

**NORTHWEST OTTAWA WATER
TREATMENT PLANT**

FINANCIAL STATEMENTS

**FOR THE YEARS ENDED
JUNE 30, 2011 AND 2010**

NORTHWEST OTTAWA WATER TREATMENT PLANT

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INDEPENDENT AUDITORS' REPORT

December 14, 2011

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, 2011 and 2010, 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, 2011 and 2010, 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 2 through 6 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.



**Northwest Ottawa Water Treatment Plant
Management's Discussion and Analysis
June 30, 2011 and 2010**

1) Financial Highlights

- a) The Northwest Ottawa Water System ("NOWS") operates a Treatment Plant Fund (the "Plant") to account for costs of operation and maintenance of a joint purchase venture water treatment facility serving the Northwest Ottawa County communities of 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 Plant ended the fiscal year in good financial position. Overall debt was lower at June 30, 2011, due to debt service payments on a 2009 County bond. The County bond structure allowed the NOWS members to coordinate local financing, achieving a reduced interest rate.

- b) Net assets increased to \$22,302,873 from \$6,835,094 due to renovation and expansion of the water treatment plant paid from County issuance of a 2009 Build America bond with local capital contributions.
- c) Total operating expenses for the Plant increased to \$1,690,994 from \$1,664,481, primarily in intake and treatment costs.

2) Overview of Financial Statements

- a) Overall financial picture

The financial statements provide the Plant 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 Plant.

3) Financial Analysis

- a) Net Assets

The *Statements of Net Assets* provides an overview of Plant assets, liabilities and net assets. As mentioned above, over time, these 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, 2011 and 2010**

Net Assets

June 30,	2011	2010	2009
Assets			
Current and other assets	\$ 7,281,685	\$3,193,308	\$1,416,320
Capital assets, net	20,477,253	9,211,725	5,812,328
Total Assets	27,758,938	12,405,033	7,228,648
Liabilities			
Long-term debt	5,240,000	5,380,000	803,750
Other liabilities	216,065	189,939	162,678
Total Liabilities	5,456,065	5,569,939	966,428
Net Assets			
Invested in capital assets, net of related debt	20,477,253	5,434,692	5,008,578
Unrestricted	1,825,620	1,400,402	1,253,642
Total Net Assets	\$22,302,873	\$6,835,094	\$6,262,220

The total net assets of the Plant are \$22,302,873, however, \$20,477,253 represents net investment in capital assets including infrastructure. Of the unrestricted net assets, \$1,143,231 has been designated for future capital improvements and debt service. Total net assets increased by \$15,467,779 during the fiscal year as plant renovation and expansion from its current 15.5 million gallons per day (MGD) capacity to 23.25 MGD was accomplished during the fiscal year through \$15,420,000 in local capital contributions for plant improvements.

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, 2011 and 2010**

Changes in Net Assets

Year ended June 30,	2011	2010	2009
Revenue			
Operating Revenue – Charges for services	\$1,143,745	\$1,344,006	\$959,216
Operating Expenses			
Purchased water	5,390	1,757	27,520
Intake	348,369	318,843	289,282
Treatment	545,855	520,199	465,905
Administrative	410,506	443,071	287,144
Depreciation	380,874	380,611	380,462
Total Operating Expenses	1,690,994	1,664,481	1,450,313
Operating Loss	(547,249)	(320,475)	(491,097)
Non-Operating Revenue (Expenses)			
Debt service charge	619,079	872,941	894,593
Capital replacement charge	79,946	81,204	124,827
Interest income on investments	2,054	3,369	9,225
Interest expense	(229,940)	(23,715)	(50,790)
Build America Bonds Federal interest credit	122,112	-	-
Deferred charge on refunding	-	(41,250)	(41,250)
Non-operating grants - state	-	-	568
Other	1,777	800	800
Total Non-Operating Revenue	595,028	893,349	937,973
Changes in net assets before capital contributions	47,779	572,874	446,876
Capital contributions – local grants	15,420,000	-	-
Changes in Net Assets	15,467,779	572,874	446,876
Net Assets, beginning of year	6,835,094	6,262,220	5,815,344
Net Assets, end of year	\$22,302,873	\$6,835,094	\$6,262,220

c) Highlights

During the year ended June 30, 2011, the Plant had an increase in net assets of \$15,467,779 from earned revenue of \$1,143,745 and capital contributions from the local units of \$15,420,000 for Plant renovation and expansion. The operating revenue decreased by \$200,261 compared to the year ended June 30, 2010 due to reduced consumption by member units.

**Northwest Ottawa Water Treatment Plant
Management's Discussion and Analysis
June 30, 2011 and 2010**

During the year ended June 30, 2010, the Plant had an increase in net assets of \$572,874 from earned revenue of 2,302,320. The operating revenue increased by \$384,790 compared to the year ended June 30, 2009.

4) Capital Assets and Debt Administration

a) Capital assets

i) The Plant has \$20,477,253 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 include land, land improvements, buildings, equipment, and utility systems such as water distribution lines. The Plant uses straight line depreciation for all depreciable assets. In FY2011, capital assets increased by \$11,265,528, due to a major renovation and expansion of the treatment plant begun in the spring of 2009 and completed in 2011. Because the project is funded solely by County bonds (due to significant reductions in local unit costs), the Nows members entered an agreement with Ottawa County that the improvements remain County-owned until such time as the bonds are paid in full.

ii) More detailed information about changes in capital assets can be found in Note 4 of the footnotes.

b) Debt

i) Summary of debt

The Plant had debt outstanding as of June 30, 2011 of \$5,240,000. During the 2009-10 fiscal year, the County of Ottawa issued \$5,380,000 in Capital Improvement (Build America) Bonds for the plant renovation and expansion project. The Build America component will reduce annual interest cost by approximately 35% through funding from the Federal government. (The Federal payment is made directly to the bank prior to payment to investors and does not pass through local Plant bank accounts.) Note that the Nows partners are contractually obligated to reimburse Ottawa County for debt service.

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

5) Economic Forecast

The Plant has one main source of revenue, water treatment service charges. Utility sales are affected by the economy and 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. Likewise, consumption is affected by local precipitation. Additionally, in recent years, the Plant 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 FY2011-12 budget, the Plant Administrative Committee anticipates that sales will be roughly equal to FY2010-11 volumes.

**Northwest Ottawa Water Treatment Plant
Management's Discussion and Analysis
June 30, 2011 and 2010**

6) Contacting the Plant Financial Management Staff

The City of Grand Haven provides, by contract, fiscal and administrative services to the Plant. This financial report is designed to provide interested individuals including citizens, property owners, customers, investors and creditors with a general overview of Plant finances and to show the Plant 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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NORTHWEST OTTAWA WATER TREATMENT PLANT

STATEMENTS OF NET ASSETS

	June 30	
	2011	2010
Assets		
Current assets		
Cash and cash equivalents	\$ 78,805	\$ 72,836
Investments	300,000	-
Due from other governmental units	338,373	380,952
Current portion of capital leases receivable	145,000	-
Inventories	66,990	60,458
Prepaid items	2,088	148
Billing adjustment due from member units	112,198	137,069
Total current assets	1,043,454	651,463
Noncurrent assets		
Capital assets not being depreciated	26,000	3,803,033
Capital assets being depreciated, net	20,451,253	5,408,692
Capital leases receivable, net of current portion	5,095,000	-
Cash and cash equivalents	1,143,231	938,878
Deposits	-	1,602,967
Total noncurrent assets	26,715,484	11,753,570
Total assets	27,758,938	12,405,033
Liabilities		
Current liabilities		
Accounts payable	73,725	90,713
Due to the City of Grand Haven	100,071	99,226
Accrued interest payable	42,269	-
Current portion of long-term debt	145,000	140,000
Total current liabilities	361,065	329,939
Long-term debt, net of current portion	5,095,000	5,240,000
Total liabilities	5,456,065	5,569,939
Net assets		
Invested in capital assets, net of related debt	20,477,253	5,434,692
Unrestricted	1,825,620	1,400,402
Total net assets	\$ 22,302,873	\$ 6,835,094

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	
	2011	2010
Operating revenues - charges for services	\$ 1,143,745	\$ 1,344,006
Operating expenses		
Purchased water	5,390	1,757
Intake	348,369	318,843
Treatment	545,855	520,199
Administrative	410,506	443,071
Depreciation	380,874	380,611
Total operating expenses	1,690,994	1,664,481
Operating loss	(547,249)	(320,475)
Nonoperating revenue (expense)		
Debt service charge	619,079	872,941
Capital replacement charge	79,946	81,204
Interest income on investments	2,054	3,369
Interest expense	(229,940)	(23,715)
Build America Bonds federal interest credit	122,112	-
Deferred charge on refunding	-	(41,250)
Other	1,777	800
Total nonoperating revenue (expense)	595,028	893,349
Changes in net assets before capital contributions	47,779	572,874
Capital contributions - local grants	15,420,000	-
Changes in net assets	15,467,779	572,874
Net assets, beginning of year	6,835,094	6,262,220
Net assets, end of year	\$ 22,302,873	\$ 6,835,094

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

NORTHWEST OTTAWA WATER TREATMENT PLANT

STATEMENTS OF CASH FLOWS

	Year Ended June 30	
	2011	2010
Cash flows from operating activities		
Receipts from customers and users	\$ 1,211,195	\$ 1,084,381
Payments to suppliers	(842,305)	(772,124)
Payments to employees	(492,430)	(487,906)
	(123,540)	(175,649)
Net cash used in operating activities		
Cash flows from capital and related financing activities		
Purchase of capital assets	(3,435)	(2,975)
Principal paid on long-term debt	(140,000)	(845,000)
Interest paid on long-term debt	(65,559)	(27,940)
Cash received on capital leases receivable	140,000	-
Proceeds from debt service charge	619,079	1,072,350
Proceeds from capital replacement charge	79,946	81,204
Proceeds from other nonoperating income	1,777	800
	631,808	278,439
Net cash provided by capital and related financing activities		
Cash flows from investing activities		
Interest received on investments	2,054	3,369
Purchase of investment securities	(300,000)	-
	(297,946)	3,369
Net cash (used in) provided by investing activities		
Net increase in cash and cash equivalents	210,322	106,159
Cash and cash equivalents, beginning of year	1,011,714	905,555
Cash and cash equivalents, end of year	\$ 1,222,036	\$ 1,011,714
Statements of net assets classification of cash and cash equivalents		
Current	\$ 78,805	\$ 72,836
Noncurrent	1,143,231	938,878
Total cash and cash equivalents	\$ 1,222,036	\$ 1,011,714

Continued...

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

NORTHWEST OTTAWA WATER TREATMENT PLANT

STATEMENTS OF CASH FLOWS (CONCLUDED)

	Year Ended June 30	
	2011	2010
Reconciliation of operating loss to net cash used in operating activities:		
Operating loss	\$ (547,249)	\$ (320,475)
Adjustments to reconcile operating loss to net cash used in operating activities		
Depreciation	380,874	380,611
Changes in operating assets and liabilities which provided (used) cash:		
Due from other governmental units	67,450	(259,625)
Inventories	(6,532)	(7,646)
Prepaid items	(1,940)	-
Accounts payable	(16,988)	20,284
Due to the City of Grand Haven	845	11,202
Net cash used in operating activities	\$ (123,540)	\$ (175,649)

For the year ended June 30, 2011, noncash capital and related financing activities consist of \$11,642,967 in capital asset additions from unspent bond proceeds from 2010 bonds issued by the County on behalf of the Northwest Ottawa Treatment Plant and \$122,112 in interest expense forgiven by the federal government in connection with Buy America Bonds.

For the year ended June 30, 2010, noncash 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, of which \$3,777,033 was expended during 2010.

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

Reporting Entity

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.

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.

Basis of Presentation

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 local governments for operating costs of the Plant. 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.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

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.

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.

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.

Prepaid Expense

The Plant incurred expenses prior to year-end for services that will be performed in the next fiscal year. In these situations, the Plant records an asset to reflect the investment in future services.

NORTHWEST OTTAWA WATER TREATMENT PLANT

NOTES TO FINANCIAL STATEMENTS

Net Assets

The Administrative Committee has designated net assets of \$1,143,231 and \$938,878 at June 30, 2011 and 2010, respectively, for future capital improvements and debt service.

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
furniture	5

Due to the City of Grand Haven

The amounts due to the City of Grand Haven for payment in lieu of taxes were \$2,871 and \$3,723 at June 30, 2011 and 2010, respectively.

In addition, all operating personnel of the Plant are legally employees of the City of Grand Haven. Amounts due to operating personnel for accrued wages, health benefits and compensated absences are shown in the financial statements as due to the City of Grand Haven. The amounts due to the City for these costs at June 30, 2011 and 2010, were \$97,200 and \$95,503, respectively.

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:

	2011	2010
Cash and cash equivalents - current	\$ 78,805	\$ 72,836
Investments	300,000	-
Cash and cash equivalents - noncurrent	1,143,231	938,878
Total	\$ 1,522,036	\$ 1,011,714

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

	2011	2010
Deposits in checking and savings accounts	\$ 1,222,036	\$ 1,011,714
Certificate of deposit (due in less than one year)	300,000	-
Total	\$ 1,522,036	\$ 1,011,714

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.

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.

NORTHWEST OTTAWA WATER TREATMENT PLANT

NOTES TO FINANCIAL STATEMENTS

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, 2011, \$1,003,911 of the Plant's bank balance of \$1,503,911 was exposed to custodial credit risk because it was not insured or collateralized. 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.

3. CAPITAL LEASES

The Plant has capital leases receivable from the participating municipalities for the payments to be received from the units on the Contract payable to Ottawa County. During the year ended June 30, 2011, the Plant recorded capital contributions totaling \$5,380,000 for these payments. The future payments for these leases are as follows for the years ending June 30:

<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2012	\$ 145,000	\$ 344,830	\$ 489,830
2013	150,000	339,755	489,755
2014	150,000	333,230	483,230
2015	155,000	326,255	481,255
2016	160,000	318,582	478,582
2017-2021	910,000	1,446,548	2,356,548
2022-2026	1,125,000	1,126,313	2,251,313
2027-2031	1,420,000	688,826	2,108,826
2032-2034	1,025,000	151,162	1,176,162
Total	\$ 5,240,000	\$ 5,075,501	\$ 10,315,501

NORTHWEST OTTAWA WATER TREATMENT PLANT

NOTES TO FINANCIAL STATEMENTS

4. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2011 is as follows:

	Balance July 1, 2010	Additions	Disposals	Balance June 30, 2011
Capital assets, not being depreciated				
Land	\$ 26,000	\$ -	\$ -	\$ 26,000
Construction in progress	3,777,033	1,602,967	5,380,000	-
Total capital assets, not being depreciated	3,803,033	1,602,967	5,380,000	26,000
Capital assets, being depreciated				
Water plant	8,068,117	15,420,000	-	23,488,117
Lake intakes	4,880,137	-	-	4,880,137
Water mains	706,638	-	-	706,638
Structures and equipment	121,418	3,435	-	124,853
Office furniture	27,073	-	-	27,073
	13,803,383	15,423,435	-	29,226,818
Accumulated depreciation				
Water plant	6,009,191	257,347	-	6,266,538
Lake intakes	1,853,740	97,459	-	1,951,199
Water mains	474,143	15,122	-	489,265
Structures and equipment	41,526	9,112	-	50,638
Office furniture	16,091	1,834	-	17,925
	8,394,691	380,874	-	8,775,565
Net capital assets, being depreciated	5,408,692	15,042,561	-	20,451,253
Total capital assets, net	\$ 9,211,725	\$ 16,645,528	\$ 5,380,000	\$ 20,477,253

NORTHWEST OTTAWA WATER TREATMENT PLANT

NOTES TO FINANCIAL STATEMENTS

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

5. LONG-TERM DEBT

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

	2011	2010
Contract payable to Ottawa County for Water System Improvement Build America Bonds, payable in annual installments from \$140,000 to \$360,000 through 2034; interest from 2.9% to 7.25%	\$ 5,240,000	\$ 5,380,000
Less current portion	(145,000)	(140,000)
Long-term debt, net of current portion	\$ 5,095,000	\$ 5,240,000

The following is a summary of long-term debt transactions for the years ended June 30, 2011 and 2010:

Long-term debt – July 1, 2009	\$ 803,750
Debt issued	5,380,000
Debt retired	(845,000)
Amortization of deferred charge	41,250
Long-term debt – June 30, 2010	5,380,000
Debt retired	(140,000)
Long-term debt – June 30, 2011	\$ 5,240,000

The annual requirements to maturity on debt outstanding as of June 30, 2011 are as follows:

Year Ending June 30	Principal	Interest	Total
2012	\$ 145,000	\$ 344,830	\$ 489,830
2013	150,000	339,755	489,755
2014	150,000	333,230	483,230
2015	155,000	326,255	481,255
2016	160,000	318,582	478,582
2017-2021	910,000	1,446,548	2,356,548
2022-2026	1,125,000	1,126,313	2,251,313
2027-2031	1,420,000	688,826	2,108,826
2032-2034	1,025,000	151,162	1,176,162
Total	\$ 5,240,000	\$ 5,075,501	\$ 10,315,501

NORTHWEST OTTAWA WATER TREATMENT PLANT

NOTES TO FINANCIAL STATEMENTS

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 DUE 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:

	2011	2010
Amounts contractually allowed to collect as adjusted for actual expenses	\$ 1,137,302	\$ 1,074,736
Amounts billed for fiscal year prior to June 30	(1,025,104)	(937,667)
Total due from member units	\$ 112,198	\$ 137,069

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, 2011 and 2010, the Plant's working capital was deficient by \$112,198 and \$137,069, 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.

NORTHWEST OTTAWA WATER TREATMENT PLANT

NOTES TO FINANCIAL STATEMENTS

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. 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.

10. SUBSEQUENT EVENT

The Ottawa County Road Commission ("OCRC"), on behalf of the municipalities in the Northwest Ottawa Water System ("NOWS"), hired an engineer and contractor to construct the South Intake. The South Intake failed, which resulted in a lawsuit between the OCRC, engineer, contractor and bonding company. Subsequent to June 30, 2011, the lawsuit was resolved with a settlement agreement, which included a payment to the OCRC by the contractor in the amount of \$2,750,000. The County distributed the funds to the NOWS municipalities per the August 11, 2011 Memorandum of Understanding.

* * * * *

December 14, 2011

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

We have audited the financial statements of the *Northwest Ottawa Water Treatment Plant* (the “Plant”) for the year ended June 30, 2011, and have issued our report thereon dated December 14, 2011. 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 28, 2011, 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 July 11, 2011.

Significant Results of the Audit

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 amount due to the City of Grand Haven for 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. We did not note any material corrected or uncorrected misstatements.

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 December 14, 2011.

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 Plant'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 that reads "Lehmann Johnson". The signature is written in a cursive, flowing style.



Finance Office

COPY

City of Grand Haven
519 Washington Avenue
Grand Haven, MI 49417

616 847-4893
616 847-3496 fax

December 14, 2011

Rehmann Robson
570 Seminole Road, Suite 200
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, 2011 and 2010 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 respective financial position of the Northwest Ottawa Water Treatment Plant and its changes in financial position and cash flows 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 December 14, 2011, 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 and include all properly classified funds and other financial information of the primary government and all component units required by generally accepted accounting principles to be included in the financial reporting entity.
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 a process to track the status of audit findings and recommendations.
10. 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.
11. The Plant has no plans or intentions that may materially affect the carrying value or classification of assets, liabilities, or equity.
12. 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.

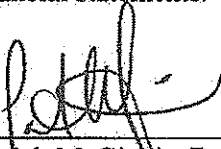
For the purposes of this letter, related parties mean members of the governing body; board members; administrative officials; immediate families of administrative officials, board members, and members of the governing body; and any companies affiliated with or owned by such individuals.
 - b. Guarantees, 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.
13. 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.

14. 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 fund equity that were not properly authorized and approved.
15. 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.
16. 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.
17. 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.
18. The financial statements include all component units as well as joint ventures with an equity interest, and properly disclose all other joint ventures and other related organizations.
19. The financial statements properly classify all funds and activities.
20. All funds that meet the quantitative criteria in GASB Statement Nos. 34 and 37 for presentation as major are identified and presented as such and all other funds that are presented as major are particularly important to financial statement users.
21. Net asset components (invested in capital assets, net of related debt; restricted; and unrestricted) and fund balance reserves and designations are properly classified and, if applicable, approved.
22. Provisions for uncollectible receivables have been properly identified and recorded.
23. Expenses have been appropriately classified in or allocated to functions and programs in the statement of activities, and allocations have been made on a reasonable basis.

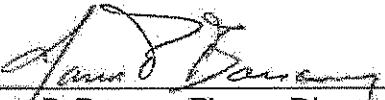
24. Revenues are appropriately classified in the statement of activities within program revenues, general revenues, contributions to term or permanent endowments, or contributions to permanent fund principal.
25. Interfund, internal, and intra-entity activity and balances have been appropriately classified and reported.
26. Deposits and investment securities are properly classified as to risk, and investments are properly valued.
27. Capital assets, including infrastructure assets, are properly capitalized, reported, and, if applicable, depreciated.
28. 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

December 14, 2011
Date



James P. Bonamy, Finance Director

December 14, 2011
Date