

# **NORTHWEST OTTAWA WATER SYSTEM**

## **FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED JUNE 30, 2015**



*Vredeveld Haefner LLC*

# NORTHWEST OTTAWA WATER SYSTEM

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## **INDEPENDENT AUDITORS' REPORT**

November 18, 2015

Members of the Administrative Committee  
Northwest Ottawa Water System  
Grand Haven, Michigan

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the Northwest Ottawa Water System, ("NOWS") as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

### ***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### ***Auditor's Responsibility***

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

### ***Opinions***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position Northwest Ottawa Water System, Grand Haven, Michigan, as of June 30, 2015, and the changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Other Matters**

### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 5 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

*Urodeuxeld Haefner LLC*

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

## Management's Discussion and Analysis

As management of the Northwest Ottawa Water System (NOWS), we offer readers of the NOWS financial statements this narrative overview and analysis of the financial activities of the NOWS for the fiscal year ended June 30, 2015. We encourage readers to consider the information presented here in conjunction with additional information that is furnished in the financial statements and notes to the financial statements.

### Financial Highlights

- The Northwest Ottawa Water Treatment Plant/System (NOWS) determines its revenue by making projections on water use for over 40,000 customers. The relationship is directly tied between water demands and weather conditions throughout the year. The balance between revenue and expenditures varies each budget year based on those predictions. This past year we experienced a decrease in revenue based on those projections and actual water use.
- Disposal of the Ranney well intake occurred during the year, resulting in a net \$261,000 reduction in total assets during the fiscal year. The Ranney Wells, a total of three water intake structures built in the 1950's, were removed from service in 2002 due to the amount of labor required to service them and the inefficiency of water production.

### Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the NOWS financial statements. The NOWS basic financial statements comprise two components: 1) financial statements, and 2) notes to the financial statements.

The *Statement of Net Position* presents information on all of the NOWS assets and liabilities, with the difference between the two reported as *net position*. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the NOWS is improving or deteriorating.

The *Statement of Revenues, Expenses and Changes in Net Position* presents information showing how the NOWS net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., earned but unused compensated absences, accrued interest, etc.).

**Notes to the financial statements.** The notes provide additional information that is essential for a full understanding of the data provided in the financial statements.

### Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the NOWS, assets exceeded liabilities by \$16,226,284 at the close of the most recent fiscal year.

A portion of the NOWS net position reflects unrestricted net position which are available for future operation while a more significant portion of net position is invested in capital assets (e.g., land, buildings, vehicles, equipment and infrastructure), less any related debt used to acquire those assets that is still outstanding. NOWS uses these capital assets to provide services to citizens; consequently, these assets are *not* available for future spending. Although the NOWS investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

### Net Position

	<u>2015</u>	<u>2014</u>
Current and other assets	\$ 2,453,472	\$ 3,183,063
Capital assets	22,787,991	23,345,321
<b>Total assets</b>	<b>25,241,463</b>	<b>26,528,384</b>
Other liabilities	210,179	238,801
Long-term liabilities outstanding	8,805,000	9,130,000
<b>Total liabilities</b>	<b>9,015,179</b>	<b>9,368,801</b>
Net position		
Net Investment in capital assets	13,982,991	14,215,321
Restricted	248,848	785,380
Unrestricted	1,994,445	2,158,882
<b>Total net position</b>	<b>\$16,226,284</b>	<b>\$17,159,583</b>

The total net position of the NOWS at June 30, 2015 was \$16,226,284, however, \$13,982,991 represents net investment in capital assets including infrastructure.

### Revenues, Expenses and Changes in Net Position

	<u>2015</u>	<u>2014</u>
Operating revenue	\$ 1,280,576	\$ 1,433,938
Operating expense	2,158,161	2,198,019
Operating income (loss)	(877,585)	(764,081)
Nonoperating revenue (expense)	(55,714)	351,453
Changes in net position	(933,299)	(412,628)
<b>Net position - beginning of year</b>	<b>17,159,583</b>	<b>17,572,211</b>
<b>Net position - end of year</b>	<b>\$16,226,284</b>	<b>\$17,159,583</b>

During the year ended June 30, 2015, the NOWS had a decrease in net position of \$933,299 primarily due to charges not being sufficient to cover its expenses. The operating revenues decreased by \$153,362 compared to the year ended June 30, 2014.

### **Capital Asset and Debt Administration**

**Capital assets.** The NOWS investment in capital assets as of June 30, 2015 amounted to \$22,787,991 (net of accumulated depreciation).

Significant capital purchases during the year consisted primarily of costs related to plant expansion.

The NOWS capital assets (net of depreciation) are summarized as follows:

<b>Capital Assets</b>	
Land	\$ 26,000
Water plant	20,133,386
Lake intakes	2,327,079
Water mains	156,885
Structures and equipment	133,776
Office furniture	10,865
<b>Total</b>	<b><u>\$22,787,991</u></b>

Additional information on the NOWS capital assets can be found in Note 3 of these financial statements.

**Debt.** At the end of the current fiscal year, the NOWS had total long-term debt outstanding as follows:

<b>Long-term Debt</b>	
Contracts payable to Ottawa County	<u>\$8,805,000</u>

The NOWS did not enter into any new long-term debt agreements and made principal payments of \$325,000 during the year.

Additional information on the NOWS long-term debt can be found in Note 4 of these financial statements.

### **Economic Factors and Next Year’s Budgets and Rates**

The following factors were considered in preparing the NOWS budget for the 2015-16 fiscal year:

- The Northwest Ottawa Water Treatment Plant/System (NOWS) reviews water rates annually for Debt and Operations. Debt service requirements as well as actual consumption continue to modify the debt rate.
- Normal capital improvements with plant equipment and ongoing system evaluations also can cause rate variations.
- Major contributors to the budget continue to be replacements in technology and software.

### **Requests for Information**

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

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## **BASIC FINANCIAL STATEMENTS**

# NORTHWEST OTTAWA WATER SYSTEM

## STATEMENT OF NET POSITION

JUNE 30, 2015

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### Assets

#### Current assets

Cash and cash equivalents	\$ 433,665
Accounts receivable	78,432
Due from other governments	397,227
Billing adjustment due from member units	60,847
Prepaid items	138
Inventory	<u>56,642</u>
Total current assets	<u>1,026,951</u>

#### Non-current assets

Designated cash and cash equivalents	1,177,673
Deposits with other units of government	248,848
Capital assets	
Land	26,000
Depreciable capital assets, net	<u>22,761,991</u>
Total non-current assets	<u>24,214,512</u>

### Total assets

25,241,463

### Liabilities

#### Current liabilities

Accounts payable	54,324
Due to other governments	77,423
Accrued interest payable	78,432
Current portion of long-term debt	<u>340,000</u>
Total current liabilities	550,179

#### Long-term liabilities

Long-term debt, net of current portion	<u>8,465,000</u>
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### Total liabilities

9,015,179

### Net position

Net investment in capital assets	13,982,991
Restricted for capital projects	248,848
Unrestricted	<u>1,994,445</u>

### Total net position

\$ 16,226,284

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

# NORTHWEST OTTAWA WATER SYSTEM

## STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

FOR THE YEAR ENDED JUNE 30, 2015

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<b>Operating revenue</b>	
Charges for services	\$ 1,280,576
<b>Operating expense</b>	
Intake	426,227
Treatment	545,143
Administrative	292,846
Depreciation	893,945
<b>Total operating expense</b>	<u>2,158,161</u>
Operating income (loss)	<u>(877,585)</u>
Non-operating revenue (expense)	
Debt service charge	516,686
Capital replacement charge	62,002
Interest income on investments	2,165
Interest expense	(480,581)
Loss on disposal of capital assets	(261,040)
Build America Bonds federal interest credit	105,054
Total non-operating revenue (expense)	<u>(55,714)</u>
Changes in net position	(933,299)
<b>Net position, beginning of year</b>	<u>17,159,583</u>
<b>Net position, end of year</b>	<u>\$ 16,226,284</u>

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

# NORTHWEST OTTAWA WATER SYSTEM

## STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED JUNE 30, 2015

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<b>Cash flows from operating activities</b>	
Receipts from customers and users	\$ 1,357,408
Payments to suppliers	(730,575)
Payments to employees	(543,912)
<b>Net cash provided by (used in) operating activities</b>	<u>82,921</u>
<b>Cash flows from capital and related financing activities</b>	
Proceeds from debt service charge	516,686
Proceeds from capital replacement charge	62,002
Interest expense	(377,515)
Principal paid on bonds and notes	(325,000)
Acquisitions of capital assets	(61,123)
<b>Net cash provided by (used in) capital and related financing activities</b>	<u>(184,950)</u>
<b>Cash flows from investing activities</b>	
Interest income	<u>2,165</u>
Net increase (decrease) in cash and cash equivalents	(99,864)
<b>Cash and cash equivalents, beginning of year</b>	<u>1,711,202</u>
<b>Cash and cash equivalents, end of year</b>	<u>\$ 1,611,338</u>
<b>Cash flows from operating activities</b>	
Operating income (loss)	\$ (877,585)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities	
Depreciation	893,945
Change in operating assets and liabilities which provided (used) cash	
Receivables	1,988
Due from other governmental units	90,461
Prepaid expenses	459
Inventory	287
Accounts payable	(11,017)
Due to other governmental units	(15,617)
<b>Net cash provided by (used in) operating activities</b>	<u>\$ 82,921</u>

Noncash activity consists of purchase of capital assets of \$536,532 with loan proceeds held by Ottawa County.

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

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# NORTHWEST OTTAWA WATER SYSTEM

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2015

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### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of The Northwest Ottawa Water System (NOWS) conform to generally accepted accounting principles as applicable to governments. The following is a summary of the significant policies.

#### ***Reporting Entity***

NOWS 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 Charter Township of Grand Haven.

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

As required by generally accepted accounting principles, the financial statements of the reporting entity include those of NOWS. There are no component units to be included. The criteria for including a component unit include significant operational or financial relationships with the NOWS.

#### ***Measurement Focus and Basis of Accounting***

The financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

Basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

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

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

#### ***Cash and Cash Equivalents***

For the purpose of the statement of cash flows, the NOWS considers all highly liquid investments with an original maturity of three months or less to be cash equivalents.

#### ***Investments***

Investments are recorded at fair value.

# NORTHWEST OTTAWA WATER SYSTEM

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2015

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State statutes authorize the NOWS to invest in:

- a. Bond, 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. Banker's 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 authority 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.

### **Receivables**

All receivables are reported at their net value. Allowance for uncollectible receivables was immaterial at year-end.

### **Inventory**

Inventory consists principally of materials and supplies which are generally used for operations. Inventory is stated at cost using the first-in first-out (FIFO) method.

### **Prepaid Items**

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

### **Deposits with Other Units of Government**

Deposits with others consist of amounts held at the Ottawa County Public Utilities System for the purposes of future plant renovations and improvements.

### **Designated Assets / Net Position**

The Administrative Committee has set aside \$1,177,673 at year-end for future capital improvements and debt service. The related cash and cash equivalents are reported as non-current assets on the statement of net position.



# NORTHWEST OTTAWA WATER SYSTEM

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2015

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### **Capital Assets**

Capital assets are stated at cost and include items defined by the NOWS 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 valued at cost where historical records are available and at an estimated historical cost where no historical records exist. Donated capital assets are valued at their estimated fair value on the date received.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related capital assets, as applicable.

Depreciation on capital assets is computed using the straight-line method over the following estimated useful lives:

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

### **Due to Other Governments**

The amounts due to the City of Grand Haven for payment in lieu of taxes, motorpool charges, and other items were \$2,488 at year-end.

In addition, all operating personnel of the NOWS are 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 other governments. The amounts due to the City for these costs at year-end were \$74,935.

### **Risk Management**

The NOWS is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During the year ended June 30, 2015, the NOWS carried commercial insurance to cover risks of losses. The NOWS has had no settled claims resulting from these risks that exceeded their commercial coverage in any of the past three fiscal years.

# NORTHWEST OTTAWA WATER SYSTEM

## NOTES TO THE FINANCIAL STATEMENTS

**FOR THE YEAR ENDED JUNE 30, 2015**

### 2. DEPOSITS AND INVESTMENTS

The captions on the financial statements relating to cash and cash equivalents are as follows:

Cash and cash equivalents	\$ 433,665
Designated cash and cash equivalents - long-term	<u>1,177,673</u>
	<b><u>\$1,611,338</u></b>

Cash and cash equivalents consist of deposits managed by the City of Grand Haven under its contractual administration obligations. NOWS cash and cash equivalents are segregated from all other City-managed funds in separate bank accounts with the exception of funds transferred timely to payroll and accounts payable checking accounts as processed. Deposit risk for the NOWS cannot be separately determined from the City of Grand Haven.

### 3. CAPITAL ASSETS

Capital asset activity for the year was as follows:

	<u>Balance</u> <u>July 1, 2014</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30, 2015</u>
<b>Capital assets, not being depreciated</b>				
Land	\$ 26,000	\$ -	\$ -	\$ 26,000
<b>Capital assets, being depreciated</b>				
Water plant	28,715,867	552,243	-	29,268,110
Lake intakes	4,880,137	43,421	566,880	4,356,678
Water mains	706,638	-	-	706,638
Structures and equipment	208,335	1,573	-	209,908
Office furniture	36,475	418	-	36,893
Total capital assets, being depreciated	<u>34,547,452</u>	<u>597,655</u>	<u>566,880</u>	<u>34,578,227</u>
Less accumulated depreciation for:				
Water plant	8,357,971	776,753	-	9,134,724
Lake intakes	2,243,577	91,862	305,840	2,029,599
Water mains	534,631	15,122	-	549,753
Structures and equipment	68,168	7,964	-	76,132
Office furniture	23,784	2,244	-	26,028
Total accumulated depreciation	<u>11,228,131</u>	<u>893,945</u>	<u>305,840</u>	<u>11,816,236</u>
<b>Net capital assets, being depreciated</b>	<u>23,319,321</u>	<u>296,290</u>	<u>261,040</u>	<u>22,761,991</u>
<b>Capital assets, net</b>	<b><u>\$23,345,321</u></b>	<b><u>\$296,290</u></b>	<b><u>\$261,040</u></b>	<b><u>\$22,787,991</u></b>

# NORTHWEST OTTAWA WATER SYSTEM

## NOTES TO THE FINANCIAL STATEMENTS

### FOR THE YEAR ENDED JUNE 30, 2015

#### 4. LONG-TERM DEBT

The following is a summary of the debt transactions of NOWS for the year ended June 30, 2015.

	<u>Balance</u> <u>July 1,</u> <u>2014</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30,</u> <u>2015</u>	<u>Due</u> <u>Within</u> <u>One</u> <u>Year</u>
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 at 2.9% to 7.25 %	\$4,795,000	\$ -	\$155,000	\$4,640,000	\$160,000
Contract payable to Ottawa County for Water System Improvement Bonds. Payable in annual installments from \$150,000 to \$365,000 through 2034; interest at 2.5% to 4.0%	4,335,000	-	170,000	4,165,000	180,000
<b>Total bonds</b>	<u>\$9,130,000</u>	<u>\$ -</u>	<u>\$325,000</u>	<u>\$8,805,000</u>	<u>\$340,000</u>

The annual requirements to amortize all debt outstanding as of June 30, 2015 are as follows:

<u>Year Ending</u> <u>June 30</u>	<u>Principal</u>	<u>Interest</u>
2016	\$ 340,000	\$ 470,594
2017	355,000	456,474
2018	370,000	441,320
2019	385,000	425,144
2020	405,000	408,104
2021-2025	2,320,000	1,736,552
2026-2030	2,930,000	1,062,680
2031-2035	1,700,000	263,462
<b>Total</b>	<u><b>\$8,805,000</b></u>	<u><b>\$5,264,330</b></u>

The NOWS charges participating municipalities to fund the payment of contracts payable to Ottawa County based on the water sales to each municipality. The NOWS and the participating municipalities have pledged their full faith and credit for the repayment of the contracts.

# NORTHWEST OTTAWA WATER SYSTEM

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2015

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### 5. BILLING ADJUSTMENT

The NOWS 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 NOWS:

Amounts contractually allowed to collect as adjusted for actual expenses	\$1,382,569
Amounts billed for fiscal year prior to June 30	(1,382,569)
Working capital receivable	<u>60,847</u>
Total due from (to) member units	<u>\$ 60,847</u>

### 6. WORKING CAPITAL

In accordance with the master agreement with the member governmental units, the Administrative Committee of the NOWS has agreed to maintain 5/24<sup>th</sup> 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 Administrative Committee. For the year ended June 30, 2015 the NOWS working capital was deficient by \$60,847.

### 7. RETIREMENT BENEFITS AND NET OTHER POST-EMPLOYMENT BENEFITS

The NOWS leases employees from the City of Grand Haven, Michigan, which participates in a single-employer defined benefit pension and single employer defined benefit and defined contribution healthcare plan. NOWS pays the actuarially-determined annual costs of retirement and OPEB benefits to the City, releasing its responsibility for those costs in the future.

### 8. LITIGATION

In the normal course of its activities, the NOWS has become a party in various legal actions and subject to certain asserted or unasserted claims and assessments. The NOWS is of the opinion that the outcome of any pending actions will not have a material effect on the NOWS financial position or results of operations.