

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



Year Ended
June 30, 2017

Financial
Statements and
Supplementary
Information

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

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INDEPENDENT AUDITORS' REPORT

October 11, 2017

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, 2017, 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, 2017, 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, 2017, and the changes in its financial position for the year then ended, in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Board's basic financial statements. The supplementary information as listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 11, 2017 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.

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

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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, 2017 and 2016. Please read it in conjunction with the financial statements, which follow this section.

OVERVIEW OF BUSINESS

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

- An electric system, which generates, transmits and distributes electricity to approximately 28,500 residential, commercial and industrial customers in the City of Holland and portions of Holland, Park, Laketown and Fillmore Townships.
- A water filtration plant, with capacity to purify 38.5 million gallons per day and distribute water to approximately 13,600 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.
- A water reclamation facility, with the capacity to treat 12 million gallons of wastewater per day and serve approximately 12,500 residential, commercial and industrial customers in the City of Holland and portions of Holland, Park, Laketown and Fillmore Townships. The wastewater received from the City of Holland and Fillmore, Laketown, Park and Holland Charter Townships.

FINANCIAL HIGHLIGHTS

The net position of the Holland Board of Public Works has improved by 8.9% from the prior fiscal year.

Condensed Financial Information	Net Position (In Millions)							
	Electric		Wastewater		Water		Total	
	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>
Current Assets	\$ 120	\$ 105	\$ 14	\$ 17	\$ 10	\$ 11	\$ 144	\$ 132
Noncurrent assets	25	28	5	6	4	4	34	38
Capital assets, net	<u>313</u>	<u>295</u>	<u>61</u>	<u>56</u>	<u>45</u>	<u>42</u>	<u>419</u>	<u>393</u>
Total Assets	458	428	80	79	59	57	597	563
Deferred outflow - loss on refunding	0	0	0	0	0	0	0	0
Deferred outflow of resources - pension	<u>1</u>	<u>4</u>	<u>0</u>	<u>1</u>	<u>1</u>	<u>1</u>	<u>3</u>	<u>6</u>
Total Deferred Outflows	1	4	0	1	1	1	3	7
Current liabilities	31	25	3	4	3	3	37	32
Noncurrent liabilities	<u>172</u>	<u>175</u>	<u>12</u>	<u>13</u>	<u>15</u>	<u>17</u>	<u>199</u>	<u>205</u>
Total Liabilities	203	200	15	17	18	20	236	237
Deferred inflow of resources - pension	0	0	0	0	0	0	0	0
Net investment in capital assets	148	140	52	47	31	27	231	214
Restricted	25	28	5	6	2	2	32	36
Unrestricted	<u>83</u>	<u>64</u>	<u>8</u>	<u>10</u>	<u>9</u>	<u>9</u>	<u>100</u>	<u>83</u>
Total Net Position	\$ 256	\$ 232	\$ 65	\$ 63	\$ 42	\$ 38	\$ 363	\$ 333

The combined assets and deferred outflows of resources of HBPW exceeded its liabilities and deferred inflows of resources at the close of the most recent fiscal year by \$ 333,023M (net position). Of this amount, \$99,509M was unrestricted and may be used to meet the Board's ongoing obligations to customers and creditors. A substantial portion of HBPW's net position, \$230,847M (63.7 percent), reflects its investment in capital assets (e.g., land, buildings, vehicles, equipment and infrastructure), less any related outstanding debt used to acquire those assets. HBPW uses these capital assets to provide services to customers; consequently, these assets are not available for future spending.

Although HBPW's investment in its capital assets are reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities. An additional portion of HBPW's net position, \$32,306M, represents resources that are subject to external restrictions on how they may be used; 66% related to debt, 17% related to investment in joint venture, 16% related to equipment replacement fund.

Condensed Financial Information	Results of Operations (In Millions)							
	Electric		Wastewater		Water		Total	
	2017	2016	2017	2016	2017	2016	2017	2016
Operating revenues	\$ 112	\$ 106	\$ 11	\$ 11	\$ 10	\$ 9	\$ 133	\$ 126
Operating expenses	(79)	(79)	(10)	(10)	(6)	(6)	(95)	(95)
Nonoperating income (expenses), net	1	0	0	0	0	0	(0)	0
Net Income Before Contributions and Transfers	34	27	1	1	4	3	38	32
Capital contributions	0	0	1	7	0	0	1	8
Contributions to city	(6)	(6)	0	0	0	0	(6)	(6)
Extraordinary Items	(4)	0	0	0	0	0	(4)	-
Special item	0	(1)	0	0	0	0	-	(1)
Change In Net Position	24	20	2	9	4	3	30	33
Beginning net position	232	212	63	54	38	35	333	300
Ending Net Position	\$ 256	\$ 232	\$ 65	\$ 63	\$ 42	\$ 38	\$ 363	\$ 333

Electric, Wastewater and Water had rate increases in FY2017 ranging from 2.2% to 4.3%.

Electric:

- HBPW has entered into multiple contracts to acquire, construct, improve and install a 125 MW natural gas fired combined cycle power plant, and associated facilities and equipment, bypass discharge infrastructure, and site acquisition and improvements. The project will reach final completion in calendar year 2017.
- HBPW is a member of the Michigan Public Power Agency (MPPA). MPPA has entered into a memorandum of understanding with Pegasus LLC, which will give HBPW 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 in service the 1st Quarter of 2019. The additional 3.5 MW of wind energy will raise HBPW's 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.
- The production assets at the James De Young (JDY) coal-fired power plant were retired in FY 2017. Due to the age of the equipment and weak coal market, the assets had negligible market

value. The result was a write-down of the value of the production assets and spare parts of \$2,576M. This amount is reported in the extraordinary income and expense line on the Statement of Revenues, Expenses, and Changes in Fund Position. Related to the retirements, the remaining coal inventory at JDY was written down to fair market value. The write-down amount, \$324M, is included in the extra ordinary income and expense line.

Wastewater:

- HBPW reached substantial completion in Fiscal Year 2017 on a major improvement project at the Holland Area Water Reclamation Facility (WRF). The project replaced aging plant equipment, installed new solids handling equipment designed to meet existing and future needs, and retrofitted the secondary treatment process on the facility’s East Plant into high purity oxygen activated sludge process in order to increase the Biochemical Oxygen Demand (BOD) of the facility by more than thirty percent. The project was funded from debt issued by Ottawa County. Total HBPW share of the debt outstanding; \$9,112M.

Water:

- The primary water supply to the City of Holland is transmitted by a 36-inch pre-stressed concrete water main. Early in January, 2017, crews discovered a leak in the main that took multiple weeks to repair. To make the repair, 36-feet of the main were removed and replaced with ductile iron pipe. No previous repair of this magnitude has been necessary on this pipeline. It resulted in an expense of approximately \$115M.

CAPITAL ASSETS

HBPW has \$657,507M invested in capital assets (\$419,235M net of depreciation). The capital assets by utility are: Electric Utility \$477,953M; Wastewater Utility \$106,808M; and Water Utility \$72,746M. Capital assets include property, plant and equipment and are defined by HBPW as assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of three years.

Condensed Financial Information

	Capital Assets							
	(In Millions)							
	Electric		Wastewater		Water		Total	
	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>
Land	\$ 21	\$ 18	0	0	\$ 2	\$ 2	\$ 23	\$ 20
Construction in progress	204	225	2	9	1	5	207	239
Capital assets, net	<u>88</u>	<u>52</u>	<u>59</u>	<u>47</u>	<u>42</u>	<u>35</u>	<u>189</u>	<u>134</u>
Total capital assets	\$ 313	\$ 295	\$ 61	\$ 56	\$ 45	\$ 42	\$ 419	\$ 393

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

Capital asset activity for the current year includes:

Electric:

- The combined cycle power plant project (construct, improve and install a gas fired combined cycle power plant) has incurred total expenditures of approximately \$246,391M (includes land, land easements and capitalized interest). Cost incurred FY2017 was \$16,511M.
- Construction of the new Pine Street substation; 4,606M.
- Other substation improvements; \$2,861M.
- Pollution remediation; \$2,885M
- Advanced Metering Infrastructure (AMI) improvements; \$1,508M

Wastewater:

- HBPW finished constructing and installing improvements to the existing Holland Area Water Reclamation Facility (WRF) to increase bio-solids handling capabilities by thirty percent and optimize the secondary treatment process for additional Biochemical Oxygen Demand (BOD) capacity. Total project expenditures of approximately \$21,462M. Cost incurred FY2017 was \$5,017M.
- Sewer mains were replaced in FY2017; \$1,474M.
- The enhancement of sewer infrastructure was completed by lining sanitary sewer mains in FY2017; \$1,060M.

Water:

- Water mains replacements in FY2017; \$3,638M.
- HBPW completed repairs in FY2017 to the valve and metering station that experienced damage due to a leak in FY2014. The facility was rebuilt with funds received from a settlement reached with the original contracted builders; \$735M.
- Pump stations replaced in FY2017; \$374M.

SUMMARY OF DEBT

HBPW has a total of \$194,428M in debt outstanding as of June 30, 2017.

The Electric Utility has a total of \$158,840M in debt outstanding as of June 30, 2017. 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%. This debt will be paid off by July, 2039.

The Wastewater Utility has a total of \$9,112M in debt outstanding to Ottawa County for the cost of acquiring and constructing additional improvements (biosolids handling and secondary treatment processes) at the Holland Area Water Reclamation Facility (WRF). This plant 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 Water Utility has \$13,668M in debt outstanding, with interest rates ranging from 2% to 4%. All of the Water Utility's outstanding debt will be paid by April 1, 2032. The bonds were issued for the purpose of constructing an emergency interconnection with the City of Wyoming's water system.

In FY2016, Pension Bonds were issued by 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 funding a portion of the costs of the unfunded pension liability of the City's defined benefit pension plan for general employees and to pay costs of issuance incurred with respect to the Bonds. HBPW's portion of the bond is \$12,808M (56.36%) of the total.

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

GENERAL ECONOMIC CONDITION

HBPW is forecasting growth in demand for electricity in its service area to average 0.8% for the next several years.

According to the 2017 Business Intelligence Report published by Lakeshore Advantage (a West Michigan economic developer):

- Over 75% of local companies interviewed have plans to expand in the next three years (compared to 50% of US Midwest companies).
- 94% of Lakeshore Region companies are experiencing increasing or stable sales (compared to 66% of Midwest companies).

Also, according to the 2017 Business Intelligence Report, challenges to local growth include:

- Workforce availability (49% of local companies are experiencing recruiting issues),
- Availability of skilled technical and professional workers. Engineers and skilled production labor are the highest demand areas,
- Adequate land and buildings (8% of local businesses consider this an impediment to growth).

HBPW, like its customers, faces the same challenges with recruiting and retaining qualified staff. Engineers and skilled production labor comprise the bulk of HBPW's employee pool. Investment in intern/training programs continues, and staffing costs are expected to increase.

NEXT YEARS BUDGET AND RATES

A 5-year projection of financial position is presented annually to HBPW's Board and City Council. The report evaluates the impact of various capital acquisitions and operating expenditures on the related utilities. Due to the significant improvement in operating efficiency at the new power plant, there is no plan to increase Electric rates in FY2018. The Board and City Council did approve a rate increase of 4.9% for the Wastewater Utility and a 2.0% rate increase for the Water Utility for FY2018. The increase in rates is to support capital acquisitions and expenditures, maintain debt ratios required by bond covenants, and develop/maintain appropriate cash levels.

REQUESTS FOR INFORMATION

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

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BASIC FINANCIAL STATEMENTS

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

Statement of Net Position

June 30, 2017

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

	Electric Utility	Wastewater Utility	Water Utility	Business-Type Activities	
				2017	2016
Assets					
Current assets:					
Cash and cash equivalents	\$ 57,915,426	\$ 11,213,382	\$ 5,094,204	\$ 74,223,012	\$ 65,173,192
Investments	32,353,329	203,782	2,798,802	35,355,913	37,132,312
Receivables:					
Accounts receivable	13,770,043	980,130	1,257,134	16,007,307	9,999,901
Unbilled revenue	6,706,400	438,663	630,421	7,775,484	7,738,105
Special assessments and other	-	37,568	85,323	122,891	153,927
Accrued interest	101,721	5,623	8,778	116,122	222,321
Due from other funds of the					
City of Holland	296,788	517,592	34,463	848,843	1,608,508
Inventories	5,247,684	20,273	230,052	5,498,009	6,424,983
Prepaid expenses and other assets	3,658,624	15,623	13,050	3,687,297	3,522,912
Total current assets	120,050,015	13,432,636	10,152,227	143,634,878	131,976,161
Noncurrent assets:					
Restricted assets:					
Cash and cash equivalents	9,465,801	2,762,210	2,226,565	14,454,576	14,641,358
Investments	15,399,766	2,446,301	-	17,846,067	21,166,777
Accrued interest	-	2,765	2,338	5,103	9,629
Total restricted assets	24,865,567	5,211,276	2,228,903	32,305,746	35,817,764
Capital assets:					
Land	21,051,258	260,673	2,056,865	23,368,796	20,590,892
Construction in progress	203,634,397	1,889,924	1,349,989	206,874,310	239,135,878
Plant and equipment	253,267,816	104,657,128	69,338,742	427,263,686	396,302,019
Accumulated depreciation	(164,656,626)	(45,419,269)	(28,195,763)	(238,271,658)	(262,668,052)
Total capital assets, net	313,296,845	61,388,456	44,549,833	419,235,134	393,360,737
Other noncurrent assets:					
Due from City of Wyoming	-	-	2,213,944	2,213,944	2,277,352
Total noncurrent assets	338,162,412	66,599,732	48,992,680	453,754,824	431,455,853
Total assets	458,212,427	80,032,368	59,144,907	597,389,702	563,432,014
Deferred outflows of resources					
Deferred charge on refunding	-	-	252,380	252,380	316,605
Deferred pension amounts	1,470,704	423,382	334,251	2,228,337	6,492,551
Total deferred outflows of resources	1,470,704	423,382	586,631	2,480,717	6,809,156

continued...

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

Statement of Net Position

June 30, 2017

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

	Electric Utility	Wastewater Utility	Water Utility	Business-Type Activities	
				2017	2016
Liabilities					
Current liabilities:					
Accounts payable	\$ 19,702,614	\$ 2,282,128	\$ 777,499	\$ 22,762,241	\$ 19,837,434
Accrued salaries and wages payable	178,359	56,481	41,904	276,744	213,537
Due to other funds of the City of Holland	178,988	309,109	244,562	732,659	1,795,797
Deposits	778,381	-	-	778,381	681,363
Accrued interest payable	16,845	24,198	3,828	44,871	47,863
Current portion of long-term debt	1,674,207	765,004	322,616	2,761,827	2,840,086
Current liabilities payable from restricted assets:					
Current portion of long-term debt	4,904,729	-	1,492,064	6,396,793	6,309,169
Accrued interest payable	3,310,703	-	32,995	3,343,698	29,953
Total current liabilities	30,744,826	3,436,920	2,915,468	37,097,214	31,755,202
Noncurrent liabilities:					
Long-term debt, net of current portion	8,971,593	10,904,691	1,726,730	21,603,014	22,247,760
Long-term debt payable from restricted assets, net of current portion	160,588,516	-	12,542,391	173,130,907	174,805,493
Unearned revenue	-	-	-	-	408,571
Net pension liability	2,774,608	798,750	630,593	4,203,951	6,771,539
Net other postemployment benefit obligation	516,213	182,079	147,762	846,054	841,307
Total noncurrent liabilities	172,850,930	11,885,520	15,047,476	199,783,926	205,074,670
Total liabilities	203,595,756	15,322,440	17,962,944	236,881,140	236,829,872
Deferred inflows of resources					
Deferred pension amounts	215,988	62,178	49,088	327,254	387,952
Net position					
Net investment in capital assets	147,803,600	52,275,956	30,767,758	230,847,314	214,472,552
Restricted for:					
Debt service	19,245,298	-	1,869,524	21,114,822	24,152,675
Equipment replacement	-	5,211,276	-	5,211,276	5,663,952
Park Township	-	-	359,379	359,379	335,161
Cooperative payments	5,620,269	-	-	5,620,269	5,665,976
Unrestricted	83,202,220	7,583,900	8,722,845	99,508,965	82,733,030
Total net position	\$255,871,387	\$ 65,071,132	\$ 41,719,506	\$362,662,025	\$333,023,346

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, 2017

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

	Electric Utility	Wastewater Utility	Water Utility	Business-Type Activities	
				2017	2016
Operating revenues					
Residential sales	\$ 20,837,709	\$ 3,067,518	\$ 3,264,039	\$ 27,169,266	\$ 25,845,786
Commercial sales	34,834,254	2,490,557	2,760,763	40,085,574	38,319,840
Industrial sales	51,366,815	935,368	1,238,312	53,540,495	50,735,364
Wholesale	-	2,841,454	2,193,955	5,035,409	4,712,736
Fees and other	4,667,461	2,049,735	552,437	7,269,633	6,780,510
Total operating revenues	111,706,239	11,384,632	10,009,506	133,100,377	126,394,236
Operating expenses					
Salaries and wages	4,171,633	1,325,909	958,545	6,456,087	6,379,037
Employee benefits	3,318,260	988,562	814,062	5,120,884	5,414,118
Production	52,816,741	2,391,632	690,361	55,898,734	57,756,499
Distribution	4,250,061	860,080	816,495	5,926,636	4,830,461
Administrative and general	6,820,658	1,466,776	1,262,783	9,550,217	10,529,580
Depreciation	7,516,374	2,481,081	1,754,703	11,752,158	9,966,302
Total operating expenses	78,893,727	9,514,040	6,296,949	94,704,716	94,875,997
Operating income	32,812,512	1,870,592	3,712,557	38,395,661	31,518,239
Nonoperating income (expense), net					
Investment income	384,509	99,056	61,522	545,087	1,073,410
Interest expense	(220,554)	(180,032)	(399,853)	(800,439)	(675,967)
Insurance refunds	881,636	10,000	-	891,636	806,921
Loss on sale and disposal of capital assets	(429,558)	(163,266)	(147,426)	(740,250)	(765,048)
Total nonoperating income (expense), net	616,033	(234,242)	(485,757)	(103,966)	439,316
Net income before contributions and transfers	33,428,545	1,636,350	3,226,800	38,291,695	31,957,555
Capital contributions					
Infrastructure	-	408,571	-	408,571	6,967,657
Trunkage	-	141,709	72,618	214,327	365,199
Federal and state capital grants	-	161,756	16,238	177,994	194,575
Total capital contributions	-	712,036	88,856	800,892	7,527,431
Transfers out to other funds of the City of Holland	(5,850,000)	-	-	(5,850,000)	(5,535,000)
Change in net position before special and extraordinary items	27,578,545	2,348,386	3,315,656	33,242,587	33,949,986
Special Item	-	-	-	-	(1,341,005)
Extraordinary items (Note 12)	(3,603,908)	-	-	(3,603,908)	-
Change in net position	23,974,637	2,348,386	3,315,656	29,638,679	32,608,981
Net position, beginning of year	231,896,750	62,722,746	38,403,850	333,023,346	300,414,365
Net position, end of year	\$255,871,387	\$ 65,071,132	\$ 41,719,506	\$362,662,025	\$333,023,346

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, 2017

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

	Electric Utility	Wastewater Utility	Water Utility	Business-Type Activities	
				2017	2016
Cash flows from operating activities					
Receipts from customers and users	\$ 105,595,254	\$ 11,715,426	\$ 10,687,523	\$ 127,998,203	\$ 122,972,016
Payments to suppliers	(64,229,512)	(4,806,880)	(2,886,172)	(71,922,564)	(67,305,623)
Payments to/for employees	(6,426,687)	(2,024,134)	(1,522,117)	(9,972,938)	(25,748,576)
Net cash provided by operating activities	34,939,055	4,884,412	6,279,234	46,102,701	29,917,817
Cash flows from noncapital financing activities					
Insurance refunds	881,636	10,000	-	891,636	806,921
Transfers to other funds of the City of Holland	(5,850,000)	-	-	(5,850,000)	(5,535,000)
Capital Grant - State Drinking Water					
Revolving Fund - Wyoming portion	-	-	8,119	8,119	10,057
Net cash provided by (used in) noncapital financing activities	(4,968,364)	10,000	8,119	(4,950,245)	(4,718,022)
Cash flows from capital and related financing activities					
Principal paid on long-term debt	(846,245)	(631,116)	(1,497,328)	(2,974,689)	(1,275,000)
Interest paid on long-term debt	(527,257)	(180,601)	(432,078)	(1,139,936)	(1,030,375)
Capital contributions received	-	141,709	72,618	214,327	11,898,737
Proceeds on issuance of long-term debt	-	-	-	-	14,090,000
Proceeds from State Drinking Water					
Revolving Fund Bonds	-	-	122,207	122,207	109,812
Federal and state capital grants	-	161,756	-	161,756	183,446
Capital Grant - State Drinking Water					
Revolving Fund	-	-	16,238	16,238	11,129
Proceeds from sale of capital assets	1,452,666	334,346	700,936	2,487,948	218,247
Purchase/construction of property, plant and equipment	(23,632,703)	(7,949,172)	(5,348,314)	(36,930,189)	(141,070,943)
Net cash used in capital and related financing activities	(23,553,539)	(8,123,078)	(6,365,721)	(38,042,338)	(116,864,947)
Cash flows from investing activities					
Interest received	377,156	93,834	58,889	529,879	877,812
Purchase of investment securities	(47,636,198)	(2,644,271)	(2,795,579)	(53,076,048)	(58,174,156)
Proceeds from sale or maturities of investment securities	49,295,541	5,202,595	3,800,953	58,299,089	77,323,655
Net cash provided by investing activities	2,036,499	2,652,158	1,064,263	5,752,920	20,027,311
Net increase (decrease) in cash and cash equivalents	8,453,651	(576,508)	985,895	8,863,038	(71,637,841)
Cash and cash equivalents, beginning of year	58,927,576	14,552,100	6,334,874	79,814,550	151,452,391
Cash and cash equivalents, end of year	\$ 67,381,227	\$ 13,975,592	\$ 7,320,769	\$ 88,677,588	\$ 79,814,550

continued...

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

Statement of Cash Flows

For the Year Ended June 30, 2017

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

	Electric Utility	Wastewater Utility	Water Utility	Business-Type Activities	
				2017	2016
Classified on the statement of net position as					
Cash and cash equivalents	\$ 57,915,426	\$ 11,213,382	\$ 5,094,204	\$ 74,223,012	\$ 65,173,192
Restricted cash and cash equivalents	9,465,801	2,762,210	2,226,565	14,454,576	14,641,358
Total cash and cash equivalents	\$ 67,381,227	\$ 13,975,592	\$ 7,320,769	\$ 88,677,588	\$ 79,814,550
Reconciliation of operating income to net cash provided by operating activities					
Operating income	\$ 32,812,512	\$ 1,870,592	\$ 3,712,557	\$ 38,395,661	\$ 31,518,239
Adjustments to reconcile operating income net cash provided by operating activities:					
Depreciation	7,516,374	2,481,081	1,754,703	11,752,158	9,966,302
Changes in operating assets and liabilities which provided (used) cash:					
Receivables	(6,727,147)	94,452	618,946	(6,013,749)	(2,176,482)
Due from other funds of the					
City of Holland	519,144	236,342	4,179	759,665	(1,411,292)
Inventories	260,119	31,399	6,298	297,816	3,074,102
Prepaid expenses and other assets	(217,111)	28,962	23,764	(164,385)	(201,947)
Due from the City of Wyoming	-	-	54,892	54,892	56,059
Accounts payable	(821,668)	(178,718)	336,583	(663,803)	2,187,418
Accrued salaries and wages payable	46,151	8,350	8,706	63,207	(421,490)
Due to other funds of the					
City of Holland	(609,925)	29,965	(483,178)	(1,063,138)	751,344
Deposits	97,018	-	-	97,018	109,496
Landfill postclosure liability	1,046,533	-	-	1,046,533	-
Compensated absences	(64,168)	(30,444)	(5,237)	(99,849)	91,805
Net pension liability	(1,694,608)	(487,842)	(385,138)	(2,567,588)	(8,787,239)
Net other postemployment benefit obligation	1,510	1,605	1,632	4,747	(9,108)
Deferred pension amounts	2,774,321	798,668	630,527	4,203,516	(4,829,390)
Net cash provided by operating activities	\$ 34,939,055	\$ 4,884,412	\$ 6,279,234	\$ 46,102,701	\$ 29,917,817

concluded

Non-cash transactions - June 30, 2017:

The Electric Fund capitalized \$2,884,817 of land pollution remediation costs in connection with the closure of the James De Young ("JDY") power plant. Accounts payable above is net of a non-cash amount of \$3,588,610, which included the amount capitalized related to the closure and \$703,794 recognized as a non-cash extraordinary item as further discussed in Note 12.

The impaired assets from the JDY power plant that can no longer be used by the Board were revalued to the lower of carrying value or fair value, resulting in a non-cash extraordinary item of \$2,270,956.

The Electric Fund reported a non-cash extraordinary item of \$629,158, which was the result of certain spare parts and coal inventory that had been determined to be obsolete in the amount of \$305,218 and \$182,015, respectively, and \$141,925 as the remaining coal inventory was revalued to the lower of carrying value or fair value.

The Electric Fund transferred capital assets with a net book value of \$83,306 to the Sewer Fund.

Interest in the amount of \$3,310,703 in the Electric Fund was capitalized.

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 commercial paper 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 acquisition cost at the date of donation. Depreciation is computed by the straight-line method based on the economic useful lives of the related assets.

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

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

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

Major outlays for capital assets and improvements are capitalized as projects are constructed. 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 \$46,498 and \$373,705 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, 2017 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 charge 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. A portion of these costs represent contributions to the plan subsequent to the plan measurement date.

Compensated Absences

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

Bond Discounts/Premiums and Deferred Refunding Costs

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

Deferred Inflows of Resources

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The Board reports 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.

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

Notes to Financial Statements

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.

Reclassifications

Certain amounts in the June 30, 2016 financial statements have been reclassified to conform with the June 30, 2017 presentation.

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	\$ 74,223,012
Investments	35,355,913
Restricted assets:	
Cash and cash equivalents	14,454,576
Investments	17,846,067
	<hr/>
Total	<u><u>\$ 141,879,568</u></u>

Deposits and investments consist of the following at June 30, 2017:

Deposits and investments	
Checking and savings accounts	\$ 89,277,316
Certificates of deposit (due within one year)	2,004,830
Certificates of deposit (due within one to five years)	5,001,520
Investments	45,592,952
Cash on hand	2,950
	<hr/>
Total	<u><u>\$ 141,879,568</u></u>

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

Notes to Financial Statements

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.

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	\$ -	\$ 11,438,731	\$ 23,058,980	\$ 34,497,711
Commercial paper	-	5,474,972	-	5,474,972
MPPA Investments	5,620,269	-	-	5,620,269
	<u>\$ 5,620,269</u>	<u>\$ 16,913,703</u>	<u>\$ 23,058,980</u>	<u>\$ 45,592,952</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, \$95,314,702 of the Board's bank balance of \$97,059,705 was exposed to custodial credit risk because it was uninsured and uncollateralized.

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

Notes to Financial Statements

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.

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+	\$ 34,497,711
S&P A1+	996,543
S&P A1	4,478,429
Unrated	<u>5,620,269</u>
	<u><u>\$ 45,592,952</u></u>

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

Fair Value Measurement

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

The Board has the following recurring fair value measurements as of June 30, 2017:

- U.S. Treasury securities with a balance of \$34,497,711 at June 30, 2017 (Level 2 inputs).
- Commercial paper with a balance of \$5,474,972 at June 30, 2017 (Level 2 inputs).
- Assets held with Michigan Public Power Agency, with a balance of \$5,620,269 (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	\$ -	\$ 961,271	\$ 433,275	\$ 1,394,546
Insurance/risk retention	<u>9,719,175</u>	<u>188,459</u>	<u>689,562</u>	<u>10,597,196</u>
Total	<u><u>\$ 9,719,175</u></u>	<u><u>\$ 1,149,730</u></u>	<u><u>\$ 1,122,837</u></u>	<u><u>\$ 11,991,742</u></u>

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, 2017 is as follows:

	Beginning Balance	Additions	Deletions	Transfers	Ending Balance
Business-type Activities					
Capital assets, not being depreciated:					
Land	\$ 20,590,892	\$ 2,980,085	\$ (510,328)	\$ 308,147	\$ 23,368,796
Construction in progress	239,135,878	34,252,746	(1,837,812)	(64,676,502)	206,874,310
	<u>259,726,770</u>	<u>37,232,831</u>	<u>(2,348,140)</u>	<u>(64,368,355)</u>	<u>230,243,106</u>
Capital assets, being depreciated:					
Production plant	191,427,871	474,697	(36,896,840)	41,224,024	196,229,752
Distribution/Collection system	156,655,774	3,668,875	(714,970)	15,116,456	174,726,135
Transmission	22,538,021	33,511	(77,369)	7,859,354	30,353,517
General plant	25,680,353	1,715,795	(1,610,387)	168,521	25,954,282
	<u>396,302,019</u>	<u>5,892,878</u>	<u>(39,299,566)</u>	<u>64,368,355</u>	<u>427,263,686</u>
Less accumulated depreciation for:					
Production plant	(141,657,101)	(5,544,666)	34,577,195	-	(112,624,572)
Distribution/Collection system	(91,438,823)	(4,142,493)	564,248	-	(95,017,068)
Transmission	(15,634,813)	(696,289)	77,362	-	(16,253,740)
General plant	(13,937,315)	(1,368,710)	929,747	-	(14,376,278)
	<u>(262,668,052)</u>	<u>(11,752,158)</u>	<u>36,148,552</u>	<u>-</u>	<u>(238,271,658)</u>
Total capital assets being depreciated, net	<u>133,633,967</u>	<u>(5,859,280)</u>	<u>(3,151,014)</u>	<u>64,368,355</u>	<u>188,992,028</u>
Business-type activities capital assets, net	<u>\$ 393,360,737</u>	<u>\$ 31,373,551</u>	<u>\$ (5,499,154)</u>	<u>\$ -</u>	<u>\$ 419,235,134</u>

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

Notes to Financial Statements

4. LONG-TERM DEBT

Long-term debt outstanding is as follows:

	Beginning Balance	Additions	Deductions	Ending Balance	Due Within One Year
Revenue bonds	\$ 173,690,360	\$ 122,207	\$ (1,305,000)	\$ 172,507,567	\$ 6,010,000
Pension bonds	14,090,000	-	(1,282,189)	12,807,811	1,296,280
Capital lease	9,500,000	-	(387,500)	9,112,500	395,000
Total installment debt	197,280,360	122,207	(2,974,689)	194,427,878	7,701,280
Unamortized net premium/ discount on revenue bonds	7,424,302	-	(404,169)	7,020,133	386,793
Compensated absences	1,170,396	1,070,547	(1,170,396)	1,070,547	1,070,547
Landfill postclosure	327,450	1,046,533	-	1,373,983	-
	<u>\$ 206,202,508</u>	<u>\$ 2,239,287</u>	<u>\$ (4,549,254)</u>	<u>\$ 203,892,541</u>	<u>\$ 9,158,620</u>

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. \$ 4,692,567

\$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. 8,975,000

\$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. 158,840,000

Total revenue bonds 172,507,567

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. 12,807,811

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. 9,112,500

Total long-term debt \$ 194,427,878

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

Notes to Financial Statements

The annual requirements to maturity on installment debt outstanding as of June 30, 2017 are as follows:

Year Ended June 30,	Principal	Interest	Total
2018	\$ 7,701,280	\$ 7,580,890	\$ 15,282,170
2019	7,871,006	7,432,675	15,303,681
2020	8,043,868	7,281,463	15,325,331
2021	8,259,866	7,081,223	15,341,089
2022	8,451,500	6,895,440	15,346,940
2023-2027	40,572,791	30,130,682	70,703,473
2028-2032	38,372,567	22,834,633	61,207,200
2033-2037	44,500,000	13,630,713	58,130,713
2038-2039	30,655,000	3,002,100	33,657,100
	<u>\$ 194,427,878</u>	<u>\$ 105,869,819</u>	<u>\$ 300,297,697</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.

Landfill Closure and Post Closure Care

State and federal laws and regulations require the Board to place a final cover on its fly ash and wastewater treatment bio solids landfill when it stops accepting waste and to perform certain maintenance and monitoring functions at the site for thirty years after closure. Although closure and postclosure care costs will be paid only near or after the date that the landfill stops accepting waste, the Board reports a portion of these closure and postclosure care costs as an operating expense in each period based on landfill capacity used as of each balance sheet date. The \$1,373,983 reported as landfill closure and postclosure liability at June 30, 2017, represents the cumulative amount reported to date based on the use of 85 percent of the estimated capacity of the landfill. The Board will recognize the remaining estimated cost of closure and postclosure care in fiscal year 2018 since the disposal related to the closure of the James De Young coal plant will fill the remaining capacity of the open landfill cell.

The Board is required by state and federal laws and regulations to make annual contributions to a trust to finance closure and postclosure care. The Board is in compliance with these requirements. At June 30, 2017, the closure and postclosure costs have been assured by a \$100,000 letter of credit and \$10,891 held in trust.

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

Notes to Financial Statements

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.

Employees Covered by Benefit Terms. At the December 31, 2016 valuation date, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	127
Inactive employees entitled to but not yet receiving benefits	34
Active employees	<u>70</u>
 Total membership	 <u><u>231</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, 2017, monthly employer contributions ranged from \$2,398 to \$18,103, 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, 2016, 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, 2016 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

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

Notes to Financial Statements

Although no explicit price inflation assumption is used in the valuation, the long-term annual rate of price inflation implicit in the 3.75% base wage inflation is 2.5%.

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.

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>0.25%</u>
Investment rate of return			<u>8.00%</u>

Discount Rate. The discount rate used to measure the total pension liability as of December 31, 2016 was 8.0% (down from 8.25% in 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, 2015	\$ 52,946,794	\$ 46,175,255	\$ 6,771,539
Changes for the year:			
Service cost	494,584	-	494,584
Interest	4,131,826	-	4,131,826
Differences between expected and actual experience	(266,556)	-	(266,556)
Employer contributions	-	1,623,277	(1,623,277)
Employee contributions	-	158,497	(158,497)
Net investment income	-	5,249,048	(5,249,048)
Benefit payments, including refunds of employee contributions	(3,092,525)	(3,092,525)	-
Administrative expense	-	(103,380)	103,380
Net changes	1,267,329	3,834,917	(2,567,588)
Balances at December 31, 2016	\$ 54,214,123	\$ 50,010,172	\$ 4,203,951

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 8.0%, as well as what the Board's net pension liability would be if it were calculated using a discount rate that is 1% lower (7.0%) or 1% higher (9.0%) than the current rate:

1% Decrease (7.0%)	Current Discount Rate (8.0%)	1% Increase (9.0%)
\$ 9,791,139	\$ 4,203,951	\$ (588,620)

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, 2017, the Board recognized pension expense of \$1,990,948. The Board reported deferred outflows/inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources	Net Deferred Outflows (Inflows) of Resources
Difference between expected and actual experience	\$ -	\$ 327,254	\$ (327,254)
Changes in assumptions	828,736	-	828,736
Net difference between projected and actual earnings on pension plan investments	1,222,091	-	1,222,091
	<u>2,050,827</u>	<u>327,254</u>	<u>1,723,573</u>
Contributions subsequent to the measurement date	177,510	-	177,510
	<u>177,510</u>	<u>-</u>	<u>177,510</u>
Total	<u>\$ 2,228,337</u>	<u>\$ 327,254</u>	<u>\$ 1,901,083</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, 2018. 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
2018	\$ 1,057,111
2019	555,631
2020	433,148
2021	<u>(322,317)</u>
Total	<u>\$ 1,723,573</u>

Payable to the Pension Plan. At June 30, 2017, the Board reported a payable of \$29,985 for the outstanding amount of contributions to the pension plan required for the year ended June 30, 2017.

Defined Contribution Pension Plan

The Board participates in a defined contribution retirement plan which is administered by the ICMA in participation with MERS for both nonbargaining and union employees. The defined contribution provisions of the plan require the Board to contribute 6% of covered employee payroll and to match employee contributions up to 2% for nonbargaining employees and up to 2% for union employees. The participants direct their investments under defined contribution provisions. The Board contributed \$515,177 and employees contributed \$136,816 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, 2017, the Board contributed \$84,979.

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	\$ 102,609
Interest on net OPEB obligation	33,653
Adjustment to annual required contribution	<u>(46,536)</u>
Net OPEB cost (expense)	89,726
Contributions made	<u>(84,979)</u>
Increase in net OPEB obligation	4,747
Net OPEB obligation, beginning of year	<u>841,307</u>
Net OPEB obligation, end of year	<u>\$ 846,054</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, 2017. 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, 2017.

8. COMMITMENTS

The Board has contracts outstanding for remaining project costs of approximately \$41,140,000 for various electric utility projects, \$1,725,000 for various water projects, and \$3,925,000 for various wastewater projects.

9. JOINT VENTURE

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

Under the joint venture, the Board has entered into Power Sales Contracts and Project Support Contracts. These contracts provide for the Board to purchase from MPPA 15.66% of the energy generated by MPPA's 37.22% ownership in Detroit Edison's Belle River Unit No. 1, which became operational in August 1984, 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, 2017, the Board recognized expenses totaling \$18,705,163 under the terms of the contracts which represented \$1,531,183 for fixed operating costs, \$5,555,480 for debt service and \$11,618,500 for the purchase of power. Accounts payable to MPPA totaled \$2,402,971 at June 30, 2017. 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.

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

Notes to Financial Statements

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

Year Ended June 30,	Belle River		Campbell		Fremont (AFEC)		Total
	Debt Service	Fixed Operating	Debt Service	Fixed Operating	Debt Service	Fixed Operating	
2018	\$ 2,152,981	\$ 665,956	\$ 1,111,605	\$ 286,227	\$ 278,465	\$ 191,777	\$ 4,687,011
2019	-	-	1,111,414	402,857	278,441	282,382	2,075,094
2020	-	-	1,111,355	414,943	278,252	306,454	2,111,004
2021	-	-	1,111,411	427,391	278,338	323,447	2,140,587
2022	-	-	555,487	216,854	278,321	333,151	1,383,813
2023-2027	-	-	-	-	1,391,680	1,759,071	3,150,751
2028-2032	-	-	-	-	1,391,972	1,822,766	3,214,738
2033-2037	-	-	-	-	1,391,321	1,855,291	3,246,612
2038-2042	-	-	-	-	1,391,388	1,915,589	3,306,977
2043	-	-	-	-	139,124	578,036	717,160
	<u>\$ 2,152,981</u>	<u>\$ 665,956</u>	<u>\$ 5,001,272</u>	<u>\$ 1,748,272</u>	<u>\$ 7,097,302</u>	<u>\$ 9,367,964</u>	<u>\$26,033,747</u>

Debt Service requirements expire in the years 2018 and 2022 for the Belle River and Campbell projects, respectively and in 2043 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

10. LITIGATION

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

11. NET INVESTMENT IN CAPITAL ASSETS

The composition of net investment in capital assets as of June 30, 2017, was as follows:

Capital assets:	
Capital assets not being depreciated	\$ 230,243,106
Capital assets being depreciated, net	<u>188,992,028</u>
	<u>419,235,134</u>
Related debt:	
Total installment debt	194,427,878
Less pension bonds	(12,807,811)
Net bond premium/discount	7,020,133
Deferred charge on refunding	<u>(252,380)</u>
	<u>188,387,820</u>
Net investment in capital assets	<u>\$ 230,847,314</u>

12. EXTRAORDINARY ITEMS

New regulations imposed upon the coal fired power electric generation industry and unprecedented growth and market penetration of new technologies (gas and renewables), forced the closure of the James De Young Power Plant (“JDY”). Based on the assessment of current market conditions, the Board reassessed inventory and equipment values to recognize the closure related losses. The JDY power plant land pollution remediation costs were reasonably estimable during the year and, to the extent allowed by GASB 49, were capitalized as land costs since the outlays would be incurred to prepare the JDY plant property for sale. The amount capitalized was \$2,884,817. Remediation expense in excess of that amount of \$703,794 was recognized as an extraordinary expense during the year.

The impaired assets from the JDY power plant that can no longer be used by the Board were revalued to the lower of carrying value or fair value, resulting in a \$2,270,956 loss. These assets have little or no scrap value as the estimated cost of removal and disposal is expected to exceed scrap values. Spare parts inventory, determined to be obsolete, has been written off resulting in a \$305,218 loss.

Coal inventory value fell below book value during the year, and the inventory the Board managed to sell resulted in a year end loss of \$141,925. The unsold remainder of 5,200 tons, with a book value of \$182,015, has been determined obsolete and written off.



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UNAUDITED SUPPLEMENTARY INFORMATION

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

Unaudited Supplementary Information

MERS Agent Multiple-Employer Defined Benefit Pension Plan

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

	Year Ended June 30		
	2017	2016	2015
Total pension liability			
Service cost	\$ 494,584	\$ 508,116	\$ 534,319
Interest	4,131,826	3,988,984	3,877,167
Changes in benefits	-	(6,591)	-
Differences between expected and actual experience	(266,556)	(581,928)	-
Changes of assumptions	-	2,486,206	-
Benefit payments, including refunds of employee contributions	(3,092,525)	(3,090,521)	(2,995,515)
Net change in total pension liability	<u>1,267,329</u>	<u>3,304,266</u>	<u>1,415,971</u>
Total pension liability, beginning of year	<u>52,946,794</u>	<u>49,642,528</u>	<u>48,226,557</u>
Total pension liability, end of year	<u>54,214,123</u>	<u>52,946,794</u>	<u>49,642,528</u>
Plan fiduciary net position			
Employer contributions	1,623,277	15,566,146	1,500,624
Employee contributions	158,497	140,340	128,691
Net investment income (loss)	5,249,048	(448,173)	2,086,857
Benefit payments, including refunds of employee contributions	(3,092,525)	(3,090,521)	(2,995,515)
Administrative expense	(103,380)	(76,287)	(76,418)
Net change in plan fiduciary net position	<u>3,834,917</u>	<u>12,091,505</u>	<u>644,239</u>
Plan fiduciary net position, beginning of year	<u>46,175,255</u>	<u>34,083,750</u>	<u>33,439,511</u>
Plan fiduciary net position, end of year	<u>50,010,172</u>	<u>46,175,255</u>	<u>34,083,750</u>
Board's net pension liability	<u>\$ 4,203,951</u>	<u>\$ 6,771,539</u>	<u>\$ 15,558,778</u>
Plan fiduciary net position as a percentage of total pension liability	92.2%	87.2%	68.7%
Covered payroll	\$ 4,899,166	\$ 5,317,097	\$ 5,581,027
Board's net pension liability as a percentage of covered payroll	85.8%	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 Payroll	Net Pension Liability as Percentage of Covered Payroll
2017	\$ 54,214,123	\$ 50,010,172	\$ 4,203,951	92.2%	\$ 4,899,166	85.8%
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 Payroll	Contributions as Percentage of Covered Payroll
2017	\$ 355,020	\$ 355,020	\$ -	\$ 5,106,936	7.0%
2016	957,317	16,226,621	15,269,304	5,543,402	292.7%
2015	1,570,584	1,570,584	-	5,483,611	28.6%

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 (2017, based on the 12/31/2014 actuarial valuation):

Actuarial cost method	Entry-age normal
Amortization method	Level percent of payroll, closed
Remaining amortization period	Ranges from 6 to 14 years, depending on division/bargaining unit
Asset valuation method	10 year smoothed
Inflation	3.0% to 4.0%
Salary increases	4.5% in the long-term (2.0% and 3.0% for calendars years 2015 and 2016, respectively)
Investment rate of return	8.0%, 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, 2009 actuarial valuations. The Early Retirement rates were first used for the December 31, 2011 actuarial valuations.
Mortality	1994 Group Annuity Mortality Table of a 50% Male and 50% Female blend. For disabled retirees, the regular mortality table is used with a 10-year set forward in ages to reflect the higher expected mortality rates of disabled members.

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

Unaudited Supplementary Information
Other Postemployment Benefits Plan

Schedule of Employer Contributions

Year Ended June 30,	Annual Required Contribution (ARC)	Percentage Contributed
2012	\$ 285,487	104%
2013	306,304	40%
2014	279,475	44%
2015	301,780	33%
2016	99,130	98%
2017	102,609	83%

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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, 2016

	Electric Utility	Wastewater Utility	Water Utility	Total
Assets				
Current assets:				
Cash and cash equivalents	\$ 47,640,437	\$ 13,396,827	\$ 4,135,928	\$ 65,173,192
Investments	32,629,565	701,794	3,800,953	37,132,312
Receivables:				
Accounts receivable	7,019,594	1,076,398	1,903,909	9,999,901
Unbilled revenue	6,729,702	418,450	589,953	7,738,105
Special assessments and other	-	55,965	97,962	153,927
Accrued interest	211,266	1,100	9,955	222,321
Due from other funds of the				
City of Holland	815,932	753,934	38,642	1,608,508
Inventories	6,136,961	51,672	236,350	6,424,983
Prepaid expenses and other assets	3,441,513	44,585	36,814	3,522,912
Total current assets	104,624,970	16,500,725	10,850,466	131,976,161
Noncurrent assets:				
Restricted assets:				
Cash and cash equivalents	11,287,139	1,155,273	2,198,946	14,641,358
Investments	16,665,976	4,500,801	-	21,166,777
Accrued interest	-	7,878	1,751	9,629
Total restricted assets	27,953,115	5,663,952	2,200,697	35,817,764
Capital assets:				
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
Plant and equipment	244,158,280	90,816,498	61,327,241	396,302,019
Accumulated depreciation	(192,270,845)	(43,736,300)	(26,660,907)	(262,668,052)
Total capital assets, net	295,138,176	56,417,977	41,804,584	393,360,737
Other noncurrent assets:				
Due from City of Wyoming	-	-	2,277,352	2,277,352
Total noncurrent assets	323,091,291	62,081,929	46,282,633	431,455,853
Total assets	427,716,261	78,582,654	57,133,099	563,432,014
Deferred outflows of resources				
Deferred charge on refunding	-	-	316,605	316,605
Deferred pension amounts	4,285,085	1,233,583	973,883	6,492,551
Total deferred outflows of resources	4,285,085	1,233,583	1,290,488	6,809,156

continued...

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

Combining Statement of Net Position
June 30, 2016

	Electric Utility	Wastewater Utility	Water Utility	Total
Liabilities				
Current liabilities:				
Accounts payable	\$ 16,935,672	\$ 2,460,846	\$ 440,916	\$ 19,837,434
Accrued salaries and wages payable	132,208	48,131	33,198	213,537
Due to other funds of the				
City of Holland	788,913	279,144	727,740	1,795,797
Deposits	681,363	-	-	681,363
Accrued interest payable	18,819	24,767	4,277	47,863
Current portion of long-term debt	1,729,075	785,271	325,740	2,840,086
Current liabilities payable from restricted assets:				
Current portion of long-term debt	4,904,729	-	1,404,440	6,309,169
Accrued interest payable	-	-	29,953	29,953
Total current liabilities	25,190,779	3,598,159	2,966,264	31,755,202
Noncurrent liabilities:				
Long-term debt, net of current portion	8,780,605	11,545,984	1,921,171	22,247,760
Long-term debt payable from restricted assets, net of current portion	160,893,245	-	13,912,248	174,805,493
Unearned revenue	-	408,571	-	408,571
Net pension liability	4,469,216	1,286,592	1,015,731	6,771,539
Net other postemployment benefit obligation	514,703	180,474	146,130	841,307
Total noncurrent liabilities	174,657,769	13,421,621	16,995,280	205,074,670
Total liabilities	199,848,548	17,019,780	19,961,544	236,829,872
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
Restricted for:				
Debt service	22,287,139	-	1,865,536	24,152,675
Equipment replacement	-	5,663,952	-	5,663,952
Park Township	-	-	335,161	335,161
Cooperative payments	5,665,976	-	-	5,665,976
Unrestricted	63,602,132	9,732,246	9,398,652	82,733,030
Total net position	\$ 231,896,750	\$ 62,722,746	\$ 38,403,850	\$ 333,023,346

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, 2016

	Electric Utility	Wastewater Utility	Water Utility	Total
Operating revenues				
Residential sales	\$ 19,737,901	\$ 2,944,971	\$ 3,162,914	\$ 25,845,786
Commercial sales	33,483,879	2,295,398	2,540,563	38,319,840
Industrial sales	48,822,458	824,570	1,088,336	50,735,364
Wholesale	-	2,652,625	2,060,111	4,712,736
Fees and other	4,154,938	2,138,609	486,963	6,780,510
Total operating revenues	<u>106,199,176</u>	<u>10,856,173</u>	<u>9,338,887</u>	<u>126,394,236</u>
Operating expenses				
Salaries and wages	4,193,333	1,265,052	920,652	6,379,037
Employee benefits	3,512,155	1,025,542	876,421	5,414,118
Production	54,537,613	2,574,514	644,372	57,756,499
Distribution	3,029,140	1,092,151	709,170	4,830,461
Administrative and general	7,501,762	1,673,754	1,354,064	10,529,580
Depreciation	6,443,446	1,943,444	1,579,412	9,966,302
Total operating expenses	<u>79,217,449</u>	<u>9,574,457</u>	<u>6,084,091</u>	<u>94,875,997</u>
Operating income	<u>26,981,727</u>	<u>1,281,716</u>	<u>3,254,796</u>	<u>31,518,239</u>
Nonoperating income (expense), net				
Investment income	941,197	69,732	62,481	1,073,410
Interest expense	(189,501)	(75,998)	(410,468)	(675,967)
Insurance refunds	-	-	806,921	806,921
Loss on sale and disposal of capital assets	(696,588)	(22,059)	(46,401)	(765,048)
Total nonoperating income (expense), net	<u>55,108</u>	<u>(28,325)</u>	<u>412,533</u>	<u>439,316</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>
Capital contributions				
Infrastructure	-	6,967,657	-	6,967,657
Trunkage	-	241,209	123,990	365,199
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>
Transfers out to other funds of the City of Holland	<u>(5,535,000)</u>	<u>-</u>	<u>-</u>	<u>(5,535,000)</u>
Change in net position before special item	21,501,835	8,645,703	3,802,448	33,949,986
Special item	<u>(1,341,005)</u>	<u>-</u>	<u>-</u>	<u>(1,341,005)</u>
Change in net position	20,160,830	8,645,703	3,802,448	32,608,981
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>
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>

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

Combining Statement of Cash Flows
For the Year Ended June 30, 2016

	Electric Utility	Wastewater Utility	Water Utility	Total
Cash flows from operating activities				
Receipts from customers and users	\$ 104,624,815	\$ 9,978,506	\$ 8,368,695	\$ 122,972,016
Payments to suppliers	(60,276,238)	(4,735,411)	(2,293,974)	(67,305,623)
Payments to/for employees	(16,891,120)	(4,952,262)	(3,905,194)	(25,748,576)
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>
Cash flows from noncapital financing activities				
Insurance refunds	-	-	806,921	806,921
Transfers to other funds of the City of Holland	(5,535,000)	-	-	(5,535,000)
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>
Cash flows from capital and related financing activities				
Principal paid on long-term debt	-	-	(1,275,000)	(1,275,000)
Interest paid on long-term debt	(475,411)	(103,819)	(451,145)	(1,030,375)
Capital contributions received	-	11,774,747	123,990	11,898,737
Proceeds on issuance of long-term debt	9,299,400	2,677,100	2,113,500	14,090,000
Proceeds from State Drinking Water Revolving Fund	-	-	109,812	109,812
Federal and state capital grants	-	183,446	-	183,446
Capital Grant - State Drinking Water Revolving Fund	-	-	11,129	11,129
Proceed from sale of capital assets	179,956	11,230	27,061	218,247
Purchase/construction of property, plant and equipment	(121,227,574)	(16,280,655)	(3,562,714)	(141,070,943)
Net cash 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>
Cash flows from investing activities				
Interest received	742,567	67,960	67,285	877,812
Purchase of investment securities	(49,172,906)	(5,200,683)	(3,800,567)	(58,174,156)
Proceeds from sale or maturities of investment securities	68,416,702	5,504,060	3,402,893	77,323,655
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>
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>
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>
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>

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, 2016

	Electric Utility	Wastewater Utility	Water Utility	Total
Classified on the statement of net position as				
Cash and cash equivalents	\$ 47,640,437	\$ 13,396,827	\$ 4,135,928	\$ 65,173,192
Restricted cash and cash equivalents	11,287,139	1,155,273	2,198,946	14,641,358
Total cash and cash equivalents	\$ 58,927,576	\$ 14,552,100	\$ 6,334,874	\$ 79,814,550
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
Adjustments to reconcile operating income to net cash provided by operating activities:				
Depreciation	6,443,446	1,943,444	1,579,412	9,966,302
Changes in operating assets and liabilities which provided (used) cash:				
Receivables	(1,034,595)	(125,588)	(1,016,299)	(2,176,482)
Due from other funds of the City of Holland	(649,262)	(752,079)	(9,951)	(1,411,292)
Inventories	3,070,402	779	2,921	3,074,102
Prepaid expenses and other assets	(147,437)	(27,831)	(26,679)	(201,947)
Due from the City of Wyoming	-	-	56,059	56,059
Accounts payable	1,591,536	468,257	127,625	2,187,418
Accrued salaries and wages payable	(262,792)	(81,184)	(77,514)	(421,490)
Due to other funds of the City of Holland	277,776	163,803	309,765	751,344
Deposits	109,496	-	-	109,496
Compensated absences	70,483	8,222	13,100	91,805
Net pension liability	(5,799,578)	(1,669,575)	(1,318,086)	(8,787,239)
Net other postemployment benefit obligation	(6,346)	(1,548)	(1,214)	(9,108)
Deferred pension amounts	(3,187,399)	(917,583)	(724,408)	(4,829,390)
Net cash provided by operating activities	\$ 27,457,457	\$ 290,833	\$ 2,169,527	\$ 29,917,817

concluded

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

Holland Area Waste Treatment Plant Reserve for Equipment Replacement

Year Ended June 30,	Contributions From Billings	Other	Interest		Improvements	Reserve Balance
			Rate	Amount		
1989	\$ 124,116	\$ 292,722	8.02%	\$ 85,061	\$ 446,514	\$ 1,130,832
1990	124,116	14,045	8.21%	95,519	72,939	1,291,573
1991	124,116	-	7.06%	91,161	124,794	1,382,056
1992	124,116	-	5.49%	64,501	538,427	1,032,246
1993	188,364	12,555	4.21%	27,927	1,161,092	100,000
1994	195,180	-	3.46%	6,640	18,347	283,473
1995	208,680	-	5.41%	21,139	14,662	498,630
1996	224,508	2,190	6.24%	36,008	45,287	716,049
1997	229,350	-	6.14%	47,244	145,361	847,282
1998	244,651	-	6.30%	58,314	163,917	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
2017	1,156,529	18,838,482	0.08%	8,685	20,456,372	5,211,276

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, 2017

	Electric Utility	Wastewater Utility	Water Utility	Total
Land	\$ 21,051,258	\$ 260,673	\$ 2,056,865	\$ 23,368,796
Construction in progress	203,634,397	1,889,924	1,349,989	206,874,310
Production plant	116,819,698	61,788,576	17,621,478	196,229,752
Distribution/collection system	105,227,103	35,462,757	34,036,275	174,726,135
Transmission	15,067,465	2,249,786	13,036,266	30,353,517
General plant	16,153,550	5,156,009	4,644,723	25,954,282
Total	477,953,471	106,807,725	72,745,596	657,506,792
Accumulated depreciation	(164,656,626)	(45,419,269)	(28,195,763)	(238,271,658)
Total capital assets, net	\$ 313,296,845	\$ 61,388,456	\$ 44,549,833	\$ 419,235,134

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	\$ 295,138,176	\$ 56,417,977	\$ 41,804,584	\$ 393,360,737

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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 11, 2017

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, 2017, 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 11, 2017.

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 Lohman LLC