

**NORTHWEST OTTAWA WATER
TREATMENT PLANT**

FINANCIAL STATEMENTS

**FOR THE YEARS ENDED
JUNE 30, 2010 AND 2009**

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TABLE OF CONTENTS

	<u>PAGE</u>
Transmittal Letter	1-3
Independent Auditors' Report	4
Management's Discussion and Analysis	5-8
Financial Statements as of and for the Years Ended June 30, 2010 and 2009	
Statements of Net Assets	9
Statements of Revenues, Expenses, and Changes in Net Assets	10
Statements of Cash Flows	11-12
Notes to Financial Statements	13-22



November 1, 2010

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, 2010.

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 (MGD). 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. In the spring of 2009, NOWS began a plant renovation and expansion project which will be completed in 2011. Once completed, the plant capacity is anticipated to increase to 23.5 MGD. 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 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 build 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 departmental basis. The final budget 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 2010 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 expenditures and a continuing retrenching in Michigan's manufacturing economy.

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 2008-09 fiscal year and will continue until 2011. NOWS anticipates a future requirement for an additional Lake Michigan infiltration intake system to match future demands and to provide the necessary maintenance to the existing infiltration system. Likewise, requirements to install a redundant raw water transmission main from the Lake Pumping Station to the plant and relocating the raw water backwash retention tank are being considered. The City's anticipated reconstruction of Harbor Drive will require coordination with the new raw water transmission main project to produce a final project as inexpensively as possible.

NOWS can receive additional supplemental water from water system interconnects and operating agreements with Muskegon Heights and Grand Rapids water systems. NOWS notes that continuing population increases in the townships and anticipated future economic growth will provide increasing demand for water in the future.

2009-10 Initiatives:

- Assessed existing high service pumps for repairs and upgrades.
- Completed the preliminary specifications and planning for the Lake Pumping Station and Raw Water Backwash Retention Tank with a planned construction postponement of a new Raw Water Transmission Line.
- Assessed laboratory procedures to maintain certification and upgrade equipment, as required.
- Continued the renovation/construction of the 23.25 million gallon water treatment facility expansion project which is to be completed in May of 2011.
- Completed the EPA's UCMR2 Sampling Program.
- Finished the EPA's Bin Classification process for the Long Term 2 Enhanced Surface Water Treatment Rule (LT2).
- Finished the Lead and Copper Analysis program for NOWS.

Future Initiatives: 2010-11 and later

- Form a Source Water Intake Protection Plan (SWIPP) Team to start an education and outreach program.
- Assist the City's future Stage 2 Disinfection By-Products (DBP) Sampling Program.
- Begin the second phase of the Long Term 2 Enhanced Surface Water Treatment Rule (LT2).
- Begin the raw water pumping system improvements (estimated at \$3,000,000), which includes a new backwash retention tank and VFD pump rehabilitation work.
- Evaluate and implement a computerized maintenance/management software system for the facility and staff.
- Repair and paint the existing backwash waste water clarifier.
- Implement and maintain a new filter inspection program.

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 five annual financial reports, this report being second of the five.

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 Treasury Departments in particular spent many hours working on this project. Katrina Robinson, Accounting Supervisor, deserves special thanks for her expansive efforts in organizing and directing the audit preparation work.

Sincerely,

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

November 10, 2010

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 years ended June 30, 2010 and 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 audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the 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 audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Northwest Ottawa Water Treatment Plant as of June 30, 2010 and 2009, and the respective changes in financial position and cash flows thereof for the years 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, 2010 and 2009**

1) Financial Highlights

- a) The Northwest Ottawa Water System ("NOWS") operates a Treatment Plant Fund (NOWS 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 good financial position. Overall debt was higher at June 30, 2010, due to a July, 2009, issuance of a County of Ottawa Capital Improvement (Build America) Bond to fund the plant renovation and expansion project in the amount of \$15,420,000. \$5,380,000 of this bond issuance, related to plan renovation, is included in the statements of the NOWS. The balance, \$10,420,000, is shown as long-term debt in the statements of the various municipalities allocated a portion of the expansion costs. The County bond structure allowed the NOWS members to coordinate local financing, achieving a reduced interest rate.

- b) Business-type activities net assets increased from \$6,262,220 to \$6,835,094.
- c) Total operating expenses for business-type activities increased from \$1,450,313 to \$1,664,481, primarily in intake, administrative and treatment costs. Most of the administrative cost increase was due to studies which focused on future potential capital decisions.

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, 2010 and 2009**

Net Assets

June 30,	2010	2009
Assets		
Current and other assets	\$3,193,308	\$1,416,320
Capital assets, net	9,211,725	5,812,328
Total Assets	12,405,033	7,228,648
Liabilities		
Long-term debt	5,380,000	803,750
Other liabilities	189,939	162,678
Total Liabilities	5,569,939	966,428
Net Assets		
Invested in capital assets, net of related debt	3,831,725	5,008,578
Restricted	2,541,845	1,030,608
Unrestricted	461,524	223,034
Total Net Assets	\$6,835,094	\$6,262,220

The total net assets of NOWS are \$6,835,094, however, \$3,831,725 represents net investment in capital assets including infrastructure. Of the more liquid net assets, \$2,541,845 is restricted. Total net assets increased by \$572,874 during the fiscal year as NOWS prepares for plant renovation and expansion from its current 15 million gallons per day (MGD) capacity to 23.5 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, 2010 and 2009**

Changes in Net Assets

Year ended June 30,	2010	2009
Revenue		
Operating Revenue – Earned revenue	\$1,344,006	\$959,216
Operating Expenses		
Purchased water	1,757	27,520
Intake	318,843	289,282
Treatment	520,199	465,905
Administrative	443,071	287,144
Depreciation	380,611	380,462
Total Operating Expenses	1,664,481	1,450,313
Operating Income (Loss)	(320,475)	(491,097)
Non-Operating Revenue (Expenses)		
Debt service charge	872,941	894,593
Capital replacement charge	81,204	124,827
Interest income on investments	3,369	9,225
Interest expense	(23,715)	(50,790)
Deferred charge on refunding	(41,250)	(41,250)
Non-operating grants – state	-	800
Other	800	568
Total Non-Operating Revenue	893,349	937,973
Changes in Net Assets	572,874	446,876
Net Assets, beginning of year	6,262,220	5,815,344
Net Assets, end of year	\$6,835,094	\$6,262,220

c) Business-type Activities – Highlights

The business-type activities had an increase in net assets of \$572,874 from revenues of \$2,302,320. The largest source of revenue was from earned revenue, \$1,344,006 or 58.38% of revenues for business-type activities.

4) Financial Analysis

NOWS had an operating revenue increase of \$384,790 over the prior fiscal year.

**Northwest Ottawa Water Treatment Plant
Management's Discussion and Analysis
June 30, 2010 and 2009**

5) Capital Assets and Debt Administration

a) Capital assets

NOWS has \$9,211,725 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 FY2010, capital assets increased by \$3,399,397 in business-type activities, primarily due to the plan renovation, net of current year depreciation. A major renovation and expansion of the treatment plant was begun in the spring of 2009 and will be completed in 2011.

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 \$5,380,000 in debt outstanding as of June 30, 2010. During the fiscal year, the County of Ottawa issued \$15,420,000 in Capital Improvement (Build America) Bonds for a plant renovation and expansion project (see additional details in "Financial Highlights" above). The Build America component will reduce annual interest cost by approximately 35% through a funding from the Federal government. Note that the municipalities served by NOWS are contractually obligated to reimburse Ottawa County for debt service.

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 than any other season. 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 FY2010-11 budget, the NOWS Administrative Committee anticipates that sales will be roughly equal to FY2009-10 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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616 847-4888
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James P. Bonamy
Finance Director
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NORTHWEST OTTAWA WATER TREATMENT PLANT

STATEMENTS OF NET ASSETS

	June 30	
	2010	2009
Assets		
Current assets		
Cash and cash equivalents	\$ 72,836	\$ 70,131
Due from other governmental units	380,952	239,855
Inventories	60,458	52,812
Prepaid items	148	148
Billing adjustment due from member units	137,069	18,541
Total current assets	651,463	381,487
Noncurrent assets		
Capital assets not being depreciated	3,803,033	26,000
Capital assets being depreciated, net	5,408,692	5,786,328
Restricted assets:		
Cash and cash equivalents	938,878	835,424
Due from other governmental units	-	199,409
Deposits	1,602,967	-
Total noncurrent assets	11,753,570	6,847,161
Total assets	12,405,033	7,228,648
Liabilities		
Current liabilities		
Accounts payable	90,713	70,429
Accrued and other liabilities	82,744	84,841
Due to other governmental units	16,482	3,183
Current liabilities payable from restricted assets	-	807,975
Current portion of long-term debt	140,000	-
Total current liabilities	329,939	966,428
Long-term debt, net of current portion	5,240,000	-
Total liabilities	5,569,939	966,428
Net assets		
Invested in capital assets, net of related debt	3,831,725	5,008,578
Restricted	2,541,845	1,030,608
Unrestricted	461,524	223,034
Total net assets	\$ 6,835,094	\$ 6,262,220

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

	Year Ended June 30	
	2010	2009
Operating revenues	\$ 1,344,006	\$ 959,216
Operating expenses		
Purchased water	1,757	27,520
Intake	318,843	289,282
Treatment	520,199	465,905
Administrative	443,071	287,144
Depreciation	380,611	380,462
Total operating expenses	1,664,481	1,450,313
Operating loss	(320,475)	(491,097)
Non-operating revenue (expense)		
Debt service charge	872,941	894,593
Capital replacement charge	81,204	124,827
Interest income on investments	3,369	9,225
Interest expense	(23,715)	(50,790)
Deferred charge on refunding	(41,250)	(41,250)
Non-operating grants – state	-	800
Other	800	568
Total non-operating revenue	893,349	937,973
Changes in net assets	572,874	446,876
Net assets, beginning of year	6,262,220	5,815,344
Net assets, end of year	\$ 6,835,094	\$ 6,262,220

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

NORTHWEST OTTAWA WATER TREATMENT PLANT

STATEMENTS OF CASH FLOWS

	Year Ended June 30	
	2010	2009
Cash flows from operating activities		
Receipts from customers and users	\$ 1,085,181	\$ 893,743
Payments to suppliers	(487,906)	(406,069)
Payments to employees	(772,124)	(639,759)
Net cash used in operating activities	(174,849)	(152,085)
Cash flows from noncapital financing activities		
Proceeds from non-operating grants	-	800
Cash flows from capital and related financing activities		
Purchase of capital assets	(2,975)	(12,145)
Principal paid on long-term debt	(845,000)	(865,000)
Interest paid on long-term debt	(27,940)	(53,690)
Proceeds from debt service charge	1,072,350	889,868
Proceeds from capital replacement charge	81,204	124,827
Net cash provided by capital and related financing activities	277,639	83,860
Cash flows from investing activities		
Interest received on investments	3,369	9,225
Net increase (decrease) in cash and cash equivalents	106,159	(58,200)
Cash and cash equivalents, beginning of year	905,555	963,755
Cash and cash equivalents, end of year	\$ 1,011,714	\$ 905,555
Statements of net assets classification of cash and cash equivalents		
Cash and cash equivalents	\$ 72,836	\$ 70,131
Restricted assets	938,878	835,424
Total cash and cash equivalents	\$ 1,011,714	\$ 905,555

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

**NORTHWEST OTTAWA WATER
TREATMENT PLANT**

STATEMENTS OF CASH FLOWS (CONTINUED)

	Year Ended June 30	
	2010	2009
Reconciliation of operating loss to net cash used in operating activities:		
Operating loss	\$ (320,475)	\$ (491,097)
Adjustments to reconcile operating loss to net cash used in operating activities		
Depreciation	380,611	380,462
Other revenues	800	568
Changes in operating assets and liabilities which provided (used) cash:		
Due from other governmental units	(259,625)	(66,041)
Inventories	(7,646)	9,798
Prepaid items	-	(148)
Accounts payable	20,284	11,317
Accrued and other liabilities	(2,097)	12,034
Due to other governmental units	13,299	(8,978)
Net cash used in operating activities	<u>\$ (174,849)</u>	<u>\$ (152,085)</u>

For the year ended June 30, 2010, non-cash capital and related financing activities consist of \$5,380,000 in long-term debt issued for improvements to the water treatment plant of the Northwest Ottawa Water System.

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 statements 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:

	<u>Years</u>
Water plant	30
Lake intakes	10-50
Water mains	50
Structures and equipment	33
Office furniture	5

Revenue Recognition

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

NORTHWEST OTTAWA WATER TREATMENT PLANT

NOTES TO FINANCIAL STATEMENTS

2. DEPOSITS AND INVESTMENTS

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

	<u>2010</u>	<u>2009</u>
Cash and cash equivalents	\$ 72,836	\$ 70,131
Restricted assets	<u>938,878</u>	<u>835,424</u>
Total	<u>\$ 1,011,714</u>	<u>\$ 905,555</u>

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

	<u>2010</u>	<u>2009</u>
Deposits in checking and savings accounts	<u>\$ 1,011,714</u>	<u>\$ 905,555</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, 2010, the Plant's bank balance of \$1,011,714 was not exposed to custodial credit risk because it was fully insured. 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, 2010 is as follows:

	Balance July 1, 2009	Additions	Disposals	Balance June 30, 2010
Capital assets, not being depreciated				
Land	\$ 26,000	\$ -	\$ -	\$ 26,000
Construction in progress	-	3,777,033	-	3,777,033
Total capital assets, not being depreciated	26,000	3,777,033	-	3,803,033
Capital assets, being depreciated				
Water plant	8,065,142	2,975	-	8,068,117
Lake intakes	4,880,137	-	-	4,880,137
Water mains	706,638	-	-	706,638
Structures and equipment	121,418	-	-	121,418
Office furniture	27,073	-	-	27,073
	13,800,408	2,975	-	13,803,383
Accumulated depreciation				
Water plant	5,751,933	257,258	-	6,009,191
Lake intakes	1,756,277	97,463	-	1,853,740
Water mains	459,021	15,122	-	474,143
Structures and equipment	32,872	8,654	-	41,526
Office furniture	13,977	2,114	-	16,091
	8,014,080	380,611	-	8,394,691
Net capital assets, being depreciated	5,786,328	(377,636)	-	5,408,692
Total capital assets, net	\$ 5,812,328	\$ 3,399,397	\$ -	\$ 9,211,725

**NORTHWEST OTTAWA
WATER TREATMENT PLANT**

NOTES TO FINANCIAL STATEMENTS

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

4. RESTRICTED ASSETS

Restricted assets consist of the following at June 30:

	<u>2010</u>	<u>2009</u>
Cash and cash equivalents:		
Capital improvements	\$ 664,237	\$ 585,291
Repayment of debt	274,641	250,133
Due from other governmental units	-	199,409
Deposits	1,602,967	-
Total restricted assets	2,541,845	1,034,833
Less current liabilities payable from restricted assets:		
Accrued interest on long-term debt	-	4,225
Net restricted assets	<u>\$ 2,541,845</u>	<u>\$ 1,030,608</u>

5. LONG-TERM DEBT

Outstanding Debt

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

	<u>2010</u>	<u>2009</u>
Contract payable to Ottawa County for 3.2% Water Treatment Facility Bonds - 1992 (refinanced 2002, Series A)	\$ -	\$ 415,000
Contract payable to Ottawa County for 3.2% Intake Bonds - 1989 (refinanced 2002 - Series	-	430,000
Contract payable to Ottawa County for Water System Improvement Build America Bonds - 2009, principal payments ranging from \$360,000; interest ranging from 2.9% to 7.25%	5,380,000	-
	5,380,000	845,000
Deferred charge on refunding	-	(41,250)
Total	5,380,000	803,750
Less current portion	(140,000)	(803,750)
Long-term debt, net of current portion	<u>\$ 5,240,000</u>	<u>\$ -</u>

**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, 2010 and 2009:

Long-term debt – July 1, 2008	\$ 1,627,500
Debt retired	(865,000)
Amortization of deferred charge	41,250
	803,750
Long-term debt – June 30, 2009	
Debt issued	5,380,000
Debt retired	(845,000)
Amortization of deferred charge	41,250
	\$ 5,380,000
	\$ 5,380,000

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.

Debt Service Requirements

The annual requirements to maturity on debt outstanding as of June 30, 2010 are as follows:

Year Ending June 30	Principal	Interest	Total
2011	\$ 140,000	\$ 226,778	\$ 366,778
2012	145,000	224,139	369,139
2013	150,000	220,841	370,841
2014	150,000	216,600	366,600
2015	155,000	212,066	367,066
2016-2020	875,000	973,490	1,848,490
2021-2025	1,075,000	780,002	1,855,002
2026-2030	1,355,000	510,770	1,865,770
2031-2034	1,335,000	161,167	1,496,167
Total	\$ 5,380,000	\$ 3,525,853	\$ 8,905,853

NORTHWEST OTTAWA WATER TREATMENT PLANT

NOTES TO FINANCIAL STATEMENTS

6. BILLING ADJUSTMENT TO FROM 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>2010</u>	<u>2009</u>
Amounts contractually allowed to collect as adjusted for actual expenses	\$ 1,074,736	\$ 959,216
Amounts billed for fiscal year prior to June 30	<u>(937,667)</u>	<u>(940,675)</u>
Total due from member units	<u><u>\$ 137,069</u></u>	<u><u>\$ 18,541</u></u>

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. For the years ended June 30, 2010 and 2009, the Plant's working capital was deficient by \$137,069 and \$18,541, respectively.

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.

NORTHWEST OTTAWA WATER TREATMENT PLANT

NOTES TO FINANCIAL STATEMENTS

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. LITIGATION

In the normal course of its activities, the Plant is a party to various legal actions and subject to certain asserted and unasserted claims and assessments. Although some actions have been brought, the Plant has not experienced significant losses or costs. The Plant is of the opinion that the outcome of any pending actions will not have a material effect on the Plant's financial position or results of operations.

November 10, 2010

To the Administrative Committee
Northwest Ottawa Water Treatment Plant

We have audited the financial statements of the *Northwest Ottawa Water Treatment Plant* (the “Plant”) as of and for the year ended June 30, 2010, and have issued our report thereon dated November 10, 2010. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility Under Auditing Standards Generally Accepted in the United States of America

As stated in our engagement letter dated September 14, 2010, 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 accounting principles generally accepted in the United States of America. Our audit of the financial statements does not relieve you or management of your responsibilities.

Our responsibility is to plan and perform 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 the Plant. Such considerations were 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.

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you in our engagement letter and in our meeting about planning matters on June 28, 2010.

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 the Plant are described in Note 1 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 Plant 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 estimates affecting the financial statements were:

- Management's estimate of the useful lives of depreciable capital assets is based on the length of time it is believed that those assets will provide some economic benefit in the future.
- Management's estimate of the accrued compensated absences is based on current hourly rates and policies regarding payment of sick and vacation banks.

We evaluated the key factors and assumptions used to develop these estimates in determining that they are 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.

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. Management has corrected all such misstatements, which are attached to this letter.

Disagreements with Management

For purposes 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 Representations

We have requested certain representations from management that are included in the attached management representation letter dated November 10, 2010.

Management 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 entity'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.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the governmental unit's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

This information is intended solely for the use of the governing body and management of the Plant and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

A handwritten signature in black ink, reading "Rehman Lohani". The signature is written in a cursive style with a large initial 'R'.

Northwest Ottawa Water Treatment Plant

Attachment A - Consideration of Internal Control Over Financial Reporting

For the Year Ended June 30, 2010

In planning and performing our audit of the financial statements of the Northwest Ottawa Water Treatment Plant (the "Plant") as of and for the year ended June 30, 2010, in accordance with auditing standards generally accepted in the United States of America, we considered the Plant's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Plant's internal control. Accordingly, we do not express an opinion on the effectiveness of the Plant's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance that all such deficiencies have been identified. However, as discussed below, we identified certain deficiencies in internal control that we consider to be material weaknesses.

A *deficiency in internal control* 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 and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Material Weaknesses

We consider the following deficiency in internal control over financial reporting to be a material weakness:

Material Audit Adjustment

- Criteria:** The Plant's management is responsible for maintaining its accounting records in accordance with generally accepted accounting principles (GAAP).
- Condition:** During the year under audit, we identified and proposed a material adjustment, which was approved and posted by management, to adjust the Plant's general ledger to the appropriate balances.
- Cause:** This condition was the result of the Plant not recording long term debt for its portion of the improvements to the water treatment plant of the Northwest Ottawa Water System.
- Effect:** As a result of this condition, the Plant's accounting records were originally misstated by amounts material to the financial statements.

Northwest Ottawa Water Treatment Plant

Attachment A - Consideration of Internal Control Over Financial Reporting

For the Year Ended June 30, 2010

Recommendation:

No further correction is needed, as the Plant has recorded the necessary adjustments. We recommend that the Plant carefully review its year-end account balances and seek to make all necessary adjustments before the annual audit.

**View of Responsible
Officials:**

Management recognizes its responsibility to accurately reflect all activities in the accounting record appropriately and in a timely basis for auditor review. We regret that we failed to present significant project documentation in a timely basis and are grateful that we followed up and resolved the issue for the reports. We have marked this issue specifically for future audits and will continue to improve our presentations to the auditors each year.

November 10, 2010

Rehmann Robson
570 Seminole Road
Muskegon, MI 49444

We are providing this letter in connection with your audits of the financial statements of the *Northwest Ottawa Water Treatment Plant* (the "Plant") as of June 30, 2010 and 2009, and for the years then ended for the purpose of expressing an opinion as to whether the financial statements present fairly, in all material respects, the financial position, changes in financial position and cash flows of the Plant in conformity with accounting principles generally accepted in the United States of America. We confirm that we are responsible for the fair presentation of the previously mentioned financial statements in conformity with accounting principles generally accepted in the United States of America. We are also responsible for adopting sound accounting policies, establishing and maintaining effective internal control, and preventing and detecting fraud.

We confirm, to the best of our knowledge and belief, as of November 10, 2010, the following representations made to you during your audits.

1. The financial statements referred to above are fairly presented in conformity with accounting principles generally accepted in the United States of America.
2. We have made available to you all—
 - a. Financial records and related data.
 - b. Minutes of the meetings of the Administrative Committee or summaries of actions of recent meetings for which minutes have not yet been prepared.
3. There have been no communications from regulatory agencies concerning noncompliance with, or deficiencies in, financial reporting practices.
4. There are no material transactions that have not been properly recorded in the accounting records underlying the financial statements.
5. We are in agreement with the adjusting journal entries you have proposed, and they have been posted.
6. We acknowledge our responsibility for the design and implementation of programs and controls to prevent and detect fraud.
7. We have no knowledge of any fraud or suspected fraud affecting the entity involving:
 - a. Management,

- b. Employees who have significant roles in internal control, or
 - c. Others where the fraud could have a material effect on the financial statements.
8. We have no knowledge of any allegations of fraud or suspected fraud affecting the entity received in communications from employees, former employees, analysts, regulators, or others.
9. We have identified to you any previous financial audits, attestation engagements, performance audits, or other studies related to the objectives of the audit being undertaken and the corrective actions taken to address significant findings and recommendations.
10. The Plant has no plans or intentions that may materially affect the carrying value or classification of assets, liabilities, or equity.
11. The following, if any, have been properly recorded or disclosed in the financial statements:
- a. Related party transactions, including revenues, expenditures/expenses, loans, transfers, leasing arrangements, and guarantees, and amounts receivable from or payable to related parties.

For the purposes of this letter, related parties mean members of the governing body; board members; administrative officials; immediate families of administrative officials, board members, and members of the governing body; and affiliated governmental units that are not included in the financial statements as part of the reporting entity.
 - b. Guarantees, whether written or oral, under which the Plant is contingently liable.
 - c. All accounting estimates that could be material to the financial statements, including the key factors and significant assumptions underlying those estimates and measurements. We believe the estimates and measurements are reasonable in the circumstances, consistently applied, and adequately disclosed.
12. We are responsible for compliance with the laws, regulations, and provisions of contracts and grant agreements applicable to us, including tax or debt limits and debt contracts; and we have identified and disclosed to you all laws, regulations and provisions of contracts and grant agreements that we believe have a direct and material effect on the determination of financial statement amounts, or other financial data significant to the audit objectives, including legal and contractual provisions for reporting specific activities in separate funds.
13. There are no—
- a. Violations or possible violations of budget ordinances, laws and regulations (including those pertaining to adopting, approving, and amending budgets), provisions of contracts and grant agreements, tax or debt limits, and any related debt covenants whose effects should be considered for disclosure in the financial statements, or as a basis for recording a loss contingency, or for reporting on noncompliance.

- b. Unasserted claims or assessments that our lawyer has advised us are probable of assertion and must be disclosed in accordance with *Financial Accounting Standards Board (FASB) Statement No. 5, Accounting for Contingencies*.
 - c. Other liabilities or gain or loss contingencies that are required to be accrued or disclosed by FASB Statement No. 5.
 - d. Reservations or designation of net assets that were not properly authorized and approved.
14. As part of your audit, you prepared the draft financial statements and related notes. We have designated a competent management-level individual to oversee your services and have made all management decisions and performed all management functions. We have reviewed, approved, and accepted responsibility for those financial statements and related notes.
15. The Plant has satisfactory title to all owned assets, and there are no liens or encumbrances on such assets nor has any asset been pledged as collateral.
16. The Plant has complied with all aspects of contractual agreements that would have a material effect on the financial statements in the event of noncompliance.
17. Net asset components (invested in capital assets, net of related debt; restricted; and unrestricted) are properly classified and, if applicable, approved.
18. Provisions for uncollectible receivables have been properly identified and recorded.
19. Deposits and investment securities are properly classified as to risk, and investments are properly valued.
20. Capital assets, including infrastructure assets, are properly capitalized, reported, and, if applicable, depreciated.
21. Required supplementary information (RSI) is measured and presented within prescribed guidelines.

No events, including instances of noncompliance, have occurred subsequent to the balance sheet date and through the date of this letter that would require adjustment to or disclosure in the aforementioned financial statements.

Patrick McGinnis, Board Member

Date

James P. Bonamy, Finance Director

Date