

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



Year Ended
June 30, 2016

Financial
Statements and
Supplementary
Information

HOLLAND BOARD OF PUBLIC WORKS

(Enterprise Funds of the City of Holland, Michigan)

Table of Contents

	<u>Page</u>
Independent Auditors' Report	1
Management's Discussion and Analysis (unaudited)	5
Basic Financial Statements	
Statement of Net Position	14
Statement of Revenues, Expenses and Changes in Fund Net Position	16
Statement of Cash Flows	17
Notes to Financial Statements	19
Unaudited Supplementary Information	
MERS Agent Multiple-Employer Plan:	
Schedule of Changes in Board's Net Pension Liability and Related Ratios	40
Schedule of the Net Pension Liability	41
Schedule of Contributions	42
Other Postemployment Benefits Plan:	
Schedule of Employer Contributions	43
Supplementary Information	
Combining Statement of Net Position (2015)	46
Combining Statement of Revenues, Expenses and Changes in Fund Net Position (2015)	48
Combining Statement of Cash Flows (2015)	49
Holland Area Waste Treatment Plant Reserve for Equipment Replacement	51
Schedules of Capital Assets	52
Internal Control and Compliance	
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 <i>Government Auditing Standards</i>	57

INDEPENDENT AUDITORS' REPORT

October 17, 2016

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, 2016, 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.

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, 2016, 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, 2016, 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 Matters

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 17, 2016 on our consideration of the Board's internal control over financial reporting and 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, 2016 and 2015. Please read it in conjunction with the financial statements, which follow this section.

OVERVIEW OF BUSINESS

The Holland Board of Public Works is municipally owned by the City of Holland.

- It operates an electric system, which generates, transmits and distributes electricity to approximately 28,300 residential, commercial and industrial customers in the City of Holland and portions of Holland, Park, Laketown and Fillmore Townships.
- It operates a water filtration plant, with capacity to purify 38.5 million gallons per day and distributes water to approximately 13,500 residential, commercial and industrial customers located in the City of Holland and portions Park, Laketown and Holland Charter Townships. The HBPW receives its water from Lake Michigan.
- It operates a wastewater treatment plant, which the capacity to treat 12 million gallons per day and serves approximately 12,400 residential, commercial and industrial customers in the City of Holland and portions of Holland, Park, Laketown and Fillmore Townships. The wastewater is received from the City of Holland and Fillmore, Laketown, Park and Holland Charter Townships.

FINANCIAL HIGHLIGHTS

Electric, Wastewater and Water all had rate increases in FY2016 ranging from 2.2% to 4.3%. The employee benefit costs are shared by employees who pay for a portion of health and pension costs.

Condensed Financial Information

	Net Position (In Thousands)							
	Electric		Wastewater		Water		Total	
	2016	2015	2016	2015	2016	2015	2016	2015
Current assets	\$ 104,183	\$ 135,260	\$ 15,344	\$ 25,592	\$ 10,750	\$ 9,690	\$ 130,277	\$ 170,542
Noncurrent assets	28,396	89,258	6,820	8,601	4,578	4,509	39,794	102,368
Capital assets, net	<u>295,138</u>	<u>181,230</u>	<u>56,418</u>	<u>42,114</u>	<u>41,805</u>	<u>39,895</u>	<u>393,361</u>	<u>263,239</u>
Total assets	427,717	405,748	78,582	76,307	57,133	54,094	563,432	536,149
Deferred outflow - loss on refunding	-	-	-	-	317	388	317	388
Deferred outflow of resources - pension	<u>4,285</u>	<u>842</u>	<u>1,234</u>	<u>242</u>	<u>973</u>	<u>191</u>	<u>6,492</u>	<u>1,275</u>
Total Deferred Outflows	4,285	842	1,234	242	1,290	579	6,809	1,663
Current liabilities	25,191	17,939	3,598	2,436	2,966	2,384	31,755	22,759
Noncurrent liabilities	<u>174,658</u>	<u>176,915</u>	<u>13,422</u>	<u>20,036</u>	<u>16,995</u>	<u>17,688</u>	<u>205,075</u>	<u>214,639</u>
Total liabilities	199,849	194,854	17,020	22,472	19,961	20,072	236,830	237,398
Deferred inflow of resources - pension	256	-	73	-	58	-	387	-
Net Investment in capital assets	140,342	87,610	47,327	40,084	26,805	23,685	214,474	151,379
Restricted	17,394	16,776	6,410	5,358	2,299	2,166	26,103	24,300
Unrestricted	<u>74,161</u>	<u>107,350</u>	<u>8,986</u>	<u>8,635</u>	<u>9,300</u>	<u>8,750</u>	<u>92,447</u>	<u>124,735</u>
Total net position	\$ 231,897	\$ 211,736	\$ 62,723	\$ 54,077	\$ 38,404	\$ 34,601	\$ 333,024	\$ 300,414

The assets and deferred outflows of resources of the Holland Board of Public Works exceeded its liabilities and deferred inflows of resources at the close of the most recent fiscal year by \$333,024M (net position). Of this amount, \$92,447M was unrestricted net position and may be used to meet the Board's ongoing obligations to citizens and creditors. A substantial portion of the Board's net position, \$214,474M (64.4 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. The Board uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the Board'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 the Board's net position of \$26,103 (7.8 percent) represents resources that are subject to external restrictions on how they may be used.

Holland Board of Public Works adopted the provisions of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, in the previous year. As a result of this change, fiscal year 2015 beginning net position of the electric, wastewater, water utility and business-type activities decreased.

Condensed Financial Information

Results of Operations
(In Thousands)

	Electric		Wastewater		Water		Total	
	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>
Operating revenue	\$ 106,199	\$ 100,817	\$ 10,856	\$ 10,305	\$ 9,339	\$ 8,694	\$ 126,394	\$ 119,816
Operating expenses	(79,217)	(80,816)	(9,574)	(8,614)	(6,084)	(5,687)	(94,875)	(95,117)
Nonoperating income (expense), net	<u>55</u>	<u>970</u>	<u>(28)</u>	<u>(119)</u>	<u>413</u>	<u>(506)</u>	<u>440</u>	<u>345</u>
Net income before contributions and transfers	27,037	20,971	1,254	1,572	3,668	2,501	31,959	25,044
Capital contributions	-	-	7,392	2,209	135	95	7,527	2,304
Contributions to city	(5,535)	(5,344)	-	-	-	-	(5,535)	(5,344)
Special Item	<u>(1,341)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(1,341)</u>	<u>-</u>
Change in net position	20,161	15,627	8,646	3,781	3,803	2,596	32,610	22,004
Beginning net position	211,736	205,396	54,077	52,970	34,601	34,116	300,414	292,482
Implementation of GASB 68	<u>-</u>	<u>(9,287)</u>	<u>-</u>	<u>(2,674)</u>	<u>-</u>	<u>(2,111)</u>	<u>-</u>	<u>(14,072)</u>
Ending net position	\$ 231,897	\$ 211,736	\$ 62,723	\$ 54,077	\$ 38,404	\$ 34,601	\$ 333,024	\$ 300,414

Electric:

- The Holland Board of Public Works has entered into multiple contracts to acquire, construct, improve and install a gas fired combined cycle power plant, and associated facilities and equipment, bypass discharge infrastructure, and site acquisition and improvements.
- The Michigan Public Power Agency (MPPA) has entered into a memorandum of understanding with Huron Wind, LLC which will give Holland approximately 3.5 MW of additional wind power at a levelized cost of less than \$50.00/MWh over the 20 year term of the agreement. This project is expected to be online in late 2017. An additional 3.5 MW of wind energy will raise our renewable energy supply to approximately 15% of annual electric sales as well as diversify the energy portfolio and give a hedge on future energy prices.

Wastewater:

- The Holland Board of Public Works is continuing constructing and installing improvements to the existing Holland Area Wastewater Treatment Plant (WWTP) to increase bio-solids handling capabilities by thirty percent and optimize the secondary treatment process for additional Biochemical Oxygen Demand (BOD) capacity.

Water:

- The Holland/Wyoming Interconnect experienced a water leakage event that caused a complete failure of the valve and metering station during FY2014. Management plans to rebuild the station and expects to have it operational by mid December FY2016. The impairment was reflected in the FY2014 financial reports as an extraordinary expense item. The facility is being rebuilt with funds received from a settlement reached with the original contracted builders.

CAPITAL ASSETS

The Holland Board of Public Works has \$656,029M invested in capital assets (\$393,361M net of depreciation). The capital assets of the Electric Utility are \$487,409M, Wastewater Utility has \$100,154M and the Water Utility has \$68,466M. Capital assets include property, plant and equipment and are defined by the Board as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of three years.

Capital asset activity for the current year included:

Electric:

- The combined cycle power plant project (construct, improve and install a gas fired combined cycle power plant) has incurred expenditures of approximately \$214,250M. Cost incurred FY2016 \$110,389M.
- Snowmelt replacement, improvements and expansion will continue through FY2017. Through FY2016, the project has incurred costs of \$3,086M.
- The Advance Metering Infrastructure project is continuing through FY2017. Through FY2016, the project has incurred costs of \$2,680M.
- Property was purchased at 49 West Third Street in Holland, Michigan, to relocate electric distribution circuits out of the James De Young plant both because of the age of the protection device and the potential retirement of the James DeYoung Power Plant. Total purchase price of \$1,210M.
 - Magna is currently just beginning the third year of a five-year lease term with a \$95,000 per year lease value. The agreement provides Magna the option of two additional five-year terms with market rate adjustments to the payments.
- Substation upgrades incurred costs of \$8,152M.
- Upgrading the City of Holland to LED lights will continue through FY2017. Through FY2016, the project has incurred costs of \$410M.

- Upgrading Park Township and Holland Township to LED lights incurred costs of \$242M.

Wastewater:

- The Wastewater Treatment Plant made capital investments for improvement in FY2016 costing approximately \$14,638M which includes the continued replacements and improvements to the odor control system, East Plant treatment improvements and upgrades to the administration biosolids handling building. Fifty percent of the capital investment funding is shared with Holland, Park, Laketown and Fillmore Townships.
- The replacement of sewer mains were completed in FY2016 costing \$1,091M.
- The replacement and enhancement of sewer infrastructure was completed by lining sanitary sewer mains in FY2016 costing \$415M.

Water:

- Water main replacements and improvements were completed in FY2016 costing approximately \$1,702M.
- The Water Plant made capital investments in FY2016 costing approximately \$715M which include the replacements and improvements to the filter pipe gallery.
- Holland/Wyoming Interconnect project experienced a leakage that caused the valve and metering station to fail in FY2014. The asset was classified as impaired resulting in extraordinary expense item of approximately \$520M in FY2014. The valve and metering station is in the process of being re-built. The loss reimbursement received in FY2106 was \$950M.

Condensed Financial Information

	Capital Assets (In Thousands)							
	Electric		Wastewater		Water		Total	
	2016	2015	2016	2015	2016	2015	2016	2015
Land	\$ 18,313	\$ 14,971	\$ 261	\$ 260	\$ 2,017	\$ 1,978	\$ 20,591	\$ 17,209
Construction in progress	224,938	113,482	9,077	4,699	5,121	4,251	239,136	122,432
Capital assets, net	<u>51,887</u>	<u>52,777</u>	<u>47,080</u>	<u>37,155</u>	<u>34,666</u>	<u>33,666</u>	<u>133,634</u>	<u>123,598</u>
Total capital assets	\$ 295,138	\$ 181,230	\$ 56,418	\$ 42,114	\$ 41,805	\$ 39,895	\$ 393,361	\$ 263,239

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

SUMMARY OF DEBT

The Holland Board of Public Works has a total of \$197,280M in debt outstanding as of June 30, 2016.

The Electric Utility issued 25 year revenue bonds in FY2014 in the amount of \$158,840M for the new power plant project, with a true interest cost of 4.06%, that will be paid off in July, 2039.

The Wastewater Utility has a total of \$9,500M in debt outstanding as of June 30, 2016. The Ottawa County Sewage Disposal Bonds were issued by the County of Ottawa for the cost of acquiring and constructing additional improvements to the Holland Area Wastewater Treatment Plant which serves the City of Holland, the Charter Township of Holland, the Township of Fillmore, the Township of Laketown, the Township of Park and the Charter Township of Zeeland. The 2015 Wastewater Treatment Plant Improvements Project includes improvements to the WWTP's biosolids handling and secondary treatment.

The Water Utility has outstanding debt of \$14,850M with interest rates ranging from 2% to 4%. All of the Water's outstanding debt will be paid by April, 2032. The bonds were issued for the purpose of constructing an emergency interconnection with the City of Wyoming's water system.

The Holland Board of Public Works has a total of \$14,090M (56.36% of the total bonds issued to the City of Holland) outstanding as of June 30, 2016. The 2016 Pension Bonds were issued to the City of Holland for \$25,000M with interest rates ranging from 0.76% to 3.42%. These bonds were issued for the purpose of defraying 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.

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

GENERAL ECONOMIC CONDITION

The Holland Energy Park™ was recently honored by the Institute for Sustainable Infrastructure with the institute's Envision® Platinum award, which recognizes sustainable public infrastructure. This is the first power plant to receive a rating from the ISI's Envision program. The Holland Energy Park™, scheduled for completion in calendar 2017, is state-of-the-art combined-cycle natural gas-fired power plant that will provide the Holland Board of Public Works community with a new, cleaner source of baseload power.

The Holland Energy Park™ and its surrounding area will provide an aesthetically pleasing entry way at the east end of the City of Holland. The Holland Energy Park™ sits on a 26-acre site but takes up only a portion of that land. Much of the land will now be a city park, with bike trails amid a landscape of natural vegetation, paths and ponds designed to blend with the Macatawa Greenway trail system.

The Holland Board of Public Works is dedicated to making education a focus with the Holland Energy Park™. The Holland Energy Park™ will include a visitor center that uses both internal and external space to showcase the stories about the history, technology, community and environment that are intertwined in the Energy Park. During construction, an observation deck has been opened to the public. Visitors of nearly every physical ability can access this ADA compliant deck to enjoy a panoramic view of construction progress on what will be the Holland Energy Park™.

The Holland Energy Park™, utilizing waste heat from power production, will also provide a large amount of heated water for the city's snowmelt system. Holland has the largest municipally-owned snowmelt system in the United States. The advantages of a snowmelt system for the community are no snow and slush, increased safety, extended pavement life, and increased downtown activity. Downtown owners, tenants and customers alike all benefit from this system, and HBPW is committed to growing and sustaining it for years to come.

The Wastewater Plant is continuing to improve its treatment processes. The East Plant Optimization program includes improvements to increase bio-solids handling capabilities and optimization of the secondary treatment process for additional Biochemical Oxygen Demand (BOD) capacity. This will improve current and future efficiencies of the plant and support the Holland community with services and programs that promote the development and growth of business and industry in the community.

The Holland Board of Public Works is forecasting growth in demand for electricity in its service area to average 0.8% for the next several years.

According to the 2016 Business Intelligence Report published by Lakeshore Advantage (a West Michigan economic developer):

- Over 75% of local companies enjoyed increasing sales in the past 3 years
- 50% of local companies expect an increase in electric consumption
- 72% of local companies have plans to expand within the next 3 years

Also, according to the 2016 Business Intelligence Report, the vibrant local economy has created some issues:

- 76% of local companies are experiencing recruiting issues.
- Engineers and skilled production labor are the highest demand areas
- 58% of local employers are increasing training investments

So, while the HBPW will benefit from the increased power demand, it also faces the same challenges with recruiting and retaining qualified staff. Engineers and skilled production labor comprise the bulk of Holland Board of Public Work's employee pool. Investment in intern/training programs continues, and staffing costs are expected to increase.

NEXT YEARS BUDGET AND RATES

Analysis for 5 year projection of financial position was presented to Board and City Council. The report evaluated the impact of various capital acquisitions and expenditures on the related utilities. In FY2016, the Board and City Council approved an average 2.2% rate increase for the Electric Utility. The increase in rates is to support capital acquisitions and expenditures, maintain debt ratios required by bond covenants, and maintain appropriate cash levels.

Future rate increases are expected to be at or below inflation rate. This is possible due to the significant technology investments discussed above, coupled with a very experienced and dedicated staff.

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 Board'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, 2016

(with comparative totals for the year ended June 30, 2015)

	Electric Utility	Wastewater Utility	Water Utility	Business-Type Activities	
				2016	2015
Assets					
Current assets:					
Cash and cash equivalents	\$ 47,198,496	\$ 12,240,321	\$ 4,035,487	\$ 63,474,304	\$ 98,675,073
Investments	32,629,565	701,794	3,800,953	37,132,312	30,084,204
Receivables:					
Accounts receivable	7,019,594	1,076,398	1,903,909	9,999,901	9,247,228
Unbilled revenue	6,729,702	418,450	589,953	7,738,105	6,283,704
Special assessments and other	-	55,965	97,962	153,927	184,519
Accrued interest	211,266	1,100	9,955	222,321	153,462
Due from other government	-	-	-	-	11,555,075
Due from other funds of the					
City of Holland	815,932	753,934	38,642	1,608,508	197,216
Inventories	6,136,961	51,672	236,350	6,424,983	10,840,090
Prepaid expenses and other assets	3,441,513	44,585	36,814	3,522,912	3,320,965
Total current assets	104,183,029	15,344,219	10,750,025	130,277,273	170,541,536
Noncurrent assets:					
Restricted assets:					
Cash and cash equivalents	11,729,080	2,311,779	2,299,387	16,340,246	52,777,318
Investments	16,665,976	4,500,801	-	21,166,777	47,239,451
Accrued interest	-	7,878	1,751	9,629	7,823
Total restricted assets	28,395,056	6,820,458	2,301,138	37,516,652	100,024,592
Capital assets:					
Land	18,312,933	260,673	2,017,286	20,590,892	17,209,848
Construction in progress	224,937,808	9,077,106	5,120,964	239,135,878	122,431,742
Plant and equipment	244,158,280	90,816,498	61,327,241	396,302,019	382,624,657
Accumulated depreciation	(192,270,845)	(43,736,300)	(26,660,907)	(262,668,052)	(259,026,856)
Total capital assets, net	295,138,176	56,417,977	41,804,584	393,360,737	263,239,391
Other noncurrent assets:					
Due from City of Wyoming	-	-	2,277,352	2,277,352	2,343,835
Total noncurrent assets	323,533,232	63,238,435	46,383,074	433,154,741	365,607,818
Total assets	427,716,261	78,582,654	57,133,099	563,432,014	536,149,354
Deferred outflows of resources					
Deferred loss on refunding	-	-	316,605	316,605	388,397
Deferred pension amounts	4,285,085	1,233,583	973,883	6,492,551	1,275,209
Total deferred outflows of resources	4,285,085	1,233,583	1,290,488	6,809,156	1,663,606

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

Statement of Net Position

June 30, 2016

(with comparative totals for the year ended June 30, 2015)

	Electric Utility	Wastewater Utility	Water Utility	Business-Type Activities	
				2016	2015
Liabilities					
Current liabilities:					
Accounts payable	\$ 16,935,672	\$ 2,460,846	\$ 440,916	\$ 19,837,434	\$ 17,650,016
Accrued salaries and wages payable	1,015,038	202,286	166,609	1,383,933	1,713,618
Due to other funds of the City of Holland	788,913	279,144	727,740	1,795,797	1,044,453
Deposits	681,363	-	-	681,363	571,867
Accrued interest payable	18,819	5,418	4,277	28,514	52,588
Current maturities of bonds payable	846,245	243,616	192,329	1,282,190	-
Current liabilities payable from restricted assets:					
Bonds payable	4,904,729	387,500	1,404,440	6,696,669	1,696,067
Accrued interest payable	-	19,349	29,953	49,302	30,728
Total current liabilities	25,190,779	3,598,159	2,966,264	31,755,202	22,759,337
Noncurrent liabilities:					
Landfill closure and postclosure cost	327,450	-	-	327,450	327,450
Long-term debt, net of current portion	8,453,155	2,433,484	1,921,171	12,807,810	-
Long-term debt payable from restricted assets, net of current portion	160,893,245	9,112,500	13,912,248	183,917,993	190,504,850
Unearned revenue	-	408,571	-	408,571	7,397,765
Net pension liability	4,469,216	1,286,592	1,015,731	6,771,539	15,558,778
Net other postemployment benefit obligation	514,703	180,474	146,130	841,307	850,415
Total noncurrent liabilities	174,657,769	13,421,621	16,995,280	205,074,670	214,639,258
Total liabilities	199,848,548	17,019,780	19,961,544	236,829,872	237,398,595
Deferred inflows of resources					
Deferred pension amounts	256,048	73,711	58,193	387,952	-
Net position					
Net investment in capital assets	140,341,503	47,326,548	26,804,501	214,472,552	151,379,454
Restricted for:					
Debt service	11,727,779	745,966	1,965,311	14,439,056	13,455,631
Equipment replacement	-	5,663,952	-	5,663,952	5,013,701
Park Township	-	-	334,076	334,076	314,070
Cooperative payments	5,665,976	-	-	5,665,976	5,516,619
Unrestricted	74,161,492	8,986,280	9,299,962	92,447,734	124,734,890
Total net position	\$231,896,750	\$ 62,722,746	\$ 38,403,850	\$333,023,346	\$300,414,365

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, 2016
(with comparative totals for the year ended June 30, 2015)

	Electric Utility	Wastewater Utility	Water Utility	Business-Type Activities	
				2016	2015
Operating revenues					
Residential sales	\$ 19,737,901	\$ 2,944,971	\$ 3,162,914	\$ 25,845,786	\$ 24,733,518
Commercial sales	33,483,879	2,295,398	2,540,563	38,319,840	36,221,086
Industrial sales	48,822,458	824,570	1,088,336	50,735,364	46,686,081
Wholesale	-	2,652,625	2,060,111	4,712,736	4,525,122
Fees and other	4,154,938	2,138,609	486,963	6,780,510	7,649,883
Total operating revenues	<u>106,199,176</u>	<u>10,856,173</u>	<u>9,338,887</u>	<u>126,394,236</u>	<u>119,815,690</u>
Operating expenses					
Salaries and wages	4,193,333	1,265,052	920,652	6,379,037	6,094,578
Employee benefits	3,512,155	1,025,542	876,421	5,414,118	4,163,514
Production	54,537,613	2,574,514	644,372	57,756,499	60,198,191
Distribution	3,029,140	1,092,151	709,170	4,830,461	4,388,957
Administrative and general	7,501,762	1,673,754	1,354,064	10,529,580	10,319,267
Depreciation	6,443,446	1,943,444	1,579,412	9,966,302	9,952,670
Total operating expenses	<u>79,217,449</u>	<u>9,574,457</u>	<u>6,084,091</u>	<u>94,875,997</u>	<u>95,117,177</u>
Operating income	<u>26,981,727</u>	<u>1,281,716</u>	<u>3,254,796</u>	<u>31,518,239</u>	<u>24,698,513</u>
Nonoperating income (expense), net					
Investment income	941,197	69,732	62,481	1,073,410	1,093,965
Interest expense	(189,501)	(75,998)	(410,468)	(675,967)	(460,828)
Insurance refunds	-	-	806,921	806,921	2,996
Gain (loss) on sale and disposal of capital assets	(696,588)	(22,059)	(46,401)	(765,048)	(290,552)
Total nonoperating income (expense), net	<u>55,108</u>	<u>(28,325)</u>	<u>412,533</u>	<u>439,316</u>	<u>345,581</u>
Net income before contributions and transfers	<u>27,036,835</u>	<u>1,253,391</u>	<u>3,667,329</u>	<u>31,957,555</u>	<u>25,044,094</u>
Capital contributions					
Infrastructure	-	6,967,657	-	6,967,657	2,029,772
Trunkage	-	241,209	123,990	365,199	274,088
Federal and state capital grants	-	183,446	11,129	194,575	-
Total capital contributions	<u>-</u>	<u>7,392,312</u>	<u>135,119</u>	<u>7,527,431</u>	<u>2,303,860</u>
Transfers out to other funds of the City of Holland	<u>(5,535,000)</u>	<u>-</u>	<u>-</u>	<u>(5,535,000)</u>	<u>(5,344,000)</u>
Change in net position before special item	<u>21,501,835</u>	<u>8,645,703</u>	<u>3,802,448</u>	<u>33,949,986</u>	<u>22,003,954</u>
Special Item (Note 13)	<u>(1,341,005)</u>	<u>-</u>	<u>-</u>	<u>(1,341,005)</u>	<u>-</u>
Change in net position	<u>20,160,830</u>	<u>8,645,703</u>	<u>3,802,448</u>	<u>32,608,981</u>	<u>22,003,954</u>
Net position, beginning of year	<u>211,735,920</u>	<u>54,077,043</u>	<u>34,601,402</u>	<u>300,414,365</u>	<u>292,482,125</u>
Implementation of GASB 68	-	-	-	-	(14,071,714)
Net position, end of year	<u>\$231,896,750</u>	<u>\$ 62,722,746</u>	<u>\$ 38,403,850</u>	<u>\$333,023,346</u>	<u>\$300,414,365</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, 2016

(with comparative totals for the year ended June 30, 2015)

	Electric Utility	Wastewater Utility	Water Utility	Business-Type Activities	
				2016	2015
Cash flows from operating activities					
Receipts from customers and users	\$ 104,624,815	\$ 9,978,506	\$ 8,368,695	\$ 122,972,016	\$ 117,189,886
Payments to suppliers	(60,276,238)	(4,735,411)	(2,293,974)	(67,305,623)	(60,727,926)
Payments to/for employees	(16,891,120)	(4,952,262)	(3,905,194)	(25,748,576)	(9,756,694)
Net cash provided by operating activities	<u>27,457,457</u>	<u>290,833</u>	<u>2,169,527</u>	<u>29,917,817</u>	<u>46,705,266</u>
Cash flows from noncapital financing activities					
Insurance refunds	-	-	806,921	806,921	2,996
Transfers to other funds of the City of Holland	(5,535,000)	-	-	(5,535,000)	(5,344,000)
Capital Grant - State Drinking Water					
Revolving Fund - Wyoming portion	-	-	10,057	10,057	-
Net cash provided by (used in) noncapital financing activities	<u>(5,535,000)</u>	<u>-</u>	<u>816,978</u>	<u>(4,718,022)</u>	<u>(5,341,004)</u>
Cash flows from capital and related financing activities					
Principal paid on long-term debt	-	-	(1,275,000)	(1,275,000)	(2,210,000)
Interest paid on long-term debt	(475,411)	(103,819)	(451,145)	(1,030,375)	(2,256,074)
Capital contributions received	-	11,774,747	123,990	11,898,737	274,088
Proceeds on issuance of long-term debt	9,299,400	2,677,100	2,113,500	14,090,000	9,500,000
Proceeds from State Drinking Water					
Revolving Fund Bonds	-	-	109,812	109,812	10,247
Federal and state capital grants	-	183,446	-	183,446	-
Capital Grant - State Drinking Water					
Revolving Fund	-	-	11,129	11,129	-
Proceeds from sale of capital assets	179,956	11,230	27,061	218,247	99,339
Purchase/construction of property, plant and equipment	(121,227,574)	(16,280,655)	(3,562,714)	(141,070,943)	(113,440,919)
Net used in capital and related financing activities	<u>(112,223,629)</u>	<u>(1,737,951)</u>	<u>(2,903,367)</u>	<u>(116,864,947)</u>	<u>(108,023,319)</u>
Cash flows from investing activities					
Interest received	742,567	67,960	67,285	877,812	915,328
Purchase of investment securities	(49,172,906)	(5,200,683)	(3,800,567)	(58,174,156)	(77,230,555)
Proceeds from sale or maturities of investment securities	68,416,702	5,504,060	3,402,893	77,323,655	84,768,162
Net cash provided by (used in) investing activities	<u>19,986,363</u>	<u>371,337</u>	<u>(330,389)</u>	<u>20,027,311</u>	<u>8,452,935</u>
Net decrease in cash and cash equivalents	<u>(70,314,809)</u>	<u>(1,075,781)</u>	<u>(247,251)</u>	<u>(71,637,841)</u>	<u>(58,206,122)</u>
Cash and cash equivalents, beginning of year	<u>129,242,385</u>	<u>15,627,881</u>	<u>6,582,125</u>	<u>151,452,391</u>	<u>209,658,513</u>
Cash and cash equivalents, end of year	<u>\$ 58,927,576</u>	<u>\$ 14,552,100</u>	<u>\$ 6,334,874</u>	<u>\$ 79,814,550</u>	<u>\$ 151,452,391</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, 2016

(with comparative totals for the year ended June 30, 2015)

	Electric Utility	Wastewater Utility	Water Utility	Business-Type Activities	
				2016	2015
Statement of net position classification of cash and cash equivalents					
Cash and cash equivalents	\$ 47,198,496	\$ 12,240,321	\$ 4,035,487	\$ 63,474,304	\$ 98,675,073
Restricted cash and cash equivalents	11,729,080	2,311,779	2,299,387	16,340,246	52,777,318
Total cash and cash equivalents	\$ 58,927,576	\$ 14,552,100	\$ 6,334,874	\$ 79,814,550	\$ 151,452,391
Reconciliation of operating income to net cash provided by operating activities					
Operating income	\$ 26,981,727	\$ 1,281,716	\$ 3,254,796	\$ 31,518,239	\$ 24,698,513
Adjustments to reconcile operating income net cash provided by operating activities:					
Depreciation	6,443,446	1,943,444	1,579,412	9,966,302	9,952,670
Changes in operating assets and liabilities which provided (used) cash:					
Receivables	(1,034,595)	(125,588)	(1,016,299)	(2,176,482)	(1,173,460)
Due from other government	-	-	-	-	(2,055,075)
Due from other funds of the City of Holland	(649,262)	(752,079)	(9,951)	(1,411,292)	22,392
Inventories	3,070,402	779	2,921	3,074,102	4,577,614
Prepaid expenses	(147,437)	(27,831)	(26,679)	(201,947)	(2,064,159)
Due from the City of Wyoming	-	-	56,059	56,059	422,011
Accounts payable	1,591,536	468,257	127,625	2,187,418	10,672,269
Accrued salaries and wages payable	(192,309)	(72,962)	(64,414)	(329,685)	103,518
Due to other funds of the City of Holland	277,776	163,803	309,765	751,344	992,765
Deposits	109,496	-	-	109,496	158,328
Net pension liability	(5,799,578)	(1,669,575)	(1,318,086)	(8,787,239)	771,732
Net other postemployment benefit obligation	(6,346)	(1,548)	(1,214)	(9,108)	186,025
Deferred pension amounts	(3,187,399)	(917,583)	(724,408)	(4,829,390)	(559,877)
Net cash provided by operating activities	\$ 27,457,457	\$ 290,833	\$ 2,169,527	\$ 29,917,817	\$ 46,705,266

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, water and wastewater services to users in the City of Holland and portions of the surrounding area. 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.

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. Major individual enterprise funds are reported as separate columns in the statements.

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.

HOLLAND BOARD OF PUBLIC WORKS

(Enterprise Funds of the City of Holland, Michigan)

Notes to Financial Statements

The Board reports the following major enterprise funds:

The *Electric Utility Fund* is used to account for the electric utility which include 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 include 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 Repurchase Agreements collateralized by U.S. Government Securities and U.S. Agency debt securities, both of which are carried at fair value.

Receivables

All receivables are reported at their gross value and, where appropriate, are reduced by the estimated portion that is expected to be uncollectible.

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. To the extent that certain transactions between funds had not been paid or received as of fiscal year end, interfund accounts receivable or payable were recorded.

Inventories

Inventory consisting of coal is stated at the lower of cost, determined by the moving average method, or market. Inventory of system components is stated at cost utilizing the first-in first-out (FIFO) method.

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.

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

Notes to Financial Statements

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 \$5,000 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 fair market value 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. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

Capital assets of the Water and Wastewater Utility Funds include assets purchased with funds provided by participating townships. Depreciation on these assets were \$23,249 and \$79,315 respectively.

HOLLAND BOARD OF PUBLIC WORKS

(Enterprise Funds of the City of Holland, Michigan)

Notes to Financial Statements

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, 47.44% of the assets constructed have been transferred to the City for 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, 2016 is equal to 47.44% of the assets completed and capitalized at that date, less a ratable share of the estimated debt forgiveness and principal payments by the City of Wyoming.

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/ expenditure) until then. The Board reports a deferred outflow of resources for its deferred loss on refunding, which results from the difference in the carrying value of refunded debt and its reacquisition price. The Board also reports deferred outflows of resources related to the net pension liability, related to changes in expected and actual investment returns, assumptions, and benefits provided in its pension plan. More detailed information can be found in Note 5.

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.

Unearned Revenue

The Board entered into an agreement with various municipalities to design, construct, and install certain capital improvements for a plant expansion. In accordance with a separate agreement, the County of Ottawa issued bonds in the amount of \$19 million for the benefit of the Board and Holland Township. The Board is responsible for 50% of the outstanding bonds. The Board will be completing the construction of the project and will retain full ownership of the asset at completion. Unearned revenue was recorded for the capital contributions from Holland Township not yet recognized. The Board plans to recognize the capital contribution as the construction is completed.

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

Notes to Financial Statements

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 deferred inflows of resources related to the net pension liability, related to changes in expected and actual investment returns, assumptions, and benefits provided in its pension plan. More detailed information can be found in Note 5.

Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Municipal Employees Retirement System (MERS) of Michigan and additions to/deductions from MERS' fiduciary net position have been determined on the same basis as they are reported by MERS. 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.

Transfers

Transfers from the electric fund represent contributions to the City of Holland's general fund, 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	\$ 63,474,304
Investments	37,132,312
Restricted assets:	
Cash and cash equivalents	16,340,246
Investments	<u>21,166,777</u>
Total	<u><u>\$ 138,113,639</u></u>

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

Notes to Financial Statements

Deposits and investments consist of the following at June 30, 2016:

Deposits and investments	
Checking and savings accounts	\$ 59,357,288
Certificates of deposit (due within one year)	11,000,000
Certificates of deposit (due within one to five years)	3,017,710
Investments	64,735,741
Cash on hand	<u>2,900</u>
 Total	 <u><u>\$ 138,113,639</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.
- 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.

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

Notes to Financial Statements

Maturity dates for investments held at year-end are summarized as follows:

	No maturity	Due < 1 year	Due in 1-5 years	Totals
U.S. government securities	\$ -	\$ 13,513,590	\$ 26,253,520	\$ 39,767,110
Repurchase agreements	19,302,655	-	-	19,302,655
MPPA Investments	5,665,976	-	-	5,665,976
	<u>\$ 24,968,631</u>	<u>\$ 13,513,590</u>	<u>\$ 26,253,520</u>	<u>\$ 64,735,741</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, \$72,971,640 of the Board's bank balance of \$74,471,640 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. The Board is not exposed to custodial credit risk because \$19,302,655 of the above \$64,735,741 of investments is held in an overnight sweep account which is collateralized by U.S. government securities while the remainder of investments are held in the name of the Board.

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 AA+	\$ 39,767,110
Unrated	5,665,976
Not subject to credit risk	<u>19,302,655</u>
	<u>\$ 64,735,741</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 repurchase agreements and government agency securities as noted above.

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

Notes to Financial Statements

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, 2016:

- U.S. Treasury securities with a balance of \$39,767,110 at June 30, 2016, which are valued using quoted market prices (Level 1 inputs).
- Repurchase agreement with Huntington bank in the amount of \$19,302,655 (Level 2 inputs).
- Assets held with Michigan Public Power Agency, with a balance of \$5,665,976 (Level 3 inputs).

The Board has earmarked cash and investment balances for system expansion, maintenance and insurance risk retention as follows:

	Electric Utility	Wastewater Utility	Water Utility	Total
City trunkage	\$ -	\$ 254,270	\$ 825,600	\$ 1,079,870
Township trunkage	-	-	212,815	212,815
Insurance/risk retention	2,183,110	681,675	689,041	3,553,826
Total	\$ 2,183,110	\$ 935,945	\$ 1,727,456	\$ 4,846,511

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

Notes to Financial Statements

3. CAPITAL ASSETS

A summary of capital assets at June 30, 2016 is as follows:

	Beginning Balance	Additions	Deletions	Transfers	Ending Balance
Business-type Activities					
Capital assets, not being depreciated:					
Land	\$ 17,209,848	\$ 39,486	\$ -	\$ 3,341,558	\$ 20,590,892
Construction in progress	122,431,742	132,940,848	(117,576)	(16,119,136)	239,135,878
	<u>139,641,590</u>	<u>132,980,334</u>	<u>(117,576)</u>	<u>(12,777,578)</u>	<u>259,726,770</u>
Capital assets, being depreciated:					
Production plant	182,484,396	881,602	(4,032,377)	12,094,250	191,427,871
Distribution/Collection system	153,392,977	5,188,419	(2,499,869)	574,247	156,655,774
Transmission	22,329,391	254,378	(45,748)	-	22,538,021
General plant	24,417,893	1,766,210	(612,831)	109,081	25,680,353
	<u>382,624,657</u>	<u>8,090,609</u>	<u>(7,190,825)</u>	<u>12,777,578</u>	<u>396,302,019</u>
Less accumulated depreciation for:					
Production plant	(140,959,505)	(4,576,747)	3,879,151	-	(141,657,101)
Distribution/Collection system	(89,561,555)	(3,664,758)	1,787,490	-	(91,438,823)
Transmission	(15,126,531)	(554,029)	45,747	-	(15,634,813)
General plant	(13,379,265)	(1,170,768)	612,718	-	(13,937,315)
	<u>(259,026,856)</u>	<u>(9,966,302)</u>	<u>6,325,106</u>	<u>-</u>	<u>(262,668,052)</u>
Total capital assets being depreciated, net	<u>123,597,801</u>	<u>(1,875,693)</u>	<u>(865,719)</u>	<u>12,777,578</u>	<u>133,633,967</u>
Business-type activities capital assets, net	<u>\$ 263,239,391</u>	<u>\$ 131,104,641</u>	<u>\$ (983,295)</u>	<u>\$ -</u>	<u>\$ 393,360,737</u>

4. LONG-TERM DEBT

Long-term debt outstanding is as follows:

	Beginning Balance	Additions	Deductions	Ending Balance	Due Within One Year
Revenue bonds	\$ 174,855,548	\$ 109,812	\$ (1,275,000)	\$ 173,690,360	\$ 5,905,000
Pension bonds	-	14,090,000	-	14,090,000	1,282,190
Capital lease	9,500,000	-	-	9,500,000	387,500
	<u>184,355,548</u>	<u>14,199,812</u>	<u>(1,275,000)</u>	<u>197,280,360</u>	<u>7,574,690</u>
Unamortized net premium/ discount on revenue bonds	<u>7,845,369</u>	<u>-</u>	<u>(421,067)</u>	<u>7,424,302</u>	<u>404,169</u>
	<u>\$ 192,200,917</u>	<u>\$ 14,199,812</u>	<u>\$ (1,696,067)</u>	<u>\$ 204,704,662</u>	<u>\$ 7,978,859</u>

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

Notes to Financial Statements

Revenue bonds

\$5,632,736 2011A Drinking Water Revolving Bonds, due in annual installments of \$236,500 to \$375,000 plus interest at 2.5%, payable semi-annually, through April 1, 2032.	\$ 4,830,360
\$9,740,000 2012A Water Supply Systems Revenue Refunding Bonds, due in annual installments of \$190,000 to \$1,430,000 plus interest ranging from 2.0 to 4.0%, payable semi-annually, through July 1, 2024.	9,165,000
\$3,260,000 2013A Water Supply Systems Revenue Refunding Bonds, due in annual installments of \$780,000 to \$855,000 plus interest ranging from 2.0 to 3.0%, payable semi-annually, through July 1, 2017.	855,000
\$158,840,000 2014A Electric Utility System Revenue Bonds, due in annual installments of \$4,600,000 to \$10,705,000 plus interest ranging from 1.659 to 4.919%, payable semi-annually, through July 1, 2039.	<u>158,840,000</u>
Total revenue bonds	173,690,360
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.	14,090,000
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.	<u>9,500,000</u>
Total long-term debt	<u><u>\$ 197,280,360</u></u>

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

Notes to Financial Statements

The annual requirements to maturity on debt outstanding as of June 30, 2016, excluding unamortized premium/discounts on bonds payable are as follows:

Year Ended June 30,	Principal	Interest	Total
2017	\$ 7,574,690	\$ 7,629,796	\$ 15,204,486
2018	7,791,280	7,485,835	15,277,115
2019	7,951,006	7,351,832	15,302,838
2020	8,163,868	7,159,158	15,323,026
2021	8,354,866	6,980,368	15,335,234
2022-2026	43,204,290	30,576,757	73,781,047
2027-2031	38,335,000	22,936,782	61,271,782
2032-2036	45,250,360	13,712,809	58,963,169
2037-2039	30,655,000	3,002,100	33,657,100
	<u>\$ 197,280,360</u>	<u>\$ 106,835,437</u>	<u>\$ 304,115,797</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.

5. BENEFIT PLANS

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.

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

Notes to Financial Statements

Employees Covered by Benefit Terms. At the December 31, 2015 valuation date, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	121
Inactive employees entitled to but not yet receiving benefits	34
Active employees	<u>78</u>
 Total membership	 <u><u>233</u></u>

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. At June 30, 2016, monthly employer contributions ranged from \$2,306 to \$18,292, depending on division/bargaining unit. In addition, the employer may establish contribution rates to be paid by its covered employees. Currently, employees are required to contribute to the plan at 3.0% of covered payroll.

Net Pension Liability. The Board's net pension liability was measured as of December 31, 2015, 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, 2015 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.5%
Salary increases	3.75% in the long-term
Investment rate of return	7.75%, net of investment and administrative expense including inflation

Although no specific price inflation assumptions are needed for the valuation, the 2.5% long-term wage inflation assumption would be consistent with a price inflation of 3%-4%.

Mortality rates used were based on the RP-2014 Group Annuity Mortality Table of a 50% Male and 50% Female blend.

The actuarial assumptions used in valuation were based on the results of the most recent actuarial experience study of 2009-2013.

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

Notes to Financial Statements

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	57.5%	5.02%	2.89%
Global fixed income	20.0%	2.18%	0.44%
Real assets	12.5%	4.23%	0.51%
Diversifying strategies	10.0%	6.56%	0.66%
	<u>100.0%</u>		
Inflation			3.25%
Administrative expenses netted above			<u>0.50%</u>
Investment rate of return			<u>8.25%</u>

Discount Rate. The discount rate used to measure the total pension liability is 8.25% for 2015. 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, 2014	\$ 49,642,528	\$ 34,083,750	\$ 15,558,778
Changes for the year:			
Service cost	508,116	-	508,116
Interest	3,988,984	-	3,988,984
Changes in benefits	(6,591)	-	(6,591)
Differences between expected and actual experience	(581,928)	-	(581,928)
Changes in assumptions	2,486,206	-	2,486,206
Employer contributions	-	15,566,146	(15,566,146)
Employee contributions	-	140,340	(140,340)
Net investment income (loss)	-	(448,173)	448,173
Benefit payments, including refunds of employee contributions	(3,090,521)	(3,090,521)	-
Administrative expense	-	(76,287)	76,287
Net changes	<u>3,304,266</u>	<u>12,091,505</u>	<u>(8,787,239)</u>
Balances at December 31, 2015	<u>\$ 52,946,794</u>	<u>\$ 46,175,255</u>	<u>\$ 6,771,539</u>

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 8.25%, as well as what the Board's net pension liability would be if it were calculated using a discount rate that is 1% lower (7.25%) or 1% higher (9.25%) than the current rate:

1% Decrease (7.25%)	Current Discount Rate (8.25%)	1% Increase (9.25%)
\$ 12,336,994	\$ 6,771,539	\$ 2,003,274

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

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

Notes to Financial Statements

Pension Expense and Deferred Outflows of Resources Related to Pensions

For the year ended June 30, 2016, the Board recognized pension expense of \$2,609,992. The Board reported deferred outflows of resources and deferred 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	\$ -	\$ 387,952	\$ (387,952)
Changes in assumptions	1,657,471	-	1,657,471
Net difference between projected and actual earnings on pension plan investments	3,389,313	-	3,389,313
	<u>5,046,784</u>	<u>387,952</u>	<u>4,658,832</u>
Contributions subsequent to the measurement date	1,445,767	-	1,445,767
Total	<u>\$ 6,492,551</u>	<u>\$ 387,952</u>	<u>\$ 6,104,599</u>

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, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to the pension will be recognized in pension expense as follows:

Year Ended June 30,	Amount
2017	\$ 1,512,707
2018	1,512,708
2019	877,949
2020	<u>755,468</u>
Total	<u>\$ 4,658,832</u>

Payable to the Pension Plan. At June 30, 2016, the Board reported a payable of \$28,841 for the outstanding amount of contributions to the pension plan required for the year ended June 30, 2016.

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 4% for union employees. The participants direct their investments under defined contribution provisions. The Board contributed \$505,079 and employees contributed \$128,602 to the defined contribution plan.

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

Notes to Financial Statements

6. OTHER POSTEMPLOYMENT BENEFITS

Plan Description. The City of Holland Retiree Healthcare Plan (the “Plan”) is a single-employer defined benefit healthcare plan administered by the City. The Plan provides 100% of health insurance benefits to eligible retirees and their dependents. The benefit is provided upon the employee attaining 50 or 55 years of age, depending on employment contract, and 25 years of service to the City or 60 years of age and 10 years of service. The coverage is maintained until the employee is eligible for federal Medicare coverage at age 65.

The City 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.

Funding Policy. Contribution requirements of Plan members, the Board and the City are established and may be amended by the City Council. The required contribution is based on projected pay-as-you-go financing requirements. For the year ended June 30, 2016, the Board contributed \$96,851.

Annual OPEB Cost and Net OPEB Obligation. The Board’s annual other postemployment benefit (OPEB) cost (expense) is calculated based on the *annual required contribution of the employer (ARC)*, an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years.

The following table shows the components of the Board’s annual OPEB cost for the year, the amount actually contributed to the Plan, and changes in the Board’s net OPEB obligation:

Annual required contribution	\$ 99,130
Interest on net OPEB obligation	34,015
Adjustment to annual required contribution	<u>(45,402)</u>
Net OPEB cost (expense)	87,743
Contributions made	<u>(96,851)</u>
Increase in net OPEB obligation	(9,108)
Net OPEB obligation, beginning of year	<u>850,415</u>
Net OPEB obligation, end of year	<u>\$ 841,307</u>

Funded Status and Funding Progress. A separate actuarial valuation is not prepared for the Board. The schedule of funding progress for the City of Holland is included in the City’s financial statements for the year ended June 30, 2016. The schedule of employer contributions, presented as unaudited supplementary information following the notes to the financial statements, presents multiyear trend information about how the Board is funding its annual OPEB costs.

HOLLAND BOARD OF PUBLIC WORKS

(Enterprise Funds of the City of Holland, Michigan)

Notes to Financial Statements

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, 2016.

8. COMMITMENTS

The Board has contracts outstanding for remaining project costs of approximately \$35,168,000 for various electric utility projects, \$1,698,000 for various water projects, and \$4,039,000 for various wastewater projects.

9. LANDFILL CLOSURE AND POST CLOSURE CARE

The Board owns and maintains a landfill for fly ash and wastewater treatment bio solids. In accordance with Michigan Department of Environmental Quality requirements, funding for closure cost estimates of \$111,000 and post-closure cost estimates of \$216,450 have been assured with a \$100,000 letter of credit and \$10,349 held in trust at June 30, 2016.

The Board has recognized a liability for closure and postclosure cost of \$327,450 based on the percentage of landfill capacity used to date. The landfill is expected to have a remaining life of at least 50 years with approximately 85% of the landfill's capacity currently utilized. These estimates are expected to fluctuate based on current usage, inflation, deflation, changes in technology, applicable laws and regulations.

10. 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.

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

Notes to Financial Statements

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, 26.35% 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 Isle 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, 2016, the Board recognized expenses totaling \$18,036,608 under the terms of the contracts which represented \$1,443,553 for fixed operating costs, \$5,595,063 for debt service and \$10,997,992 for the purchase of power. Accounts payable to MPPA totaled \$1,155,963 at June 30, 2016. 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 Detroit Edison's Belle River No. 1, 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.

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

Year Ended June 30,	Belle River		Campbell		Fremont (AFEC)		Total
	Debt Service	Fixed Operating	Debt Service	Fixed Operating	Debt Service	Fixed Operating	
2017	\$ 4,305,335	\$ 662,507	\$ 971,828	\$ 202,644	\$ 278,317	\$ 113,030	\$ 6,533,661
2018	4,305,656	730,680	1,111,483	225,406	278,691	193,066	6,844,982
2019	4,305,962	805,868	1,111,242	243,434	278,264	253,811	6,998,581
2020	-	-	1,111,967	250,612	278,665	260,012	1,901,256
2021	-	-	1,110,861	258,003	278,217	267,813	1,914,894
2022-2026	-	-	2,222,822	268,433	1,391,798	275,847	4,158,900
2027-2031	-	-	-	-	1,392,038	1,508,445	2,900,483
2032-2036	-	-	-	-	1,391,604	1,748,701	3,140,305
2037-2041	-	-	-	-	1,391,237	2,027,224	3,418,461
2042-2044	-	-	-	-	834,609	2,863,265	3,697,874
	<u>\$12,916,953</u>	<u>\$ 2,199,055</u>	<u>\$ 7,640,203</u>	<u>\$ 1,448,532</u>	<u>\$ 7,793,440</u>	<u>\$ 9,511,214</u>	<u>\$41,509,397</u>

Debt Service requirements expire in the years 2019 and 2023 for the Belle River and Campbell projects, respectively and in 2044 for the Fremont project. 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.

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

Notes to Financial Statements

11. 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.

12. NET INVESTMENT IN CAPITAL ASSETS

The composition of net investment in capital assets as of June 30, 2016, was as follows:

Capital assets:	
Capital assets not being depreciated	\$ 259,726,770
Capital assets being depreciated, net	<u>133,633,967</u>
	<u>393,360,737</u>
Related debt:	
Total installment debt	197,280,360
Less pension bonds	(14,090,000)
Net bond premium/discount	7,424,302
Deferred loss on advance refunding	(316,605)
Unspent bond proceeds	<u>(11,409,872)</u>
	<u>178,888,185</u>
Net investment in capital assets	<u><u>\$ 214,472,552</u></u>

13. SPECIAL ITEM

During the year the Board revalued 28,400 tons of coal on hand to \$35 per ton causing a change in valuation of \$1,341,005. The remaining coal on hand is expected to be sold at market value.



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 Board's Net Pension Liability and Related Ratios

	Year Ended June 30	
	2016	2015
Total pension liability		
Service cost	\$ 508,116	\$ 534,319
Interest	3,988,984	3,877,167
Changes in benefits	(6,591)	-
Differences between expected and actual experience	(581,928)	-
Changes of assumptions	2,486,206	-
Benefit payments, including refunds of employee contributions	(3,090,521)	(2,995,515)
Net change in total pension liability	<u>3,304,266</u>	<u>1,415,971</u>
Total pension liability, beginning of year	<u>49,642,528</u>	<u>48,226,557</u>
Total pension liability, end of year	<u>52,946,794</u>	<u>49,642,528</u>
Plan fiduciary net position		
Employer contributions	15,566,146	1,500,624
Employee contributions	140,340	128,691
Net investment income (loss)	(448,173)	2,086,857
Benefit payments, including refunds of employee contributions	(3,090,521)	(2,995,515)
Administrative expense	(76,287)	(76,418)
Net change in plan fiduciary net position	<u>12,091,505</u>	<u>644,239</u>
Plan fiduciary net position, beginning of year	<u>34,083,750</u>	<u>33,439,511</u>
Plan fiduciary net position, end of year	<u>46,175,255</u>	<u>34,083,750</u>
Board's net pension liability	<u>\$ 6,771,539</u>	<u>\$ 15,558,778</u>
Plan fiduciary net position as a percentage of total pension liability	87.2%	68.7%
Covered-employee payroll	5,317,097	5,581,027
Board's net pension liability as a percentage of covered-employee payroll	127.4%	278.8%

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

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

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 the Net Pension Liability

Fiscal Year Ended June 30,	Total Pension Liability	Plan Net Position	Net Pension Liability	Plan Net Position as Percentage of Total Pension Liability	Covered-Employee Payroll	Net Pension Liability as Percentage of Covered Payroll
2016	\$ 52,946,794	\$ 46,175,255	\$ 6,771,539	87.2%	\$ 5,317,097	127.4%
2015	49,642,528	34,083,750	15,558,778	68.7%	5,581,027	278.8%

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

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

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-Employee Payroll	Contributions as Percentage of Covered-Employee Payroll
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%

*During 2016, the City issued pension obligation bonds totaling \$14,090,000 and contributed the proceeds to the Plan.

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

Notes to Schedule of Contributions

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.

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Entry-age normal
Amortization method	Level percent of payroll, closed
Remaining amortization period	Ranges from 5 to 12 years, depending on division/bargaining unit
Asset valuation method	10 year smoothed
Inflation	2.5%
Salary increases	3.75% in the long-term
Investment rate of return	7.75%, net of investment and administrative expense including inflation
Retirement age	Age-based table of rates that are specific to the type of eligibility condition. The Normal Retirement rates were first used for the December 31, 2015 actuarial valuations. The Early Retirement rates were first used for the December 31, 2015 actuarial valuations.
Mortality	Mortality rates used were based on the RP-2014 Group Annuity Mortality Table of a 50% Male and 50% Female blend.

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

Unaudited Supplementary Information

Schedule of Employer Contributions
Other Postemployment Benefits Plan

Year Ended June 30,	Annual Required Contribution (ARC)	Percentage Contributed
2011	\$ 214,175	63%
2012	285,487	104%
2013	306,304	40%
2014	279,475	44%
2015	301,780	33%
2016	99,130	98%

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SUPPLEMENTARY INFORMATION

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

Combining Statement of Net Position
 June 30, 2015

	Electric Utility	Wastewater Utility	Water Utility	Total
Assets				
Current assets:				
Cash and cash equivalents	\$ 82,417,395	\$ 11,540,920	\$ 4,716,758	\$ 98,675,073
Investments	25,983,133	998,574	3,102,497	30,084,204
Receivables:				
Accounts receivable	7,356,484	939,724	951,020	9,247,228
Unbilled revenue	5,358,217	416,532	508,955	6,283,704
Special assessments and other	-	68,969	115,550	184,519
Accrued interest	135,271	1,295	16,896	153,462
Due from other government	-	11,555,075	-	11,555,075
Due from other funds of the City of Holland				
	166,670	1,855	28,691	197,216
Inventories	10,548,368	52,451	239,271	10,840,090
Prepaid expenses and other assets	3,294,076	16,754	10,135	3,320,965
Total current assets	135,259,614	25,592,149	9,689,773	170,541,536
Noncurrent assets:				
Restricted assets:				
Cash and cash equivalents	46,824,990	4,086,961	1,865,367	52,777,318
Investments	42,433,569	4,505,486	300,396	47,239,451
Accrued interest	-	7,823	-	7,823
Total restricted assets	89,258,559	8,600,270	2,165,763	100,024,592
Capital assets:				
Land	14,971,375	260,673	1,977,800	17,209,848
Construction in progress	113,482,488	4,698,522	4,250,732	122,431,742
Plant and equipment	240,793,367	82,365,408	59,465,882	382,624,657
Accumulated depreciation	(188,016,638)	(45,210,548)	(25,799,670)	(259,026,856)
Total capital assets, net	181,230,592	42,114,055	39,894,744	263,239,391
Other noncurrent assets:				
Due from City of Wyoming	-	-	2,343,835	2,343,835
Total noncurrent assets	270,489,151	50,714,325	44,404,342	365,607,818
Total assets	405,748,765	76,306,474	54,094,115	536,149,354
Deferred outflows of resources				
Deferred loss on refunding	-	-	388,397	388,397
Deferred pension amounts	841,638	242,289	191,282	1,275,209
Total deferred outflows of resources	841,638	242,289	579,679	1,663,606

continued...

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

Combining Statement of Net Position
June 30, 2015

	Electric Utility	Wastewater Utility	Water Utility	Total
Liabilities				
Current liabilities:				
Accounts payable	\$ 15,344,136	\$ 1,992,589	\$ 313,291	\$ 17,650,016
Accrued salaries and wages payable	1,207,347	275,248	231,023	1,713,618
Due to other funds of the				
City of Holland	511,137	115,341	417,975	1,044,453
Deposits	571,867	-	-	571,867
Accrued interest payable	-	52,588	-	52,588
Current liabilities payable from restricted assets:				
Bonds payable	304,729	-	1,391,338	1,696,067
Accrued interest payable	-	-	30,728	30,728
Total current liabilities	17,939,216	2,435,766	2,384,355	22,759,337
Noncurrent liabilities:				
Landfill closure and postclosure cost	327,450	-	-	327,450
Long-term debt payable from restricted assets, net of current portion	165,797,974	9,500,000	15,206,876	190,504,850
Unearned revenue	-	7,397,765	-	7,397,765
Net pension liability	10,268,794	2,956,167	2,333,817	15,558,778
Net other postemployment benefit obligation	521,049	182,022	147,344	850,415
Total noncurrent liabilities	176,915,267	20,035,954	17,688,037	214,639,258
Total liabilities	194,854,483	22,471,720	20,072,392	237,398,595
Net position				
Net investment in capital assets	87,610,244	40,084,283	23,684,927	151,379,454
Restricted for:				
Debt service	11,259,585	344,353	1,851,693	13,455,631
Equipment replacement	-	5,013,701	-	5,013,701
Park Township	-	-	314,070	314,070
Cooperative payments	5,516,619	-	-	5,516,619
Unrestricted	107,349,472	8,634,706	8,750,712	124,734,890
Total net position	\$ 211,735,920	\$ 54,077,043	\$ 34,601,402	\$ 300,414,365

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, 2015

	Electric Utility	Wastewater Utility	Water Utility	Total
Operating revenues				
Residential sales	\$ 19,033,166	\$ 2,774,388	\$ 2,925,964	\$ 24,733,518
Commercial sales	31,742,068	2,169,133	2,309,885	36,221,086
Industrial sales	44,938,338	744,612	1,003,131	46,686,081
Wholesale	-	2,571,178	1,953,944	4,525,122
Fees and other	5,103,081	2,045,704	501,098	7,649,883
Total operating revenues	<u>100,816,653</u>	<u>10,305,015</u>	<u>8,694,022</u>	<u>119,815,690</u>
Operating expenses				
Salaries and wages	3,938,973	1,262,234	893,371	6,094,578
Employee benefits	2,711,504	800,844	651,166	4,163,514
Production	57,383,338	2,239,260	575,593	60,198,191
Distribution	2,973,703	733,547	681,707	4,388,957
Administrative and general	7,377,511	1,604,308	1,337,448	10,319,267
Depreciation	6,430,984	1,974,058	1,547,628	9,952,670
Total operating expenses	<u>80,816,013</u>	<u>8,614,251</u>	<u>5,686,913</u>	<u>95,117,177</u>
Operating income	<u>20,000,640</u>	<u>1,690,764</u>	<u>3,007,109</u>	<u>24,698,513</u>
Nonoperating income (expense), net				
Investment income	1,001,438	37,496	55,031	1,093,965
Interest expense	(303)	(72,463)	(388,062)	(460,828)
Insurance refunds	-	2,996	-	2,996
Gain (loss) on sale and disposal of capital assets	(30,718)	(86,384)	(173,450)	(290,552)
Total nonoperating income (expense), net	<u>970,417</u>	<u>(118,355)</u>	<u>(506,481)</u>	<u>345,581</u>
Net income before contributions and transfers	<u>20,971,057</u>	<u>1,572,409</u>	<u>2,500,628</u>	<u>25,044,094</u>
Capital contributions				
Infrastructure	-	2,029,772	-	2,029,772
Trunkage	-	178,974	95,114	274,088
Total capital contributions	<u>-</u>	<u>2,208,746</u>	<u>95,114</u>	<u>2,303,860</u>
Transfers out to other funds of the City of Holland	<u>(5,344,000)</u>	<u>-</u>	<u>-</u>	<u>(5,344,000)</u>
Change in net position	15,627,057	3,781,155	2,595,742	22,003,954
Net position, beginning of year	205,396,194	52,969,514	34,116,417	292,482,125
Implementation of GASB 68	<u>(9,287,331)</u>	<u>(2,673,626)</u>	<u>(2,110,757)</u>	<u>(14,071,714)</u>
Net position, end of year	<u>\$ 211,735,920</u>	<u>\$ 54,077,043</u>	<u>\$ 34,601,402</u>	<u>\$ 300,414,365</u>

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

Combining Statement of Cash Flows
For the Year Ended June 30, 2015

	Electric Utility	Wastewater Utility	Water Utility	Total
Cash flows from operating activities				
Receipts from customers and users	\$ 100,039,422	\$ 8,161,530	\$ 8,988,934	\$ 117,189,886
Payments to suppliers	(54,897,917)	(3,676,128)	(2,153,881)	(60,727,926)
Payments to employees	(6,004,812)	(2,137,072)	(1,614,810)	(9,756,694)
Net cash provided by operating activities	<u>39,136,693</u>	<u>2,348,330</u>	<u>5,220,243</u>	<u>46,705,266</u>
Cash flows from noncapital financing activities				
Insurance refunds	-	2,996	-	2,996
Transfers to other funds of the City of Holland	(5,344,000)	-	-	(5,344,000)
Net cash provided by (used in) noncapital financing activities	<u>(5,344,000)</u>	<u>2,996</u>	<u>-</u>	<u>(5,341,004)</u>
Cash flows from capital and related financing activities				
Principal paid on long-term debt	-	-	(2,210,000)	(2,210,000)
Interest paid on long-term debt	(1,624,923)	(92,338)	(538,813)	(2,256,074)
Capital contributions received	-	178,974	95,114	274,088
Proceeds on issuance of long-term debt	-	9,500,000	-	9,500,000
Proceeds from State Drinking Water Revolving Fund	-	-	10,247	10,247
Proceed from sale of capital assets	88,106	6,794	4,439	99,339
Purchase/construction of property, plant and equipment	(104,303,610)	(6,659,850)	(2,477,459)	(113,440,919)
Net cash provided by (used in) capital and related financing activities	<u>(105,840,427)</u>	<u>2,933,580</u>	<u>(5,116,472)</u>	<u>(108,023,319)</u>
Cash flows from investing activities				
Interest received	859,733	29,460	26,135	915,328
Purchase of investment securities	(68,337,228)	(5,503,623)	(3,389,704)	(77,230,555)
Proceeds from sale or maturities of investment securities	79,867,394	3,203,997	1,696,771	84,768,162
Net cash provided by (used in) investing activities	<u>12,389,899</u>	<u>(2,270,166)</u>	<u>(1,666,798)</u>	<u>8,452,935</u>
Net (decrease) increase in cash and cash equivalents	(59,657,835)	3,014,740	(1,563,027)	(58,206,122)
Cash and cash equivalents, beginning of year	<u>188,900,220</u>	<u>12,613,141</u>	<u>8,145,152</u>	<u>209,658,513</u>
Cash and cash equivalents, end of year	<u>\$ 129,242,385</u>	<u>\$ 15,627,881</u>	<u>\$ 6,582,125</u>	<u>\$ 151,452,391</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, 2015

	Electric Utility	Wastewater Utility	Water Utility	Total
Classified on the statement of net position as				
Cash and cash equivalents	\$ 82,417,395	\$ 11,540,920	\$ 4,716,758	\$ 98,675,073
Restricted assets, cash and cash equivalents	46,824,990	4,086,961	1,865,367	52,777,318
Total cash and cash equivalents	\$ 129,242,385	\$ 15,627,881	\$ 6,582,125	\$ 151,452,391
Reconciliation of operating income to net cash provided by operating activities				
Operating income	\$ 20,000,640	\$ 1,690,764	\$ 3,007,109	\$ 24,698,513
Adjustments to reconcile operating income to net cash provided by operating activities:				
Depreciation	6,430,984	1,974,058	1,547,628	9,952,670
Changes in operating assets and liabilities which provided (used) cash:				
Receivables	(958,045)	(88,283)	(127,132)	(1,173,460)
Due from other government	-	(2,055,075)	-	(2,055,075)
Due from other funds of the City of Holland	22,486	(127)	33	22,392
Inventories	4,608,345	2,299	(33,030)	4,577,614
Prepaid expenses	(2,089,660)	13,145	12,356	(2,064,159)
Due from the City of Wyoming	-	-	422,011	422,011
Accounts payable	9,829,869	778,814	63,586	10,672,269
Accrued salaries and wages payable	385,099	(149,438)	(132,143)	103,518
Due to other funds of the City of Holland	488,081	106,729	397,955	992,765
Deposits	158,328	-	-	158,328
Net pension liability	509,344	146,628	115,760	771,732
Net other postemployment benefit obligation	120,741	35,192	30,092	186,025
Deferred pension amounts	(369,519)	(106,376)	(83,982)	(559,877)
Net cash provided by operating activities	\$ 39,136,693	\$ 2,348,330	\$ 5,220,243	\$ 46,705,266

concluded

Non-cash transactions

In 2015, the Board's Wastewater Utility fund entered into an agreement to receive \$9.5 million in non-cash capital contributions from Holland Township. As of year end, the Board has recognized non-cash capital contributions of \$2,029,772, unearned revenue of \$7,397,765 and bond issuance expense of \$72,463 related to this agreement.

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	163,917	986,329
1999	250,903	77,335	6.00%	62,497	501,228	875,836
2000	272,594	804,159	5.59%	44,448	619,684	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	123,852	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

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, 2016

	Electric Utility	Wastewater Utility	Water Utility	Total
Land	\$ 18,312,933	\$ 260,673	\$ 2,017,286	\$ 20,590,892
Construction in progress	224,937,808	9,077,106	5,120,964	239,135,878
Production plant	123,057,713	50,827,566	17,542,592	191,427,871
Distribution/collection system	93,726,173	33,105,552	29,824,049	156,655,774
Transmission	11,519,946	1,848,170	9,169,905	22,538,021
General plant	15,854,448	5,035,210	4,790,695	25,680,353
Total	487,409,021	100,154,277	68,465,491	656,028,789
Accumulated depreciation	(192,270,845)	(43,736,300)	(26,660,907)	(262,668,052)
Total capital assets, net	<u>\$ 295,138,176</u>	<u>\$ 56,417,977</u>	<u>\$ 41,804,584</u>	<u>\$ 393,360,737</u>

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

Schedule of Capital Assets
 June 30, 2015

	Electric Utility	Wastewater Utility	Water Utility	Total
Land	\$ 14,971,375	\$ 260,673	\$ 1,977,800	\$ 17,209,848
Construction in progress	113,482,488	4,698,522	4,250,732	122,431,742
Production plant	122,769,299	43,187,634	16,527,463	182,484,396
Distribution/collection system	91,465,717	32,575,049	29,352,211	153,392,977
Transmission	11,519,946	1,848,170	8,961,275	22,329,391
General plant	15,038,405	4,754,555	4,624,933	24,417,893
Total	369,247,230	87,324,603	65,694,414	522,266,247
Accumulated depreciation	(188,016,638)	(45,210,548)	(25,799,670)	(259,026,856)
Total capital assets, net	<u>\$ 181,230,592</u>	<u>\$ 42,114,055</u>	<u>\$ 39,894,744</u>	<u>\$ 263,239,391</u>

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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 17, 2016

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, 2016, 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 17, 2016.

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) to determine the 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.

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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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 determination of financial statement amounts. 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*.

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.

Rehmann Johnson LLC

INDEPENDENT AUDITORS' COMMUNICATION WITH THOSE CHARGED WITH GOVERNANCE

October 17, 2016

To the Board of Directors
Holland Board of Public Works

We have audited the financial statements of the business-type activities and each major fund of the *Holland Board of Public Works* (the "Board") as of and for the year ended June 30, 2016, and have issued our report thereon dated October 17, 2016. Professional standards require that we advise you of the following matters relating to our audit.

Our Responsibility in Relation to the Financial Statement Audit

As communicated in our engagement letter dated July 25, 2016, our responsibility, as described by professional standards, is to form and express opinions about whether the financial statements that have been prepared by management with your oversight are fairly presented, in all material respects, in conformity with accounting principles generally accepted in the United States of America. Our audit of the financial statements does not relieve you or management of your respective responsibilities.

Our responsibility, as prescribed by professional standards, is to plan and perform our audit to obtain reasonable, rather than absolute, assurance about whether the financial statements are free of material misstatement. An audit of financial statements includes consideration of internal control over financial reporting as a basis for designing 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 over financial reporting. Accordingly, as part of our audit, we considered the internal control of the Board solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

We are also responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures for the purpose of identifying other matters to communicate to you.

We have provided our findings regarding internal control over financial reporting and compliance noted during our audit in a separate letter to you dated October 17, 2016.

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you in our engagement letter and in our meeting about planning matters on August 22, 2016.

Compliance with All Ethics Requirements Regarding Independence

The engagement team, others in our firm, as appropriate, and our firm has complied with all relevant ethical requirements regarding independence.

Qualitative Aspects of the Board's Significant Accounting Practices

Significant Accounting Policies

Management has the responsibility to select and use appropriate accounting policies. A summary of the significant accounting policies adopted by the Board is included in Note 1 to the financial statements.

There have been no initial selections of accounting policies and no changes in significant accounting policies or their application during the year.

During the year, a special item was presented on the statement of revenues, expenses, and changes in fund net position as the Board revalued its 28,400 tons of coal on hand to \$35 per ton causing a change in valuation of \$1,341,005. The notes to the financial statements contain a more complete description of this transaction. No matters have come to our attention that would require us, under professional standards, to inform you about the effect of significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus.

Significant Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's current judgments. Those judgments are normally based on knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ markedly from management's current judgments.

The most sensitive accounting estimates affecting the financial statements were:

- Management's estimate of the useful lives of depreciable capital assets is based on the length of time it is believed that those assets will provide some economic benefit in the future.
- Management's estimate of the allowance for uncollectible receivable balances is based on past experience and future expectation for collection of various account balances.
- Management's estimate of landfill closure and post-closure costs have been calculated based on state guidelines and landfill utilization to date.
- The assumptions used in the actuarial valuations of the other postemployment benefits plans are based on historical trends and industry standards.
- Management's estimate of future fixed operating costs paid to Michigan Public Power Agency have been calculated based on future debt service requirements and the dynamics of the PJM and MISO markets.
- The allocation of shared costs between the funds has been determined based on studies of related time expended, services performed or other applicable activities and data.

We evaluated the key factors and assumptions used to develop these estimates and determined that they are reasonable in relation to the basic financial statements taken as a whole and in relation to the applicable opinion units. In addition, the financial statements include a net pension liability and other pension-related amounts, which are dependent on estimates made by the plan. These estimates are based on historical trends and industry standards, but are not within the control of management.

Significant Difficulties Encountered During the Audit

We encountered no significant difficulties in dealing with management relating to the performance of the audit.

Uncorrected and Corrected Misstatements

For purposes of this communication, professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that we believe are trivial, and communicate them to the appropriate level of management. Further, professional standards require us to also communicate the effect of uncorrected misstatements related to prior periods on the relevant classes of transactions, account balances or disclosures, and the financial statements as a whole and each applicable opinion unit. In addition, professional standards require us to communicate to you all material, corrected misstatements that were brought to the attention of management as a result of our audit procedures. None of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter, which could be significant to the Board's financial statements or the auditors' report. No such disagreements arose during the course of the audit.

Representations Requested from Management

We have requested certain written representations from management, which are included in Attachment B to this letter.

Management's Consultations with Other Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters. Management informed us that, and to our knowledge, there were no consultations with other accountants regarding auditing and accounting matters.

Other Significant Matters, Findings, or Issues

In the normal course of our professional association with the Board, we generally discuss a variety of matters, including the application of accounting principles and auditing standards, operating and regulatory conditions affecting the entity, and operational plans and strategies that may affect the risks of material misstatement. None of the matters discussed resulted in a condition to our retention as the Board's auditors.

Other Information in Documents Containing Audited Financial Statements

Our responsibility for the supplementary information accompanying the financial statements, as described by professional standards, is to evaluate the presentation of the supplementary information in relation to the financial statements as a whole and to report on whether the supplementary information is fairly stated, in all material respects, in relation to the financial statements as a whole. We made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior

period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

Upcoming Changes in Accounting Standards

Generally accepted accounting principles (GAAP) are continually changing in order to promote the usability and enhance the applicability of information included in external financial reporting. While it would not be practical to include an in-depth discussion of every upcoming change in professional standards, Attachment A to this letter contains a brief overview of recent pronouncements of the Governmental Accounting Standards Board (GASB) and their related effective dates. Management is responsible for reviewing these standards, determining their applicability, and implementing them in future accounting periods.

This information is intended solely for the use of the governing body and management of the Holland Board of Public Works and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

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

Attachment A - Upcoming Changes in Accounting Standards / Regulations For the June 30, 2016 Audit

The following pronouncements of the Governmental Accounting Standards Board (GASB) have been released recently and may be applicable to the Board in the near future. We encourage management to review the following information and determine which standard(s) may be applicable to the Board. For the complete text of these and other GASB standards, visit www.gasb.org and click on the “Standards & Guidance” tab. If you have questions regarding the applicability, timing, or implementation approach for any of these standards, please contact your audit team.

GASB 74 ■ Postemployment Benefit Plans Other than Pension Plans

Effective 06/15/2017 (your FY 2017)

This standard requires the calculation of a net other postemployment benefit (OPEB) liability based on an actuarial valuation of retiree healthcare and similar benefits administered by an OPEB trust. It mirrors the new accounting and financial reporting requirements of GASB 67 for pension plans.

GASB 75 ■ Postemployment Benefits Other than Pensions

Effective 06/15/2018 (your FY 2018)

This standard builds on the requirements of GASB 74 by requiring employers that provide other postemployment benefits (OPEB) to recognize a net OPEB liability on their statements of net position. It mirrors the new accounting and financial reporting requirements of GASB 68 for pension benefits.

GASB 77 ■ Tax Abatement Disclosures

Effective 12/15/2016 (your FY 2017)

This standard requires governments to disclose certain information about tax abatement agreements made to foster economic development or otherwise benefit the government or its citizens. Required disclosures include a brief description of the arrangement, the gross dollar amount of taxes abated in the current period, and any additional commitments made by the government as part of the agreement.

GASB 78 ■ Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans

Effective 12/15/2016 (your FY 2017)

This standard is an amendment to GASB 68, and provides guidance to governments that participate in non-governmental cost-sharing pension plans. We do not expect this standard to have any significant effect on the Board.

GASB 80 ■ Blending Requirements for Certain Component Units

Effective 06/15/2017 (your FY 2017)

This standard is an amendment to GASB 14, *The Financial Reporting Entity*, and requires blending component units incorporated as not-for-profit corporations in which the government is the sole corporate member. We do not expect this standard to have any significant effect on the Board.

HOLLAND BOARD OF PUBLIC WORKS

Attachment A - Upcoming Changes in Accounting Standards / Regulations For the June 30, 2016 Audit

GASB 81 ■ Irrevocable Split-Interest Agreements *Effective 12/15/2017 (your FY 2018)*

This standard addresses the accounting for split-interest agreements for which the government serves as the intermediary and/or the beneficiary. It requires governments to record assets, liabilities, and deferred inflows of resources at the inception of the agreement when serving as intermediary, or when the government controls the present service capacity of a beneficial interest. We do not expect this standard to have any significant effect on the Board.

GASB 82 ■ Pension Issues *Effective 06/15/2017 (your FY 2017)*

This standard is an amendment to GASB 67/68 to clarify several issues related to pensions. We do not expect this standard to have any significant effect on the Board.



HOLLAND BOARD OF PUBLIC WORKS

Attachment B - Management Representations

For the June 30, 2016 Audit

The following pages contain the written representations that we requested from management.



October 17, 2016

Rehmann Robson
2330 East Paris Avenue SE
Grand Rapids, MI 49516-6547

This representation letter is provided in connection with your audit of the financial statements of the business-type activities and each major fund of the Holland Board of Public Works (the "Board"), as of and for the year ended June 30, 2016, and the related notes to the financial statements, for the purpose of expressing opinions on whether the basic financial statements present fairly, in all material respects, the financial position, results of operations, and cash flows of the Board in conformity with accounting principles generally accepted for governments in the United States of America (U.S. GAAP).

Certain representations in this letter are described as being limited to matters that are material. Items are considered material, regardless of size, if they involve an omission or misstatement of accounting information that, in the light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would be changed or influenced by the omission or misstatement.

We confirm that, having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves as of October 17, 2016:

Financial Statements

1. We have fulfilled our responsibilities, as set out in the terms of the audit engagement letter dated July 25, 2016, for the preparation and fair presentation of the financial statements of the various opinion units referred to above in accordance with U.S. GAAP. We have reviewed, approved, and taken responsibility for the financial statements and related notes.
2. We have reviewed and approved the various adjusting journal entries that were proposed by you for recording in our books and records and reflected in the financial statements.
3. We acknowledge our responsibility for 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.
4. We acknowledge our responsibility for the design, implementation, and maintenance of internal control to prevent and detect fraud.
5. Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable.
6. Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of U.S. GAAP. For the purposes of this letter, related parties mean members of the governing body; board members; administrative officials; immediate families of administrative officials, board members, and members of the governing body; and any companies affiliated with or owned by such individuals.
7. All events subsequent to the date of the financial statements and for which U.S. GAAP requires adjustment or disclosure have been adjusted or disclosed.
8. The effects of all known actual or possible litigation and claims have been accounted for and disclosed in accordance with U.S. GAAP.

9. With regard to items reported at fair value:
 - a. The underlying assumptions are reasonable and they appropriately reflect management's intent and ability to carry out its stated courses of action.
 - b. The measurement methods and related assumptions used in determining fair value are appropriate in the circumstances and have been consistently applied.
 - c. The disclosures related to fair values are complete, adequate, and in conformity with U.S. GAAP.
 - d. There are no subsequent events that require adjustments to the fair value measurements and disclosures included in the financial statements.
10. All component units, as well as joint ventures with an equity interest, are included and other joint ventures and related organizations are properly disclosed.
11. All funds and activities are properly classified.
12. All funds that meet the quantitative criteria in GASB Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*, and GASB Statement No. 37, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments: Omnibus*, for presentation as major are identified and presented as such and all other funds that are presented as major are considered important to financial statement users.
13. All components of net position classifications have been properly reported.
14. All revenues within the statement of activities have been properly classified as program revenues, general revenues, contributions to term or permanent endowments, or contributions to permanent fund principal.
15. All expenses have been properly classified in or allocated to functions and programs in the statement of activities, and allocations, if any, have been made on a reasonable basis.
16. All interfund and intra-entity transactions and balances have been properly classified and reported.
17. Special items have been properly classified and reported.
18. Deposit and investment risks have been properly and fully disclosed.
19. Capital assets, including infrastructure assets, are properly capitalized, reported, and if applicable, depreciated.
20. All required supplementary information is measured and presented within the prescribed guidelines.
21. We believe that the actuarial assumptions and methods used to measure pension and other postemployment benefit liabilities and costs for financial accounting purposes are appropriate in the circumstances.
22. We are responsible for the fair presentation of the Board's net pension liability as calculated by the Municipal Employees' Retirement System of Michigan (MERS) and related amounts. We provided MERS with complete and accurate information regarding the Board's participation in the plan, and have reviewed the information provided by MERS for inclusion in the Board's financial statements

Information Provided

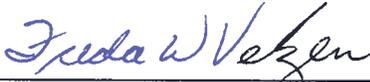
23. We have provided you with:
 - a. Access to all information, of which we are aware that is relevant to the preparation and fair presentation of the financial statements of the various opinion units referred to above, such as records, documentation, meeting minutes, and other matters;
 - b. Additional information that you have requested from us for the purpose of the audit; and
 - c. Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.

24. All transactions have been recorded in the accounting records and are reflected in the financial statements.
25. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
26. We have no knowledge of any fraud or suspected fraud that affects the entity and involves:
 - a. Management;
 - b. Employees who have significant roles in internal control; or
 - c. Others where the fraud could have a material effect on the financial statements.
27. We have no knowledge of any allegations of fraud, or suspected fraud, affecting the entity's financial statements communicated by employees, former employees, vendors, regulators, or others.
28. We are not aware of any pending or threatened litigation and claims whose effects should be considered when preparing the financial statements.
29. We have disclosed to you the identity of the entity's related parties and all the related party relationships and transactions of which we are aware.
30. There have been no communications from regulatory agencies concerning noncompliance with or deficiencies in accounting, internal control, or financial reporting practices.
31. The government has no plans or intentions that may materially affect the carrying value or classification of assets and liabilities.
32. We have disclosed to you all guarantees, whether written or oral, under which the government is contingently liable.
33. We have identified and disclosed to you the laws, regulations, and provisions of contracts and grant agreements that could have a direct and material effect on financial statement amounts, including legal and contractual provisions for reporting specific activities in separate funds.
34. There are no:
 - a. Violations or possible violations of laws or regulations, or provisions of contracts or grant agreements whose effects should be considered for disclosure in the financial statements or as a basis for recording a loss contingency, including applicable budget laws and regulations.
 - b. Unasserted claims or assessments that our lawyer has advised are probable of assertion and must be disclosed in accordance with GASB-62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*.
 - c. Other liabilities or gain or loss contingencies that are required to be accrued or disclosed by GASB-62.
35. The government has satisfactory title to all owned assets, and there are no liens or encumbrances on such assets nor has any asset or future revenue been pledged as collateral, except as disclosed to you.
36. We have complied with all aspects of grant agreements and other contractual agreements that would have a material effect on the financial statements in the event of noncompliance.
37. We have disclosed to you all significant estimates and material concentrations known to management that are required to be disclosed in accordance with GASB-62. Significant estimates are estimates at the balance sheet date that could change materially within the next year. Concentrations refer to volumes of business, revenues, available sources of supply, or markets or geographic areas for which events could occur that would significantly disrupt normal finances within the next year.

Supplementary Information in Relation to the Financial Statements as a Whole

38. With respect to the supplementary information accompanying the financial statements:
 - a. We acknowledge our responsibility for the presentation of the supplementary information in accordance with accounting principles generally accepted in the United States of America.

- b. We believe the supplementary information, including its form and content, is fairly presented in accordance with accounting principles generally accepted in the United States of America.
- c. The methods of measurement or presentation have not changed from those used in the prior period.
- d. We believe the significant assumptions or interpretations underlying the measurement or presentation of the supplementary information, and the basis for our assumptions and interpretations, are reasonable and appropriate in the circumstances.



Freda Velzen, Finance Director



David Koster, General Manager