

NORTHWEST OTTAWA WATER SYSTEM

FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2016



Vredeveld Haefner LLC

NORTHWEST OTTAWA WATER SYSTEM

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Vredeveld Haefner LLC

CPA's and Consultants

4001 Granada Ct.

Grand Rapids, MI 49534

FAX (616) 828-0307

Douglas J. Vredeveld, CPA

(616) 446-7474

Peter S. Haefner, CPA

(616) 460-9388

INDEPENDENT AUDITORS' REPORT

November 9, 2016

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, 2016, and the related notes to the financial statements, which collectively comprise the NOWS 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 of the Northwest Ottawa Water System, Grand Haven, Michigan, as of June 30, 2016, 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.

Uredewald 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 NOWS for the fiscal year ended June 30, 2016. 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 NOWS experienced an increase in revenue based on those projections and actual water use.

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 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 NOWS, assets exceeded liabilities by \$15,534,675 at the close of the most recent fiscal year.

A portion of the NOWS net position reflects unrestricted net position which is 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>2016</u>	<u>2015</u>
Current and other assets	\$ 2,297,045	\$ 2,453,472
Capital assets	21,988,904	22,787,991
Total assets	24,285,949	25,241,463
Current liabilities	641,274	550,179
Long-term liabilities outstanding	8,110,000	8,465,000
Total liabilities	8,751,274	9,015,179
Net position		
Net Investment in capital assets	13,523,904	13,982,991
Restricted	249,338	248,848
Unrestricted	1,761,433	1,994,445
Total net position	\$15,534,675	\$16,226,284

The total net position of NOWS at June 30, 2016 was \$15,534,675, however, \$13,523,904 represents net investment in capital assets including infrastructure.

Revenues, Expenses and Changes in Net Position

	<u>2016</u>	<u>2015</u>
Operating revenue	\$ 1,298,628	\$ 1,280,576
Operating expense	2,259,954	2,158,161
Operating income (loss)	(961,326)	(877,585)
Nonoperating revenue (expense)	269,717	(55,714)
Changes in net position	(691,609)	(933,299)
Net position - beginning of year	16,226,284	17,159,583
Net position - end of year	\$15,534,675	\$16,226,284

During the year ended June 30, 2016, NOWS had a decrease in net position of \$691,609 primarily due to depreciation charges. The operating revenues increased by \$18,052 compared to the year ended June 30, 2015.

Capital Asset and Debt Administration

Capital assets. The NOWS investment in capital assets as of June 30, 2016 amounted to \$21,988,904 (net of accumulated depreciation).

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

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

Capital Assets	
Land	\$ 26,000
Water plant	19,442,122
Lake intakes	2,239,937
Water mains	141,763
Structures and equipment	129,945
Office furniture	9,137
Total	<u>\$21,988,904</u>

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, NOWS had total long-term debt outstanding as follows:

Long-term Debt	
Contracts payable to Ottawa County	<u>\$8,465,000</u>

NOWS did not enter into any new long-term debt agreements and made principal payments of \$340,000 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 2016-17 fiscal year:

- The Northwest Ottawa Water Treatment Plant/System 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.
- NOWS revenue is most affected by weather conditions and industrial, commercial and residential water demand.
- Economic factors include the general economic climate and forecasts of future operating developments.

Requests for Information

The City of Grand Haven provides, by contract, fiscal and administrative services to 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:

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

James P. Bonamy
Finance Director
(616) 847-4893
jbony@grandhaven.org

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BASIC FINANCIAL STATEMENTS

NORTHWEST OTTAWA WATER SYSTEM

STATEMENT OF NET POSITION

JUNE 30, 2016

Assets

Current assets

Cash and cash equivalents	\$ 371,614
Set-aside cash and cash equivalents	993,330
Accounts receivable	76,079
Due from other governments	513,356
Billing adjustment due from member units	38,596
Prepaid items	627
Inventory	54,105
Total current assets	<u>2,047,707</u>

Non-current assets

Deposits with other units of government	249,338
Capital assets	
Land	26,000
Depreciable capital assets, net	<u>21,962,904</u>
Total non-current assets	<u>22,238,242</u>

Total assets

24,285,949

Liabilities

Current liabilities

Accounts payable	82,371
Accrued liabilities	125,467
Due to other governments	2,357
Accrued interest payable	76,079
Current portion of long-term debt	<u>355,000</u>
Total current liabilities	641,274

Long-term liabilities

Long-term debt, net of current portion	<u>8,110,000</u>
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Total liabilities

8,751,274

Net position

Net investment in capital assets	13,523,904
Restricted for capital projects	249,338
Unrestricted	<u>1,761,433</u>

Total net position

\$ 15,534,675

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, 2016

Operating revenue	
Charges for services	<u>\$ 1,298,628</u>
Operating expense	
Intake	432,199
Treatment	626,856
Administrative	293,758
Depreciation	<u>907,141</u>
Total operating expense	<u>2,259,954</u>
Operating income (loss)	<u>(961,326)</u>
Non-operating revenue (expense)	
Debt service charge	562,379
Capital replacement charge	67,485
Interest income on investments	1,846
Interest expense	(469,250)
Gain (loss) on disposal of capital assets	242
Build America Bonds federal interest credit	<u>107,015</u>
Total non-operating revenue (expense)	<u>269,717</u>
Changes in net position	(691,609)
Net position, beginning of year	<u>16,226,284</u>
Net position, end of year	<u>\$ 15,534,675</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, 2016

Cash flows from operating activities

Receipts from customers and users	\$ 1,132,037
Payments to suppliers	(565,060)
Payments to employees	<u>(632,191)</u>

Net cash provided by (used in) operating activities (65,214)

Cash flows from capital and related financing activities

Proceeds from debt service charge	562,379
Proceeds from capital replacement charge	67,485
Interest expense	(364,588)
Principal paid on bonds and notes	(340,000)
Acquisitions of capital assets	<u>(108,302)</u>

Net cash provided by (used in) capital and related financing activities (183,026)

Cash flows from investing activities

Interest income	<u>1,846</u>
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Net increase (decrease) in cash and cash equivalents (246,394)

Cash and cash equivalents, beginning of year 1,611,338

Cash and cash equivalents, end of year \$ 1,364,944

Cash flows from operating activities

Operating income (loss)	\$ (961,326)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities	
Depreciation	907,141
Change in operating assets and liabilities which provided (used) cash	
Accounts receivable	2,353
Due from other governmental units	(93,878)
Prepaid expenses	(489)
Inventory	2,537
Accounts payable	28,047
Accrued liabilities	125,467
Due to other governmental units	<u>(75,066)</u>

Net cash provided by (used in) operating activities \$ (65,214)

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, 2016

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 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 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.

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 NOWS principal ongoing operations. The principal operating revenues of NOWS are charges for services. Operating expenses of 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 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, NOWS considers all highly liquid investments with an original maturity of three months or less to be cash equivalents.

Set-aside Cash and Cash Equivalents

The Administrative Committee has set aside \$999,330 at year-end for future capital improvements and debt service. The related cash and cash equivalents are reported as current assets on the statement of net position.

NORTHWEST OTTAWA WATER SYSTEM

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2016

Investments

Investments are recorded at fair value.

State statutes and NOWS policy authorize 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 used for operations. Inventory is stated at cost using the first-in first-out (FIFO) method.

Prepaid Items

NOWS made payments prior to year-end for services that will be performed in the next fiscal year. In these situations, 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.

NORTHWEST OTTAWA WATER SYSTEM

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2016

Capital Assets

Capital assets are stated at cost and include items defined by 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 acquisition value (the price that would be paid to acquire an asset with an equivalent service potential in an orderly market transaction) 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:

	Years
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 \$2,357 at year-end.

In addition, all operating personnel of 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 \$125,467.

Risk Management

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, 2016, Nows carried commercial insurance to cover risks of losses. 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, 2016

2. DEPOSITS AND INVESTMENTS

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

Cash and cash equivalents	\$ 371,614
Set-aside cash and cash equivalents	<u>993,330</u>
	<u>\$1,364,944</u>

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 NOWS cannot be separately determined from the City of Grand Haven.

3. CAPITAL ASSETS

Capital asset activity for the year was as follows:

	Balance July 1, 2015	Additions	Deletions	Balance June 30, 2016
Capital assets, not being depreciated				
Land	\$ 26,000	\$ -	\$ -	\$ 26,000
Capital assets, being depreciated				
Water plant	29,268,110	102,511	-	29,370,621
Lake intakes	4,356,678	-	-	4,356,678
Water mains	706,638	-	-	706,638
Structures and equipment	209,908	5,003	-	214,911
Office furniture	36,893	540	-	37,433
Total capital assets, being depreciated	<u>34,578,227</u>	<u>108,054</u>	<u>-</u>	<u>34,686,281</u>
Less accumulated depreciation for:				
Water plant	9,134,724	793,775	-	9,928,499
Lake intakes	2,029,599	87,142	-	2,116,741
Water mains	549,753	15,122	-	564,875
Structures and equipment	76,132	8,834	-	84,966
Office furniture	26,028	2,268	-	28,296
Total accumulated depreciation	<u>11,816,236</u>	<u>907,141</u>	<u>-</u>	<u>12,723,377</u>
Net capital assets, being depreciated	<u>22,761,991</u>	<u>(799,087)</u>	<u>-</u>	<u>21,962,904</u>
Capital assets, net	<u>\$22,787,991</u>	<u>\$(799,087)</u>	<u>\$ -</u>	<u>\$21,988,904</u>

NORTHWEST OTTAWA WATER SYSTEM

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2016

4. LONG-TERM DEBT

The following is a summary of the debt transactions of NOWS for the year ended June 30, 2016.

	Balance July 1, 2015	Additions	Deletions	Balance June 30, 2016	Due Within One Year
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%	\$4,640,000	\$ -	\$160,000	\$4,480,000	\$170,000
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%	4,165,000	-	180,000	3,985,000	185,000
Total bonds	<u>\$8,805,000</u>	<u>\$ -</u>	<u>\$340,000</u>	<u>\$8,465,000</u>	<u>\$355,000</u>

The annual requirements to amortize all debt outstanding as of June 30, 2016 are as follows:

Year Ending June 30	Principal	Interest
2017	\$ 355,000	\$ 456,474
2018	370,000	441,320
2019	385,000	425,144
2020	405,000	408,104
2021	420,000	390,064
2022-2026	2,430,000	1,619,626
2027-2031	3,075,000	901,842
2032-2036	1,025,000	151,162
Total	<u>\$8,465,000</u>	<u>\$4,793,736</u>

NOWS charges participating municipalities to fund the payment of contracts payable to Ottawa County based on the water sales to each municipality. 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, 2016

5. BILLING ADJUSTMENT

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 NOWS:

Amounts contractually allowed to collect as adjusted for actual expenses	\$1,320,878
Amounts billed for fiscal year prior to June 30	(1,320,878)
Working capital receivable	<u>38,596</u>
Total due from (to) member units	<u>\$ 38,596</u>

6. WORKING CAPITAL

In accordance with the master agreement with the member governmental units, the Administrative Committee of NOWS has agreed to maintain 5/24th 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, 2016, the NOWS working capital was deficient by \$38,596.

7. RETIREMENT BENEFITS AND NET OTHER POST-EMPLOYMENT BENEFITS

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, NOWS has become a party in various legal actions and subject to certain asserted or unasserted claims and assessments. 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.

9. SUBSEQUENT EVENT

In October 2016, Ottawa County issued \$11,635,000 refunding bonds to advance fund, on a crossover basis, all of the outstanding Ottawa County Water Supply Bonds (Northwest Ottawa Water System 2009 Improvements) Series A dated July 7, 2009.