

GRAND HAVEN – SPRING LAKE SEWER AUTHORITY

FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2018



Vredeveld Haefner LLC
CPAs and Consultants

GRAND HAVEN – SPRING LAKE SEWER AUTHORITY

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INDEPENDENT AUDITORS' REPORT

November 14, 2018

Board of Trustees
Grand Haven – Spring Lake Sewer Authority
Grand Haven, Michigan

Report on the Financial Statements

We have audited the accompanying financial statements of the Grand Haven – Spring Lake Sewer Authority, (the Authority) as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the Authority'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 control 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 opinion.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Grand Haven – Spring Lake Sewer Authority, Grand Haven, Michigan, as of June 30, 2018, 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.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Authority's basic financial statements. The schedule of plant operations and charges is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The schedule of plant operations and charges is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of plant operations and charges is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Uredewald Haefner LLC

MANAGEMENT'S DISCUSSION AND ANALYSIS

Management's Discussion and Analysis

As management of the Grand Haven – Spring Lake Sewer Authority (the Authority), we offer readers of the Authority's financial statements this narrative overview and analysis of the financial activities of the Authority for the fiscal year ended June 30, 2018. 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

- Planning for major Ottawa County bond funded projects developed during the fiscal year. The projects will begin in the summer of 2019 and be completed within two years.
- New projects include the Grand Haven and Ferrysburg lift stations, repair of the Northside force main under the Grand River, headworks and local pump station improvements. Each community will pay for only the projects, on a consumption basis, that directly relate to their needs.
- Fixed assets software has been fully implemented allowing monthly depreciation to be posted to the general ledger.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Authority's financial statements. The Authority's 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 Authority's 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 Authority is improving or deteriorating.

The *Statement of Revenues, Expenses and Changes in Net Position* presents information showing how the government's 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 Authority, assets exceeded liabilities by \$6,217,731 at the close of the most recent fiscal year.

A portion of the Authority's 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), less any related debt used to acquire those assets that is still outstanding. The Authority uses these capital assets to provide services to customers; consequently, these assets are *not* available for future spending. Although the Authority's 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>2018</u>	<u>2017</u>
Current and other assets	\$2,606,389	\$2,606,356
Capital assets	5,913,266	5,980,208
Total assets	<u>8,519,655</u>	<u>8,586,564</u>
Current liabilities	366,924	323,870
Long-term liabilities	1,935,000	2,025,000
Total liabilities	<u>2,301,924</u>	<u>2,348,870</u>
Net position		
Net investment in capital assets	3,888,266	3,870,208
Unrestricted	2,329,465	2,367,486
Total net position	<u><u>\$6,217,731</u></u>	<u><u>\$6,237,694</u></u>

The total net position of the Authority at year-end was \$6,217,731; however, \$3,888,266 represents the net investment in capital assets.

Revenues, Expenses and Changes in Net Position

	<u>2018</u>	<u>2017</u>
Operating revenue	\$2,231,489	\$2,062,014
Operating expense	2,186,895	2,302,380
Operating income (loss)	44,594	(240,366)
Nonoperating revenue (expense)	(64,557)	(30,353)
Changes in net position	(19,963)	(270,719)
Net position - beginning of year	<u>6,237,694</u>	<u>6,508,413</u>
Net position - end of year	<u><u>\$6,217,731</u></u>	<u><u>\$6,237,694</u></u>

During the year the Authority's net position decreased \$19,963 as charges increased while expenses decreased resulting in operating income.

Capital Asset and Debt Administration

Capital assets. The Authority's investment in capital assets at year-end amounted to \$5,913,266 (net of accumulated depreciation).

Significant capital purchases during the year consisted primarily of engineering for a new pump station and new force main.

The Authority's capital assets (net of depreciation) are summarized as follows:

Land	\$ 575,210
Construction in progress	309,063
Treatment plant	1,702,026
Pumping stations	2,960,652
Wastewater mains	75,298
Equipment	<u>291,017</u>
Total	<u>\$5,913,266</u>

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

Debt. At the end of the fiscal year, the Authority had debt outstanding as follows:

<u>Long-term Debt</u>	
Contracts payable to Ottawa County	<u>\$2,025,000</u>

The Authority did not enter into any new long-term debt agreements and made principal payments of \$85,000 during the year.

Additional information on the Authority's 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 Authority's budget for the 2018-19 fiscal year:

- Increasing detailed parameters in testing for outflow.
- Operational costs and staffing costs rising in addition to the revenues charged.
- Anticipation of increased operational costs as economic expansion continues.
- Forward planning and reserve created for Spring Lake force main funding.

Requests for Information

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

GRAND HAVEN-SPRING LAKE SEWER AUTHORITY

STATEMENT OF NET POSITION

JUNE 30, 2018

Assets

Current assets

Cash and cash equivalents	\$ 412,644
Set-aside cash and cash equivalents	1,803,519
Accounts receivable	17,006
Due from other governments	357,340
Prepaid items	6,903
Inventory	<u>8,977</u>

Total current assets	<u>2,606,389</u>
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Non-current assets

Capital assets

Land	575,210
Construction in progress	309,063
Depreciable capital assets, net	<u>5,028,993</u>

Total non-current assets	<u>5,913,266</u>
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Total assets	<u>8,519,655</u>
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Liabilities

Current liabilities

Accounts payable	130,217
Accrued liabilities	73,696
Due to other governments	73,011
Current portion of long-term debt	<u>90,000</u>

Total current liabilities	366,924
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Long-term liabilities

Long-term debt payable, net of current portion	<u>1,935,000</u>
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Total liabilities	<u>2,301,924</u>
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Net position

Net investment in capital assets	3,888,266
Unrestricted	<u>2,329,465</u>

Total net position	<u>\$ 6,217,731</u>
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The accompanying notes are an integral part of these financial statements.

GRAND HAVEN-SPRING LAKE SEWER AUTHORITY

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

FOR THE YEAR ENDED JUNE 30, 2018

Operating revenue	
Sewage disposal charges	\$ 2,286,236
Other	<u>(54,747)</u>
Total operating revenue	<u>2,231,489</u>
Operating expense	
Plant operations and charges	1,331,399
Administrative	437,293
Depreciation	<u>418,203</u>
Total operating expense	<u>2,186,895</u>
Operating income (loss)	<u>44,594</u>
Non-operating revenue (expense)	
Interest income	6,257
Interest expense	(57,900)
Loss on disposal of capital assets	<u>(12,914)</u>
Total non-operating revenue (expense)	<u>(64,557)</u>
Change in net position	(19,963)
Net position, beginning of year	<u>6,237,694</u>
Net position, end of year	<u>\$ 6,217,731</u>

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

GRAND HAVEN-SPRING LAKE SEWER AUTHORITY

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED JUNE 30, 2018

Cash flows from operating activities

Receipts from customers and users	\$ 2,115,896
Payments to suppliers	(954,211)
Payments to employees	<u>(784,801)</u>

Net cash provided by (used in) operating activities	<u>376,884</u>
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Cash flows from capital and related financing activities

Interest paid	(57,900)
Principal paid on bonds and notes	(85,000)
Acquisitions of capital assets	<u>(364,175)</u>

Net cash provided by (used in) capital and related financing activities	<u>(507,075)</u>
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Cash flows from investing activities

Interest paid	<u>6,257</u>
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Net increase (decrease) in cash and cash equivalents	(123,934)
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Cash and cash equivalents, beginning of year	<u>2,340,097</u>
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Cash and cash equivalents, end of year	<u>\$ 2,216,163</u>
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Cash flows from operating activities

Operating income (loss)	44,594
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities	
Depreciation	418,203
Change in operating assets and liabilities which provided (used) cash	
Accounts receivable	(17,006)
Due from other governments	(98,587)
Prepaid items	(5,258)
Inventory	(3,116)
Accounts payable	102,747
Accrued liabilities	(33,023)
Due to other governments	<u>(31,670)</u>

Net cash provided by (used in) operating activities	<u>\$ 376,884</u>
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The accompanying notes are an integral part of these financial statements.

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GRAND HAVEN – SPRING LAKE SEWER AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2018

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of The Grand Haven – Spring Lake Sewer Authority (the Authority) conform to generally accepted accounting principles as applicable to governments. The following is a summary of the significant policies.

Reporting Entity

The Authority was incorporated under the terms of Act 233, Public Acts of Michigan of 1955 for the purpose of constructing, owning, and operating a sewage disposal 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 1974 and subsequently amended, the City of Grand Haven (the City) is operating and maintaining the Authority's property. 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 the Authority. There are no component units to be included. The criteria for including a component unit include significant operational or financial relationships with the Authority.

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 Authority 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 Authority's principal ongoing operations. The principal operating revenues of the Authority are charges for services. Operating expenses of the Authority 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 Authority's 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 Authority 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 Board of Trustees has set aside cash in the amount of \$1,803,519 at year-end for future capital improvements. The related cash and cash equivalents are reported as current assets on the statement of net position.

GRAND HAVEN – SPRING LAKE SEWER AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2018

Investments

Investments are recorded at fair value.

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

Prepaid Items

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

Capital Assets

Capital assets are stated at cost and include items defined by the Authority as assets with an initial, individual cost of more than \$5,000 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.

GRAND HAVEN – SPRING LAKE SEWER AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2018

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
Treatment plant	5-40
Pumping stations	6-40
Wastewater mains	40
Office, laboratory and transportation equipment	5-45

Due to Other Governments

The amount due to the City of Grand Haven at year-end for payment in lieu of taxes was \$11,364. An additional amount of \$61,647 is due to participating municipalities for their proportionate share of excess operating charges from throughout the year.

Accrued Liabilities

All operating personnel of the Authority 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 accrued liabilities. The amount due to the City for these costs at year-end was \$73,696.

Risk Management

The Authority 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 the Authority carried commercial insurance to cover risks of losses. The Authority has had no settled claims resulting from these risks that exceeded their commercial coverage in any of the past three fiscal years.

2. DEPOSITS

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

Cash and cash equivalents	\$ 412,644
Set-aside cash and cash equivalents	<u>1,803,519</u>
Total	<u>\$2,216,163</u>

Cash and cash equivalents consist of the following at June 30, 2018:

Deposits	\$2,216,063
Petty cash	<u>100</u>
Total	<u>\$2,216,163</u>

GRAND HAVEN – SPRING LAKE SEWER AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2018

The deposits are in a financial institution located in Michigan. State policy limits the Authority's investing options to financial institutions located in Michigan. All accounts are in the name of the Authority. They are recorded in the Authority's records at fair value. Interest is recorded when earned.

Custodial Credit Risk - Deposits. Custodial credit risk is the risk that in the event of a bank failure, the Authority's deposits may not be returned. State law does not require, and the Authority does not have, a policy for deposit custodial credit risk. As of year-end, \$1,966,063 of the Authority's bank balance of \$2,216,063 was exposed to custodial credit risk because it was uninsured and uncollateralized.

3. CAPITAL ASSETS

Capital asset activity for the year was as follows:

	Balance July 1, 2017	Additions	Deletions	Balance June 30, 2018
Capital assets, not being depreciated				
Land	\$ 575,210	\$ -	\$ -	\$ 575,210
Construction in progress	2,905	306,158	-	309,063
Total capital assets, not being depreciated	578,115	306,158	-	884,273
Capital assets, being depreciated				
Treatment plant	9,625,996	-	20,796	9,605,200
Pumping stations	5,278,004	37,279	-	5,315,283
Wastewater mains	636,794	-	-	636,794
Office, laboratory and transportation equipment	669,056	20,738	21,432	668,362
Total capital assets, being depreciated	16,209,850	58,017	42,228	16,225,639
Less accumulated depreciation for:				
Treatment plant	7,771,734	152,161	20,721	7,903,174
Pumping stations	2,133,336	221,295	-	2,354,631
Wastewater mains	559,346	2,150	-	561,496
Office, laboratory and transportation equipment	343,341	42,597	8,593	377,345
Total accumulated depreciation	10,807,757	418,203	29,314	11,196,646
Net capital assets, being depreciated	5,402,093	(360,186)	12,914	5,028,993
Capital assets, net	\$ 5,980,208	\$ (54,028)	\$12,914	\$ 5,913,266

GRAND HAVEN – SPRING LAKE SEWER AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2018

4. LONG-TERM DEBT

The following is a summary of the debt transactions of the Authority for the year ended June 30, 2018.

	<u>Balance July 1, 2017</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2018</u>	<u>Due Within One Year</u>
Contract payable to Ottawa County for Wastewater Treatment System Bonds. Payable in annual installments from \$65,000 to \$210,000 through 2032; interest at 2.0% to 3.0%	\$2,110,000	\$ -	\$ 85,000	\$2,025,000	\$90,000

The Authority charges participating municipalities to fund the payments of contracts payable to Ottawa County based on the volume of wastewater flow from each municipality. The Authority and the participating municipalities have pledged their full faith and credit for the repayment of the contracts.

The annual requirements to amortize all debt outstanding as of June 30, 2018 are as follows:

<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>
2019	\$ 90,000	\$ 55,850
2020	95,000	54,050
2021	105,000	52,150
2022	110,000	50,050
2023	120,000	47,850
2024-2028	730,000	184,650
2029-2033	775,000	59,850
Total	\$2,025,000	\$504,450

5. CONTINGENCIES

In the normal course of its activities, the Authority has become a party in various legal actions and subject to certain asserted or unasserted claims and assessments. The Authority is of the opinion that the outcome of any pending actions will not have a material effect on the Authority's financial position or results of operations. The Authority has also been notified by the Department of Environmental Quality of certain violations at its wastewater treatment plant. The potential cost to the Authority as a result of the violations is unknown.

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SUPPLEMENTARY INFORMATION

GRAND HAVEN-SPRING LAKE SEWER AUTHORITY

SCHEDULE OF PLANT OPERATIONS AND CHARGES

FOR THE YEAR ENDED JUNE 30, 2018

Plant operations and charges

Sludge removal	\$ 307,934
Wastewater treatment	246,081
Laboratory	261,509
Secondary treatment	170,925
Buildings and grounds	96,663
Spring Lake pumping	67,804
Grand Haven pumping	65,774
Odor control	2,965
Ultraviolet disinfection	28,534
Wastewater thickeners	13,083
Local pumping	11,228
Grit and screening	10,386
Waste primaries	10,950
Sludge storage	21,656
Phosphate removal	<u>15,907</u>

Total plant operations and charges	<u>\$ 1,331,399</u>
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