

Holland Board of
Public Works
(Enterprise Funds of the
City of Holland,
Michigan)



Year Ended
June 30, 2021

Financial
Statements and
Supplementary
Information

Rehmann

HOLLAND BOARD OF PUBLIC WORKS

(Enterprise Funds of the City of Holland, Michigan)

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INDEPENDENT AUDITORS' REPORT

October 26, 2021

Board of Directors
Holland Board of Public Works
Holland, Michigan

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities and each major fund of the **Holland Board of Public Works** (the "Board"), enterprise funds of the City of Holland, Michigan, as of and for the year ended June 30, 2021, and the related notes to the financial statements, which collectively comprise the Board'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.

Independent Auditors' 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' 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 respective financial position of the business-type activities and each major fund of the Board as of June 30, 2021, and the respective changes in financial position and cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Reporting Entity

As discussed in Note 1, the financial statements referred to above present only the Holland Board of Public Works enterprise funds and do not purport to, and do not, present fairly the financial position of the City of Holland, Michigan as of June 30, 2021, and the changes in its financial position for the year then ended, in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Board's basic financial statements. The supplementary information as listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information 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. The 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 information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The management's discussion and analysis and the schedules for the pension and other postemployment benefit plans as listed in the table of contents have not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 26, 2021 on our consideration of the Board's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Board's internal control over financial reporting and compliance.

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MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

Management's Discussion and Analysis (Unaudited)

This section of the Holland Board of Public Works annual financial report presents an overview of the financial performance during the fiscal years ending June 30, 2021 and 2020. Please read it in conjunction with the financial statements, which follow this section.

OVERVIEW OF BUSINESS

The Holland Board of Public Works (HBPW), municipally owned by the City of Holland, operates:

- An electric system, which generates and distributes electricity to 29,967 residential, commercial and industrial customers in the City of Holland and portions of Holland Charter, Park, Laketown and Fillmore Townships. HBPW's 174 industrial electric customers (0.6% of total customers) account for 55% of the electric load in kilowatt hours. Also within the electric utility, a broadband network that provides dark fiber, active Ethernet, and shared gigabit services to 567 residential, commercial and industrial customers.
- A Water Treatment Plant (WTP), with capacity to treat 38.5 million gallons per day, and associated transmission and distribution system. HBPW's distribution system serves 17,898 residential, commercial, and industrial customers located in the City of Holland and portions of Park, Laketown and Holland Charter Townships. Water is also sold on a wholesale basis to the City of Zeeland. Wholesale sales represent 40% of the WTP output. The HBPW receives its water from Lake Michigan.
- A Water Reclamation Facility (WRF), with an average daily treatment capacity of 12 million gallons, and associated sanitary sewer collection system. The HBPW's collection system serves 12,936 residential, commercial and industrial customers in the City of Holland, Laketown Township, Fillmore Township, and the portions of Holland Charter and Park Townships south of Lake Macatawa and the Macatawa River. Collectively, this area is known as the Southern Service Area (SSA). The WRF also treats wastewater on a wholesale basis from the Northern Service Area (NSA). The NSA includes the portions of Holland Charter and Park Townships north of Lake Macatawa and the Macatawa River. Wholesale sales represent 46% of the WRF's influent flow.

FINANCIAL HIGHLIGHTS

The net position of the Holland Board of Public Works has improved by \$37 million (8.2%) over the prior fiscal year.

The combined assets and deferred outflows of resources of HBPW exceeded its liabilities and deferred inflows of resources at the close of the most recent fiscal year by \$485.7M (net position). Of this amount, \$110.3M (22.7 percent) was unrestricted and may be used to meet the HBPW's ongoing obligations to customers and creditors. A substantial portion of the HBPW's net position, \$364.3M (75.0 percent), reflects its investment in capital assets (e.g., land, buildings, vehicles, equipment and infrastructure), less any related outstanding debt used to acquire those assets. HBPW uses these capital assets to provide services to customers; consequently, these assets are not available for future spending.

Although HBPW'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. An additional portion of HBPW's net position, \$11.1M (2.3 percent), represents resources that are subject to external restrictions on how they may be used: 5% related to debt, 55% related to investment in joint venture, 40% related to equipment replacement fund.

Condensed Financial Information

	Net Position (In Millions)							
	Electric		Wastewater		Water		Total	
	<u>2021</u>	<u>2020</u>	<u>2021</u>	<u>2020</u>	<u>2021</u>	<u>2020</u>	<u>2021</u>	<u>2020</u>
Current Assets	\$ 99	\$ 171	\$ 17	\$ 13	\$ 16	\$ 15	\$ 132	\$ 199
Noncurrent assets	6	17	7	6	3	3	16	26
Capital assets, net	<u>296</u>	<u>304</u>	<u>68</u>	<u>64</u>	<u>54</u>	<u>48</u>	<u>418</u>	<u>416</u>
Total Assets	401	492	92	83	73	66	566	641
Total Deferred Outflows of Resources	1	1	0	0	0	0	1	1
Current liabilities	10	15	3	2	4	3	17	20
Noncurrent liabilities	<u>40</u>	<u>153</u>	<u>13</u>	<u>10</u>	<u>9</u>	<u>10</u>	<u>62</u>	<u>173</u>
Total Liabilities	50	168	16	12	13	13	79	193
Total Deferred Inflows of Resources	2	1	1	0	0	0	3	1
Net investment in capital assets	262	159	57	56	45	39	364	254
Restricted	6	17	4	6	1	2	11	25
Unrestricted	<u>80</u>	<u>147</u>	<u>16</u>	<u>9</u>	<u>15</u>	<u>13</u>	<u>111</u>	<u>169</u>
Total Net Position	\$ 348	\$ 323	\$ 77	\$ 71	\$ 61	\$ 54	\$ 486	\$ 448

HBPW offered a defined benefit pension plan (closed to new employees in 2013) as part of its compensation package. The plan is administered by Municipal Employees' Retirement System (MERS). Each year, MERS arranges for the completion of an annual actuarial valuation report of the combined City/HBPW plan. The percent funded for the HBPW plan was 87.6% as of December 31, 2020 which is slightly less than the 2019 funding level of 88.9%. The stable funding level can be attributed to healthy investment returns. The *smoothed* actuarial rate of return for 2020 was 8.17%, while the actual market rate of return was 12.70%. This compares to the 2019 actuarial rate of return of 4.77% and actual market rate of return of 13.41%. MERS *smooths* each year's investment gains and losses over a five year period in an effort to minimize year to year fluctuations of pension funding requirements.

Impacts from the Covid-19 pandemic continued into FY2021. Electric demand by residential customers was strong throughout the year due to working from home and employee layoffs, ending the year 5% higher than FY2020. Industrial customers largely recovered while commercial businesses struggled due to lockdowns and capacity limits. Electric consumption ended the year 3.1% less than budget and 1.8% higher than the prior year actual. The Water Utility experienced less of an impact. Any reduction from lockdowns was offset by increased sprinkling. Water consumption ended the year 2.3% higher than budget and equal to prior year actual. The Wastewater Utility was minimally impacted as well. Wastewater volumes typically follow the same usage pattern as Water. Also, many high strength business customers continued to operate throughout the pandemic because they were deemed essential.

Condensed Financial Information**Results of Operations**

(In Millions)

	Electric		Wastewater		Water		Total	
	<u>2021</u>	<u>2020</u>	<u>2021</u>	<u>2020</u>	<u>2021</u>	<u>2020</u>	<u>2021</u>	<u>2020</u>
Operating revenues	\$ 109	\$ 105	\$ 12	\$ 12	\$ 12	\$ 11	\$ 133	\$ 128
Operating expenses	(74)	(71)	(11)	(11)	(8)	(7)	(93)	(89)
Nonoperating income (expenses), net	(2)	(3)	0	0	0	0	(2)	(3)
Net Income Before Contributions and Transfer	33	31	1	1	4	4	38	36
Capital contributions	0	0	5	0	3	0	8	0
Contributions to city	(8)	(8)	0	0	0	0	(8)	(8)
Change In Net Position	25	23	6	1	7	4	38	28
Beginning net position	323	300	71	70	54	50	448	420
Ending Net Position	\$ 348	\$ 323	\$ 77	\$ 71	\$ 61	\$ 54	\$ 486	\$ 448

Cash reserves for each of the utilities are funded as planned. The Electric Utility defeased bonds totaling about \$139.9 million early in June 2021. These bonds had coupon rates of 4.1% and 5.0% and a call date of July 1, 2021.

The Wastewater Utility had rate increase in FY2021 of 3.6%. There was no rate change for the Electric and Water Utilities.

Electric:

- The Electric Utility ended the year with an Operating Income \$1M higher than FY2020 results. Total Revenue was \$4M higher mainly due to wholesale sales. As with the previous two years, favorable production costs, mainly due to low natural gas prices, provided an opportunity to increase internal generation at the HEP plant, thus allowing energy from HBPW's external generating sources, such as Belle River and Campbell, to be sold into the market.
- HBPW currently has purchase power agreements with multiple renewable energy suppliers as part of its purchased power portfolio. Historically this has been comprised of a combination of landfill gas and wind energy resources. More recently, it has also included solar energy resources including Assembly Solar I which began commercial operation in December 2020 and the Assembly Solar II and Invenergy Solar facilities that are both expected to be commercially operational in the next fiscal year. In calendar year 2020, renewable energy supplied 14.9% of HBPW's retail electric sales. With the addition of phase II of Assembly Solar and the Invenergy solar project already planned to come into service next fiscal year, renewable energy is expected to supply around 16% of HBPW's retail sales in calendar year 2022.
- In addition to the renewable resources already referenced, HBPW authorized participation in two additional solar Power Purchase Agreements during FY2021. The Calhoun Solar facility will provide HBPW with an additional 6.0 MW of installed capacity and is expected to achieve Commercial Operation in the second quarter of FY2023. The Hart Solar facility will provide HBPW with an additional 11.7 MW of installed capacity and is expected to achieve Commercial Operation in the second quarter of FY2024.

- HBPW provides an elective renewable energy program, where customers can opt to pay for more of their energy to come from renewable resources. The program was promoted throughout the fiscal year. The City of Holland and HBPW joined the program; thus, nearly all city and HBPW facilities are now powered 100% by renewable energy. The promotions increased the number of customers participating in the program from 44 in FY2020 to 384 in FY2021.
- On December 28, 2020, the Electric Utility received a Notice of Violation for an August 18, 2020 incident on Unit 11 at the Holland Energy Park (HEP) for exceeding the carbon monoxide Startup Emission Limit. Two things lead to this emission exceedance: (1) the turbine temperature was cooler than normal on startup, and (2) the startup occurred with 12 minutes left in the hour. The startup emissions are calculated based on clock hours; thus, the few minutes of higher emissions that always occur during a startup were averaged only over 12 minutes of operation. Two corrective actions were implemented. First, the startup procedure was changed to ensure that the turbine starts with more time left in the hour. Second, HBPW worked with the Michigan Department of Environment, Great Lakes and Energy (EGLE), who issued the violation, to redefine the definition of 'startup hour' as a rolling hour, instead of a clock hour, in the Startup/Shutdown/Malfunction Plan for Units 10 and 11. The second change will be effective October 1, 2021. It was originally assumed this change could not take place until the permit renewal process in 2022.
- The Electric Utility spent \$2.7M on distribution improvements and extensions. Two projects totaling \$0.6M converted overhead infrastructure to underground. Both projects replaced overhead construction which was at end of life with underground equipment that was strategically placed to reduce the vulnerability from vehicles and snow. The Van Raalte Rebuild Project was a pilot project in that HBPW converted the overhead primary cable to underground while leaving the secondary cables in the back yards. This was done so that the customers on the side streets were not financially impacted. This project allowed the HBPW to improve the reliability, reduce vegetation management, and improve aesthetics without forcing all the customers on the side streets to convert their service to underground. The River Avenue 12kV Distribution Line Rebuild Project was designed to improve reliability and aesthetics, as well as prepare for the future River Avenue 138 kV Line Relocation Project. The project included replacing the old metering system at the WRF and adding redundant metering fed from a different substation.
- As planned, approximately \$139.9M of the Electric Utility revenue bonds were defeased in June 2021, using a combination of cash and direct purchase revenue bond with Macatawa Bank. Three resolutions were approved by HBPW Board of Directors. They are as follows: (1) a resolution authorizing early redemption City of Holland Electric Utility System Revenue Bonds, Series 2014A, such resolution authorizing the General Manager or Director of Finance to give irrevocable instructions to call the Bonds to be redeemed for redemption on July 1, 2021 (2) a resolution to recommend adoption by the City Council of the City of Holland a resolution approving redemption of the City of Holland Electric Utility System Revenue Bonds, Series 2014A (3) a resolution approving Supplemental Revenue Bond Resolution Authorizing Utility System Revenue Refunding Bonds. The transaction resulted in a savings to the Electric utility of \$177M.

- Results of the Broadband Utility are accounted for within the Electric Utility. During the year, Broadband continued to grow and added 66 new customers. Several projects were completed during the year to enhance the fiber network and increase revenue potential. HBPW rebuilt the Black River Substation network node to enhance reliability for the electric interconnect. The South Fiber Loop Project under interstate 196 was completed. The project will increase reliability to HBPW South Holland Substation and area customers. HBPW also implemented Premises Wiring and Co-location programs to enhance customers' access to the network. For many commercial buildings and multi dwelling units (MDU), the lack of proper communication wiring is a barrier to providing potential customers with HBPW Broadband service. An "inside wiring agreement" allows HBPW to install the wiring with cost recovery expectations based on tenant requests for HBPW Broadband services. Adding an equipment co-location service enables customers to place active and passive network equipment at HBPW Broadband facilities allowing them to aggregate connections to a single point; thus, increasing customer connection capability. This action will reduce the utilization of backhaul fiber currently used for customer services, which will make last-mile connectivity more cost-effective. In the long term, this additional service is expected to increase dark fiber lease revenue while at the same time increasing fiber utilization efficiency.

Wastewater:

- The WRF was recognized by the Water Environment Federation for a national award and recognition program labeled Utility of the Future Today. The program recognizes utilities that integrate sustainable concepts and good watershed management into the management of their facilities. There are seven categories to be acknowledged for, and the recognition is good for three years. The WRF was recognized for beneficial reuse of solids and for workplace culture. The award stems from current operating practices and for sustainable concepts that are being built into the Digester project which is currently under construction.
- Sludge disposal is a major operating expense for the wastewater utility. Sewage sludge, a byproduct of municipal wastewater treatment, requires regular disposal. The WRF disposes of sludge via a combination of land application of liquid biosolids and landfill disposal of dewatered sludge. Due to escalating costs of land application and landfill rates as well as landfill disposal volume limits being phased in, solids disposal is a high risk area for WRF operations. A study undertaken by HBPW in FY2018 identified anaerobic digestion as the best option to mitigate risk associated with future disposal price increases and/or decreased disposal options. During FY2019, a pilot test affirmed anaerobic digestion was the best option; thus, the HBPW Board approved to proceed with the project. The digester is anticipated to reduce the volume of biosolids by approximately 50% and allow for future beneficial reuse of the biosolids. The total project estimate is \$33.7M. During FY2021 HBPW was approved for a \$30M low interest loan through the Clean Water State Revolving Fund (SRF) and will receive \$6M in principal forgiveness through the Green Project Reserve (GPR), offered through SRF. Remaining capital costs for the digester are to be shared equally by the Northern and Southern Service Areas discussed in the Business Overview section in accordance with the Holland Area Wastewater Treatment Facilities 2017 Restated Contract. Construction began October 1, 2020. The anaerobic digester is expected to be completed during FY2024.

- The Server Infrastructure Project was completed in FY2021 at a cost of \$0.23M. The primary focus of this project was to replace and enhance the server infrastructure that is used for the SCADA applications at both the Water Reclamation Facility and the Water Treatment Facility. This was done to address some capacity issues for the Hyper-V platform that is used at both plants and to upgrade and improve the redundancy and version elements of the SCADA system. The hardware upgrades increased compute resources for each plant's server infrastructure by 25% in processing units and 50% in Memory. The project also addressed some overall HBPW capacity issues and increased compute resources in the server infrastructure by almost 80%.
- The HBPW spent \$1.2M on improvements to the collection system. Funds budgeted in FY2020 were used to line 1.4 miles of sanitary sewer mains. Lining sanitary sewers reduces infiltration and inflow (I&I). I&I increases the cost to transmit and treat the wastewater while also increasing risk of sewer overflows. The project resulted in structural renewal of all clay sewers along the south shore of Lake Macatawa and the inspection of PVC sewers along the lakeshore and in areas with historically high groundwater tables. Several points of groundwater infiltration were observed and remedied during the lining work and two illicit sump pump connections were identified as a result of the inspection work. Other improvements to the collection system include replacement of 1,700 feet of 8 inch sanitary sewer and rehabilitating 37 manholes. The manholes were identified for rehabilitation to eliminate I&I sources.

Water:

- The Water Utility ended FY2021 with total water consumption that was 2% higher than budget and equal to FY2020 consumption. Usage by retail customers increased 6% while wholesale units decreased 3% compared to budget. The higher retail usage is mainly due to sprinkling. Summer and autumn 2020 had longer stretches of heat as well as some hot, dry days this June. The wholesale units decreased compared to budget due to usage variation of the industrial customers in that service area.
- In 2018, Michigan adopted a revised Lead and Copper Rule, with the goal of reducing lead exposure through drinking water. The rule requires utilities to have a plan in place by January 1, 2021, for the replacement of all lead service lines (LSL) within twenty years. The HBPW will need to replace about 90 LSL's each year of this 20 year period. Progress continues to be made toward replacing all LSL's. The budget includes expense to replace an average quantity of service lines per year. The actual number of LSL replacements will vary each year depending on how dense the residential services are on a particular section of main. Some years will be above average, while some years will be below average. For FY2021, 83 services were replaced.
- In FY2019, HBPW introduced the concept of regionalization to the leaders of Park Township which maintained a wholesale water supply contract. In FY2020, discussions continued on promoting regionalization and the benefits to all parties. A new contract was achieved with Park Township to convert wholesale to retail service starting July 1, 2020. Approximately 3,800 residential and commercial customers were successfully added to the HBPW billing system and the first invoices issued in August 2020. Since Park Township was part of the water supply service territory, there was no change in consumption. The additional retail sales provided an improved margin, which

helped to keep rates flat for the Water Utility for both FY2021 and FY2022. The Park Township customers' meters are required to be replaced with meters compatible with the HBPW system and able to provide automated meter readings. Meter replacements began December 21, 2020 and were 70% complete as of June 30. A total of \$1.6M was committed in FY2021 to update the metering. Park Township provided \$0.9M to assist with the meter replacements. The meter replacements are expected to be completed during FY2022.

- The current low interest rate environment created an opportunity to defease the remaining balance (\$5.4M) of the Refunding Water Supply System Revenue Refunding Bonds, Series 2012A. These bonds had rates ranging from 2.0%-4.0%. HBPW negotiated a financing arrangement with PNC Bank for \$4.995M, at a rate of 0.95%. Those funds, along with cash, were placed into escrow which allowed defeasance of the 2012A bonds. Due to the short term remaining and the relatively small balance, the most cost effective way to achieve these savings was through a direct purchase transaction with a commercial bank. This type of transaction helps to keep issuance costs low since no rating, underwriting, or offering memorandum are needed.
- Each year, the Water Utility replaces aging water mains as part of on-going maintenance to the distribution system. In FY2021, 5,100 feet of water mains were replaced. Total distribution improvements cost \$3.7M which includes \$1.2M for mains contributed by new developments.

CAPITAL ASSETS

HBPW has \$718.9M invested in capital assets (\$417.9M net of depreciation). The capital assets, net of depreciation, by utility are: Electric Utility \$295.0M, Wastewater Utility \$68.8M; and Water Utility \$54.0M. Capital assets include property, plant and equipment and are defined by HBPW as assets with an initial individual cost of more than \$10,000 and an estimated useful life in excess of three years.

Condensed Financial Information

	Capital Assets (In Millions)							
	Electric		Wastewater		Water		Total	
	<u>2021</u>	<u>2020</u>	<u>2021</u>	<u>2020</u>	<u>2021</u>	<u>2020</u>	<u>2021</u>	<u>2020</u>
Land	\$ 22	\$ 22	\$ 0	\$ 0	\$ 2	\$ 2	\$ 24	\$ 24
Construction in progress	3	2	8	2	4	2	15	6
Capital assets, net	<u>271</u>	<u>280</u>	<u>60</u>	<u>62</u>	<u>48</u>	<u>44</u>	<u>379</u>	<u>386</u>
Total Capital Assets	\$ 296	\$ 304	\$ 68	\$ 64	\$ 54	\$ 48	\$ 418	\$ 416

Additional information on the Holland Board of Public Works capital assets can be found in note 3.

Capital asset activity for the current year included:

Electric:

- Electric Production improvements; \$172,464.
- Distribution improvements and extensions; \$2.7M.
- Non-Operation equipment and structures additions; \$884,514.
- Vehicle replacements, including a hybrid bucket truck; \$174,755.
- Streetlight additions, replacements and upgrading fixtures to LED; \$192,534.
- Total spending on various fiber projects was \$396,748.

Wastewater:

- Water Reclamation Facility improvements; \$34,134.
- Sewer mains and collection system improvements; \$1.2M.
- Non-Operation equipment and structures additions; \$307,819.

Water:

- Water Treatment Plant improvements; \$90,000.
- Water mains and distribution improvements; \$5.3M.
- Non-Operation equipment and structures additions; \$395,237.

SUMMARY OF DEBT

HBPW has a total of \$60.6M in installment debt outstanding as of June 30, 2021.

The Electric Utility has outstanding debt of \$32.8M. The purpose of the outstanding debt was for refunding bonds issued in 2014 (for the new power plant project) in order to reduce the interest rate. The direct placement revenue bonds have an interest rate of 0.39% and replace bonds with a true interest cost of 4.06%. All electric debt is planned to be retired prior to FY2024.

The Wastewater Utility has outstanding debt of \$11.8M. All of the Wastewater Utility's debt will be paid by April 1, 2043. The capital lease payable to Ottawa County as well as the newly issued Wastewater Revenue Bonds are for the cost of acquiring and constructing additional improvements (biosolids handling, secondary treatment processes, and anaerobic digester project) at the Holland Area Water Reclamation Facility.

The Water Utility has outstanding debt of \$8.6M. All of the Water Utility's outstanding debt will be paid by April 1, 2032. The bonds were issued for the purpose of constructing an emergency interconnection with the City of Wyoming's water system and for refunding bonds issued in 2012 in order to reduce the interest rate.

In 2016, Pension Bonds were issued by the City of Holland for \$25M with interest rates ranging from 0.76% to 3.42%. These bonds were issued for the purpose of funding a portion of the costs of the unfunded pension liability of the City's defined benefit pension plan for general employees and to pay costs of issuance incurred with respect to the Bonds. HBPW's portion of the bond is \$7.5M as of June 30, 2021.

Additional information on the HBPW's long-term debt can be found in note 4.

GENERAL ECONOMIC CONDITION

According to the Annual Energy Outlook 2021, released February 2021 by the Energy Information Administration (EIA), demand for energy in 2020 decreased to 90% of its 2019 level; a steeper decline than seen in real GDP. The EIA does not project long-term structural changes in electricity demand resulting from the pandemic, but does project that U.S. energy demand will return to 2019 levels by 2025. Average annual growth is projected to be less than 1% from 2020 to 2050. Increasing electricity demand

is mainly driven by economic growth and is partially offset by efficiency improvements. The EIA also stated that the transportation sector has the greatest potential for increasing electricity demand; however, the transportation sector remains at less than 3% of economy-wide demand throughout the projection period. Current laws and regulations are not expected to induce much market growth, despite improvements in electric vehicles (EV). Vehicle sales and miles driven would need to increase substantially for EV's to increase demand by more than a fraction of a percentage point per year.

January 2021, the Lakeshore Advantage published its 2020 Business Intelligence Report. The report is based on responses from 120 companies in the Allegan, Ottawa, and Muskegon counties. According to the report, the diverse manufacturing base in the area helped create a stable economy throughout the COVID-19 crisis. Company sales, new product development, and plans to expand in the next three years remain strong for area businesses. Some highlights from the report include: 72% of companies (mainly in manufacturing and food processing) reported increasing or stable sales, 74%, mainly in manufacturing, aerospace, automotive and food processing industries, anticipated new products in the next two years, and 55% of primary employers plan to expand in the next three years.

The Holland Sentinel newspaper surveyed businesses in downtown Holland and published results August 1, 2021. According to the analysis, of the businesses surveyed in 2019, 19% are gone. However, vacancies between 2019 and 2021 were generally filled within six months. More than 25 new restaurants and retailers have opened, or will open, since February 2019. Despite the turnover in businesses, downtown Holland is thriving and remains attractive to people and business.

Other signs of growth come from the Census. From 2010 to 2020, the population of Ottawa County increased 11.7%, the highest rate in Michigan. Neighboring Kent County increased 9.3%, the second highest rate. Allegan County had 6.75% growth rate which is the fourth highest. At the local level, the City of Holland had zero growth, the City of Zeeland grew 0.3%, Holland Township grew 9.4%, and Zeeland Township grew 17.0%.

HBPW is forecasting an increase in demand for electricity in its service area of 3.2% for FY2022 and is forecasting growth averaging 0.4% for FY2023-FY2026. There is a 1.3% increase in volume forecasted for FY2022 in the Wastewater Utility but no growth forecasted for FY2023-FY2026. The Water Utility forecast includes a small increase of 0.5% for FY2022. For future years FY2023-FY2026, the forecast is for 1% growth of wholesale units only.

HBPW promotes waste reduction and conservation through its Energy Waste Reduction & Renewable Energy plan. The plan reports on a calendar year basis. Results reported in the 2020 Annual Summary Report, filed with the Michigan Public Service Commission, include:

- 1,457 HBPW residential customers (nearly 230% more than the 637 in 2019) received rebates for purchasing 2,044 ENERGY STAR and other high-efficiency electric products for their homes. Customers received rebates totaling more than \$154,000, saving more than 1.2 million kilowatt hours of electricity.

- Promoted the dramatic energy-saving benefits of light-emitting diode (LED) technology by distributing 16,813 free light bulbs at community events and a new home delivery program, and exchanging LED string lights for 887 pounds of old incandescent holiday lights.
- 109 commercial and industrial customers received incentives totaling \$350,720 for upgrading lighting to LED and installing high-efficiency equipment. The energy savings was 6.4 million kilowatt hours.
- The new Small business program helped 33 companies receive \$76,123 in rebates and saved 876,197 kilowatt hours.

Michigan Public Act 295 (amended by PA 341 and 342), known as the Clean, Renewable and Efficient Energy Act, calls on all utilities in Michigan to implement a Renewable Energy Plan and an Energy Waste Reduction (EWR) program for their customers. The Act requires utilities to source at least 12.5% (increases to 15% January 2021) of their energy from renewable technologies and to implement programs that help customers improve energy efficiency. HBPW acquired 52,550 megawatt hours (MWh) of electricity generated from landfill gas, 102,990 MWh from wind, and 66 MWh from solar for a total of 155,606 MWh of renewable energy during the 2020 calendar year. This resulted in 14.90% of HBPW's total sales being supplied by renewable energy (RE). The first of three solar farms added to HBPW's portfolio in 2018 and 2019 commenced commercial operation in December of 2020. Commercial operation of the other two solar farms in HBPW's portfolio is expected in 2021 and 2022, respectively.

In June 2021, the HBPW signed contracts, through the Michigan Public Power Agency (MPPA), to purchase power from two large solar projects. The MPPA negotiated two new Purchase Power Agreements (PPAs) for the purchase of renewable solar energy, capacity, and environmental attributes on behalf of participants of MPPA's Energy Services Project. The agreements are with Hart Solar Partners, LLC for a facility located in Oceana County, Michigan, and Calhoun County Solar Project, LLC for a facility located in Calhoun County, Michigan. HBPW's participation in Hart Solar facility is 23.4% of MPPA's 50 megawatt (MW) portion of that facility (approximately 11.7 MW). HBPW's participation in the Calhoun solar facility is 24.0% of MPPA's 25 MW portion of that facility (approximately 6 MW). HBPW's total participation in the two projects is approximately 17.7 MW of installed capacity. Phase II of Assembly Solar and the Invenergy solar project are expected to begin commercial operation soon. With the addition of the Hart and Calhoun county facilities, HBPW will have a total of 30 MW of solar capacity by 2024 which is about 5.5% of retail electric sales. Purchasing the 20-year fixed-price contracts with the solar farms allows HBPW to offer stable, predictable rates. It also improves diversification of HBPW's renewable portfolio and continues progress toward community decarbonization goals. The 17.7 MW of installed capacity at the solar farms better positions HBPW to mitigate the potential loss of the utility's 15 MW of installed capacity at Wildcat Wind Farm. The PPA for that resource is currently set to expire at the end of calendar year 2022. Negotiations are ongoing relative to a potential new PPA with Wildcat but the ultimate outcome of those discussions is not yet known. Of note is that the energy supply from the two new solar resources is expected to be the equivalent of approximately 80-85% of the energy currently supplied by Wildcat. This means that even if a new PPA with Wildcat is not reached, HBPW's renewable portfolio would still be projected to supply >15% of retail sales.

Beginning January 2022, municipal utilities will no longer be required to report EWR results to the Michigan Public Service Commission or follow a prescribed program. This provides an opportunity to customize HBPW's EWR program to best suit customer, utility, and community needs. Program metrics do not need to be limited to kWh savings and can include carbon reduction, beneficial electrification, and other operational values. HBPW decided to continue to offer EWR programs beyond 2021 and made several changes to the program. First, the kWh savings goal was increased from 1% to 2% over two years. Second, add a mechanism to track and report carbon reduction which will be consistent with the City of Holland's decarbonization goal. Third, increase marketing and outreach efforts, particularly with commercial customers since there is higher potential for savings with this class.

Related to EWR, and in line with the City of Holland Community Energy Plan, HBPW adopted an Alternative Fuel Vehicle and Equipment Purchasing policy. This policy requires the purchase of the most cost-effective, least polluting, and fuel-efficient vehicles and equipment possible while still meeting the operational requirements of intended use. First priority will be given to all electric alternatives. HBPW already has several light duty electric hybrid vehicles in service, and acquired its first heavy duty hybrid vehicle (bucket truck used in electric distribution) in FY2021.

A FY2021 tactical action to research the improvement potential to customer service interactions and payment options was completed. The options considered included; absorbing online convenience fees, upgrading paperless billing procedures, constructing drive-through service at the Service Center and installing kiosks at various locations. A customer survey showed the greatest potential was with online payment processing and paperless billing upgrades. Convenience and cost savings were requested most often. A 2019 survey of utilities showed 63% already absorbed the fee and that utilities that eliminated convenience fees saw large increases in online payments and paperless bill enrollments. The team recommended that HBPW absorb online convenience fees and upgrade paperless billing to make it more user friendly. The recommendations will be implemented in FY2022. The HBPW will bear the cost of about \$150,000 of convenience fees. This amount will increase over time as more customers switch to online and/or paperless billing; however, the cost will be partially offset by savings in postage, paper, envelopes and less time processing payments. By addressing online payment fees and paperless billing convenience, many customer requests and environmental concerns of mailing paper bills are accomplished.

A FY2021 tactical action was completed to identify a comprehensive list of waste streams, create plans for measuring wastes that are not currently recorded, and recommendations for prioritizing future minimization efforts. The team developed a list of all major waste streams, created a process to quantify and record each waste stream, compiled data for a Key Performance Indicator (KPI) dashboard, and assessed opportunities for waste reduction. The team noted that sizable waste reductions were already complete or in progress. The closure of the James De Young Coal Plant stopped the disposal of 50 tons of ash annually and allowed the closure of the HBPW Zeeland Township Landfill. HEP transitioned from non-returnable chemical totes to bulk tank systems. The chemical vendor would not take back the totes so HEP found a local vendor to remove the totes for free and for reuse in waste disposal. The bulk tank system reduces shipping frequency and freight costs. The WRF is currently constructing an Anaerobic

Digester. The digester is anticipated to reduce the volume of biosolids by 50%. The Service Center is replacing the light fixtures in the warehouse and garage with LED fixtures. This will initially increase the disposal of fluorescent lights during the change out, but will greatly reduce the amount of universal waste (light bulbs) disposed of since LED bulbs have much longer average life than fluorescent lights.

NEXT YEARS BUDGET AND RATES

A 5-year operating and capital forecast is presented annually to HBPW's Board and City Council. The report evaluates the impact of various capital acquisitions and operating expenditures on the related utilities. Due to the operating efficiency at the new power plant (HEP), and favorable natural gas prices, the rates were reduced 10% for the Electric Utility in FY2022. HBPW had a wholesale contract with the nearby neighborhood of Park Township to supply water to their distribution system. In FY2020 a retail agreement was negotiated with the township for HBPW to take over responsibility for their distribution system to include new services, metering, and billing. Due to the conversion of the wholesale contract to retail and greater cost recovery, the rates remain unchanged for the Water Utility in FY2022. The Board and City Council approved a rate increase of 3.6% for the Wastewater Utility for FY2022. The increase in rates is to support capital acquisitions and expenditures, maintain debt ratios required by bond covenants, and maintain appropriate cash levels.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the Holland Board of Public Works for all those with an interest in the HBPW's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to Mr. Chuck Warren, Holland Board of Public Works, 625 Hastings Avenue, Holland, Michigan 49423 or cwarren@hollandbpw.com.

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BASIC FINANCIAL STATEMENTS

HOLLAND BOARD OF PUBLIC WORKS
(Enterprise Funds of the City of Holland, Michigan)

Statement of Net Position

June 30, 2021

(with comparative totals for the year ended June 30, 2020)

	Electric Utility	Wastewater Utility	Water Utility	Business-Type Activities	
				2021	2020
Assets					
Current assets:					
Cash and cash equivalents	\$ 31,791,164	\$ 10,498,459	\$ 7,264,533	\$ 49,554,156	\$ 42,818,297
Investments	22,296,177	2,997,942	4,029,600	29,323,719	128,508,455
Receivables:					
Accounts receivable	7,071,137	1,067,571	1,294,871	9,433,579	9,059,219
Unbilled revenue	6,737,208	610,752	824,646	8,172,606	8,976,451
Special assessments and other	-	26,957	36,067	63,024	79,280
Accrued interest	182,558	11,900	15,605	210,063	81,931
Due from other funds of the City of Holland	1,180,401	3,829	50,516	1,234,746	1,755,036
Inventories	5,026,480	9,761	406,809	5,443,050	4,626,754
Prepaid items and other assets	3,047,765	30,549	18,449	3,096,763	3,080,197
Total current assets	77,332,890	15,257,720	13,941,096	106,531,706	198,985,620
Noncurrent assets:					
Restricted assets:					
Cash and cash equivalents	-	4,468,955	499,500	4,968,455	6,237,466
Investments	6,099,040	-	-	6,099,040	18,529,413
Accrued interest	-	-	-	-	2,721
Total restricted assets	6,099,040	4,468,955	499,500	11,067,495	24,769,600
Capital assets:					
Land	21,047,820	260,673	2,178,242	23,486,735	23,486,735
Construction in progress	2,616,659	8,561,487	3,835,020	15,013,166	5,971,192
Plant and equipment	486,371,177	111,640,365	82,397,538	680,409,080	675,103,232
Accumulated depreciation	(214,949,613)	(51,679,926)	(34,416,334)	(301,045,873)	(288,932,048)
Total capital assets, net	295,086,043	68,782,599	53,994,466	417,863,108	415,629,111
Other noncurrent assets:					
Long-term investments	21,447,825	1,927,133	2,428,793	25,803,751	-
Due from other local units	-	3,175,068	540,000	3,715,068	-
Due from City of Wyoming	-	-	1,689,395	1,689,395	1,824,529
Total other noncurrent assets	21,447,825	5,102,201	4,658,188	31,208,214	1,824,529
Total noncurrent assets	322,632,908	78,353,755	59,152,154	460,138,817	442,223,240
Total assets	399,965,798	93,611,475	73,093,250	566,670,523	641,208,860
Deferred outflows of resources					
Deferred charge on refunding	-	-	-	-	100,052
Deferred pension amounts	787,243	226,629	178,917	1,192,789	1,457,284
Total deferred outflows of resources	787,243	226,629	178,917	1,192,789	1,557,336

continued...

HOLLAND BOARD OF PUBLIC WORKS
(Enterprise Funds of the City of Holland, Michigan)

Statement of Net Position

June 30, 2021

(with comparative totals for the year ended June 30, 2020)

	Electric Utility	Wastewater Utility	Water Utility	Business-Type Activities	
				2021	2020
Liabilities					
Current liabilities:					
Accounts payable	\$ 6,131,007	\$ 2,054,231	\$ 618,894	\$ 8,804,132	\$ 9,474,057
Accrued salaries and wages payable	348,373	110,097	83,808	542,278	577,868
Due to other funds of the City of Holland	245,171	2,541	1,044,573	1,292,285	286,111
Deposits	1,042,103	30	20,050	1,062,183	963,150
Accrued interest payable	23,369	40,002	25,414	88,785	3,157,126
Current portion of long-term debt	2,031,296	855,284	635,679	3,522,259	3,123,415
Current liabilities payable from restricted assets:					
Current portion of long-term debt	-	-	1,285,000	1,285,000	2,037,318
Accrued interest payable	-	-	15,909	15,909	24,273
Total current liabilities	9,821,319	3,062,185	3,729,327	16,612,831	19,643,318
Noncurrent liabilities:					
Long-term debt, net of current portion	37,455,342	12,517,937	4,224,529	54,197,808	15,645,590
Long-term debt payable from restricted assets, net of current portion	-	-	3,710,000	3,710,000	151,438,713
Net pension liability	2,642,625	760,754	600,596	4,003,975	5,974,832
Net other postemployment benefit liability	191,410	44,475	33,821	269,706	739,712
Total noncurrent liabilities	40,289,377	13,323,166	8,568,946	62,181,489	173,798,847
Total liabilities	50,110,696	16,385,351	12,298,273	78,794,320	193,442,165
Deferred inflows of resources					
Deferred charge on refunding	393,284	-	-	393,284	-
Deferred pension amounts	1,554,553	447,523	353,307	2,355,383	126,930
Deferred other postemployment benefit amounts	438,818	101,959	77,536	618,313	429,802
Total deferred inflows of resources	2,386,655	549,482	430,843	3,366,980	556,732
Net position					
Net investment in capital assets	261,932,759	56,980,992	45,395,856	364,309,607	254,358,132
Restricted for:					
Debt service	-	-	499,500	499,500	12,100,285
Equipment replacement	-	4,468,955	-	4,468,955	6,143,737
Park Township	-	-	-	-	420,393
Cooperative payments	6,099,040	-	-	6,099,040	6,105,185
Unrestricted	80,223,891	15,453,324	14,647,695	110,324,910	169,639,567
Total net position	\$ 348,255,690	\$ 76,903,271	\$ 60,543,051	\$ 485,702,012	\$ 448,767,299

concluded

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

HOLLAND BOARD OF PUBLIC WORKS
(Enterprise Funds of the City of Holland, Michigan)

Statement of Revenues, Expenses, and Changes in Fund Net Position

For the Year Ended June 30, 2021

(with comparative totals for the year ended June 30, 2020)

	Electric Utility	Wastewater Utility	Water Utility	Business-Type Activities	
				2021	2020
Operating revenues					
Residential sales	\$ 22,671,333	\$ 3,752,041	\$ 5,394,640	\$ 31,818,014	\$ 29,042,821
Commercial sales	33,046,868	2,846,591	3,597,999	39,491,458	39,575,552
Industrial sales	46,915,817	944,930	1,168,739	49,029,486	47,823,165
Wholesale	4,266,157	2,338,221	1,691,988	8,296,366	7,123,719
Fees and other	1,556,243	2,280,710	625,604	4,462,557	4,378,286
Total operating revenues	<u>108,456,418</u>	<u>12,162,493</u>	<u>12,478,970</u>	<u>133,097,881</u>	<u>127,943,543</u>
Operating expenses					
Salaries and wages	5,291,673	1,530,446	1,255,691	8,077,810	7,764,267
Employee benefits	3,221,128	912,319	822,670	4,956,117	5,735,092
Production	34,337,400	2,748,115	699,645	37,785,160	35,250,408
Distribution	7,491,413	623,193	1,006,296	9,120,902	7,169,931
Administrative and general	9,785,398	2,169,638	1,808,706	13,763,742	13,091,457
Depreciation	13,446,399	3,347,943	2,024,781	18,819,123	20,384,116
Total operating expenses	<u>73,573,411</u>	<u>11,331,654</u>	<u>7,617,789</u>	<u>92,522,854</u>	<u>89,395,271</u>
Operating income	<u>34,883,007</u>	<u>830,839</u>	<u>4,861,181</u>	<u>40,575,027</u>	<u>38,548,272</u>
Nonoperating income (expense), net					
Investment income	443,644	26,626	28,256	498,526	3,823,691
Interest expense	(2,741,316)	(279,158)	(244,865)	(3,265,339)	(6,561,058)
Gain (loss) on sale and disposal of capital assets	(487)	-	(90,147)	(90,634)	46,095
Total nonoperating income (expense), net	<u>(2,298,159)</u>	<u>(252,532)</u>	<u>(306,756)</u>	<u>(2,857,447)</u>	<u>(2,691,272)</u>
Net income before contributions and transfers	<u>32,584,848</u>	<u>578,307</u>	<u>4,554,425</u>	<u>37,717,580</u>	<u>35,857,000</u>
Capital contributions					
Trunkage	-	414,547	166,890	581,437	235,748
Contributions from other local units	-	3,445,069	2,076,000	5,521,069	-
Federal and state capital grants	-	1,083,527	-	1,083,527	2,260
Total capital contributions	<u>-</u>	<u>4,943,143</u>	<u>2,242,890</u>	<u>7,186,033</u>	<u>238,008</u>
Transfers out to other funds of the City of Holland	<u>(7,968,900)</u>	<u>-</u>	<u>-</u>	<u>(7,968,900)</u>	<u>(7,656,276)</u>
Change in net position	<u>24,615,948</u>	<u>5,521,450</u>	<u>6,797,315</u>	<u>36,934,713</u>	<u>28,438,732</u>
Net position, beginning of year	<u>323,639,742</u>	<u>71,381,821</u>	<u>53,745,736</u>	<u>448,767,299</u>	<u>420,328,567</u>
Net position, end of year	<u>\$ 348,255,690</u>	<u>\$ 76,903,271</u>	<u>\$ 60,543,051</u>	<u>\$ 485,702,012</u>	<u>\$ 448,767,299</u>

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

HOLLAND BOARD OF PUBLIC WORKS
(Enterprise Funds of the City of Holland, Michigan)

Statement of Cash Flows

For the Year Ended June 30, 2021

(with comparative totals for the year ended June 30, 2020)

	Electric Utility	Wastewater Utility	Water Utility	Business-Type Activities	
				2021	2020
Cash flows from operating activities					
Receipts from customers and users	\$ 109,140,035	\$ 12,188,140	\$ 12,967,429	\$ 134,295,604	\$ 127,056,398
Payments to suppliers	(53,828,087)	(4,280,698)	(3,069,606)	(61,178,391)	(58,279,777)
Payments to/for employees	(8,335,391)	(2,383,545)	(2,044,799)	(12,763,735)	(11,834,372)
Net cash provided by operating activities	<u>46,976,557</u>	<u>5,523,897</u>	<u>7,853,024</u>	<u>60,353,478</u>	<u>56,942,249</u>
Cash flows from noncapital financing activities					
Transfers to other funds of the City of Holland	(7,968,900)	-	-	(7,968,900)	(7,656,276)
Principal paid on pension bonds	(905,762)	(260,750)	(205,855)	(1,372,367)	(1,341,368)
Interest paid on pension bonds	(183,853)	(52,927)	(41,785)	(278,565)	(304,501)
Net cash used in noncapital financing activities	<u>(9,058,515)</u>	<u>(313,677)</u>	<u>(247,640)</u>	<u>(9,619,832)</u>	<u>(9,302,145)</u>
Cash flows from capital and related financing activities					
Principal paid on capital related debt	-	(427,500)	(280,000)	(707,500)	(1,927,500)
Interest paid on capital related debt	(6,302,314)	(208,245)	(182,639)	(6,693,198)	(3,595,151)
Proceeds from Clean Water State Revolving Fund Bonds	-	4,334,107	-	4,334,107	-
Issuance of refunding bonds	32,760,000	-	4,995,000	37,755,000	-
Cash transferred to escrow for defeased bonds	(143,007,284)	-	(5,459,607)	(148,466,891)	-
Capital Grant - Clean Water State Revolving Fund	-	1,083,527	-	1,083,527	-
Capital contributions received	-	684,548	1,702,890	2,387,438	238,008
Proceeds from sale of capital assets	7,410	4	17,998	25,412	116,394
Purchase/construction of property, plant and equipment	(5,007,916)	(8,490,357)	(7,670,893)	(21,169,166)	(13,380,471)
Net cash used in capital and related financing activities	<u>(121,550,104)</u>	<u>(3,023,916)</u>	<u>(6,877,251)</u>	<u>(131,451,271)</u>	<u>(18,548,720)</u>
Cash flows from investing activities					
Interest received	1,288,901	93,768	72,872	1,455,541	5,154,371
Purchase of investment securities	(50,804,767)	(4,992,991)	(6,511,178)	(62,308,936)	(147,938,749)
Proceeds from sale or maturities of investment securities	131,406,283	9,370,944	6,260,641	147,037,868	125,102,490
Net cash provided by (used in) investing activities	<u>81,890,417</u>	<u>4,471,721</u>	<u>(177,665)</u>	<u>86,184,473</u>	<u>(17,681,888)</u>
Net increase (decrease) in cash and cash equivalents	<u>(1,741,645)</u>	<u>6,658,025</u>	<u>550,468</u>	<u>5,466,848</u>	<u>11,409,496</u>
Cash and cash equivalents, beginning of year	<u>33,532,809</u>	<u>8,309,389</u>	<u>7,213,565</u>	<u>49,055,763</u>	<u>37,646,267</u>
Cash and cash equivalents, end of year	<u>\$ 31,791,164</u>	<u>\$ 14,967,414</u>	<u>\$ 7,764,033</u>	<u>\$ 54,522,611</u>	<u>\$ 49,055,763</u>

continued...

HOLLAND BOARD OF PUBLIC WORKS
(Enterprise Funds of the City of Holland, Michigan)

Statement of Cash Flows

For the Year Ended June 30, 2021

(with comparative totals for the year ended June 30, 2020)

	Electric Utility	Wastewater Utility	Water Utility	Business-Type Activities	
				2021	2020
Classified on the statement of net position as					
Cash and cash equivalents	\$ 31,791,164	\$ 10,498,459	\$ 7,264,533	\$ 49,554,156	\$ 42,818,297
Restricted cash and cash equivalents	-	4,468,955	499,500	4,968,455	6,237,466
Total cash and cash equivalents	<u>\$ 31,791,164</u>	<u>\$ 14,967,414</u>	<u>\$ 7,764,033</u>	<u>\$ 54,522,611</u>	<u>\$ 49,055,763</u>
Reconciliation of operating income to net cash provided by operating activities					
Operating income	\$ 34,883,007	\$ 830,839	\$ 4,861,181	\$ 40,575,027	\$ 38,548,272
Adjustments to reconcile operating income net cash provided by operating activities:					
Depreciation	13,446,399	3,347,943	2,024,781	18,819,123	20,384,116
Changes in operating assets and liabilities which provided (used) cash:					
Receivables	534,886	25,974	(115,119)	445,741	(956,304)
Due from other funds of the City of Holland	68,563	(357)	452,084	520,290	(102,874)
Inventories	(676,998)	238	(139,536)	(816,296)	(668,132)
Prepaid items and other assets	(42,790)	18,489	7,735	(16,566)	839,356
Due from the City of Wyoming	-	-	132,659	132,659	132,949
Accounts payable	(1,447,944)	1,242,140	(464,121)	(669,925)	(2,326,408)
Accrued salaries and wages payable	(28,498)	(3,007)	(4,085)	(35,590)	140,988
Due to other funds of the City of Holland	(37,145)	2,356	1,040,963	1,006,174	64,406
Deposits	80,168	30	18,835	99,033	39,084
Landfill postclosure liability	(8,999)	-	-	(8,999)	(677,203)
Compensated absences	63,326	509	(1,624)	62,211	144,067
Net pension liability	(1,300,765)	(374,463)	(295,629)	(1,970,857)	(859,525)
Deferred outflows of resources related to the net pension liability	174,566	50,254	39,675	264,495	2,394,461
Deferred inflows of resources related to the net pension liability	1,470,779	423,406	334,268	2,228,453	(169,711)
Net other postemployment benefit liability	(334,969)	(73,731)	(61,306)	(470,006)	14,804
Deferred inflows of resources related to the net other postemployment benefit liability	132,971	33,277	22,263	188,511	(97)
Net cash provided by operating activities	<u>\$ 46,976,557</u>	<u>\$ 5,523,897</u>	<u>\$ 7,853,024</u>	<u>\$ 60,353,478</u>	<u>\$ 56,942,249</u>

concluded

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

NOTES TO FINANCIAL STATEMENTS

HOLLAND BOARD OF PUBLIC WORKS

(Enterprise Funds of the City of Holland, Michigan)

Notes to Financial Statements

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The Holland Board of Public Works (the “Board”) is comprised of three enterprise funds of the City of Holland (the “City”). The Board operates under direction of the City Charter and City Council resolution subject to direction by a Council-appointed Board of Directors, and provides electric, broadband, water and wastewater services to users in the City of Holland and portions of the surrounding area.

Basis of Presentation

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund’s principal ongoing operations. The principal operating revenues of the Board’s enterprise funds are charges to customers for sales and services. The Board also recognizes as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the system. Operating expenses for enterprise funds 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.

Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of revenues, expenses and changes in fund net position) report information on all of the Holland Board of Public Works. For the most part, the effect of interfund activity has been removed from these statements.

Separate columns are provided for the individual major proprietary funds that make up the total business-type activities for the government-wide financial statements.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

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

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

The Board reports the following major enterprise funds:

The *Electric Utility Fund* is used to account for the electric utility which includes fees and costs associated with the generation, purchase, transmission, distribution and sale of electricity.

The *Wastewater Utility Fund* is used to account for the wastewater utility which includes fees and costs associated with the collection, transportation and treatment of wastewater.

The *Water Utility Fund* is used to account for the water utility which includes fees and costs associated with the treatment and distribution of water.

Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources, and Equity

Cash and Cash Equivalents

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

Investments

Investments consist primarily of U.S. government securities, commercial paper, money market securities, and treasury bills, all of which are carried at fair value or amortized cost, as described in Note 2.

Receivables

All receivables are reported at their gross value and, where appropriate, are reduced by the estimated portion that is expected to be uncollectible. At June 30, 2021, the allowance for uncollectible amounts in the electric, wastewater and water utility funds was \$84,651, \$947 and \$4,722, respectively.

Due To/From Other Funds

During the course of its operations, the Board has numerous transactions between funds to finance operations and to provide services.

Inventories

Inventory of system components is stated at cost utilizing the first-in first-out (FIFO) method.

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Prepaid Items

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

Restricted Assets

Certain proceeds of the Board's enterprise fund revenue bonds, as well as certain resources set aside for their repayment, are classified as restricted assets on the statement of net position because they are maintained in separate accounts and their use is limited by applicable bond covenants. The bond and interest redemption fund account is used to segregate resources accumulated for debt service payments over the next twelve months. The bond and interest reserve account is used to report resources set aside to make up potential future deficiencies in the revenue bond current debt service account. The equipment replacement account is used to report resources set aside to meet unexpected contingencies or to fund asset renewals and replacements.

Capital Assets

Capital assets, which include property, plant and equipment, are reported in the financial statements. Capital assets are defined by the Board as assets with an initial, individual cost of more than \$10,000 and an estimated useful life in excess of three years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated acquisition cost at the date of donation. Depreciation is computed by the straight-line method based on the economic useful lives of the related assets.

Estimated useful lives of the related assets by asset category are as follows:

	Years
Production plant	5-50
Distribution/Collection system	20-50
Transmission	20-50
General plant	5-50

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed.

Capital assets of the Water and Wastewater Utility Funds include assets purchased with funds provided by participating townships. Depreciation on these assets were \$94,295 and \$914,412, respectively.

HOLLAND BOARD OF PUBLIC WORKS

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Notes to Financial Statements

Due From Other Local Units

In fiscal year 2021, the Board entered into a long term agreement with Park Township to provide retail water services to approximately 3,800 residential and commercial customers. To facilitate these services, the Board agreed to replace existing customer water meters with units compatible with the Board's automated meter reading system, at an estimated cost of \$1.6 million. Park Township agreed to fund \$0.9 million of the cost, ratably over 5 years. At June 30, 2021, Park Township had paid \$0.36 million, leaving a balance due of \$0.54 million.

To mitigate the rising costs and increasing logistical challenges of sewage sludge disposal at its water reclamation facility ("WRF"), the Board, as the operator of the facility, proposed to install an anaerobic digester at its WRF. The digester is anticipated to reduce the volume of biosolids by approximately 50% and allow for future beneficial reuse of the biosolids. The total project estimate is \$33.7 million. This plan was approved by both the City of Holland, and the Administrative Committee comprised of all township participants in the facility. During fiscal year 2021, the Board was approved for a \$30.0M low interest loan through the Clean Water State Revolving Fund ("SRF") and is expected to receive \$6.0 million in principal forgiveness through the Green Project Reserve ("GPR"), offered through SRF. Capital costs, net of principal forgiveness, for the digester are to be shared equally by the Northern and Southern service areas discussed in the Business Overview section of the MD&A, in accordance with the Holland Area Wastewater Treatment Facilities 2017 Restated Contract. Construction began October 1, 2020. The anaerobic digester is expected to be completed during fiscal year 2024.

The Northern service area is represented by Holland Charter Township ("HCT"). Total project costs (net of a proportionate share of the principal forgiveness described above) incurred in fiscal year 2021 were \$6.4 million, resulting in an accrued amount due from HCT of \$3.2 million.

Due From City of Wyoming

The Board entered into a cost sharing agreement with the City of Wyoming to finance and construct the Wyoming Interconnect Water Project to be financed by a State Drinking Water Revolving fund bond issue. Upon completion, an estimated 15% of the related debt is scheduled to be forgiven by the grantor agency. Completion of the construction project and repayment of the associated bonds will be the responsibility of the Board. Under the cost sharing agreement, 47.54% of the assets constructed have been transferred to the City of Wyoming, along with an equal proportion of the related debt payments to be paid to the Board by the City of Wyoming, based on the installment payments on the related debt. The balance of this receivable at June 30, 2021 is equal to 47.54% of the assets completed and capitalized at that date, less a ratable share of the estimated debt forgiveness and principal payments made by the City of Wyoming.

HOLLAND BOARD OF PUBLIC WORKS

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Notes to Financial Statements

Deferred Outflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense) until then. The Board reports deferred outflows of resources related to the net pension liability. A portion of these costs represent contributions to the plan subsequent to the plan measurement date.

Compensated Absences

Eligible employees are permitted to accumulate paid time off benefits in varying amounts based on length of service and other established criteria. Paid time off is accrued when incurred in the Board's financial statements.

Bond Discounts/Premiums and Deferred Refunding Costs

Premiums, discounts, and deferred refunding costs associated with various bond issues are being amortized by the interest or straight-line methods over the repayment periods of the related bonds. Amortization of these items is charged to interest expense.

Deferred Inflows of Resources

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The Board reports a deferred inflow of resources for its deferred charge on refunding, which results from the difference in the carrying value of refunded debt and its reacquisition price and is amortized over the shorter of the life of the refunded or refunding debt. The Board also reports deferred inflows of resources related to the net pension liability and net other postemployment benefit liability.

Pensions and Other Postemployment Benefits

For purposes of measuring the net pension and net other postemployment benefits liabilities, deferred outflows of resources and deferred inflows of resources related to pension and other postemployment benefits, and pension and other postemployment benefit expense, information about the fiduciary net position of the plans and additions to/deductions from the plans fiduciary net position have been determined on the same basis as they are reported by the plans. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

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Transfers

Transfers from the electric fund represent contributions to other City of Holland's funds, based on Board and City agreements.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

2. DEPOSITS AND INVESTMENTS

The Board's deposits and investments are included on the statement of net position under the following classifications:

Statement of net position

Cash and cash equivalents	\$ 49,554,156
Investments	29,323,719
Long-term investments	25,803,751
Restricted assets:	
Cash and cash equivalents	4,968,455
Investments	<u>6,099,040</u>
Total	<u><u>\$ 115,749,121</u></u>

Deposits and investments consist of the following at June 30, 2021:

Deposits and investments

Checking and savings accounts	\$ 56,142,817
Certificates of deposit (due within one to five years)	818,237
Investments	58,782,456
Cash on hand	<u>5,611</u>
Total	<u><u>\$ 115,749,121</u></u>

Statutory Authority

State statutes authorize the Board to invest in:

- Bonds, securities, other obligations and repurchase agreements of the United States, or an agency or instrumentality of the United States.
- Certificates of deposit, savings accounts, deposit accounts or depository receipts of a qualified financial institution.

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- 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.
- Bankers' acceptances of United States banks.
- 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.
- 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.
- External investment pools as authorized by Public Act 20 as amended through December 31, 1997.

Investment and Deposit Risk

Interest Rate Risk. State law limits the allowable investments and the maturities of some of the allowable investments as identified above. The Board's investment policy does not have specific limits in excess of state law on investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. The maturity dates for each investment are identified below for investments held at year end.

	No maturity	Due < 1 year	Due in 1-5 years	Totals
U.S. government securities	\$ -	\$ 8,439,688	\$ 28,050,244	\$ 36,489,932
Money market securities	16,339,628	-	-	16,339,628
Treasury bills	-	-	1,479,680	1,479,680
Michigan Public Power Agency (MPPA) investments	4,473,216	-	-	4,473,216
	<u>\$ 20,812,844</u>	<u>\$ 8,439,688</u>	<u>\$ 29,529,924</u>	<u>\$ 58,782,456</u>

Custodial Credit Risk – Deposits. Custodial credit risk is the risk that in the event of a bank failure, the Board's deposits may not be returned. State law does not require and the Board's investment policy does not have specific limits in excess of state law on custodial credit risk. As of year end, \$56,293,042 of the Board's bank balance of \$57,043,042 was exposed to custodial credit risk because it was uninsured and uncollateralized.

Custodial Credit Risk – Investments. For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Board will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. State law does not require and the Board does not have a policy for investment custodial credit risk which is more restrictive than state law.

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Notes to Financial Statements

Credit Risk. State law limits investments to specific government securities, certificates of deposits and bank accounts with qualified financial institutions, commercial paper with specific maximum maturities and ratings when purchased, bankers acceptances of specific financial institutions, qualified mutual funds and qualified external investment pools as identified above. The Board's investment policy does not have specific limits in excess of state law on investment credit risk. The ratings for each investment are identified below for investments held at year end.

Credit risk ratings, where applicable, are summarized as follows:

S&P AAA	\$ 16,339,628
S&P AA+	<u>42,442,828</u>
	<u>\$ 58,782,456</u>

Concentration of Credit Risk. State law limits allowable investments but does not limit concentration of credit risk as identified in the listing above. The Board's investment policy does not allow for investment concentration with any one financial institution to exceed 80% of the total portfolio. This requirement was not exceeded. More than 5 percent of the Board's investments are in commercial paper, money markets, treasury bills and government agency securities as noted above.

Fair Value Measurement

The Board categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; level 2 inputs are significant other observable inputs; level 3 inputs are significant unobservable inputs.

The Board has the following recurring fair value measurements as of June 30, 2021:

- U.S. government securities and treasury bills with a balance of \$37,969,612 (level 2 inputs).
- Assets held with Michigan Public Power Agency, with a balance of \$4,473,216 (level 3 inputs).

The Board's money market securities, with a balance of \$16,339,628, are recorded at amortized cost.

The Board has earmarked cash, investment and accrued interest balances for system expansion, future debt payments, maintenance and insurance risk retention as follows:

	Electric Utility	Wastewater Utility	Water Utility	Total
City trunkage	\$ -	\$ 1,968,473	\$ 968,026	\$ 2,936,499
Future debt payments	-	637,998	4,740,263	5,378,261
Insurance/risk retention	<u>5,134,627</u>	<u>1,156,866</u>	<u>837,374</u>	<u>7,128,867</u>
Total	<u>\$ 5,134,627</u>	<u>\$ 3,763,337</u>	<u>\$ 6,545,663</u>	<u>\$ 15,443,627</u>

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Notes to Financial Statements

3. CAPITAL ASSETS

A summary of capital assets at June 30, 2021 is as follows:

	Beginning Balance	Additions	Deletions	Transfers	Ending Balance
Business-type activities					
Capital assets, not being depreciated:					
Land	\$ 23,486,735	\$ -	\$ -	\$ -	\$ 23,486,735
Construction in progress	5,971,192	21,169,166	-	(12,127,192)	15,013,166
	<u>29,457,927</u>	<u>21,169,166</u>	<u>-</u>	<u>(12,127,192)</u>	<u>38,499,901</u>
Capital assets, being depreciated:					
Production plant	396,691,285	-	(6,168,143)	771,566	391,294,708
Distribution/collection system	102,335,251	-	(146,829)	6,933,012	109,121,434
Transmission	121,904,342	-	(366,438)	2,897,141	124,435,045
General plant	54,172,354	-	(139,934)	1,525,473	55,557,893
	<u>675,103,232</u>	<u>-</u>	<u>(6,821,344)</u>	<u>12,127,192</u>	<u>680,409,080</u>
Less accumulated depreciation for:					
Production plant	(138,949,759)	(10,606,075)	6,040,914	-	(143,514,920)
Distribution/collection system	(36,150,857)	(2,662,115)	146,829	-	(38,666,143)
Transmission	(87,368,201)	(3,104,759)	358,594	-	(90,114,366)
General plant	(26,463,231)	(2,446,174)	158,961	-	(28,750,444)
	<u>(288,932,048)</u>	<u>(18,819,123)</u>	<u>6,705,298</u>	<u>-</u>	<u>(301,045,873)</u>
Total capital assets being depreciated, net	<u>386,171,184</u>	<u>(18,819,123)</u>	<u>(116,046)</u>	<u>12,127,192</u>	<u>379,363,207</u>
Business-type activities capital assets, net	<u>\$ 415,629,111</u>	<u>\$ 2,350,043</u>	<u>\$ (116,046)</u>	<u>\$ -</u>	<u>\$ 417,863,108</u>

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4. LONG-TERM DEBT

Long-term debt outstanding is as follows:

	Beginning Balance	Additions	Deductions	Ending Balance	Due Within One Year
Direct placement revenue bonds	\$ -	\$ 37,755,000	\$ -	\$ 37,755,000	\$ 1,285,000
Revenue bonds	149,183,610	4,334,107	(145,580,000)	7,937,717	290,000
Pension bonds	8,854,157	-	(1,372,367)	7,481,790	1,409,000
Capital lease	7,895,000	-	(427,500)	7,467,500	437,500
Total installment debt	165,932,767	42,089,107	(147,379,867)	60,642,007	3,421,500
Unamortized net premium/ discount on revenue bonds	4,292,421	-	(4,292,421)	-	-
Compensated absences	1,323,548	1,385,759	(1,323,548)	1,385,759	1,385,759
Landfill postclosure	696,300	-	(8,999)	687,301	-
	<u>\$ 172,245,036</u>	<u>\$ 43,474,866</u>	<u>\$ (153,004,835)</u>	<u>\$ 62,715,067</u>	<u>\$ 4,807,259</u>

Direct placement revenue bonds

\$4,995,000 2021 Water Supply Systems Revenue Refunding Bonds, due in annual installments of \$1,220,000 to \$1,285,000 plus interest at 0.98%, payable semi-annually, through July 1, 2024.

\$ 4,995,000

\$32,760,000 2021 Electric Utility System Revenue Refunding Bonds, due in annual installments of \$12,760,000 to \$20,000,000 plus interest at 0.39% payable semi-annually, through July 1, 2023.

32,760,000

Total direct placement revenue bonds

37,755,000

Revenue bonds

\$5,395,110 2011A Drinking Water Revolving Bonds, due in annual installments of \$236,500 to \$368,610 plus interest at 2.5%, payable semi-annually, through April 1, 2032.

3,603,610

\$30,000,000 2021 Wastewater Revenue Bonds, \$6,000,000 expected to be forgiven, \$5,417,634 drawn as of June 30, 2021, net of \$1,083,527 forgiveness, due in annual installments of \$990,000 to \$1,440,000 plus interest at 2.0%, payable semi-annually, through April 1, 2043.

4,334,107

Total revenue bonds

7,937,717

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Pension bonds

\$14,090,000 2016 Pension Bonds (Board portion), due in annual installments of \$1,282,190 to \$1,592,170 plus interest ranging from 0.76 to 3.42%, payable semi-annually, through December 1, 2025.

\$ 7,481,790

Capital lease

\$9,500,000 2015 Capital lease payable to the County of Ottawa, due in annual installments of \$387,500 to \$657,500 plus interest ranging from 0.75 to 3.4%, payable semi-annually, through June 1, 2035.

7,467,500

Total installment debt

\$ 60,642,007

The annual requirements to maturity on bonds outstanding as of June 30, 2021 are as follows:

Year Ended June 30,	Bonds Payable			
	Direct Placement		Other	
	Principal	Interest	Principal	Interest
2022	\$ 1,285,000	\$ 90,468	\$ 1,699,000	\$ 782,489
2023	21,220,000	700,065	1,743,452	735,283
2024	14,000,000	49,284	2,785,722	683,585
2025	1,250,000	12,250	2,856,446	607,695
2026	-	-	2,937,170	527,416
2027-2031	-	-	7,170,000	2,060,828
2032-2036	-	-	6,388,610	1,325,716
2037-2041	-	-	6,655,000	689,500
2042-2043	-	-	2,850,000	85,800
	<u>\$ 37,755,000</u>	<u>\$ 852,067</u>	35,085,400	<u>\$ 7,498,312</u>
Less amounts not yet drawn			<u>(19,665,893)</u>	
			<u>\$ 15,419,507</u>	

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The annual requirements to maturity on capital leases outstanding as of June 30, 2021 are as follows:

Year Ended June 30,	Principal	Interest
2022	\$ 437,500	\$ 206,959
2023	450,000	198,865
2024	462,500	189,640
2025	472,500	179,465
2026	485,000	168,598
2027-2031	2,665,000	647,273
2032-2035	2,495,000	210,977
	<u>\$ 7,467,500</u>	<u>\$ 1,801,777</u>

Covenants of the Revenue Bond Resolution provide for, among other things, restrictions on the transfer of funds, issuance of additional debt, creation of liens, and the sale and lease of property. In addition, the covenants require that the rates be set sufficient to cover the scheduled debt service.

Refunded and Defeased Debt

The Board issued \$4,995,000 of 2021 Water Supply System Revenue Refunding Bonds to provide resources to purchase U.S. government securities that were placed in an escrow fund for the purpose of generating resources for all future debt service payments of \$5,410,000 of 2012A Water Supply System Revenue Refunding Bonds. As a result, the bonds are considered defeased and the liability has been removed from the statement of net position. The refunding resulted in a savings of \$742,606 and an economic gain of \$727,631. As the bonds were called on April 5, 2021, there are no defeased bonds outstanding at June 30, 2021 related to this refunding.

Additionally, the Board issued \$32,760,000 of 2021 Electric Utility System Revenue Refunding Bonds to provide resources to purchase U.S. government securities that were placed in an escrow fund for the purpose of generating resources for all future debt service payments of \$43,815,000 of 2014A Electric Utility System Revenue Bonds. As part of the refunding, the Board made a cash contribution to the escrow of \$96,075,000 to be used toward the defeasance of the 2014A Electric Utility System Revenue Bonds. As a result, the bonds are considered defeased and the liability has been removed from the statement of net position. The refunding resulted in a savings of \$177,101,122 and an economic gain of \$144,154,666. As of June 30, 2021, a total of \$139,890,000 of defeased bonds are outstanding, to be called on July 1, 2021.

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Landfill Postclosure Care

State and federal laws and regulations require the Board to place a final cover on its fly ash and wastewater treatment bio solids landfill when it stops accepting waste and to perform certain maintenance and monitoring functions at the site for thirty years after closure. The Board has received a letter from the Department of Environment, Great Lakes and Energy (EGLE) acknowledging the landfill closed effective July 10, 2020. The remaining liability is for the estimated cost for postclosure care for the next 29 years.

The Board is required by state and federal laws and regulations to make annual contributions to a trust to finance closure and postclosure care. The Board is in compliance with these requirements. At June 30, 2021, the closure and postclosure costs have been assured by a \$100,000 letter of credit and \$18,913 held in trust.

5. PENSION PLANS

Defined Benefit Pension Plan

General Information About the Plan

Plan Description. The Board's defined benefit pension plan provides certain retirement, disability and death benefits to plan members and beneficiaries. The Board participates in the Municipal Employees Retirement System (MERS) of Michigan. MERS is an agent multiple-employer, statewide public employee pension plan established by the Michigan Legislature under Public Act 135 of 1945 and administered by a nine member Retirement Board. MERS issues a publicly available financial report that includes financial statements and required supplementary information. This report may be obtained accessing the MERS website at www.mersofmich.com.

Benefits Provided. Pension benefits vary by division/bargaining unit and are calculated as final average compensation (based on a 5 year period) and multipliers ranging from 2.0% to 2.25%. Participants are considered to be fully vested in the plan after 10 years. Normal retirement age is 60 with early retirement at age 50 with 25 years of service, age 55 with 15 years of service, or age 55 with 25 years of service, depending on division/bargaining unit. The plan is closed to new entrants.

Employees Covered by Benefit Terms. At the December 31, 2020 valuation date, plan membership consisted of the following:

Inactive employees or beneficiaries currently receiving benefits	137
Inactive employees entitled to but not yet receiving benefits	28
Active employees	52
	<hr/>
Total membership	217
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Contributions. The employer is required to contribute amounts at least equal to the actuarially determined rate, as established by the MERS Retirement Board. The actuarially determined rate is the estimated amount necessary to finance the cost of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. In addition, the employer may establish contribution rates to be paid by its covered employees.

Employer and employee contribution amounts or rates, by division/bargaining unit, were as follows for the year ended June 30, 2021:

Division/Bargaining Unit	Employer Contribution	Employee Contribution	Status
11 - PubWks Local 586	\$42,192/month	3.0%	Closed
13 - PubWks-NonUnion	\$34,179/month	3.0%	Closed
14 - Clerical	\$3,251/month	3.0%	Closed

Net Pension Liability. The Board's net pension liability was measured as of December 31, 2020, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date.

Actuarial Assumptions. The total pension liability in the December 31, 2020 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.50%
Salary increases	3.00% in the long-term
Investment rate of return	7.35%, net of investment and administrative expense including inflation

The base mortality tables used are constructed as described below and are based on are amount weighted sex distinct rates:

- Pre-retirement mortality based on 100% of Pub-2010 Juvenile Mortality Tables for ages 0-17, 100% of PubG-2010 Employee Mortality Tables for Ages 18-80, and 100% of PubG-2010 Healthy Retiree Tables for ages 81-120
- Non-disabled retired plan members and beneficiaries mortality based on 106% of Pub-2010 Juvenile Mortality Tables for ages 0-17, 106% of PubG-2010 Employee Mortality Tables for Ages 18-49, and 106% of PubG-2010 Healthy Retiree Tables for ages 50-120
- Disabled retired plan members mortality based on 100% of Pub-2010 Juvenile Mortality Tables for ages 0-17, and 100% of PubNS-2010 Disabled Retiree Tables for ages 18-120

The actuarial assumptions used in the December 31, 2020 valuation were based on the results of the most recent actuarial experience study of 2014-2018.

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Long-term Expected Rate of Return. The long-term expected rate of return on pension plan investments was determined using a model method in which the best-estimate ranges of expected future real rates of return (expected returns, net of investment and administrative expenses and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Long-term Expected Real Rate of Return	Expected Money-Weighted Rate of Return
Global equity	60.0%	5.25%	3.15%
Global fixed income	20.0%	1.25%	0.25%
Private investments	20.0%	7.25%	1.45%
	<u>100.0%</u>		
Inflation			2.50%
Administrative expenses netted above			<u>0.25%</u>
Investment rate of return			<u><u>7.60%</u></u>

Discount Rate. The discount rate used to measure the total pension liability as of December 31, 2020 was 7.6%. The projection of cash flows used to determine the discount rate assumes that employer and employee contributions will be made at the rates agreed upon for employees and the actuarially determined rates for employers. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to pay all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

HOLLAND BOARD OF PUBLIC WORKS
(Enterprise Funds of the City of Holland, Michigan)

Notes to Financial Statements

Changes in Net Pension Liability

The components of the change in the net pension liability are summarized as follows:

	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) - (b)
Balances at December 31, 2019	\$ 58,710,863	\$ 52,736,031	\$ 5,974,832
Changes for the year:			
Service cost	420,437	-	420,437
Interest	4,340,120	-	4,340,120
Differences between expected and actual experience	(109,017)	-	(109,017)
Changes in assumptions	1,430,115	-	1,430,115
Employer contributions	-	835,308	(835,308)
Employee contributions	-	136,537	(136,537)
Net investment income	-	7,185,160	(7,185,160)
Benefit payments, including refunds of employee contributions	(3,628,472)	(3,628,472)	-
Administrative expense	-	(104,493)	104,493
Net changes	2,453,183	4,424,040	(1,970,857)
Balances at December 31, 2020	\$ 61,164,046	\$ 57,160,071	\$ 4,003,975

Changes in assumptions. A 5-year experience study analyzing historical experience from 2013 through 2018 was completed in February 2020. In addition to changes to the economic assumptions which took effect with the fiscal year 2021 contribution rates, the experience study recommended updated demographic assumptions, including adjustments to the following actuarial assumptions: mortality, retirement, disability, and termination rates.

Sensitivity of the Net Pension Liability to Changes in the Discount Rate. The following presents the net pension liability of the Board, calculated using the discount rate of 7.6%, as well as what the Board's net pension liability would be if it were calculated using a discount rate that is 1% lower (6.6%) or 1% higher (8.6%) than the current rate:

	1% Decrease (6.6%)	Current Discount Rate (7.6%)	1% Increase (8.6%)
Net pension liability (asset)	\$ 10,364,331	\$ 4,003,975	\$ (1,427,298)

HOLLAND BOARD OF PUBLIC WORKS

(Enterprise Funds of the City of Holland, Michigan)

Notes to Financial Statements

Pension Plan Fiduciary Net Position. Detailed information about the pension plan's fiduciary net position is available in the separately issued Plan financial statements.

Pension Expense and Deferred Outflows/Inflows of Resources Related to Pensions

For the year ended June 30, 2021, the Board recognized pension expense of \$1,477,555. The Board reported deferred outflows/inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources	Net Deferred Outflows (Inflows) of Resources
Difference between expected and actual experience	\$ -	\$ 54,508	\$ (54,508)
Changes in assumptions	715,057	-	715,057
Net difference between projected and actual earnings on pension plan investments	-	2,300,875	(2,300,875)
	715,057	2,355,383	(1,640,326)
Contributions subsequent to the measurement date	477,732	-	477,732
Total	\$ 1,192,789	\$ 2,355,383	\$ (1,162,594)

The amount reported as deferred outflows of resources resulting from contributions subsequent to the measurement date will be recognized as a reduction in the net pension liability for the year ending June 30, 2022. Other amounts reported as deferred outflows/inflows of resources related to the pension will be recognized in pension expense as follows:

Year Ended June 30,	Amount
2022	\$ 179,437
2023	40,225
2024	(1,203,559)
2025	(656,429)
Total	\$ (1,640,326)

Payable to the Pension Plan. At June 30, 2021, the Board reported a payable of \$79,622 for the outstanding amount of contributions to the pension plan.

HOLLAND BOARD OF PUBLIC WORKS

(Enterprise Funds of the City of Holland, Michigan)

Notes to Financial Statements

Defined Contribution Pension Plan

The Board participates in a defined contribution retirement plan which is administered by the ICMA in participation with MERS for both nonbargaining and union employees. The defined contribution provisions of the plan require the Board to contribute 6% of covered employee payroll and to match employee contributions up to 2% for nonbargaining employees and up to 2% for union employees. The participants direct their investments under defined contribution provisions. During the year ended June 30, 2021, the Board contributed \$780,850 and employees contributed \$215,559 to the defined contribution plan.

6. OTHER POSTEMPLOYMENT BENEFITS (OPEB) PLAN

General Information About the OPEB Plan

Plan Description. The Board participates in the City of Holland Retiree Healthcare Plan (the "OPEB Plan"), a single-employer defined benefit healthcare plan administered by the City. The OPEB Plan provides 100% of health insurance benefits to eligible retirees and their dependents. The benefit is provided upon the employee attaining 55 with 25 years of service or age 60 with 10 years of service. The coverage is maintained until the employee is eligible for federal Medicare coverage at age 65. Stand-alone financial statements are not issued for the OPEB Plan.

Management of the OPEB Plan is vested with the City Council.

Effective May 13, 2020, the Board adopted the Michigan Municipal Employees' Retirement System (MERS) Retiree Health Funding Vehicle to fund the obligation. The MERS Retiree Health Funding Vehicle became operational in the fall of 2004, and was made available to all municipalities in Michigan. Participating municipalities can contribute monies to the Trust as desired and no contribution method is imposed. These funds constitute a health care fund, which enable municipalities to accumulate monies to provide or subsidize health benefits for retirees and beneficiaries as defined by Code Section 213. The Retiree Health Funding Vehicle accounts are invested in the MERS portfolio choices and earnings are tax exempt as a result of the MERS Private Letter Ruling. Plan provisions and requirements are specified in the MERS Health Care Savings Program and Retiree Health Funding Vehicle Plan Document and Trust.

Benefits Provided. The City Council has the authority to establish or amend benefit terms, to determine the types of benefits provided through the OPEB Plan, and to determine the classes of plan members covered. The Board provides a monthly subsidy payment for the retiree health insurance premium charged by the City's Health and Dental Insurance Fund for single or two-person coverage, depending on employment contract. No subsidy payment is made if the retiree can obtain no cost coverage through other employment or through a spouse's employment. However, retired employees who are eligible to receive hospital, surgical and medical coverage from another employer sponsored plan may request reimbursement for any premium cost up to the maximum amounts.

HOLLAND BOARD OF PUBLIC WORKS

(Enterprise Funds of the City of Holland, Michigan)

Notes to Financial Statements

Contributions. OPEB Plan members are not required to contribute to the OPEB Plan. The contribution requirements are established and may be amended by the City Council. The required contribution is based on projected pay-as-you go financing requirements, with an additional amount to prefund benefits as determined annually by the City and the Board.

Plan Membership. At June 30, 2020, the date of the most recent actuarial valuation, OPEB Plan membership consisted of the following:

Inactive plan members or beneficiaries currently receiving benefit payments	11
Active plan members	168
Total membership	179

Net OPEB Liability. The Board's net OPEB liability was measured as of June 30, 2021, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of June 30, 2020, rolled forward to the measurement date of June 30, 2021.

Actuarial Assumptions. The total OPEB liability in the June 30, 2020 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

Inflation	2.5%
Salary increases	2.0%
Investment rate of return	7.35%
Healthcare cost trend rate	N/A as this is a stipend only plan
Utilization	85% of eligible employees will elect coverage at early retirement; actual coverage used for non-active
Mortality	Public General 2010 Employee and Healthy Retiree, Headcount weighted, MP-2020

Discount Rate. The discount rate used to measure the total OPEB liability as of June 30, 2021 was 7.35%. The projection of cash flows used to determine the discount rate assumes that the Board will fully fund the OPEB Plan by contributing the actuarially determined contribution. Based on these assumptions, the OPEB Plan's fiduciary net position was projected to be available to pay all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on OPEB Plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

HOLLAND BOARD OF PUBLIC WORKS
(Enterprise Funds of the City of Holland, Michigan)

Notes to Financial Statements

Changes in the Net OPEB Liability

The components of the change in the net OPEB liability are summarized as follows:

	Total OPEB Liability (a)	Plan Fiduciary Net Position (b)	Net OPEB Liability (a) - (b)
Balances at June 30, 2020	\$ 739,712	\$ -	\$ 739,712
Changes for the year:			
Service cost	33,265	-	33,265
Interest	20,699	-	20,699
Differences between expected and actual experience	(60,378)	-	(60,378)
Changes in assumptions	(172,033)	-	(172,033)
Employer contributions	-	270,382	(270,382)
Contributions/benefit from general operating funds	-	(10,409)	10,409
Net investment income	-	31,855	(31,855)
Benefit payments, including refunds of employee contributions	10,409	10,409	-
Administrative expense	-	(269)	269
Net changes	(168,038)	301,968	(470,006)
Balances at June 30, 2021	\$ 571,674	\$ 301,968	\$ 269,706

Amounts reported as changes in assumptions resulted from an increase in the discount rate from 2.66% to 7.35%, and mortality rates updated.

Sensitivity of the Net OPEB Liability to Changes in the Discount Rate. The following presents the net OPEB liability of the Board, calculated using the discount rate of 7.35%, as well as what the Board's net OPEB liability would be if it were calculated using a discount rate that is 1% lower (6.35%) or 1% higher (8.35%) than the current rate:

	1% Decrease (6.35%)	Current Discount Rate (7.35%)	1% Increase (8.35%)
Net OPEB liability	\$ 302,435	\$ 269,706	\$ 239,227

The sensitivity of the net OPEB liability to changes in the healthcare cost trend rate is not applicable as this is a stipend only plan.

HOLLAND BOARD OF PUBLIC WORKS

(Enterprise Funds of the City of Holland, Michigan)

Notes to Financial Statements

OPEB Expense and Deferred Inflows of Resources Related to OPEB

For the year ended June 30, 2021, the Board recognized OPEB expense of \$(21,522). The Board reported deferred inflows of resources related to OPEB from the following sources:

	Deferred Inflows of Resources
Difference between expected and actual experience	\$ 335,550
Changes of assumptions	260,153
Net difference between projected and actual earnings on OPEB plan investments	<u>22,610</u>
	<u>\$ 618,313</u>

Amounts reported as deferred inflows of resources related to the OPEB will be recognized in OPEB expense as follows:

Year Ended June 30,	Amount
2022	\$ 72,163
2023	72,163
2024	72,163
2025	72,161
2026	66,510
Thereafter	<u>263,153</u>
Total	<u>\$ 618,313</u>

Payable to the OPEB Plan. At June 30, 2021, the Board had no amounts payable for contributions to the OPEB Plan.

7. RISK MANAGEMENT

The Board is exposed to various risks of loss related to property loss, torts, errors and omissions, employee injuries (workers' compensation), as well as medical benefits provided to employees. The Board is self-insured for these risks through the City of Holland's self-insurance program except for workers' compensation risks which are covered through commercial insurance. The City purchases excess reinsurance and allocates risk management costs among the various funds of the City, including the Board of Public Works. The schedule of changes in the self-insured liability balances is included in the City of Holland's financial statements for the year ended June 30, 2021.

HOLLAND BOARD OF PUBLIC WORKS

(Enterprise Funds of the City of Holland, Michigan)

Notes to Financial Statements

8. COMMITMENTS

The Board has contracts outstanding for remaining project costs of approximately \$24,097,000 for various electric utility projects, \$1,214,000 for various water projects, and \$29,322,000 for various wastewater projects.

9. JOINT VENTURE

The Board entered into a joint venture, the Michigan Public Power Agency (MPPA), with 15 other municipal electric systems. The MPPA was formed to undertake the planning, financing, development, acquisition, construction, improvement, operation and maintenance of projects to supply electric power and energy for present or future needs of its members. Each MPPA member is a municipal corporation organized under the laws of the State of Michigan and owns and operates a municipal electric system. The Board is unaware of any circumstances that would cause an additional benefit or burden to the participating governments in the near future. Complete financial statements for the Michigan Public Power Agency can be obtained from the administrative offices at 809 Centennial Way, Lansing MI 48917.

Under the joint venture, the Board has entered into Power Sales Contracts and Project Support Contracts. These contracts provide for the Board to purchase from MPPA 15.66% of the energy generated by MPPA's 37.22% ownership in Detroit Edison's Belle River Unit No. 1, which became operational in August 1984, 6.35% of MPPA's 4.8% ownership in Consumers Energy's Campbell Unit No. 3, which became operational in September 1980, and 13.35% of the energy generated by MPPA's 5.16% ownership in the AMP Fremont Energy Center (AFEC), which became operational in June 2012. The contracts required the Board to purchase approximately 38 and 10 megawatts of power, respectively, in 1995 and thereafter for the Belle River and Campbell projects. The contracts relating to the Fremont project requires the Board to purchase approximately 8 megawatts of power in 2013 and thereafter.

For the year ended June 30, 2021, the Board recognized expenses totaling \$5,379,414 under the terms of the contracts which represented \$455,241 for fixed operating costs, \$1,391,666 for debt service and \$3,532,507 for the purchase of power. Accounts payable to MPPA totaled net \$859,206 at June 30, 2021. Under the terms of its contracts, the Board must make minimum annual payments equal to its share of debt service and its share of the fixed operating costs of Consumers Energy's Campbell Unit No. 3 and American Municipal Power's AMP Fremont Energy Center Project (AFEC). The estimated required payments presented below consider the dynamics of the PJM and MISO markets. Debt service payments assume no early calls or refinancing of existing revenue bonds.

HOLLAND BOARD OF PUBLIC WORKS

(Enterprise Funds of the City of Holland, Michigan)

Notes to Financial Statements

A summary of future transactions with the MPPA is as follows:

Year Ended June 30,	Campbell		Fremont (AFEC)		Total
	Debt Service	Fixed Operating	Debt Service	Fixed Operating	
2022	\$ 555,487	\$ 86,389	\$ 290,644	\$ 261,472	\$ 1,193,992
2023	-	-	357,625	280,749	638,374
2024	-	-	358,135	286,364	644,499
2025	-	-	357,892	292,091	649,983
2026	-	-	357,576	297,933	655,509
2027-2031	-	-	1,789,056	1,581,465	3,370,521
2032	-	-	357,331	335,521	692,852
	<u>\$ 555,487</u>	<u>\$ 86,389</u>	<u>\$ 3,868,259</u>	<u>\$ 3,335,595</u>	<u>\$ 7,845,730</u>

Debt Service requirements for the Belle River project expired in 2018. Debt Service requirements for the Campbell and Fremont project expire in 2022 and 2032, respectively. At June 30, 2021, the total debt service for Fremont was \$6,490,047, ending June 30, 2043. On October 6, 2021, the Fremont Debt was refunded resulting in total debt service of \$3,868,259, ending June 30, 2032. The above amounts include estimated fixed operating costs for the same period as the debt service. The contracts for the Board's commitment for fixed operating costs to extend beyond these dates is dependent upon the use of the facilities. The joint venture is a result of an ongoing financial responsibility. The Board did not have an initial equity interest and does not participate in net income or losses.

10. LITIGATION

In the normal course of its activities, the Board is a party to various legal actions and subject to certain asserted and unasserted claims and assessments. Although some actions have been brought, the Board has not experienced significant losses or costs. The Board is of the opinion that the outcome of any pending actions will not have a material effect on the Board's financial position or results of operations.

HOLLAND BOARD OF PUBLIC WORKS

(Enterprise Funds of the City of Holland, Michigan)

Notes to Financial Statements

11. NET INVESTMENT IN CAPITAL ASSETS

The composition of net investment in capital assets as of June 30, 2021, was as follows:

Capital assets:

Capital assets not being depreciated	\$ 38,499,901
Capital assets being depreciated, net	<u>379,363,207</u>
	<u>417,863,108</u>

Related debt:

Total installment debt	60,642,007
Less pension bonds	(7,481,790)
Deferred charge on refunding	<u>393,284</u>
	<u>53,553,501</u>

Net investment in capital assets	<u>\$ 364,309,607</u>
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12. CORONAVIRUS (COVID-19)

In March 2020, the World Health Organization declared the novel coronavirus outbreak (COVID-19) to be a global pandemic. The pandemic has resulted in operational challenges for the Board as it determines the appropriate methods to provide services to its customers. At this time, management does not believe that any ongoing negative financial impact related to the pandemic would be material to the Board.



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UNAUDITED SUPPLEMENTARY INFORMATION

HOLLAND BOARD OF PUBLIC WORKS
(Enterprise Funds of the City of Holland, Michigan)

Unaudited Supplementary Information

MERS Agent Multiple-Employer Defined Benefit Pension Plan

Schedule of Changes in the Board's Net Pension Liability and Related Ratios

	Year Ended June 30,		
	2021	2020	2019
Total pension liability			
Service cost	\$ 420,437	\$ 465,098	\$ 459,607
Interest	4,340,120	4,340,973	4,281,669
Changes in benefits	-	-	-
Differences between expected and actual experience	(109,017)	(253,861)	(593,283)
Changes of assumptions	1,430,115	1,843,738	-
Benefit payments, including refunds of employee contributions	(3,628,472)	(3,429,403)	(3,389,456)
Net change in total pension liability	<u>2,453,183</u>	<u>2,966,545</u>	<u>758,537</u>
Total pension liability, beginning of year	<u>58,710,863</u>	<u>55,744,318</u>	<u>54,985,781</u>
Total pension liability, end of year	<u>61,164,046</u>	<u>58,710,863</u>	<u>55,744,318</u>
Plan fiduciary net position			
Employer contributions	835,308	687,360	557,523
Employee contributions	136,537	140,820	139,999
Net investment income (loss)	7,185,160	6,539,901	(2,031,816)
Benefit payments, including refunds of employee contributions	(3,628,472)	(3,429,403)	(3,389,456)
Administrative expense	(104,493)	(112,608)	(102,570)
Net change in plan fiduciary net position	<u>4,424,040</u>	<u>3,826,070</u>	<u>(4,826,320)</u>
Plan fiduciary net position, beginning of year	<u>52,736,031</u>	<u>48,909,961</u>	<u>53,736,281</u>
Plan fiduciary net position, end of year	<u>57,160,071</u>	<u>52,736,031</u>	<u>48,909,961</u>
Board's net pension liability	<u>\$ 4,003,975</u>	<u>\$ 5,974,832</u>	<u>\$ 6,834,357</u>
Plan fiduciary net position as a percentage of total pension liability	93.5%	89.8%	87.7%
Covered payroll	\$ 4,204,277	\$ 4,646,185	\$ 4,561,399
Board's net pension liability as a percentage of covered payroll	95.2%	128.6%	149.8%

See notes to unaudited supplementary information.

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Year Ended June 30,			
2018	2017	2016	2015
\$ 468,117	\$ 494,584	\$ 508,116	\$ 534,319
4,227,124	4,131,826	3,988,984	3,877,167
-	-	(6,591)	-
(705,307)	(266,556)	(581,928)	-
-	-	2,486,206	-
(3,218,276)	(3,092,525)	(3,090,521)	(2,995,515)
771,658	1,267,329	3,304,266	1,415,971
54,214,123	52,946,794	49,642,528	48,226,557
54,985,781	54,214,123	52,946,794	49,642,528
404,799	1,623,277	15,566,146	1,500,624
145,954	158,497	140,340	128,691
6,496,694	5,249,048	(448,173)	2,086,857
(3,218,276)	(3,092,525)	(3,090,521)	(2,995,515)
(103,062)	(103,380)	(76,287)	(76,418)
3,726,109	3,834,917	12,091,505	644,239
50,010,172	46,175,255	34,083,750	33,439,511
53,736,281	50,010,172	46,175,255	34,083,750
\$ 1,249,500	\$ 4,203,951	\$ 6,771,539	\$ 15,558,778
97.7%	92.2%	87.2%	68.7%
\$ 4,647,824	\$ 4,899,166	\$ 5,317,097	\$ 5,581,027
26.9%	85.8%	127.4%	278.8%

HOLLAND BOARD OF PUBLIC WORKS
(Enterprise Funds of the City of Holland, Michigan)

Unaudited Supplementary Information

MERS Agent Multiple-Employer Defined Benefit Pension Plan
Schedule of Contributions

Fiscal Year Ending June 30,	Actuarially Determined Contribution	Contributions in Relation to the Actuarially Determined Contribution	Contribution (Deficiency) Excess	Covered Payroll	Contributions as Percentage of Covered Payroll
2021	\$ 955,464	\$ 955,464	\$ -	\$ 4,328,245	22.1%
2020	715,152	715,152	-	4,690,883	15.2%
2019	659,463	659,463	-	4,664,822	14.1%
2018	455,133	455,133	-	4,715,326	9.7%
2017	355,020	355,020	-	5,106,936	7.0%
2016	957,317	16,226,621	15,269,304	5,543,402	292.7%
2015	1,570,584	1,570,584	-	5,483,611	28.6%

See notes to unaudited supplementary information.

HOLLAND BOARD OF PUBLIC WORKS
(Enterprise Funds of the City of Holland, Michigan)

Unaudited Supplementary Information

Other Postemployment Benefits Plan

Schedule of Changes in the Board's Net OPEB Liability and Related Ratios

	Year Ended June 30			
	2021	2020	2019	2018
Total OPEB liability				
Service cost	\$ 33,265	\$ 31,613	\$ 33,434	\$ 47,727
Interest	20,699	22,780	22,489	34,642
Differences between expected and actual experience	(60,378)	(55,080)	(47,109)	(296,134)
Changes in assumptions	(172,033)	9,834	-	(165,318)
Benefit payments, including refunds of employee contributions	10,409	5,657	(160)	(23,281)
Net change in total OPEB liability	(168,038)	14,804	8,654	(402,364)
Total OPEB liability, beginning of year	739,712	724,908	716,254	1,118,618
Total OPEB liability, end of year	571,674	739,712	724,908	716,254
Plan fiduciary net position				
Employer contributions	270,382	-	-	-
Contributions/benefit from general operating funds	(10,409)	-	-	-
Net investment income	31,855	-	-	-
Benefit payments, including refunds of employee contributions	10,409	-	-	-
Administrative expense	(269)	-	-	-
Net change in plan fiduciary net position	301,968	-	-	-
Plan fiduciary net position, beginning of year	-	-	-	-
Plan fiduciary net position, end of year	301,968	-	-	-
Board's net OPEB liability	\$ 269,706	\$ 739,712	\$ 724,908	\$ 716,254
Plan fiduciary net position as a percentage of total pension liability	52.82%	0.00%	0.00%	0.00%
Covered payroll	\$ 14,218,012	\$ 13,534,177	\$ 13,212,453	\$ 12,170,006
Board's net OPEB liability as a percentage of covered payroll	1.90%	5.47%	5.49%	5.89%

See notes to unaudited supplementary information.

HOLLAND BOARD OF PUBLIC WORKS
(Enterprise Funds of the City of Holland, Michigan)

Unaudited Supplementary Information

Other Postemployment Benefits Plan
Schedule of Contributions

Fiscal Year Ending June 30,	Actuarially Determined Contribution	Contributions in Relation to the Actuarially Determined Contribution	Contribution (Deficiency) Excess	Covered Payroll	Contributions as Percentage of Covered Payroll
2021	\$ 106,963	\$ 259,973	\$ 153,010	\$ 14,218,012	1.8%
2020	93,418	(5,657)	(99,075)	13,534,177	0.0%
2019	90,539	160	(90,379)	13,212,453	0.0%
2018	131,327	23,281	(108,046)	12,170,006	0.2%

See notes to unaudited supplementary information.

HOLLAND BOARD OF PUBLIC WORKS

Notes to Unaudited Supplementary Information

MERS Agent Multiple-Employer Defined Benefit Pension Plan

Notes to the Schedule of Changes in the City's Net Pension Liability and Related Ratios

The amounts presented for each fiscal year were determined as of December 31 of the preceding year.

GASB 68 was implemented in fiscal year 2015. This schedule is being built prospectively. Ultimately, 10 years of data will be presented.

Changes in Assumptions. In 2016, amounts reported as changes of assumptions resulted primarily from adjustments to the mortality table to reflect longer lifetimes, decreases in the assumed rate of return, and changes in asset smoothing.

In 2020, amounts reported as changes of assumptions resulted primarily from a decrease in the assumed rate of return from 7.75% to 7.35%, and a decrease in the assumed rate of wage inflation from 3.75% to 3.00%.

In 2021, amounts reported as changes of assumptions related to updated demographic assumptions, including adjustments to the following actuarial assumptions: mortality, retirement, disability, and termination rates.

Notes to Schedule of Contributions

GASB 68 was implemented in fiscal year 2015. This schedule is being built prospectively. Ultimately, 10 years of data will be presented.

Valuation Date	Actuarially determined contribution rates are calculated as of the December 31 that is 18 months prior to the beginning of the fiscal year in which contributions are reported.
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Methods and assumptions used to determine contribution rates (2021, based on the 12/31/2018 actuarial valuation):

Actuarial cost method	Entry-age normal
Amortization method	Level percent of payroll, open
Remaining amortization period	2-11 years, depending on division
Asset valuation method	5-year smooth market
Inflation	2.50%
Salary increases	3.75% in the long-term
Investment rate of return	7.75%, net of investment and administrative expense including inflation
Normal retirement age	Age 60
Mortality	50% Female/50% Male blend of the RP-2014 Healthy Annuitant Mortality Tables with rates multiplied by 105%, the RP-2014 Employee Mortality Tables, and the RP-2014 Juvenile Mortality Tables

Notes to Unaudited Supplementary Information

SUPPLEMENTARY INFORMATION

HOLLAND BOARD OF PUBLIC WORKS
(Enterprise Funds of the City of Holland, Michigan)

Combining Statement of Net Position

June 30, 2020

	Electric Utility	Wastewater Utility	Water Utility	Total
Assets				
Current assets:				
Cash and cash equivalents	\$ 33,532,809	\$ 3,456,570	\$ 5,828,918	\$ 42,818,297
Investments	114,165,067	8,082,747	6,260,641	128,508,455
Receivables:				
Accounts receivable	6,912,496	1,088,583	1,058,140	9,059,219
Unbilled revenue	7,430,735	615,714	930,002	8,976,451
Special assessments and other	-	26,957	52,323	79,280
Accrued interest	66,090	8,405	7,436	81,931
Due from other funds of the City of Holland	1,248,964	3,472	502,600	1,755,036
Inventories	4,349,482	9,999	267,273	4,626,754
Prepaid items and other assets	3,004,975	49,038	26,184	3,080,197
Total current assets	170,710,618	13,341,485	14,933,517	198,985,620
Noncurrent assets:				
Restricted assets:				
Cash and cash equivalents	-	4,852,819	1,384,647	6,237,466
Investments	17,241,216	1,288,197	-	18,529,413
Accrued interest	-	2,721	-	2,721
Total restricted assets	17,241,216	6,143,737	1,384,647	24,769,600
Capital assets:				
Land	21,047,820	260,673	2,178,242	23,486,735
Construction in progress	2,146,299	1,857,072	1,967,821	5,971,192
Plant and equipment	487,938,992	109,911,446	77,252,794	675,103,232
Accumulated depreciation	(207,600,688)	(48,389,002)	(32,942,358)	(288,932,048)
Total capital assets, net	303,532,423	63,640,189	48,456,499	415,629,111
Other noncurrent assets:				
Due from City of Wyoming	-	-	1,824,529	1,824,529
Total noncurrent assets	320,773,639	69,783,926	51,665,675	442,223,240
Total assets	491,484,257	83,125,411	66,599,192	641,208,860
Deferred outflows of resources				
Deferred charge on refunding	-	-	100,052	100,052
Deferred pension amounts	961,809	276,883	218,592	1,457,284
Total deferred outflows of resources	961,809	276,883	318,644	1,557,336

continued...

HOLLAND BOARD OF PUBLIC WORKS
(Enterprise Funds of the City of Holland, Michigan)

Combining Statement of Net Position

June 30, 2020

	Electric Utility	Wastewater Utility	Water Utility	Total
Liabilities				
Current liabilities:				
Accounts payable	\$ 7,578,951	\$ 812,091	\$ 1,083,015	\$ 9,474,057
Accrued salaries and wages payable	376,871	113,104	87,893	577,868
Due to other funds of the City of Holland	282,316	185	3,610	286,111
Deposits	961,935	-	1,215	963,150
Accrued interest payable	3,131,809	22,016	3,301	3,157,126
Current portion of long-term debt	1,943,792	837,815	341,808	3,123,415
Current liabilities payable from restricted assets:				
Current portion of long-term debt	423,213	-	1,614,105	2,037,318
Accrued interest payable	-	-	24,273	24,273
Total current liabilities	14,698,887	1,785,211	3,159,220	19,643,318
Noncurrent liabilities:				
Long-term debt, net of current portion	5,634,281	8,889,040	1,122,269	15,645,590
Long-term debt payable from restricted assets, net of current portion	143,613,766	-	7,824,947	151,438,713
Net pension liability	3,943,390	1,135,217	896,225	5,974,832
Net other postemployment benefit liability	526,379	118,206	95,127	739,712
Total noncurrent liabilities	153,717,816	10,142,463	9,938,568	173,798,847
Total liabilities	168,416,703	11,927,674	13,097,788	193,442,165
Deferred inflows of resources				
Deferred pension amounts	83,774	24,117	19,039	126,930
Deferred other postemployment benefit amounts	305,847	68,682	55,273	429,802
Total deferred inflows of resources	389,621	92,799	74,312	556,732
Net position				
Net investment in capital assets	159,495,444	55,745,189	39,117,499	254,358,132
Restricted for:				
Debt service	11,136,031	-	964,254	12,100,285
Equipment replacement	-	6,143,737	-	6,143,737
Park Township	-	-	420,393	420,393
Cooperative payments	6,105,185	-	-	6,105,185
Unrestricted	146,903,082	9,492,895	13,243,590	169,639,567
Total net position	\$ 323,639,742	\$ 71,381,821	\$ 53,745,736	\$ 448,767,299

concluded

HOLLAND BOARD OF PUBLIC WORKS
(Enterprise Funds of the City of Holland, Michigan)

Combining Statement of Revenues, Expenses, and Changes in Fund Net Position

For the Year Ended June 30, 2020

	Electric Utility	Wastewater Utility	Water Utility	Total
Operating revenues				
Residential sales	\$ 21,964,532	\$ 3,539,789	\$ 3,538,500	\$ 29,042,821
Commercial sales	33,729,935	2,757,074	3,088,543	39,575,552
Industrial sales	45,774,813	935,927	1,112,425	47,823,165
Wholesale	2,091,836	2,500,450	2,531,433	7,123,719
Fees and other	1,113,716	2,703,682	560,888	4,378,286
Total operating revenues	104,674,832	12,436,922	10,831,789	127,943,543
Operating expenses				
Salaries and wages	5,038,434	1,497,631	1,228,202	7,764,267
Employee benefits	3,739,575	1,062,747	932,770	5,735,092
Production	31,719,858	2,795,174	735,376	35,250,408
Distribution	5,706,112	700,456	763,363	7,169,931
Administrative and general	9,413,447	2,033,661	1,644,349	13,091,457
Depreciation	15,111,318	3,302,604	1,970,194	20,384,116
Total operating expenses	70,728,744	11,392,273	7,274,254	89,395,271
Operating income	33,946,088	1,044,649	3,557,535	38,548,272
Nonoperating income (expense), net				
Investment income	3,373,131	251,631	198,929	3,823,691
Interest expense	(5,986,584)	(272,031)	(302,443)	(6,561,058)
Gain on sale and disposal of capital assets	42,076	-	4,019	46,095
Total nonoperating income (expense), net	(2,571,377)	(20,400)	(99,495)	(2,691,272)
Net income before contributions and transfers	31,374,711	1,024,249	3,458,040	35,857,000
Capital contributions				
Trunkage	-	169,220	66,528	235,748
Federal and state capital grants	-	2,260	-	2,260
Total capital contributions	-	171,480	66,528	238,008
Transfers out to other funds of the City of Holland	(7,656,276)	-	-	(7,656,276)
Change in net position	23,718,435	1,195,729	3,524,568	28,438,732
Net position, beginning of year	299,921,307	70,186,092	50,221,168	420,328,567
Net position, end of year	\$ 323,639,742	\$ 71,381,821	\$ 53,745,736	\$ 448,767,299

HOLLAND BOARD OF PUBLIC WORKS
(Enterprise Funds of the City of Holland, Michigan)

Combining Statement of Cash Flows

For the Year Ended June 30, 2020

	Electric Utility	Wastewater Utility	Water Utility	Total
Cash flows from operating activities				
Receipts from customers and users	\$ 104,267,711	\$ 12,394,475	\$ 10,394,212	\$ 127,056,398
Payments to suppliers	(49,839,611)	(5,995,622)	(2,444,544)	(58,279,777)
Payments to/for employees	(7,657,294)	(2,244,502)	(1,932,576)	(11,834,372)
Net cash provided by operating activities	<u>46,770,806</u>	<u>4,154,351</u>	<u>6,017,092</u>	<u>56,942,249</u>
Cash flows from noncapital financing activities				
Transfers to other funds of the City of Holland	(7,656,276)	-	-	(7,656,276)
Principal paid on pension bonds	(885,303)	(254,860)	(201,205)	(1,341,368)
Interest paid on pension bonds	(200,971)	(57,855)	(45,675)	(304,501)
Net cash used in noncapital financing activities	<u>(8,742,550)</u>	<u>(312,715)</u>	<u>(246,880)</u>	<u>(9,302,145)</u>
Cash flows from capital and related financing activities				
Principal paid on capital related debt	-	(417,500)	(1,510,000)	(1,927,500)
Interest paid on capital related debt	(3,100,988)	(214,334)	(279,829)	(3,595,151)
Capital contributions received	-	171,480	66,528	238,008
Proceed from sale of capital assets	109,392	-	7,002	116,394
Purchase/construction of property, plant and equipment	(4,705,578)	(5,345,663)	(3,329,230)	(13,380,471)
Net cash used in capital and related financing activities	<u>(7,697,174)</u>	<u>(5,806,017)</u>	<u>(5,045,529)</u>	<u>(18,548,720)</u>
Cash flows from investing activities				
Interest received	4,551,866	335,802	266,703	5,154,371
Purchase of investment securities	(132,202,865)	(9,426,556)	(6,309,328)	(147,938,749)
Proceeds from sale or maturities of investment securities	109,842,737	9,148,067	6,111,686	125,102,490
Net cash provided by (used in) investing activities	<u>(17,808,262)</u>	<u>57,313</u>	<u>69,061</u>	<u>(17,681,888)</u>
Net increase (decrease) in cash and cash equivalents	12,522,820	(1,907,068)	793,744	11,409,496
Cash and cash equivalents, beginning of year	21,009,989	10,216,457	6,419,821	37,646,267
Cash and cash equivalents, end of year	<u>\$ 33,532,809</u>	<u>\$ 8,309,389</u>	<u>\$ 7,213,565</u>	<u>\$ 49,055,763</u>

continued...

HOLLAND BOARD OF PUBLIC WORKS
(Enterprise Funds of the City of Holland, Michigan)

Combining Statement of Cash Flows

For the Year Ended June 30, 2020

	Electric Utility	Wastewater Utility	Water Utility	Total
Classified on the statement of net position as				
Cash and cash equivalents	\$ 33,532,809	\$ 3,456,570	\$ 5,828,918	\$ 42,818,297
Restricted cash and cash equivalents	-	4,852,819	1,384,647	6,237,466
Total cash and cash equivalents	\$ 33,532,809	\$ 8,309,389	\$ 7,213,565	\$ 49,055,763
Reconciliation of operating income to net cash provided by operating activities				
Operating income	\$ 33,946,088	\$ 1,044,649	\$ 3,557,535	\$ 38,548,272
Adjustments to reconcile operating income to net cash provided by operating activities:				
Depreciation	15,111,318	3,302,604	1,970,194	20,384,116
Changes in operating assets and liabilities which provided (used) cash:				
Receivables	(335,897)	(44,020)	(576,387)	(956,304)
Due from other funds of the City of Holland	(109,093)	1,573	4,646	(102,874)
Inventories	(851,548)	(755)	184,171	(668,132)
Prepaid items and other assets	878,571	(25,132)	(14,083)	839,356
Due from the City of Wyoming	-	-	132,949	132,949
Accounts payable	(2,417,430)	(436,051)	527,073	(2,326,408)
Accrued salaries and wages payable	93,884	27,651	19,453	140,988
Due to other funds of the City of Holland	67,416	(4,393)	1,383	64,406
Deposits	37,869	-	1,215	39,084
Landfill postclosure liability	(677,203)	-	-	(677,203)
Compensated absences	115,317	26,482	2,268	144,067
Net pension liability	(567,286)	(163,310)	(128,929)	(859,525)
Deferred outflows of resources related to the net pension liability	1,580,344	454,948	359,169	2,394,461
Deferred inflows of resources related to the net pension liability	(112,009)	(32,245)	(25,457)	(169,711)
Total other postemployment benefit liability	10,534	2,366	1,904	14,804
Deferred inflows of resources related to the total other postemployment benefit liability	(69)	(16)	(12)	(97)
Net cash provided by operating activities	\$ 46,770,806	\$ 4,154,351	\$ 6,017,092	\$ 56,942,249

concluded

HOLLAND BOARD OF PUBLIC WORKS
(Enterprise Funds of the City of Holland, Michigan)

Holland Area Waste Treatment Plant Reserve for Equipment Replacement

Year Ended June 30,	Contributions From Billings	Other	Interest		Improvements	Reserve Balance
			Rate	Amount		
1989	\$ 124,116	\$ 292,722	8.02%	\$ 85,061	\$ 446,514	\$ 1,130,832
1990	124,116	14,045	8.21%	95,519	72,939	1,291,573
1991	124,116	-	7.06%	91,161	124,794	1,382,056
1992	124,116	-	5.49%	64,501	538,427	1,032,246
1993	188,364	12,555	4.21%	27,927	1,161,092	100,000
1994	195,180	-	3.46%	6,640	18,347	283,473
1995	208,680	-	5.41%	21,139	14,662	498,630
1996	224,508	2,190	6.24%	36,008	45,287	716,049
1997	229,350	-	6.14%	47,244	145,361	847,282
1998	244,651	-	6.30%	58,314	163,918	986,329
1999	250,903	77,335	6.00%	62,497	501,228	875,836
2000	272,594	804,159	5.59%	44,448	619,685	1,377,352
2001	278,479	-	6.26%	84,190	427,542	1,312,479
2002	298,340	-	3.64%	34,041	173,806	1,471,054
2003	361,244	-	2.95%	43,426	123,853	1,751,871
2004	403,722	-	-1.14%	(20,012)	116,985	2,018,596
2005	448,249	-	2.81%	74,659	1,404,334	1,137,170
2006	518,220	-	1.90%	25,608	117,955	1,563,043
2007	575,848	-	4.20%	78,629	37,557	2,179,963
2008	609,002	-	4.79%	113,392	345,695	2,556,662
2009	611,793	-	1.31%	74,514	91,189	3,151,780
2010	659,495	-	0.81%	51,516	639,343	3,223,448
2011	1,260,575	-	0.23%	17,304	144,684	4,356,643
2012	1,261,837	929,543	0.11%	11,247	747,485	5,811,785
2013	1,083,730	565,569	0.07%	4,948	5,681,152	1,784,880
2014	1,113,274	621,602	0.15%	7,467	329,618	3,197,605
2015	1,145,758	656,077	0.17%	14,261	-	5,013,701
2016	1,208,638	334,673	0.05%	5,776	898,836	5,663,952
2017	1,156,529	18,838,482	0.08%	8,685	20,456,372	5,211,276
2018	1,296,320	-	0.31%	35,435	409,348	6,133,683
2019	1,315,714	-	0.36%	47,906	223,628	7,273,675
2020	1,357,619	-	0.04%	5,081	2,492,638	6,143,737
2021	1,401,654	-	0.37%	39,762	3,116,198	4,468,955

NOTE: The ending reserve balance does not reflect any open purchase commitments at June 30.

HOLLAND BOARD OF PUBLIC WORKS
(Enterprise Funds of the City of Holland, Michigan)

Schedule of Capital Assets

June 30, 2021

	Electric Utility	Wastewater Utility	Water Utility	Total
Land	\$ 21,047,820	\$ 260,673	\$ 2,178,242	\$ 23,486,735
Construction in progress	2,616,659	8,561,487	3,835,020	15,013,166
Production plant	305,502,686	61,086,303	24,705,719	391,294,708
Distribution/collection system	7,565,607	46,952,510	54,603,317	109,121,434
Transmission	124,435,045	-	-	124,435,045
General plant	48,867,839	3,601,552	3,088,502	55,557,893
	<u>510,035,656</u>	<u>120,462,525</u>	<u>88,410,800</u>	<u>718,908,981</u>
Total	510,035,656	120,462,525	88,410,800	718,908,981
Accumulated depreciation	<u>(214,949,613)</u>	<u>(51,679,926)</u>	<u>(34,416,334)</u>	<u>(301,045,873)</u>
	<u>\$ 295,086,043</u>	<u>\$ 68,782,599</u>	<u>\$ 53,994,466</u>	<u>\$ 417,863,108</u>
Total capital assets, net	<u>\$ 295,086,043</u>	<u>\$ 68,782,599</u>	<u>\$ 53,994,466</u>	<u>\$ 417,863,108</u>

HOLLAND BOARD OF PUBLIC WORKS
(Enterprise Funds of the City of Holland, Michigan)

Schedule of Capital Assets

June 30, 2020

	Electric Utility	Wastewater Utility	Water Utility	Total
Land	\$ 21,047,820	\$ 260,673	\$ 2,178,242	\$ 23,486,735
Construction in progress	2,146,299	1,857,072	1,967,821	5,971,192
Production plant	311,148,398	60,840,731	24,702,156	396,691,285
Distribution/collection system	7,206,091	45,559,329	49,569,831	102,335,251
Transmission	121,904,342	-	-	121,904,342
General plant	47,680,161	3,511,386	2,980,807	54,172,354
Total	511,133,111	112,029,191	81,398,857	704,561,159
Accumulated depreciation	(207,600,688)	(48,389,002)	(32,942,358)	(288,932,048)
Total capital assets, net	\$ 303,532,423	\$ 63,640,189	\$ 48,456,499	\$ 415,629,111

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INTERNAL CONTROL AND COMPLIANCE

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**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

October 26, 2021

Board of Directors
Holland Board of Public Works
Holland, Michigan

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the business-type activities and each major fund of the **Holland Board of Public Works** (the "Board"), enterprise funds of the City of Holland, Michigan, as of and for the year ended June 30, 2021, and the related notes to the financial statements, which collectively comprise the Board's basic financial statements, and have issued our report thereon dated October 26, 2021.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Board's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Board's internal control. Accordingly, we do not express an opinion on the effectiveness of the Board's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Rehmann is an independent member of Nexia International.



Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings and responses, as item 2021-001 that we consider to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Board's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Holland Board of Public Works's Response to Finding

The Board's response to the finding identified in our audit is described in the accompanying schedule of findings and responses. The Board's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Board's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in black ink that reads "Lehmann Lohman LLC". The signature is written in a cursive, flowing style.

HOLLAND BOARD OF PUBLIC WORKS

(Enterprise Funds of the City of Holland, Michigan)

Schedule of Findings and Responses

For the Year Ended June 30, 2021

2021-001 – Material Audit Adjustments

Finding Type. Material Weakness in Internal Control over Financial Reporting.

Criteria. Management is responsible for maintaining its accounting records in accordance with generally accepted accounting principles (GAAP).

Condition. We identified and proposed certain material adjustments (which were approved and posted by management) to adjust the Board's general ledger to the appropriate balances. These entries related to multiple areas including cash, long-term debt and interest expense related to bond refundings; and capital assets, depreciation and contributed capital for contributions received and recognized.

Cause. This condition was caused by various oversights in recording adjustments for those areas noted above and certain reconciliations not being completed in a timely manner.

Effect. As a result of this condition, the Board's accounting records were initially misstated by amounts material to the financial statements.

Recommendation. The related correcting entries have been reviewed and approved by management. Additionally, we encourage reconciliations to be completed and reviewed in a timely basis in order to identify issues throughout the year, not just at the time of the audit.

View of Responsible Officials. The Board recognizes the issues identified during the audit and has implemented additional control and review processes to prevent reoccurrence.

