

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Unit Name Northwest Ottawa Water Treatment Plant	County Ottawa
Fiscal Year End 06/30/2007	Opinion Date October 30, 2007	Date Audit Report Submitted to State November 21, 2007	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

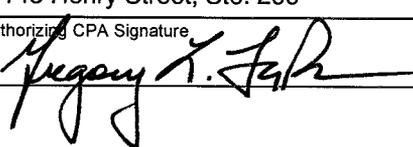
We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

YES NO Check each applicable box below. (See instructions for further detail.)

1. All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. The local unit has adopted a budget for all required funds.
5. A public hearing on the budget was held in accordance with State statute.
6. The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. The local unit only holds deposits/investments that comply with statutory requirements.
9. The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. The local unit is free of repeated comments from previous years.
12. The audit opinion is UNQUALIFIED.
13. The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. The board or council approves all invoices prior to payment as required by charter or statute.
15. To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input type="checkbox"/>	N/A - None	
Other (Describe)	<input type="checkbox"/>	N/A - None	
Certified Public Accountant (Firm Name) Pridnia LaPres, PLLC	Telephone Number 231-739-9441		
Street Address 3145 Henry Street, Ste. 200	City Muskegon	State MI	Zip 49441
Authorizing CPA Signature 	Printed Name Gregory L. LaPres, CPA		License Number 1101013632

Northwest Ottawa Water Treatment Plant



Financial Statements
Years Ended June 30, 2007 and 2006

Northwest Ottawa Water Treatment Plant

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November 1, 2007

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, 2007.

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 has maintained a system of internal controls to protect NOWS assets from theft, loss, or misuse and to compile reliable information for the presentation of our financial statements in conformity with generally accepted accounting principles. The cost of internal controls should not exceed the benefits received; therefore the internal controls have been designed to provide reasonable assurance rather than absolute assurance that the financial statements will be free from material misstatement. As City Administration, we assert, to the best of our knowledge and belief, that this financial report is complete and reliable in all material respects.

The Reporting Entity

NOWS was established March 1, 1988, through a joint venture agreement between the City of Grand Haven, the City of Ferrysburg, the Charter Township of Grand Haven and the Township of Spring Lake to provide regional water treatment services. The Village of Spring Lake joined NOWS on April 24, 1992. In 1986, the current water treatment plant was built. Over the years the plant has been upgraded and modified to its current rated capacity of 15.5 million gallons per day. It presently operates at an average capacity of 50% during the majority of the year and at 80% capacity during the summer. In 1991, the north intake bed and pumping station was built. In 2005, the south intake bed was repaired after the initial project failed to operate properly. The City's Ranney Wells and Crows Foot intakes were dismantled in 2002, due to high maintenance and poor production. NOWS presently serves a population of approximately 45,000.

The City of Grand Haven provides contractual management and financial administration under contractual agreement to NOWS and 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 five year Capital Improvement Plan. These two documents address the Administrative Committee's strategy to improve water treatment operations and maintain the water plant. The budget document provides the financial framework for planning and control, as well as defining NOWS efforts for the future. The Capital Improvement Plan provides the Administrative Committee and staff with a strategy for future major capital items and related financial resources that will be required over the next five 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, Director of Public Works and Finance Director draft the budget on a line item basis, considering capital and operational priorities separately and combining both into a preliminary budget document. The NOWS Administrative Committee adopts the budget, which is included in the overall City of Grand Haven 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 present employment challenges for displaced employees and the local economy as a whole. Economic forecasts indicate a continuation of challenging conditions for 2007 and beyond in Michigan. Keys to these forecasts are reductions in auto industry jobs and capital plans and a continuing retrenching in Michigan's manufacturing economy. Losses of Eagle Ottawa Leather operations and a post-fiscal year announcement of the closing of the Magna Donnelly division plant point to continuing economic stress.

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. NOWS anticipates the need for a fully functional intake system to match increased pumping capacity for a proposed expanded 23.25 million gallon treatment facility which, among other options, is being considered. NOWS can receive additional water from water system interconnects and operating agreements with Muskegon and Grand Rapids water systems. NOWS notes that continuing population increases in the townships and future economic growth will provide increasing demand for water in the future.

2006-07 Initiatives:

- Reduced staff and established combined staff responsibilities.
- Evaluated high and low service pumps for repairs.
- Completed an operation and maintenance evaluation of both intakes and the pumping station.
- Installed new fiber communication lines for the water plant and lake pumping station.
- Finalized water supply alternatives evaluation.
- Finalized and submitted NOWS and City water distribution information for EPA's Stage 2 DBP and LT2 Rule for compliance.
- Completed EPA required lead and copper sampling and analysis for NOWS.
- Continued the Source Water Intake Protection Plan (SWIPPI) through the Michigan's Clean Water Legacy Plan.

Future Initiatives:

- Evaluate staff's additional responsibilities and plant goals.
- Install new phone system using optical fiber.
- Inspect and evaluate the Intake system.
- Begin the repair of the existing Backwash Retention Tank.

- Begin expansion of the water treatment facility, including security enhancements and remote site SCADA system.
- Inspect and repair low and high-service pumps, inspect and repair roofing material, make heating and cooling repairs, make dehumidification repairs as needed until plant expansion.

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 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.
- The 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 statute and the various local unit charters require an annual financial audit by an independent certified public accountant. In May 2003, City Council selected the accounting firm of BDO Seidman, Certified Public Accountants, who provided auditing services for the first years of the engagement. In the summer of 2004, BDO Seidman sold its Muskegon office to its former BDO partners. Pridnia LaPres, PLLC provides the same auditing staff originally provided by BDO Seidman and at the same cost.

Acknowledgments

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

Sincerely,

Patrick McGinnis
 City Manager and
 Chairman of the NOWS
 Administrative Committee
 616 847-4888
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James P. Bonamy
 Finance Director
 City of Grand Haven
 616 935-3214
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Independent Auditors' Report

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 June 30, 2007 and 2006 and for the years then ended, 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, 2007 and 2006 and the results of its operations and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

The management discussion and analysis listed in the table of contents is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. 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.

Pridnia Lapres, PLLC

October 30, 2007

**Northwest Ottawa Water Treatment Plant
Management Discussion and Analysis
June 30, 2007**

1) Financial Highlights

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

The NOWS Fund ended the fiscal year in better financial position than the prior year and under budget. Overall debt was lower due annual principal payments.

- b) Business-type activities net assets increased from \$4,483,088 to \$5,185,121.
- c) Total operating expenses for business-type activities decreased from \$1,541,398 to \$1,504,621.

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* provides 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* is similar to a balance sheet in private sector accounting.

ii) Statements of Activities

The *Statements of Activities* reports the underlying causes of the change in net assets. All changes in net assets are reported as the change occurs and includes 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 Discussion and Analysis
June 30, 2007**

Net Assets

June 30,	2007	2006
Assets		
Current and other assets	\$ 435,107	\$ 439,894
Capital and restricted assets	7,426,348	7,584,304
Total Assets	\$7,861,455	\$8,024,198
Liabilities		
Long-term debt	\$1,586,250	\$2,425,000
Other liabilities	1,090,084	1,116,110
Total Liabilities	\$2,676,334	\$3,541,110
Net Assets		
Invested in capital assets, net of related debt	\$5,185,121	\$4,462,547
Unreserved	-	20,541
Total Net Assets	\$5,185,121	\$4,483,088

The total assets of NOWS are \$7,861,455, however, \$6,539,078 represents net investment in capital assets including infrastructure. Of the more liquid assets, \$887,270 is restricted. Total net assets increased by \$702,033 during the fiscal year.

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 Discussion and Analysis
June 30, 2007**

Changes in Net Assets

Year ended June 30,	2007	2006
Revenue		
Operating Revenue – Earned revenue	\$1,144,609	\$ 1,193,547
Operating Expenses		
Purchased water	113,551	257,626
Intake	278,100	216,785
Treatment	463,680	425,240
Administrative	276,578	268,392
Depreciation	372,712	373,355
Total Operating Expenses	\$1,504,621	\$ 1,541,398
Non-Operating Revenue (Expenses)		
Debt service charge	1,012,672	984,551
Capital replacement charge	141,303	120,657
Interest income on investments	46,221	35,446
Interest expense	(96,984)	(120,722)
Deferred charge on refunding	(41,250)	(41,250)
Other	83	-
Total Non-Operating Revenue	\$1,062,045	\$ 978,682
Changes in Net Assets	702,033	630,831
Net Assets, beginning of year	\$4,483,088	\$ 3,852,257
Net Assets, end of year	\$5,185,121	\$ 4,483,088

c) Business-type Activities – Highlights

The business-type activities had an increase in net assets of \$702,033 from revenues of \$2,344,888. The largest source of revenue was from earned revenue, \$1,144,609 or 48.81% of revenues for business-type activities.

4) Financial Analysis

NOWS had revenues of \$2,344,888, an increase of \$10,687 from the prior fiscal year.

**Northwest Ottawa Water Treatment Plant
Management Discussion and Analysis
June 30, 2007**

5) Capital Assets and Debt Administration

a) Capital assets

NOWS has \$6,539,078 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 FY2007, capital assets decreased by \$348,469 in business-type activities, primarily in depreciation.

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

6) Debt

a) Summary of debt

NOWS had \$2,590,000 in debt outstanding as of June 30, 2007.

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 can experience large swings of revenue from changes in weather conditions. Winter conditions produce less consumption. Increasing consumption is noted during the late spring, peaking in summer and declining in autumn. Additionally, NOWS has reconstructed a second intake bed and has installed a connection with the Grand Rapids Water System for anticipated future consumer demand. (Emergency interconnects with Norton Shores, Muskegon and Grand Rapids water systems are also in place to ensure continuing service.) For the FY2007-08 budget, the NOWS Administrative Committee anticipates that sales will be roughly equal to FY2006-07 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:

Patrick McGinnis
City Manager
616 847-4888
pmcginnis@grandhaven.org

James P. Bonamy
Finance Director
616 935-3214
jbony@grandhaven.org

<i>June 30,</i>	2007	2006
Assets		
Current Assets		
Cash and cash equivalents (Note 2)	\$ 50,559	\$ 128,957
Due from other governmental units	330,589	264,091
Inventories	53,959	46,846
Total Current Assets	435,107	439,894
Long-Term Assets		
Capital assets – net (Note 3)	6,539,078	6,887,547
Restricted assets (Note 4)	887,270	696,757
Total Assets	\$ 7,861,455	\$ 8,024,198

Northwest Ottawa Water Treatment Plant

Statements of Net Assets

<i>June 30,</i>	2007	2006
Liabilities and Net Assets		
Current Liabilities		
Accounts payable	\$ 96,050	\$ 61,260
Accrued and other liabilities	69,701	77,203
Due to other governmental units	28,377	1,574
Billing adjustment due to member units (Note 6)	5,164	56,511
Total Current Liabilities	199,292	196,548
Current Liabilities Payable from Restricted Assets		
(Note 4)	890,792	919,562
Long-Term Debt – Less current maturities (Note 5)	1,586,250	2,425,000
Total Liabilities	2,676,334	3,541,110
Net Assets		
Invested in capital assets, net of related debt	5,185,121	4,462,547
Unreserved	-	20,541
Total Net Assets	5,185,121	4,483,088
Total Liabilities and Net Assets	\$ 7,861,455	\$ 8,024,198

See accompanying notes to financial statements.

Northwest Ottawa Water Treatment Plant

Statements of Revenue, Expenses, and Changes in Net Assets

<i>Years ended June 30,</i>	2007	2006
Operating Revenue – Earned revenue	\$ 1,144,609	\$ 1,193,547
Operating Expenses		
Purchased water	113,551	257,626
Intake	278,100	216,785
Treatment	463,680	425,240
Administrative	276,578	268,392
Depreciation	372,712	373,355
Total Operating Expenses	1,504,621	1,541,398
Operating Loss	(360,012)	(347,851)
Non-Operating Revenue (Expense)		
Debt service charge	1,012,672	984,551
Capital replacement charge	141,303	120,657
Interest income on investments	46,221	35,446
Interest expense	(96,984)	(120,722)
Deferred charge on refunding	(41,250)	(41,250)
Other	83	-
Total Non-Operating Revenue	1,062,045	978,682
Changes in Net Assets	702,033	630,831
Net Assets – Beginning of year	4,483,088	3,852,257
Net Assets – End of year	\$ 5,185,121	\$ 4,483,088

See accompanying notes to financial statements.

Northwest Ottawa Water Treatment Plant

Statements of Cash Flows

<i>Years ended June 30,</i>	2007	2006
Cash Flows from Operating Activities		
Operating loss	\$ (360,012)	\$ (347,851)
Adjustments to reconcile operating loss to net cash used for operating activities		
Depreciation	372,712	373,355
Changes in assets and liabilities		
Due from other governmental units	(66,498)	100,916
Inventories	(7,113)	3,242
Accounts payable	34,790	(104,049)
Accrued and other liabilities	(7,502)	(22,904)
Due to other governmental units	(24,544)	(170,141)
Net Cash Used for Operating Activities	(58,167)	(167,432)
Cash Flows from Capital and Related Financing Activities		
Principal and interest paid on long-term debt	(1,005,754)	(1,057,403)
Proceeds from debt service charge	994,561	987,820
Proceeds from capital replacement charge	141,303	120,657
Purchase of capital assets	(24,243)	(17,761)
Proceeds from other revenue	83	-
Net Cash Provided by Capital and Related Financing Activities	105,950	33,313
Cash Flows from Investment Activities		
Interest received on investments	46,221	35,446
Net Increase (Decrease) in Cash and Cash Equivalents	94,004	(98,673)
Cash and Cash Equivalents – Beginning of year	598,596	697,269
Cash and Cash Equivalents – End of year	\$ 692,600	\$ 598,596

See accompanying notes to financial statements.

Northwest Ottawa Water Treatment Plant

Statements of Cash Flows

<i>June 30,</i>	2007	2006
Statements of Net Assets		
Classification of Cash and Cash Equivalents		
Cash and cash equivalents	\$ 50,559	\$ 128,957
Restricted assets (Note 4)	642,041	469,639
Total	\$ 692,600	\$ 598,596

See accompanying notes to financial statements.

Northwest Ottawa Water Treatment Plant

Notes to Financial Statements

1. Summary of 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.

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 Accounting

The accrual basis of accounting is used in preparing the financial statements.

Cash Equivalents

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

Inventories

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

Capital Assets

Capital assets are recorded at cost or, if donated, at their estimated fair value on the date donated. Depreciation is computed on a straight-line method based on the estimated useful lives of the related assets. Costs of maintenance and repairs are charged to expense when incurred.

Northwest Ottawa Water Treatment Plant

Notes to Financial Statements

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

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

2. Deposits

Deposits

State statutes require that certificates of deposit, savings accounts and depository receipts are made with banks doing and having a place of business in the state of Michigan that are also members of a federal or national insurance corporation.

Custodial Credit Risk Related to Deposits

Custodial credit risk is the risk that, in the event of a bank failure, the Plant's deposits might not be recovered. The Plant does not have a deposit policy for custodial credit risk. At June 30, 2007, \$592,600 of the Plant's bank balances of \$692,600 were exposed to custodial credit risk as follows:

Uninsured and uncollateralized:	<u>\$ 592,600</u>
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Investments

Interest Rate Risk

The Plant does not have a formal investment policy that limits 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

Custodial Credit Risk Related to Investments

Custodial credit risk is the risk that, in the event of the failure of the counterparty or bank, the Plant will not be able to recover the value of its investments that are in the possession of an outside party. The Plant was not exposed to custodial credit risk related to investments.

Credit Risk

State statutes authorize the Plant to invest in obligations and certain repurchase agreements of the U.S. Treasury and related governmental agencies, commercial paper rated prime at the time of purchase and maturing not more than 270 days from the date of purchase, bankers acceptances and certificates of deposit issued or created by a state or national bank insured with the applicable federal agency, investment pools authorized by the Surplus Funds Investment Pool Act and mutual funds composed entirely of the above investments.

The Plant had no investment policy that would further limit its investment choices.

Concentration of Credit Risk

The Plant places no limit on the amount the Plant may invest in any one issuer.

Northwest Ottawa Water Treatment Plant

Notes to Financial Statements

3. Capital Assets

Capital assets consist of the following:

	Balance July 1, 2006	Additions	Disposals	Balance June 30, 2007
<hr/>				
Capital assets not depreciated				
Land	\$ 26,000	\$ -	\$ -	\$ 26,000
Capital assets being depreciated				
Water plant	8,065,142	-	-	8,065,142
Lake intakes	4,880,137	-	-	4,880,137
Water mains	694,274	-	-	694,274
Structures and equipment	87,610	24,243	-	111,853
Office furniture	14,928	-	-	14,928
	<hr/>			
	13,742,091	24,243	-	13,766,334
Accumulated depreciation				
Water plant	4,980,250	257,228	-	5,237,478
Lake intakes	1,462,945	97,491	-	1,560,436
Water mains	414,892	13,885	-	428,777
Structures and equipment	12,687	2,877	-	15,564
Office furniture	9,770	1,231	-	11,001
	<hr/>			
	6,880,544	372,712	-	7,253,256
<hr/>				
Net Capital Assets Being Depreciated	6,861,547	(348,469)	-	6,513,078
<hr/>				
Net Capital Assets	\$ 6,887,547	\$(348,469)	\$ -	\$ 6,539,078

Northwest Ottawa Water Treatment Plant

Notes to Financial Statements

4. Restricted Assets Restricted assets consist of the following:

<i>June 30,</i>	2007	2006
Cash and cash equivalents (capital improvements)	\$ 431,551	\$ 275,100
Cash and cash equivalents (for repayment of debt)	210,490	194,539
Due from other governmental units (for repayment of debt)	245,229	227,118
Total Restricted Assets	887,270	696,757
Less current liabilities payable from restricted assets		
Current portion of long-term debt	(880,000)	(905,000)
Accrued interest on long-term debt	(10,792)	(14,562)
Total Current Liabilities Payable from Restricted Assets	(890,792)	(919,562)
Net Restricted Assets	\$ (3,522)	\$ (222,805)

Northwest Ottawa Water Treatment Plant

Notes to Financial Statements

5. Long-Term Debt Outstanding Debt

Long-term debt consists of the following:

<i>June 30,</i>	2007	2006
Contract payable to Ottawa County for 2.5% to 3.2% water treatment facility bonds – 1992 (refinanced – 2002, Series A)	\$ 1,360,000	\$ 1,890,000
Contract payable to Ottawa County for 2.5% to 3.2% intake bonds – 1989 (refinanced – 2002 Series B)	1,230,000	1,605,000
Less deferred charge on refunding	(123,750)	(165,000)
Total	2,466,250	3,330,000
Less current maturities	(880,000)	(905,000)
	\$ 1,586,250	\$ 2,425,000

Debt Service Requirements

The annual requirements to service all debt outstanding as of June 30, 2007, including both principal and interest, are as follows:

<i>Year ended June 30,</i>	Principal	Interest
2008	\$ 880,000	\$ 77,630
2009	865,000	52,990
2010	845,000	27,040
Total	\$ 2,590,000	\$ 157,660

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, 2007 and 2006:

Years ended June 30, 2007 and 2006

Long-term debt – July 1, 2005	\$ 4,223,750
Debt retired	(935,000)
Amortization of deferred charge	41,250
Long-term debt – June 30, 2006	3,330,000
Debt retired	(905,000)
Amortization of deferred charge	41,250
Long-term debt – June 30, 2007	\$ 2,466,250

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.

Northwest Ottawa Water Treatment Plant

Notes to Financial Statements

6. Billing Adjustment Due to Governmental 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:

<i>Years ended June 30,</i>	2007	2006
Payments to communities		
Amounts billed for fiscal year prior to June 30	\$ 1,149,773	\$ 1,250,058
Amounts contractually allowed to collect as adjusted for actual expenses	(1,144,609)	(1,193,547)
Total due to member units	\$ 5,164	\$ 56,511

7. Pension Plan

Plan Description

The Plant participates with the City of Grand Haven in the Michigan Municipal Employees' Retirement System (MMERS), a defined benefit pension plan that covers all employees of the City. The system provides retirement, disability, and death benefits to plan members and their beneficiaries. The MMERS issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to the MMERS at 1134 Municipal Way, Lansing, MI 48917.

Funding Policy

The obligation to contribute to and maintain the system for these employees was established by negotiation with the Plant's collective bargaining units. For the year ended June 30, 2007, the Plant's annual pension cost of \$2,612 was equal to the Plant's required contribution. The Plant's actual contribution to the plan was approximately \$15,000.

Northwest Ottawa Water Treatment Plant

Notes to Financial Statements

Three-Year Trend Information

Funding information for the Plant's participation in the pension plan is as follows:

<i>Years ended June 30,</i>	2007	2006	2005
Annual pension cost			
(APC)	\$ 2,612	\$ -	\$ -
Percentage of APC			
contributed	100%	100%	100%
Net pension obligation	\$ -	\$ -	\$ -

8. 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. \$5,164 and \$56,511 in excess working capital was due to be refunded to the units at June 30, 2007 and 2006, respectively.

9. 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.