principal ongoing operations. The principal operating revenues of the Plant are charges to customers for services. Operating expenses include the cost of services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Under a contract executed in 1988, the City of Grand Haven (the “City”) is operating and maintaining the Plant. Monthly operating expenses are billed by the City to the constituent municipalities for their proportionate share of those expenses.

When both restricted and unrestricted resources are available for use, it is the Plant's policy to use restricted resources first, then unrestricted resources as they are needed.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the financial statements to the extent that those standards do not conflict with or contradict guidance of the *Governmental Accounting Standards Board*. Governments also have the option of following subsequent private-sector guidance for their enterprise funds, subject to this same limitation. The Plant has elected not to follow subsequent private-sector guidance.

Cash Equivalents

For purposes of the statement of cash flows, the Plant considers all highly liquid debt instruments with original maturities of three months or less to be cash equivalents.

Inventories

Inventories are valued at cost, on a first-in, first-out basis, which approximates market value.

NORTHWEST OTTAWA WATER TREATMENT PLANT

NOTES TO FINANCIAL STATEMENTS

Capital Assets

Capital assets, which include property, plant and equipment, are reported in the financial statements. Capital assets are defined by the Plant as assets with an initial, individual cost of more than \$1,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Water plant, lake intakes, water mains, furniture and equipment are depreciated using the straight-line method over the following useful lives:

Water plant	30 years
Lake intakes	10-50 years
Water mains	50 years
Structures and equipment	33 years
Office furniture	5 years

Revenue Recognition

Revenue is recognized at the point when customers are billed for services.

Reclassification

Certain amounts as reported in the June 30, 2008 financial statements have been reclassified to conform with the June 30, 2009 presentation.

Subsequent Events

In preparing these financial statements, management has evaluated, for potential recognition or disclosure, significant events or transactions that occurred during the period subsequent to June 30, 2009, the most recent statement of net assets presented herein, through the auditors' report date, the date these financial statements were available to be issued. No significant such events or transactions were identified, other than those matters disclosed in Note 9 labeled "Subsequent Event".

**NORTHWEST OTTAWA WATER
TREATMENT PLANT**

NOTES TO FINANCIAL STATEMENTS

2. DEPOSITS AND INVESTMENTS

The Plant's deposits and investments are included on the statement of net assets under the following classifications at June 30:

	<u>2009</u>	<u>2008</u>
Cash and cash equivalents	\$ 70,131	\$ 109,403
Restricted assets	<u>835,424</u>	<u>854,352</u>
Total	<u>\$ 905,555</u>	<u>\$ 963,755</u>

The composition of cash and investments is as follows at June 30:

	<u>2009</u>	<u>2008</u>
Deposits in checking and savings accounts	<u>\$ 905,555</u>	<u>\$ 963,755</u>

State statutes authorize the Plant to invest in:

- a. Bonds, securities, other obligations and repurchase agreements of the United States, or an agency or instrumentality of the United States.
- b. Certificates of deposit, savings accounts, deposit accounts or depository receipts of a qualified financial institution.
- c. Commercial paper rated at the time of purchase within the two highest classifications established by not less than two standard rating services and that matures not more than 270 days after the date of purchase.
- d. Bankers acceptances of United States banks.
- e. Obligations of the State of Michigan and its political subdivisions that, at the time of purchase are rated as investment grade by at least one standard rating service.
- f. Mutual funds registered under the Investment Company Act of 1940 with the Plant to purchase only investment vehicles that are legal for direct investment by a public corporation.
- g. External investment pools as authorized by Public Act 20 as amended through 12/31/97.

**NORTHWEST OTTAWA
WATER TREATMENT PLANT**

NOTES TO FINANCIAL STATEMENTS

Deposit Risk

Interest Rate Risk. State law limits the allowable investments and the maturities of some of the allowable investments as identified above. The Plant's investment policy does not have specific limits in excess of state law on investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit Risk. State law limits investments to specific government securities, certificates of deposits and bank accounts with qualified financial institutions, commercial paper with specific maximum maturities and ratings when purchased, bankers acceptances of specific financial institutions, qualified mutual funds and qualified external investment pools as identified above.

Custodial Credit Risk. Custodial credit risk is the risk that in the event of a bank failure, the Plant's deposits may not be returned. State law does not require and the Plant's investment policy does not have specific limits in excess of state law on custodial credit risk. At June 30, 2009, the Plant's bank balance of \$889,396 was not exposed to custodial credit risk because it was fully insured. At June 30, 2008, \$863,755 of the Plant's bank balance of \$963,755 was exposed to custodial credit risk because it was uninsured and uncollateralized. Insurance coverage pertains to all deposits of the City of Grand Haven; hence, the specific coverage pertaining to the Plant's deposits, if any, is not readily determinable.

Concentration of Credit Risk. State law limits allowable investments but does not limit concentration of credit risk as identified in the listing above. The Plant will minimize concentration of credit risk by diversifying their investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized.

**NORTHWEST OTTAWA
WATER TREATMENT PLANT**

NOTES TO FINANCIAL STATEMENTS

3. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2009 is as follows:

	Balance July 1, 2008	Additions	Disposals	Balance June 30, 2009
Capital assets, not being depreciated				
Land	\$ 26,000	\$ -	\$ -	\$ 26,000
Capital assets, being depreciated				
Water plant	8,065,142	-	-	8,065,142
Lake intakes	4,880,137	-	-	4,880,137
Water mains	706,638	-	-	706,638
Structures and equipment	121,418	-	-	121,418
Office furniture	14,928	12,145	-	27,073
	13,788,263	12,145	-	13,800,408
Accumulated depreciation				
Water plant	5,494,706	257,227	-	5,751,933
Lake intakes	1,658,785	97,492	-	1,756,277
Water mains	443,899	15,122	-	459,021
Structures and equipment	24,218	8,654	-	32,872
Office furniture	12,010	1,967	-	13,977
	7,633,618	380,462	-	8,014,080
Net capital assets, being depreciated	6,154,645	(368,317)	-	5,786,328
Total capital assets, net	\$ 6,180,645	\$ (368,317)	\$ -	\$ 5,812,328

**NORTHWEST OTTAWA
WATER TREATMENT PLANT**

NOTES TO FINANCIAL STATEMENTS

Capital asset activity for the year ended June 30, 2008 is as follows:

	Balance July 1, 2007	Additions	Disposals	Balance June 30, 2008
Capital assets, not being depreciated				
Land	\$ 26,000	\$ -	\$ -	\$ 26,000
Capital assets, being depreciated				
Water plant	8,065,142	-	-	8,065,142
Lake intakes	4,880,137	-	-	4,880,137
Water mains	694,274	12,364	-	706,638
Structures and equipment	111,853	9,565	-	121,418
Office furniture	14,928	-	-	14,928
	13,766,334	21,929	-	13,788,263
Accumulated depreciation				
Water plant	5,237,478	257,228	-	5,494,706
Lake intakes	1,560,436	98,349	-	1,658,785
Water mains	428,777	15,122	-	443,899
Structures and equipment	15,564	8,654	-	24,218
Office furniture	11,001	1,009	-	12,010
	7,253,256	380,362	-	7,633,618
Net capital assets, being depreciated	6,513,078	(358,433)	-	6,154,645
Total capital assets, net	\$ 6,539,078	\$ (358,433)	\$ -	\$ 6,180,645

**NORTHWEST OTTAWA
WATER TREATMENT PLANT**

NOTES TO FINANCIAL STATEMENTS

4. RESTRICTED ASSETS

Restricted assets consist of the following at June 30:

	2009	2008
Cash and cash equivalents:		
Capital improvements	\$ 585,291	\$ 559,577
Repayment of debt	250,133	294,775
Due from other governmental units	199,409	194,684
Total restricted assets	1,034,833	1,049,036
Less current liabilities payable from restricted assets:		
Accrued interest on long-term debt	4,225	7,125
Net restricted assets	\$ 1,030,608	\$ 1,041,911

5. LONG-TERM DEBT

Outstanding Debt

Long-term debt consists of the following at June 30:

	2009	2008
Contract payable to Ottawa County for 3.2% Water Treatment Facility Bonds - 1992 (refinanced 2002, Series A)	\$ 415,000	\$ 870,000
Contract payable to Ottawa County for 3.2% Intake Bonds - 1989 (refinanced 2002 - Series B)	430,000	840,000
	845,000	1,710,000
Deferred charge on refunding	(41,250)	(82,500)
Total	803,750	1,627,500
Less current portion	(803,750)	(823,750)
Long-term debt, net of current portion	\$ -	\$ 803,750

**NORTHWEST OTTAWA
WATER TREATMENT PLANT**

NOTES TO FINANCIAL STATEMENTS

Changes in Long-Term Debt

The following is a summary of long-term debt transactions for the years ended June 30, 2009 and 2008:

Long-term debt – July 1, 2007	\$ 2,466,250
Debt retired	(880,000)
Amortization of deferred charge	<u>41,250</u>
Long-term debt – June 30, 2008	1,627,500
Debt retired	(865,000)
Amortization of deferred charge	<u>41,250</u>
Long-term debt – June 30, 2009	<u><u>\$ 803,750</u></u>

Debt Service Requirements

The annual requirements to service all debt outstanding as of June 30, 2009, including both principal and interest, are as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>
2010	\$ 845,000	\$ 27,040

Debt Charges

The Plant receives a debt charge from participating communities for contracts payable to Ottawa County based on the volume of water sold to those communities. The Plant and the participating communities have pledged their full faith and credit on the contracts payable to Ottawa County.

6. BILLING ADJUSTMENT TO FROM (TO) MEMBER UNITS

The Plant bills its member governmental units for operations, debt, and capital replacement. Following is an analysis of the billing adjustment related to the operations of the Plant for the years ended June 30:

	<u>2009</u>	<u>2008</u>
Amounts contractually allowed to collect as adjusted for actual expenses	\$ 959,216	\$ 1,045,039
Amounts billed for fiscal year prior to June 30	<u>(940,675)</u>	<u>(1,054,530)</u>
Total due from (to) member units	<u><u>\$ 18,541</u></u>	<u><u>\$ (9,491)</u></u>

**NORTHWEST OTTAWA
WATER TREATMENT PLANT**

NOTES TO FINANCIAL STATEMENTS

7. WORKING CAPITAL

In accordance with the master agreement with the member governmental units, the Board of Directors of the Plant has agreed to maintain 5/24ths of the operating expenses, excluding depreciation, for working capital.

Excess working capital may be refunded to the member governmental units at the discretion of the Board. At June 30, 2009, the Plant's working capital was deficient by \$18,541. At June 30, 2008, \$9,491 in excess working capital was due to be refunded to the units.

8. RISK MANAGEMENT

The Plant 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. As an affiliate of the City of Grand Haven, the Plant is partially uninsured for health claims and has purchased commercial insurance for coverage related to claims in excess of certain stop loss limits. The Plant also participates in the Michigan Municipal League risk pool for workers' compensation. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

The Michigan Municipal League risk pool program operates as a common risk-sharing management program for local units of government in Michigan; member premiums are used to purchase commercial excess insurance coverage and to pay member claims in excess of deductible amounts.

The City estimates the liability for health claims that have been incurred through the end of the fiscal year, including both those claims that have been reported as well as those that have not yet been reported. these estimates are recorded in the City of Grand Haven's Health Benefits Internal Service Funds.

9. SUBSEQUENT EVENT

On July 7, 2009, the County of Ottawa issued \$15,420,000 in Capital Improvement (Building America) Bonds for a plant renovation and expansion plant. The bonds have the full faith and credit backing from each of the member communities.