

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



Year Ended  
June 30, 2018

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 12, 2018

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, 2018, 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, 2018, 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, 2018, 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.

### *Implementation of GASB Statement No. 75*

As described in Note 13, the Board implemented the provisions of GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*, in the current year. Accordingly, beginning net position of business-type activities and each major fund was restated. 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 12, 2018 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 "Rehmann 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, 2018 and 2017. Please read it in conjunction with the financial statements, which follow this section.

### OVERVIEW OF BUSINESS

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

- An electric system, which generates and distributes electricity to 28,825 residential, commercial and industrial customers in the City of Holland and portions of Holland, Park, Laketown and Fillmore Townships. HBPW's 171 industrial electric customers (0.06% of total customers) account for 53% of the electric load in kilowatt hours.
- A water filtration plant, with capacity to purify 38.5 million gallons per day. Water is sold to 13,660 residential, commercial and industrial customers located in the City of Holland and portions of Park, Laketown and Holland Charter Townships. Water is also sold on a wholesale basis to Park Township and the City of Zeeland. Wholesale sales represent about 55% of the water filtration plant output. The HBPW receives its water from Lake Michigan.
- A water reclamation facility, with an average daily treatment capacity of 12 million gallons, serving 12,575 residential, commercial and industrial customers in the City of Holland and portions of Holland, Park, Laketown and Fillmore Townships. The wastewater is received from the City of Holland and Fillmore, Laketown, Park and Holland Charter Townships.

### FINANCIAL HIGHLIGHTS

The net position of the Holland Board of Public Works has improved by 7.5% from the prior fiscal year.

#### Condensed Financial Information

	Net Position (In Millions)							
	Electric		Wastewater		Water		Total	
	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>
Current Assets	\$ 102	\$ 120	\$ 15	\$ 14	\$ 11	\$ 10	\$ 128	\$ 144
Noncurrent assets	35	25	6	5	4	4	45	34
Capital assets, net	<u>322</u>	<u>313</u>	<u>61</u>	<u>61</u>	<u>46</u>	<u>45</u>	<u>429</u>	<u>419</u>
Total Assets	459	458	82	80	62	59	602	597
Deferred outflow - loss on refunding	0	0	0	0	0	0	0	0
Deferred outflow of resources - pension	<u>0</u>	<u>1</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>1</u>	<u>0</u>	<u>2</u>
Total Deferred Outflows	0	1	0	0	0	1	0	2
Current liabilities	20	31	2	3	3	3	25	37
Noncurrent liabilities	<u>163</u>	<u>172</u>	<u>11</u>	<u>12</u>	<u>12</u>	<u>15</u>	<u>186</u>	<u>199</u>
Total Liabilities	183	203	13	15	16	18	211	236
Deferred inflow of resources - pension	1	0	0	0	0	0	1	0
Deferred inflow - other postemployment benefit	<u>1</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>1</u>	<u>0</u>
Total Deferred Inflows	2	0	0	0	0	0	2	0
Net investment in capital assets	163	148	52	52	34	31	249	231
Restricted	35	25	6	5	2	2	43	32
Unrestricted	<u>76</u>	<u>83</u>	<u>11</u>	<u>8</u>	<u>10</u>	<u>9</u>	<u>97</u>	<u>100</u>
Total Net Position	\$ 274	\$ 256	\$ 69	\$ 65	\$ 46	\$ 42	\$ 389	\$ 363

The employee union wage rates have been adjusted to market with the implementation of a new contract with the Utility Workers Union of America. The contract was renewed in April 2018 and will expire in March 2021.

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 \$389.4M (net position). Of this amount, \$96.8M was unrestricted net position and may be used to meet the HBPW's ongoing obligations to customers and creditors. A substantial portion of the HBPW's net position, \$248.8M (63.9 percent), reflects its investment in capital assets (e.g., land, buildings, vehicles, equipment and infrastructure), less any related outstanding debt used to acquire those assets. HBPW uses these capital assets to provide services to customers; consequently, these assets are not available for future spending.

Although HBPW's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources since the capital assets themselves cannot be used to liquidate these liabilities. An additional portion of HBPW's net position of \$43.8M (11.2 percent) represents resources that are subject to external restrictions on how they may be used: 72% related to debt, 13% related to investment in joint venture, 15% related to equipment replacement fund.

Pension expense was significantly lower than in previous years. Pension expense is adjusted at fiscal year-end when the actuarial report is received. Pension fund investments performed better than expected which contributed to reducing the long term liability. The reduction from FY 2017 is approximately \$1.0M.

HBPW adopted the provisions of GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, this fiscal year. As a result of this change, fiscal year 2017 beginning net position of the electric, wastewater, water utility and business-type activities decreased \$272,564.

**Condensed Financial Information**

	<b>Results of Operations</b>							
	(In Millions)							
	Electric		Wastewater		Water		Total	
	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>
Operating revenues	\$ 110	\$ 112	\$ 12	\$ 11	\$ 10	\$ 10	\$ 132	\$ 133
Operating expenses	(78)	(79)	(11)	(10)	(6)	(6)	(94)	(95)
Nonoperating income (expenses), net	<u>(5)</u>	<u>1</u>	<u>3</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>(3)</u>	<u>1</u>
Net Income Before Contributions and Transfer	27	34	4	1	4	4	34	39
Capital contributions	0	0	0	1	0	0	0	1
Contributions to city	(6)	(6)	0	0	0	0	(6)	(6)
Extraordinary items	(2)	(4)	0	0	0	0	(2)	(4)
Special item	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Change In Net Position	19	24	4	2	4	4	27	30
Beginning net position, as restated	<u>256</u>	<u>232</u>	<u>65</u>	<u>63</u>	<u>42</u>	<u>38</u>	<u>363</u>	<u>333</u>
Ending Net Position	\$ 274	\$ 256	\$ 69	\$ 65	\$ 46	\$ 42	\$ 389	\$ 363

The Wastewater and Water utilities had rate increases in FY2018 of 4.9% and 2.0% respectively. A Cost of Service study was completed for the Electric utility during FY2017. The results were used to redesign the Electric rate structure by customer usage and load, and fixed fees were consolidated. The simplified rate structure had no net impact on overall electric charges to customers.

#### Electric:

- HBPW 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 was substantially complete and control of production was transferred to HBPW in September 2017. Total capitalized costs were approximately \$268.2M.
- The Michigan Public Power Agency (MPPA) has entered into a memorandum of understanding with Pegasus Wind, LLC in Tuscola County which will provide 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 online in late calendar year 2018 or early 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 provide a hedge on future energy prices.
- Electric production costs overall were lower than budgeted. Natural gas prices were less than anticipated resulting in lower generation costs. The new power plant, Holland Energy Park (HEP) increased output when internal generation marginal costs were less than the market costs of purchased power. Running HEP more frequently increased production costs due to more gas purchases, but it reduced purchased power costs due to buying less power from the market. Together this improved operating income by \$5.3M.
- The production assets at the James De young (JDY) coal-fired power plant were retired in FY2017. During FY2018 some of the equipment and spare parts inventory were disposed resulting in a charge of \$1.6M. This amount is reported in the extraordinary income and expense line on the Statement of Revenues, Expenses, and Changes in Fund Position.

#### Wastewater:

- The territory served by the Water Reclamation Facility (WRF) is also called a service area. The area north of Lake Macatawa is known as the Northern Service Area (NSA) and includes portions of Holland and Park townships (included Zeeland Township prior to its withdrawal from the system in November 2017). The area south of Lake Macatawa is known as the Southern Service Area (SSA). The SSA includes the City of Holland, Laketown Township, Fillmore Township, and the portions of Holland and Park Townships south of the lake. The NSA and SSA are each allocated a percentage of the overall WRF capacity via a contract between the member communities. Historically, these percentages have been at 70% for the SSA and 30% for the NSA. Over many years, the flow and loadings from the NSA has grown to represent approximately 50% of the influent flow and loading to the WRF. Any difference between actual usage and capacity ownership is paid to the other service area in the form of rental payments. In July, the NSA made a payment to the SSA for purchase of additional capacity. The amount, \$2.9M, is reported in the nonoperating income/(expense) section on the Statement of Revenues, Expenses, and Changes in Fund Position. The WRF Finance Subcommittee hired a consultant to perform a valuation of the Holland Area Water Reclamation Facility (WRF) in order to understand the investment needed from the NSA to increase the NSA capacity ownership to 50% from 30%. The consultant used

historical investments, revaluation of existing assets, annual contributions based on actual flows, interest income and withdrawals from the equipment replacement fund to calculate an existing valuation for the WRF. The valuation report specifies additional contributions from the NSA to bring its capacity to 50%. This change in capacity ownership is expected to greatly reduce and/or eliminate rental income from the NSA for the foreseeable future. The expected reduction in rental income is accounted for in the FY2019 budget. The Zeeland Township withdrawal reduced treatment volume by about 400,000 gallons per day of flow or about 4% of total plant flow at the time. Increasing industrial processing is expected to offset much of this flow.

- Sewage sludge, a byproduct of municipal wastewater treatment, requires regular disposal. The WRF disposes of sludge via a combination of land application of liquid biosolids and landfill disposal of dewatered sludge. Biosolids are differentiated from sludge in that the sludge needs to be treated for pathogen reduction and vector attraction reduction in order to receive this classification. This further treatment is required in order to make the material suitable for beneficial reuse as a fertilizer on agricultural land. Unit prices for land application of biosolids from the WRF increased about 65% over FY2017 costs. The increased cost was due to the largest service provider in the area leaving the greater Holland market and a decreased availability of land (requiring the haulers to travel further). Correspondingly, unit prices for landfill disposal of dewatered sludge increased around 22% over FY2017 costs. For FY2019 and beyond, HBPW expects to be able to dispose of a maximum of 10,000 wet tons per year to landfill. HBPW hauled 18,139 wet tons of sludge to landfill in FY2017; therefore the limitation represents about a 45% reduction versus what was disposed of to landfill in FY2017. The decreased disposal options and increased costs have created new business risks for the utility leading to the creation of a corporate tactical action team in FY2018 to address the issue. The team consulted with an outside engineering firm to assist in determining the best options for decreasing these operational and financial risks. The final report was presented to management in June and has resulted in a follow-up tactical action for FY2019 to prepare a preliminary design report for anaerobic digestion at the facility. That alternative is anticipated to decrease the total sludge requiring disposal by approximately 40-50% which would in turn help to mitigate risk associated with future disposal price increases and/or decreased disposal options. The digester is estimated to cost \$18-\$20M, with the cost shared equally by the Northern and Southern Service Areas.

#### Water:

- A condition assessment, costing \$121,000, was performed in FY2018 on the 36-inch transmission main (pipeline) that transfers water from the Water Treatment Plant to the City of Zeeland and to the City of Holland distribution system and downtown business district. As the main source of potable water for the residents of Holland this is considered a critical asset. The main previously experienced a failure and repair costs of approximately \$115,000 in FY2017. There is an approved capital budget of \$6.5M for the replacement of this 36-inch transmission main along with installation of a redundant main to avoid future disruptions.

## CAPITAL ASSETS

HBPW has \$682.7M invested in capital assets (\$429.1M net of depreciation). The capital assets, net of depreciation, by utility are: Electric Utility \$322.2M, Wastewater Utility \$60.8M; and Water Utility \$46.1M. 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>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>
Land	\$ 22	\$ 21	0	0	\$ 2	\$ 2	\$ 24	\$ 23
Construction in progress	1	204	1	2	2	1	4	207
Capital assets, net	<u>299</u>	<u>88</u>	<u>60</u>	<u>59</u>	<u>42</u>	<u>42</u>	<u>401</u>	<u>189</u>
Total Capital Assets	\$ 322	\$ 313	\$ 61	\$ 61	\$ 46	\$ 45	\$ 429	\$ 419

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

Capital asset activity for the current year included:

#### Electric:

- The Holland Energy Park (HEP) combined cycle power plant project incurred total expenditures of approximately \$268.2M.
- Snowmelt replacement, improvements and expansion expenditures were \$8.7M.
- Distribution improvements and extensions; \$2.2M.
- Substation upgrades; \$881,500.
- Upgrading streetlights to LED; \$472,372.
- Construction began on new fiber optic infrastructure to deliver Shared Gigabit service to downtown Holland. Through FY2018, the project has incurred cost of \$888,652 and added 81 customers.

#### Wastewater:

- The Water Reclamation Facility invested \$409,348 in improvements. Approximately 50% of the capital investment funding is shared with portions of Holland, Park, Laketown and Fillmore Townships. The other 50% was contributed by the Northern Service Area discussed above.
- Sewer main replacements; \$1.3M.
- Lift station improvements and replacements; \$876,409.

#### Water:

- Water mains replacements; \$2.3M.
- New service to HEP; \$237,367.
- Water Treatment Plant improvements; \$188,852.

## **SUMMARY OF DEBT**

HBPW has a total of \$186.7M in installment debt outstanding as of June 30, 2018.

The Electric Utility has a total of \$154.2M in debt outstanding as of June 30, 2018. The Electric Utility issued 25 year revenue bonds in FY2014 in the amount of \$158,840,000 for the new power plant project, with a true interest cost of 4.06%. This debt will be paid off in July, 2039.

The Wastewater Utility has a total of \$8.7M 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. This plant serves the City of Holland and portions of Holland, Park, Laketown and Fillmore Townships.

The Water Utility has outstanding debt of \$12.3M. 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 2016, Pension Bonds were issued by the City of Holland for \$25,000,000 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 \$11.5M (56.36% of the total) as of June 30, 2018.

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

## **GENERAL ECONOMIC CONDITION**

The Holland Energy Park™ was dedicated in October 2017. It is the largest public works project in Holland, Michigan history and the first power plant project to receive the Institute for Sustainable Infrastructure's Envision® Platinum award, which recognizes sustainable public infrastructure. It is a state-of-the-art combined-cycle natural gas-fired power plant that operates at nearly twice the efficiency of the coal plant it replaced. The waste heat from the plant also allows significant expansion of the City's snowmelt system with no appreciable increase in operating costs. The power plant provides the HBPW community with a new, cleaner source of baseload power.

Cutting through the center of Holland Energy Park™, the "red spine" features the visitor center. The visitor center is an interactive space designed to provide education about energy at home and in the community. The spine also functions as a science museum with a number of interactive displays and a glass wall where the public can view the interior of an operating power plant. It contains exhibits and touch-screen stations that teach the public how the plant operates. Visitors can also play a game to create an energy-efficient home. The space is open to groups of 15 or more for self-guided tours. Groups can request visits through the HBPW's website.

HBPW is forecasting growth in demand for electricity in its service area of 1.5% for FY2019 and an average 0.8% for FY2020-FY2023. There are no volume increases forecasted for the Water or Wastewater utilities.

According to the 2017 Business Intelligence Report, published by Lakeshore Advantage (a West Michigan economic developer) the vibrant local economy has created some issues:

- 76% of local companies are experiencing recruiting issues.
- Availability of skilled technical and professional workers. Engineers and skilled production labor are the highest demand areas,
- Workforce availability (49% of local companies are experiencing recruiting issues).

Several local employers were interviewed during the January 2018 meeting of the West Coast Chamber of Commerce regarding talent attraction. The common theme was that it was difficult to obtain the talent employers needed. The strategy that has been successful for local employers is growing talent from within through apprenticeships, part-time work/college arrangements for high school graduates and leadership training programs. Employers are also finding that alternative work schedules help retain and attract employees that cannot work the traditional work hours.

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. HBPW used a consulting service and market trends to evaluate and analyze compensation trends for the area. Wage adjustments and job classification changes were made to remain competitive. The contract with the Utility Workers Union of America was renewed in April and will expire in March 2021. Investment in intern/training programs continues, and staffing costs are expected to increase.

In FY2018, a tactical action (TA) team met to perform a strategy review of the aging 18 electric vehicle charging stations owned by HBPW and located throughout the service territory. The team's recommendation was to assign control and ownership of the charging stations to the owners of the property where the stations are located. The team also recommended a new rebate program for residential and commercial chargers to encourage more customer-owned charger infrastructure. Energy consumed by charging stations is a potential growth area, dependent on how quickly electric vehicles (EV) penetrate the automotive market. Using targeted incentives such as time-of-use rates, this growth area, can be managed to fill in low load times and shave off peaks. The EV TA team remains active in FY2019. The team will meet periodically, will monitor developments of EV and charging station markets and be able to suggest strategy changes for HBPW.

The emergence of economical distributed power generation alternatives is changing the commercial environment HBPW operates in. Rates for very large industrial customers have been implemented to address customer concerns. It is projected that further rate decreases will be made in the near future. A TA team will be formed in FY2019 to create short and long term strategies to address distributed generation through rate policy. The team will confirm HBPW's current obligations and propose HBPW's role in the deployment of future distributed generation resources.

Battery applications are an emerging technology that could offer benefits for the customer and the utility. To gain experience with battery storage capability, a TA team will be formed in FY2019 to evaluate utility scale battery storage, and define the benefits for customers and the HBPW.

The city of Flint, Michigan, suffered a water quality crisis involving lead contamination of drinking water which received nationwide publicity. The Michigan Department of Environmental Quality issued a new rule in June 2018, dropping the state's allowed lead level in drinking water from 15 parts per billion to 12 parts per billion by 2025. It also requires utilities to pay for lead service line replacement at all homes in Michigan within the next 20 years. At least 5 percent of pipes must be replaced annually. HBPW has approximately 2,000 lead goosenecks with galvanized lines in the right-of-ways and 5,000 galvanized service lines on private property that need to be replaced. The estimated cost is \$20M and will need to be considered when setting rates. A TA team will be formed in FY2019 to plan for these replacements.

### **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 operating efficiency at the new power plant, and favorable natural gas prices, there is a rate decrease of 5.7% for the Electric Utility in FY2019. The Board and City Council approved a rate increase of 3.6% for the Wastewater Utility and a 1.9% rate increase for the Water Utility for FY2019. The increase in rates is to support capital acquisitions and expenditures, maintain debt ratios required by bond covenants, and maintain appropriate cash levels.

### **REQUESTS FOR INFORMATION**

This financial report is designed to provide a general overview of the Holland Board of Public Works for all those with an interest in the HBPW's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to Mr. Chuck Warren, Holland Board of Public Works, 625 Hastings Avenue, Holland, Michigan 49423 or [cwarren@hollandbpw.com](mailto: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, 2018

(with comparative totals for the year ended June 30, 2017)

	Electric Utility	Wastewater Utility	Water Utility	Business-Type Activities	
				2018	2017
<b>Assets</b>					
Current assets:					
Cash and cash equivalents	\$ 49,096,042	\$ 7,965,054	\$ 5,496,808	\$ 62,557,904	\$ 74,223,012
Investments	29,373,630	5,105,341	3,611,943	38,090,914	35,355,913
Receivables:					
Accounts receivable	7,349,962	1,086,223	818,925	9,255,110	16,007,307
Unbilled revenue	7,652,791	609,813	705,040	8,967,644	7,775,484
Special assessments and other	-	26,957	69,812	96,769	122,891
Accrued interest	232,071	25,611	6,902	264,584	116,122
Due from other funds of the					
City of Holland	700,834	1,858	20,046	722,738	848,843
Inventories	3,517,934	20,241	233,330	3,771,505	5,498,009
Prepaid items and other assets	3,492,351	39,109	34,500	3,565,960	3,687,297
<b>Total current assets</b>	<b>101,415,615</b>	<b>14,880,207</b>	<b>10,997,306</b>	<b>127,293,128</b>	<b>143,634,878</b>
Noncurrent assets:					
Restricted assets:					
Cash and cash equivalents	19,969,812	6,133,683	2,266,059	28,369,554	14,454,576
Investments	15,426,000	-	-	15,426,000	17,846,067
Accrued interest	-	-	5,724	5,724	5,103
<b>Total restricted assets</b>	<b>35,395,812</b>	<b>6,133,683</b>	<b>2,271,783</b>	<b>43,801,278</b>	<b>32,305,746</b>
Capital assets:					
Land	21,068,626	260,673	2,096,962	23,426,261	23,368,796
Construction in progress	1,267,923	1,423,104	1,737,990	4,429,017	206,874,310
Plant and equipment	478,848,720	104,065,953	71,948,697	654,863,370	427,263,686
Accumulated depreciation	(179,024,715)	(44,891,143)	(29,707,753)	(253,623,611)	(238,271,658)
<b>Total capital assets, net</b>	<b>322,160,554</b>	<b>60,858,587</b>	<b>46,075,896</b>	<b>429,095,037</b>	<b>419,235,134</b>
Other noncurrent assets:					
Due from City of Wyoming	-	-	2,086,386	2,086,386	2,213,944
<b>Total noncurrent assets</b>	<b>357,556,366</b>	<b>66,992,270</b>	<b>50,434,065</b>	<b>474,982,701</b>	<b>453,754,824</b>
<b>Total assets</b>	<b>458,971,981</b>	<b>81,872,477</b>	<b>61,431,371</b>	<b>602,275,829</b>	<b>597,389,702</b>
Deferred outflows of resources					
Deferred charge on refunding	-	-	195,929	195,929	252,380
Deferred pension amounts	150,379	43,289	34,176	227,844	2,228,337
<b>Total deferred outflows of resources</b>	<b>150,379</b>	<b>43,289</b>	<b>230,105</b>	<b>423,773</b>	<b>2,480,717</b>

continued...

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

**Statement of Net Position**

June 30, 2018

(with comparative totals for the year ended June 30, 2017)

	Electric Utility	Wastewater Utility	Water Utility	Business-Type Activities	
				2018	2017
<b>Liabilities</b>					
Current liabilities:					
Accounts payable	\$ 8,407,668	\$ 820,042	\$ 700,809	\$ 9,928,519	\$ 22,762,241
Accrued salaries and wages payable	257,227	73,788	57,000	388,015	276,744
Due to other funds of the City of Holland	16,024	3,526	63,096	82,646	732,659
Deposits	844,508	-	-	844,508	778,381
Accrued interest payable	15,939	23,592	3,623	43,154	44,871
Current portion of long-term debt	1,809,119	780,041	337,816	2,926,976	2,761,827
Current liabilities payable from restricted assets:					
Current portion of long-term debt	5,113,213	-	1,529,741	6,642,954	6,396,793
Accrued interest payable	3,264,703	-	30,670	3,295,373	3,343,698
<b>Total current liabilities</b>	<b>19,728,401</b>	<b>1,700,989</b>	<b>2,722,755</b>	<b>24,152,145</b>	<b>37,097,214</b>
Noncurrent liabilities:					
Long-term debt, net of current portion	8,103,029	10,249,650	1,529,329	19,882,008	21,603,014
Long-term debt payable from restricted assets, net of current portion	154,120,192	-	11,013,693	165,133,885	173,130,907
Net pension liability	824,671	237,404	187,425	1,249,500	4,203,951
Net other postemployment benefit obligation	-	-	-	-	846,054
Total other postemployment benefit liability	507,609	117,967	90,678	716,254	-
<b>Total noncurrent liabilities</b>	<b>163,555,501</b>	<b>10,605,021</b>	<b>12,821,125</b>	<b>186,981,647</b>	<b>199,783,926</b>
<b>Total liabilities</b>	<b>183,283,902</b>	<b>12,306,010</b>	<b>15,543,880</b>	<b>211,133,792</b>	<b>236,881,140</b>
Deferred inflows of resources					
Deferred pension amounts	1,169,225	336,595	265,733	1,771,553	327,254
Deferred other postemployment benefit amounts	300,615	69,862	53,701	424,178	-
<b>Total deferred inflows of resources</b>	<b>1,469,840</b>	<b>406,457</b>	<b>319,434</b>	<b>2,195,731</b>	<b>327,254</b>
Net position					
Net investment in capital assets	162,927,149	52,141,087	33,728,391	248,796,627	230,847,314
Restricted for:					
Debt service	29,802,275	-	1,889,902	31,692,177	21,114,822
Equipment replacement	-	6,133,683	-	6,133,683	5,211,276
Park Township	-	-	381,881	381,881	359,379
Cooperative payments	5,593,537	-	-	5,593,537	5,620,269
Unrestricted	76,045,657	10,928,529	9,797,988	96,772,174	99,508,965
<b>Total net position</b>	<b>\$274,368,618</b>	<b>\$ 69,203,299</b>	<b>\$ 45,798,162</b>	<b>\$389,370,079</b>	<b>\$362,662,025</b>

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, 2018  
(with comparative totals for the year ended June 30, 2017)

	Electric Utility	Wastewater Utility	Water Utility	Business-Type Activities	
				2018	2017
<b>Operating revenues</b>					
Residential sales	\$ 21,611,194	\$ 3,266,931	\$ 3,353,079	\$ 28,231,204	\$ 27,169,266
Commercial sales	35,264,873	2,795,203	3,102,722	41,162,798	40,085,574
Industrial sales	50,279,890	948,640	1,249,765	52,478,295	53,540,495
Wholesale	-	2,038,533	2,397,529	4,436,062	5,035,409
Fees and other	2,805,154	2,582,835	619,948	6,007,937	7,269,633
<b>Total operating revenues</b>	<u>109,961,111</u>	<u>11,632,142</u>	<u>10,723,043</u>	<u>132,316,296</u>	<u>133,100,377</u>
<b>Operating expenses</b>					
Salaries and wages	4,341,985	1,319,504	1,049,187	6,710,676	6,456,087
Employee benefits	2,832,506	807,176	690,578	4,330,260	5,120,884
Production	41,889,167	2,787,049	652,831	45,329,047	55,898,734
Distribution	5,869,591	961,263	666,422	7,497,276	5,926,636
Administrative and general	7,852,355	1,670,381	1,386,160	10,908,896	9,550,217
Depreciation	15,067,564	3,003,211	1,940,921	20,011,696	11,752,158
<b>Total operating expenses</b>	<u>77,853,168</u>	<u>10,548,584</u>	<u>6,386,099</u>	<u>94,787,851</u>	<u>94,704,716</u>
<b>Operating income</b>	<u>32,107,943</u>	<u>1,083,558</u>	<u>4,336,944</u>	<u>37,528,445</u>	<u>38,395,661</u>
<b>Nonoperating income (expense), net</b>					
Investment income	458,933	57,096	(12,378)	503,651	545,087
Interest expense	(6,040,466)	(290,465)	(370,911)	(6,701,842)	(800,439)
Insurance refunds	14,916	-	-	14,916	891,636
Capacity revenue	-	2,865,213	-	2,865,213	-
Gain (loss) on sale and disposal of capital assets	133,853	28,766	(10,222)	152,397	(740,250)
<b>Total nonoperating income (expense), net</b>	<u>(5,432,764)</u>	<u>2,660,610</u>	<u>(393,511)</u>	<u>(3,165,665)</u>	<u>(103,966)</u>
<b>Net income before contributions and transfers</b>	<u>26,675,179</u>	<u>3,744,168</u>	<u>3,943,433</u>	<u>34,362,780</u>	<u>38,291,695</u>
<b>Capital contributions</b>					
Infrastructure	-	-	-	-	408,571
Trunkage	-	309,092	123,566	432,658	214,327
Federal and state capital grants	-	81,064	5,512	86,576	177,994
<b>Total capital contributions</b>	<u>-</u>	<u>390,156</u>	<u>129,078</u>	<u>519,234</u>	<u>800,892</u>
<b>Transfers out to other funds of the City of Holland</b>	<u>(6,296,016)</u>	<u>-</u>	<u>-</u>	<u>(6,296,016)</u>	<u>(5,850,000)</u>
<b>Change in net position before extraordinary item</b>	<u>20,379,163</u>	<u>4,134,324</u>	<u>4,072,511</u>	<u>28,585,998</u>	<u>33,242,587</u>
<b>Extraordinary item (Note 12)</b>	<u>(1,605,380)</u>	<u>-</u>	<u>-</u>	<u>(1,605,380)</u>	<u>(3,603,908)</u>
<b>Change in net position</b>	<u>18,773,783</u>	<u>4,134,324</u>	<u>4,072,511</u>	<u>26,980,618</u>	<u>29,638,679</u>
<b>Net position, beginning of year</b>	<u>255,871,387</u>	<u>65,071,132</u>	<u>41,719,506</u>	<u>362,662,025</u>	<u>333,023,346</u>
Restatement for implementation of GASB 75 (Note 13)	(276,552)	(2,157)	6,145	(272,564)	-
<b>Net position, end of year</b>	<u>\$274,368,618</u>	<u>\$ 69,203,299</u>	<u>\$ 45,798,162</u>	<u>\$389,370,079</u>	<u>\$362,662,025</u>

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

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

**Statement of Cash Flows**

For the Year Ended June 30, 2018

(with comparative totals for the year ended June 30, 2017)

	Electric Utility	Wastewater Utility	Water Utility	Business-Type Activities	
				2018	2017
<b>Cash flows from operating activities</b>					
Receipts from customers and users	\$ 115,105,044	\$ 11,881,244	\$ 11,240,725	\$ 138,227,013	\$ 127,998,203
Payments to suppliers	(66,786,542)	(7,209,816)	(2,988,298)	(76,984,656)	(71,922,564)
Payments to/for employees	(6,634,645)	(2,011,327)	(1,636,113)	(10,282,085)	(9,972,938)
<b>Net cash provided by operating activities</b>	<b>41,683,857</b>	<b>2,660,101</b>	<b>6,616,314</b>	<b>50,960,272</b>	<b>46,102,701</b>
<b>Cash flows from noncapital financing activities</b>					
Insurance refunds	14,916	-	-	14,916	891,636
Capacity revenue	-	2,865,213	-	2,865,213	-
Transfers to other funds of the City of Holland	(6,296,016)	-	-	(6,296,016)	(5,850,000)
Capital Grant - State Drinking Water					
Revolving Fund - Wyoming portion	-	-	2,756	2,756	8,119
<b>Net cash provided by (used in) noncapital financing activities</b>	<b>(6,281,100)</b>	<b>2,865,213</b>	<b>2,756</b>	<b>(3,413,131)</b>	<b>(4,950,245)</b>
<b>Cash flows from capital and related financing activities</b>					
Principal paid on long-term debt	(5,455,545)	(641,293)	(1,604,442)	(7,701,280)	(2,974,689)
Interest paid on long-term debt	(7,747,213)	(291,071)	(398,416)	(8,436,700)	(1,139,936)
Capital contributions received	-	309,092	123,566	432,658	214,327
Proceeds from State Drinking Water					
Revolving Fund Bonds	-	-	1,043	1,043	122,207
Federal and state capital grants	-	81,064	-	81,064	161,756
Capital Grant - State Drinking Water					
Revolving Fund	-	-	5,512	5,512	16,238
Proceeds from sale of capital assets	3,599,667	43,356	3,237	3,646,260	2,487,948
Purchase/construction of property, plant and equipment	(27,397,087)	(2,487,932)	(3,480,443)	(33,365,462)	(36,930,189)
<b>Net cash used in capital and related financing activities</b>	<b>(37,000,178)</b>	<b>(2,986,784)</b>	<b>(5,349,943)</b>	<b>(45,336,905)</b>	<b>(38,042,338)</b>
<b>Cash flows from investing activities</b>					
Interest received	(51,688)	(54,869)	(128,638)	(235,195)	529,879
Purchase of investment securities	(44,419,359)	(5,010,599)	(3,497,193)	(52,927,151)	(53,076,048)
Proceeds from sale or maturities of investment securities	47,753,095	2,650,083	2,798,802	53,201,980	58,299,089
<b>Net cash provided by (used in) investing activities</b>	<b>3,282,048</b>	<b>(2,415,385)</b>	<b>(827,029)</b>	<b>39,634</b>	<b>5,752,920</b>
<b>Net increase in cash and cash equivalents</b>	<b>1,684,627</b>	<b>123,145</b>	<b>442,098</b>	<b>2,249,870</b>	<b>8,863,038</b>
Cash and cash equivalents, beginning of year	67,381,227	13,975,592	7,320,769	88,677,588	79,814,550
<b>Cash and cash equivalents, end of year</b>	<b>\$ 69,065,854</b>	<b>\$ 14,098,737</b>	<b>\$ 7,762,867</b>	<b>\$ 90,927,458</b>	<b>\$ 88,677,588</b>

continued...

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

**Statement of Cash Flows**

For the Year Ended June 30, 2018

(with comparative totals for the year ended June 30, 2017)

	Electric Utility	Wastewater Utility	Water Utility	Business-Type Activities	
				2018	2017
Classified on the statement of net position as					
Cash and cash equivalents	\$ 49,096,042	\$ 7,965,054	\$ 5,496,808	\$ 62,557,904	\$ 74,223,012
Restricted cash and cash equivalents	19,969,812	6,133,683	2,266,059	28,369,554	14,454,576
<b>Total cash and cash equivalents</b>	<b>\$ 69,065,854</b>	<b>\$ 14,098,737</b>	<b>\$ 7,762,867</b>	<b>\$ 90,927,458</b>	<b>\$ 88,677,588</b>
Reconciliation of operating income to net cash provided by operating activities					
Operating income	\$ 32,107,943	\$ 1,083,558	\$ 4,336,944	\$ 37,528,445	\$ 38,395,661
Adjustments to reconcile operating income net cash provided by operating activities:					
Depreciation	15,067,564	3,003,211	1,940,921	20,011,696	11,752,158
Changes in operating assets and liabilities which provided (used) cash:					
Receivables	5,473,690	(266,632)	379,101	5,586,159	(6,013,749)
Due from other funds of the					
City of Holland	(404,046)	515,734	14,417	126,105	759,665
Inventories	124,370	32	(3,278)	121,124	297,816
Prepaid items and other assets	166,273	(23,486)	(21,450)	121,337	(164,385)
Due from the City of Wyoming	-	-	124,165	124,165	54,892
Accounts payable	(11,294,946)	(1,462,086)	(76,690)	(12,833,722)	(663,803)
Accrued salaries and wages payable	78,868	17,307	15,096	111,271	63,207
Due to other funds of the					
City of Holland	(162,964)	(305,583)	(181,466)	(650,013)	(1,063,138)
Deposits	66,127	-	-	66,127	97,018
Landfill postclosure liability	-	-	-	-	1,046,533
Compensated absences	121,894	1,289	12,240	135,423	(99,849)
Net pension liability	(1,949,937)	(561,346)	(443,168)	(2,954,451)	(2,567,588)
Deferred outflows of resources related to the net pension liability	1,320,325	380,093	300,075	2,000,493	4,264,214
Deferred inflows of resources related to the net pension liability	953,237	274,417	216,645	1,444,299	(60,698)
Net other postemployment benefit obligation	-	-	-	-	4,747
Total other postemployment benefit liability	(285,156)	(66,269)	(50,939)	(402,364)	-
Deferred inflows of resources related to the total other postemployment benefit liability	300,615	69,862	53,701	424,178	-
<b>Net cash provided by operating activities</b>	<b>\$ 41,683,857</b>	<b>\$ 2,660,101</b>	<b>\$ 6,616,314</b>	<b>\$ 50,960,272</b>	<b>\$ 46,102,701</b>

concluded

Non-cash transaction - June 30, 2018:

The Electric Fund reported a non-cash extraordinary item of \$1,605,380 which was the result of a loss from certain coal plant spare parts that had been determined to be obsolete in the amount of \$1,632,722 and a recovery of \$27,342 from selling the last of the coal inventory at a higher price than was previously determined as fair market value.

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.

##### *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. At June 30, 2018, the allowance for uncollectible amounts in the electric, wastewater and water utility funds was \$90,143, \$866 and \$2,944, respectively.

#### *Due To/From Other Funds*

During the course of its operations, the Board has numerous transactions between funds to finance operations and to provide services. 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 \$72,682 and \$639,318, 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, 47.54% of the assets constructed have been transferred to the City of Wyoming, along with an equal proportion of the related debt payments to be paid to the Board by the City of Wyoming, based on the installment payments on the related debt. The balance of this receivable at June 30, 2018 is equal to 47.54% of the assets completed and capitalized at that date, less a ratable share of the estimated debt forgiveness and principal payments made by the City of Wyoming.

#### *Deferred Outflows of Resources*

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense) until then. The Board reports 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 and total other postemployment benefit liability, related to changes in expected and actual investment returns, assumptions, and benefits provided in its pension and other postemployment benefit plans.

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

**Notes to Financial Statements**

*Pensions and Other Postemployment Benefits*

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

*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, 2017 financial statements have been reclassified to conform with the June 30, 2018 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	\$ 62,557,904
Investments	38,090,914
Restricted assets:	
Cash and cash equivalents	28,369,554
Investments	15,426,000
	<hr/>
Total	<u><u>\$ 144,444,372</u></u>

Deposits and investments consist of the following at June 30, 2018:

Deposits and investments	
Checking and savings accounts	\$ 80,946,917
Certificates of deposit (due within one to five years)	6,651,776
Investments	56,842,729
Cash on hand	2,950
	<hr/>
Total	<u><u>\$ 144,444,372</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.

	No maturity	Due < 1 year	Due in 1-5 years	Totals
U.S. government securities	\$ -	\$ 7,648,992	\$ 36,685,377	\$ 44,334,369
Commercial paper	-	6,914,823	-	6,914,823
Michigan Public Power Agency (MPPA) investments	5,593,537	-	-	5,593,537
	<u>\$ 5,593,537</u>	<u>\$ 14,563,815</u>	<u>\$ 36,685,377</u>	<u>\$ 56,842,729</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, \$83,910,842 of the Board's bank balance of \$88,362,407 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+	\$ 44,334,369
S&P A1	6,914,823
Unrated	<u>5,593,537</u>
	<u>\$ 56,842,729</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, MPPA 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, 2018:

- U.S. Treasury securities with a balance of \$44,334,369 at June 30, 2018 (level 2 inputs).
- Commercial paper with a balance of \$6,914,823 at June 30, 2018 (level 2 inputs).
- Assets held with Michigan Public Power Agency, with a balance of \$5,593,537 (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	\$ -	\$ 559,414	\$ 1,265,147	\$ 1,824,561
Insurance/risk retention	<u>5,241,384</u>	<u>773,674</u>	<u>1,814,248</u>	<u>7,829,306</u>
<b>Total</b>	<u>\$ 5,241,384</u>	<u>\$ 1,333,088</u>	<u>\$ 3,079,395</u>	<u>\$ 9,653,867</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, 2018 is as follows:

	Beginning Balance	Additions	Deletions	Transfers	Ending Balance
<b>Business-type activities</b>					
Capital assets, not being depreciated:					
Land	\$ 23,368,796	\$ 40,097	\$ -	\$ 17,368	\$ 23,426,261
Construction in progress	206,874,310	27,987,321	(4,803)	(230,427,811)	4,429,017
	<u>230,243,106</u>	<u>28,027,418</u>	<u>(4,803)</u>	<u>(230,410,443)</u>	<u>27,855,278</u>
Capital assets, being depreciated:					
Production plant	196,229,752	1,480,733	(4,365,711)	201,190,266	394,535,040
Distribution/Collection system	174,726,135	2,424,695	(763,710)	6,486,488	182,873,608
Transmission	30,353,517	-	(412,021)	503,465	30,444,961
General plant	25,954,282	1,432,616	(2,607,361)	22,230,224	47,009,761
	<u>427,263,686</u>	<u>5,338,044</u>	<u>(8,148,803)</u>	<u>230,410,443</u>	<u>654,863,370</u>
Less accumulated depreciation for:					
Production plant	(112,359,925)	(12,194,135)	3,396,454	-	(121,157,606)
Distribution/Collection system	(97,291,814)	(4,677,037)	551,656	-	(101,417,195)
Transmission	(14,230,106)	(874,520)	400,897	-	(14,703,729)
General plant	(14,389,813)	(2,266,004)	310,736	-	(16,345,081)
	<u>(238,271,658)</u>	<u>(20,011,696)</u>	<u>4,659,743</u>	<u>-</u>	<u>(253,623,611)</u>
Total capital assets being depreciated, net	<u>188,992,028</u>	<u>(14,673,652)</u>	<u>(3,489,060)</u>	<u>230,410,443</u>	<u>401,239,759</u>
Business-type activities capital assets, net	<u>\$ 419,235,134</u>	<u>\$ 13,353,766</u>	<u>\$ (3,493,863)</u>	<u>\$ -</u>	<u>\$ 429,095,037</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	\$ 172,507,567	\$ 1,043	\$ (6,010,000)	\$ 166,498,610	\$ 6,145,000
Pension bonds	12,807,811	-	(1,296,280)	11,511,531	1,316,006
Capital lease	9,112,500	-	(395,000)	8,717,500	405,000
Total installment debt	194,427,878	1,043	(7,701,280)	186,727,641	7,866,006
Unamortized net premium/ discount on revenue bonds	7,020,133	-	(1,741,904)	5,278,229	497,954
Compensated absences	1,070,547	1,205,970	(1,070,547)	1,205,970	1,205,970
Landfill postclosure	1,373,983	-	-	1,373,983	-
	<u>\$ 203,892,541</u>	<u>\$ 1,207,013</u>	<u>\$ (10,513,731)</u>	<u>\$ 194,585,823</u>	<u>\$ 9,569,930</u>

Revenue bonds

\$5,395,110 2011A Drinking Water Revolving Bonds, due in annual installments of \$236,500 to \$368,610 plus interest at 2.5%, payable semi-annually, through April 1, 2032. \$ 4,428,610

\$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. 7,830,000

\$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. 154,240,000

Total revenue bonds 166,498,610

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. 11,511,531

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. 8,717,500

Total long-term debt \$ 186,727,641

**HOLLAND BOARD OF PUBLIC WORKS**  
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**Notes to Financial Statements**

The annual requirements to maturity on installment debt outstanding as of June 30, 2018 are as follows:

Year Ended June 30,	Principal	Interest	Total
2019	\$ 7,866,006	\$ 7,432,769	\$ 15,298,775
2020	8,038,868	7,281,615	15,320,483
2021	8,249,866	7,081,499	15,331,365
2022	8,446,500	6,895,966	15,342,466
2023	8,753,452	6,601,516	15,354,968
2024-2028	38,816,839	28,795,096	67,611,935
2029-2033	39,788,610	21,165,846	60,954,456
2034-2038	45,852,500	11,599,197	57,451,697
2039	20,915,000	1,524,300	22,439,300
	<u>\$ 186,727,641</u>	<u>\$ 98,377,804</u>	<u>\$ 285,105,445</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 statement of net position date. The \$1,373,983 reported as landfill closure and postclosure liability at June 30, 2018, 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, 2018, the closure and postclosure costs have been assured by a \$100,000 letter of credit and \$16,776 held in trust.

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

**Notes to Financial Statements**

**5. PENSION 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](http://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, 2017 valuation date, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	129
Inactive employees entitled to but not yet receiving benefits	34
Active employees	<u>64</u>
 Total membership	 <u><u>227</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, 2018, monthly employer contributions ranged from \$2,835 to \$21,915, 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, 2017, 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, 2017 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 the December 31, 2017 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, 2017 was 8.0%. 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, 2016	\$ 54,214,123	\$ 50,010,172	\$ 4,203,951
Changes for the year:			
Service cost	468,117	-	468,117
Interest	4,227,124	-	4,227,124
Differences between expected and actual experience	(705,307)	-	(705,307)
Employer contributions	-	404,799	(404,799)
Employee contributions	-	145,954	(145,954)
Net investment income	-	6,496,694	(6,496,694)
Benefit payments, including refunds of employee contributions	(3,218,276)	(3,218,276)	-
Administrative expense	-	(103,062)	103,062
Net changes	<u>771,658</u>	<u>3,726,109</u>	<u>(2,954,451)</u>
Balances at December 31, 2017	<u>\$ 54,985,781</u>	<u>\$ 53,736,281</u>	<u>\$ 1,249,500</u>

*Sensitivity of the Net Pension Liability to Changes in the Discount Rate.* The following presents the net pension liability of the Board, calculated using the discount rate of 8.0%, as well as what the Board's net pension liability (asset) 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%)
\$ 6,817,694	\$ 1,249,500	\$ (3,534,698)

*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/Inflows of Resources Related to Pensions*

For the year ended June 30, 2018, the Board recognized pension expense of \$945,474. 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	\$ -	\$ 352,653	\$ (352,653)
Net difference between projected and actual earnings on pension plan investments	-	1,418,900	(1,418,900)
	-	1,771,553	(1,771,553)
Contributions subsequent to the measurement date	227,844	-	227,844
<b>Total</b>	<b>\$ 227,844</b>	<b>\$ 1,771,553</b>	<b>\$ (1,543,709)</b>

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, 2019. Other amounts reported as deferred outflows/inflows of resources related to the pension will be recognized in pension expense as follows:

Year Ended June 30,	Amount
2019	\$ (318,364)
2020	(88,192)
2021	(843,658)
2022	(521,339)
<b>Total</b>	<b>\$ (1,771,553)</b>

*Payable to the Pension Plan.* At June 30, 2018, the Board reported a payable of \$37,974 for the outstanding amount of contributions to the pension plan required for the year ended June 30, 2018.

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 \$607,368 and employees contributed \$148,862 to the defined contribution plan.

**HOLLAND BOARD OF PUBLIC WORKS**  
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**Notes to Financial Statements**

**6. OTHER POSTEMPLOYMENT BENEFITS (OPEB) PLAN**

*General Information About the OPEB Plan*

*Plan Description.* The Board participates in the City of Holland Retiree Healthcare Plan (the “OPEB Plan”), a single-employer defined benefit healthcare plan administered by the City. The OPEB Plan provides 100% of health insurance benefits to eligible retirees and their dependents. The benefit is provided upon the employee attaining 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. Stand-alone financial statements are not issued for the OPEB Plan.

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

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

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

*Plan Membership.* At June 30, 2018, OPEB Plan membership consisted of the following:

Inactive plan members or beneficiaries currently receiving benefit payments	10
Active plan members	170
	<hr/>
Total membership	180
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*Total OPEB Liability*

The total OPEB liability was measured as of June 30, 2018, and was determined by an actuarial valuation as of that date.

**HOLLAND BOARD OF PUBLIC WORKS**  
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**Notes to Financial Statements**

*Actuarial Assumptions.* The total OPEB liability in the June 30, 2018 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

Inflation	Implicit in expected payroll increases
Salary increases	2.0%
Investment rate of return	N/A - plan is not pre-funded
20-year Aa municipal bond rate	3.0%
Healthcare cost trend rate	8.0% for pre-65, graded down 0.5% per year to an ultimate rate of 5.0%, and 5.0% for all years for post-65
Mortality	IRS Regulations for 2018 (1.430(h)(3)) separately for males and females as well as annuitants and non-annuitants. Based on RP-2000 Tables with Scale AA.

As this plan is not pre-funded, no long-term expected rate of return on plan investments was determined.

*Discount Rate.* The discount rate used to measure the total OPEB liability was 3.0%. Because the OPEB Plan does not have a dedicated OPEB trust, there are no assets projected to be sufficient to make projected future benefit payments of current plan members. Projected benefits were discounted at a discount rate reflecting a 20-year AA/Aa tax-exempt municipal bond yield. A single equivalent discount rate that yields the same present value of benefits is calculated. This discount rate is used to determine the total OPEB liability.

*Changes in the Total OPEB Liability*

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

	Total OPEB Liability (a)
Balances at June 30, 2017	<u>\$ 1,118,618</u>
Changes for the year:	
Service cost	47,727
Interest	34,642
Differences between expected and actual experience	(296,134)
Changes of assumptions	(165,318)
Benefit payments, including refunds of employee contributions	(23,281)
Net changes	<u>(402,364)</u>
Balances at June 30, 2018	<u>\$ 716,254</u>

**HOLLAND BOARD OF PUBLIC WORKS**  
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**Notes to Financial Statements**

Changes of assumptions for the June 30, 2018 actuarial valuation include mortality updated to 2018 IRC rates for all groups, discount rate lowered to 3.0% to reflect current municipal bond rates, and medical trend rates were reset starting at 8.0% in 2019.

*Sensitivity of the Total OPEB Liability to Changes in the Discount Rate.* The following presents the total OPEB liability of the Board, calculated using the discount rate of 3.0%, as well as what the Board's total OPEB liability would be if it were calculated using a discount rate that is 1% lower (2.0%) or 1% higher (4.0%) than the current rate:

1% Decrease (2.0%)	Current Discount Rate (3.0%)	1% Increase (4.0%)
\$ 784,466	\$ 716,254	\$ 653,680

*Sensitivity of the Total OPEB Liability to Changes in the Healthcare Cost Trend Rates.* The following presents the total OPEB liability of the Board, calculated using the healthcare cost trend rate of 8.0% for pre-65, graded down 0.5% per year to an ultimate rate of 5.0%, and 5.0% for all years for post-65, as well as what the Board's total OPEB liability would be if it were calculated using a healthcare cost trend rate that is 1% lower (7.0% trending to 4.0%) or 1% higher (9.0% trending to 6.0%) than the current rate:

1% Decrease (7.0 trending to 4.0%)	Current Healthcare Trent Rate (8.0% trending to 5.0%)	1% Increase (9.0% trending to 6.0%)
\$ 666,380	\$ 716,254	\$ 775,825

*OPEB Expense and Deferred Inflows of Resources Related to OPEB*

For the year ended June 30, 2018, the Board recognized OPEB expense of \$45,097. The Board reported deferred inflows of resources related to OPEB from the following sources:

	Deferred Inflows of Resources
Difference between expected and actual experience	\$ 272,214
Changes of assumptions	151,964
	<u>\$ 424,178</u>

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

**Notes to Financial Statements**

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

Year Ended June 30,	Amount
2019	\$ 37,274
2020	37,274
2021	37,274
2022	37,274
2023	37,274
Thereafter	<u>237,808</u>
<b>Total</b>	<b><u>\$ 424,178</u></b>

*Payable to the OPEB Plan.* At June 30, 2018, the Board had no amounts payable for contributions to the OPEB plan.

**7. RISK MANAGEMENT**

The Board is exposed to various risks of loss related to property loss, torts, errors and omissions, employee injuries (workers’ compensation), as well as medical benefits provided to employees. The Board is self-insured for these risks through the City of Holland’s self-insurance program except for workers’ compensation risks which are covered through commercial insurance. The City purchases excess reinsurance and allocates risk management costs among the various funds of the City, including the Board of Public Works. The schedule of changes in the self-insured liability balances is included in the City of Holland’s financial statements for the year ended June 30, 2018.

**8. COMMITMENTS**

The Board has contracts outstanding for remaining project costs of approximately \$2,652,000 for various electric utility project, \$17,580,000 for electric equipment maintenance, \$375,000 for various water projects, and \$870,000 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.

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

### Notes to Financial Statements

Under the joint venture, the Board has entered into Power Sales Contracts and Project Support Contracts. These contracts provide for the Board to purchase from MPPA 15.66% of the energy generated by MPPA's 37.22% ownership in Detroit Edison's Belle River Unit No. 1, which became operational in August 1984, 26.35% of MPPA's 4.8% ownership in Consumers Energy's Campbell Unit No. 3, which became operational in September 1980, and 13.35% of the energy generated by MPPA's 5.16% ownership in the AMP Fremont Energy Center (AFEC), which became operational in June 2012. The contracts required the Board to purchase approximately 38 and 10 megawatts of power, respectively, in 1995 and thereafter for the Belle Isle and Campbell projects. The contracts relating to the Fremont project requires the Board to purchase approximately 8 megawatts of power in 2013 and thereafter.

For the year ended June 30, 2018, the Board recognized expenses totaling \$13,987,570 under the terms of the contracts which represented \$1,143,960 for fixed operating costs, \$3,543,051 for debt service and \$9,300,559 for the purchase of power. Accounts payable to MPPA totaled \$429,775 at June 30, 2018. Under the terms of its contracts, the Board must make minimum annual payments equal to its share of debt service and its share of the fixed operating costs of Detroit Edison's Belle River No. 1, Consumers Energy's Campbell Unit No. 3 and American Municipal Power's AMP Fremont Energy Center Project (AFEC). The estimated required payments presented below consider the dynamics of the PJM and MISO markets. Debt service payments assume no early calls or refinancing of existing revenue bonds.

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

Year Ended June 30,	Campbell		Fremont (AFEC)		Total
	Debt Service	Fixed Operating	Debt Service	Fixed Operating	
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	278,337	323,447	2,140,586
2022	555,487	216,854	278,321	333,151	1,383,813
2023	-	-	278,404	343,145	621,549
2024-2028	-	-	1,391,741	1,777,676	3,169,417
2029-2033	-	-	1,391,888	1,827,956	3,219,844
2034-2038	-	-	1,391,304	1,868,502	3,259,806
2039-2043	-	-	1,252,149	1,920,702	3,172,851
	<u>\$ 3,889,667</u>	<u>\$ 1,462,045</u>	<u>\$ 6,818,837</u>	<u>\$ 8,983,415</u>	<u>\$ 21,153,964</u>

Debt Service requirements for the Campbell and Fremont projects expire in the years 2019 and 2043. 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, 2018, was as follows:

Capital assets:	
Capital assets not being depreciated	\$ 27,855,278
Capital assets being depreciated, net	<u>401,239,759</u>
	<u>429,095,037</u>
Related debt:	
Total installment debt	186,727,641
Less pension bonds	(11,511,531)
Net bond premium/discount	5,278,229
Deferred charge on refunding	<u>(195,929)</u>
	<u>180,298,410</u>
Net investment in capital assets	<u>\$ 248,796,627</u>

**12. EXTRAORDINARY ITEM**

The Electric Fund reported a non-cash extraordinary item of \$1,605,380 which was the result of a loss from certain coal plant spare parts that had been determined to be obsolete in the amount of \$1,632,722 and a recovery of \$27,342 from selling the last of the coal inventory at a higher price than was previously determined as fair market value.

**13. RESTATEMENT**

The Board adopted the provisions of GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*, in the current year. In connection with the implementation of this standard, the prior reported net other postemployment benefit obligation was eliminated. As a result of this change, beginning net position of the electric utility, wastewater utility, water utility, and business-type activities was increased (decreased) by (\$276,552), (\$2,157), \$6,145, and (\$272,564), respectively.

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

**Notes to Financial Statements**

**14. CAPACITY REVENUE**

The wastewater utility received a payment of \$2,865,213 from the Northern Service Area, consisting of Holland Township, Park Township, and Ottawa County, to change their water reclamation plant capacity allocation from 30% to 50% for flow and pollutant loading. The payment represents \$1,854,863 for bond funded assets and \$1,030,350 for equipment replacement funded assets. The water reclamation facility will continue to be operated and maintained by Holland City, acting through its HBPW, as an independent contractor in accordance with Good Utility Practice.



**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			
	2018	2017	2016	2015
<b>Total pension liability</b>				
Service cost	\$ 468,117	\$ 494,584	\$ 508,116	\$ 534,319
Interest	4,227,124	4,131,826	3,988,984	3,877,167
Changes in benefits	-	-	(6,591)	-
Differences between expected and actual experience	(705,307)	(266,556)	(581,928)	-
Changes of assumptions	-	-	2,486,206	-
Benefit payments, including refunds of employee contributions	(3,218,276)	(3,092,525)	(3,090,521)	(2,995,515)
<b>Net change in total pension liability</b>	<u>771,658</u>	<u>1,267,329</u>	<u>3,304,266</u>	<u>1,415,971</u>
Total pension liability, beginning of year	<u>54,214,123</u>	<u>52,946,794</u>	<u>49,642,528</u>	<u>48,226,557</u>
Total pension liability, end of year	<u>54,985,781</u>	<u>54,214,123</u>	<u>52,946,794</u>	<u>49,642,528</u>
<b>Plan fiduciary net position</b>				
Employer contributions	404,799	1,623,277	15,566,146	1,500,624
Employee contributions	145,954	158,497	140,340	128,691
Net investment income (loss)	6,496,694	5,249,048	(448,173)	2,086,857
Benefit payments, including refunds of employee contributions	(3,218,276)	(3,092,525)	(3,090,521)	(2,995,515)
Administrative expense	(103,062)	(103,380)	(76,287)	(76,418)
<b>Net change in plan fiduciary net position</b>	<u>3,726,109</u>	<u>3,834,917</u>	<u>12,091,505</u>	<u>644,239</u>
Plan fiduciary net position, beginning of year	<u>50,010,172</u>	<u>46,175,255</u>	<u>34,083,750</u>	<u>33,439,511</u>
Plan fiduciary net position, end of year	<u>53,736,281</u>	<u>50,010,172</u>	<u>46,175,255</u>	<u>34,083,750</u>
<b>Board's net pension liability</b>	<u>\$ 1,249,500</u>	<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	97.7%	92.2%	87.2%	68.7%
Covered payroll	\$ 4,647,824	\$ 4,899,166	\$ 5,317,097	\$ 5,581,027
Board's net pension liability as a percentage of covered payroll	26.9%	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
2018	\$ 54,985,781	\$ 53,736,281	\$ 1,249,500	97.7%	\$ 4,647,824	26.9%
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
2018	\$ 455,133	\$ 455,133	\$ -	\$ 4,715,326	9.7%
2017	355,020	355,020	-	5,106,936	7.0%
2016	957,317	16,226,621	15,269,304	5,543,402	292.7%
2015	1,570,584	1,570,584	-	5,483,611	28.6%

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 (2018, based on the 12/31/2015 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	2.5%
Salary increases	3.75% in the long-term
Investment rate of return	7.5%, net of investment and administrative expense including inflation
Retirement age	Age-based table of rates that are specific to the type of eligibility condition. The Normal Retirement rates were first used for the December 31, 2015 actuarial valuations. The Early Retirement rates were first used for the December 31, 2015 actuarial valuations.
Mortality	2014 Group Annuity Mortality Table of a 50% Male and 50% Female blend. The mortality tables were first used for the December 31, 2015 actuarial valuations.

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

**Unaudited Supplementary Information**  
 Other Postemployment Benefits Plan

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

	Year Ended June 30
	2018
Total OPEB liability	
Service cost	\$ 47,727
Interest	34,642
Differences between expected and actual experience	(296,134)
Changes of assumptions	(165,318)
Benefit payments, including refunds of employee contributions	(23,281)
Net change in total OPEB liability	<u>(402,364)</u>
Total OPEB liability, beginning of year	<u>1,118,618</u>
Total OPEB liability, end of year	<u>\$ 716,254</u>
Covered-employee payroll	n/a
Board's total OPEB liability as a percentage of covered-employee payroll	n/a

Notes: GASB 75 was implemented in fiscal year 2018. This schedule is being built prospectively. Ultimately, 10 years of data will be presented.

As the retirement benefit is a fixed amount, the covered payroll and related ratio is not applicable to be reported.

Changes of assumptions for the June 30, 2018 actuarial valuation include mortality updated to 2018 IRC rates for all groups, discount rate lowered to 3.0% to reflect current municipal bond rates, and medical trend rates were reset starting at 8.0% in 2019.

A Schedule of Contributions, inclusive of the amounts for the Board, is available in the City of Holland, Michigan's Comprehensive Annual Financial Report.

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

**Unaudited Supplementary Information**  
 Other Postemployment Benefits Plan

Schedule of the Total OPEB Liability

Fiscal Year Ended June 30,	Total OPEB Liability	Covered-Employee Payroll	Total OPEB Liability as Percentage of Covered-Employee
2018	\$ 716,254	n/a	n/a

Note: GASB 75 was implemented in fiscal year 2018. This schedule is being built prospectively. Ultimately, 10 years of data will be presented.

As the retirement benefit is a fixed amount, the covered payroll and related ratio is not applicable to be reported.

## SUPPLEMENTARY INFORMATION

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

**Combining Statement of Net Position**  
June 30, 2017

	Electric Utility	Wastewater Utility	Water Utility	Total
<b>Assets</b>				
Current assets:				
Cash and cash equivalents	\$ 57,915,426	\$ 11,213,382	\$ 5,094,204	\$ 74,223,012
Investments	32,353,329	203,782	2,798,802	35,355,913
Receivables:				
Accounts receivable	13,770,043	980,130	1,257,134	16,007,307
Unbilled revenue	6,706,400	438,663	630,421	7,775,484
Special assessments and other	-	37,568	85,323	122,891
Accrued interest	101,721	5,623	8,778	116,122
Due from other funds of the				
City of Holland	296,788	517,592	34,463	848,843
Inventories	5,247,684	20,273	230,052	5,498,009
Prepaid items and other assets	3,658,624	15,623	13,050	3,687,297
<b>Total current assets</b>	<b>120,050,015</b>	<b>13,432,636</b>	<b>10,152,227</b>	<b>143,634,878</b>
Noncurrent assets:				
Restricted assets:				
Cash and cash equivalents	9,465,801	2,762,210	2,226,565	14,454,576
Investments	15,399,766	2,446,301	-	17,846,067
Accrued interest	-	2,765	2,338	5,103
<b>Total restricted assets</b>	<b>24,865,567</b>	<b>5,211,276</b>	<b>2,228,903</b>	<b>32,305,746</b>
Capital assets:				
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
Plant and equipment	253,267,816	104,657,128	69,338,742	427,263,686
Accumulated depreciation	(164,656,626)	(45,419,269)	(28,195,763)	(238,271,658)
<b>Total capital assets, net</b>	<b>313,296,845</b>	<b>61,388,456</b>	<b>44,549,833</b>	<b>419,235,134</b>
Other noncurrent assets:				
Due from City of Wyoming	-	-	2,213,944	2,213,944
<b>Total noncurrent assets</b>	<b>338,162,412</b>	<b>66,599,732</b>	<b>48,992,680</b>	<b>453,754,824</b>
<b>Total assets</b>	<b>458,212,427</b>	<b>80,032,368</b>	<b>59,144,907</b>	<b>597,389,702</b>
Deferred outflows of resources				
Deferred charge on refunding	-	-	252,380	252,380
Deferred pension amounts	1,470,704	423,382	334,251	2,228,337
<b>Total deferred outflows of resources</b>	<b>1,470,704</b>	<b>423,382</b>	<b>586,631</b>	<b>2,480,717</b>

continued...

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

**Combining Statement of Net Position**  
June 30, 2017

	Electric Utility	Wastewater Utility	Water Utility	Total
<b>Liabilities</b>				
Current liabilities:				
Accounts payable	\$ 19,702,614	\$ 2,282,128	\$ 777,499	\$ 22,762,241
Accrued salaries and wages payable	178,359	56,481	41,904	276,744
Due to other funds of the City of Holland	178,988	309,109	244,562	732,659
Deposits	778,381	-	-	778,381
Accrued interest payable	16,845	24,198	3,828	44,871
Current portion of long-term debt	1,674,207	765,004	322,616	2,761,827
Current liabilities payable from restricted assets:				
Current portion of long-term debt	4,904,729	-	1,492,064	6,396,793
Accrued interest payable	3,310,703	-	32,995	3,343,698
<b>Total current liabilities</b>	<b>30,744,826</b>	<b>3,436,920</b>	<b>2,915,468</b>	<b>37,097,214</b>
Noncurrent liabilities:				
Long-term debt, net of current portion	8,971,593	10,904,691	1,726,730	21,603,014
Long-term debt payable from restricted assets, net of current portion	160,588,516	-	12,542,391	173,130,907
Net pension liability	2,774,608	798,750	630,593	4,203,951
Net other postemployment benefit obligation	516,213	182,079	147,762	846,054
<b>Total noncurrent liabilities</b>	<b>172,850,930</b>	<b>11,885,520</b>	<b>15,047,476</b>	<b>199,783,926</b>
<b>Total liabilities</b>	<b>203,595,756</b>	<b>15,322,440</b>	<b>17,962,944</b>	<b>236,881,140</b>
Deferred inflows of resources				
Deferred pension amounts	215,988	62,178	49,088	327,254
Net position				
Net investment in capital assets	147,803,600	52,275,956	30,767,758	230,847,314
Restricted for:				
Debt service	19,245,298	-	1,869,524	21,114,822
Equipment replacement	-	5,211,276	-	5,211,276
Park Township	-	-	359,379	359,379
Cooperative payments	5,620,269	-	-	5,620,269
Unrestricted	83,202,220	7,583,900	8,722,845	99,508,965
<b>Total net position</b>	<b>\$ 255,871,387</b>	<b>\$ 65,071,132</b>	<b>\$ 41,719,506</b>	<b>\$ 362,662,025</b>

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, 2017

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

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

	Electric Utility	Wastewater Utility	Water Utility	Total
Classified on the statement of net position as				
Cash and cash equivalents	\$ 57,915,426	\$ 11,213,382	\$ 5,094,204	\$ 74,223,012
Restricted cash and cash equivalents	9,465,801	2,762,210	2,226,565	14,454,576
<b>Total cash and cash equivalents</b>	<b>\$ 67,381,227</b>	<b>\$ 13,975,592</b>	<b>\$ 7,320,769</b>	<b>\$ 88,677,588</b>
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
Adjustments to reconcile operating income to net cash provided by operating activities:				
Depreciation	7,516,374	2,481,081	1,754,703	11,752,158
Changes in operating assets and liabilities which provided (used) cash:				
Receivables	(6,727,147)	94,452	618,946	(6,013,749)
Due from other funds of the City of Holland	519,144	236,342	4,179	759,665
Inventories	260,119	31,399	6,298	297,816
Prepaid items and other assets	(217,111)	28,962	23,764	(164,385)
Due from the City of Wyoming	-	-	54,892	54,892
Accounts payable	(821,668)	(178,718)	336,583	(663,803)
Accrued salaries and wages payable	46,151	8,350	8,706	63,207
Due to other funds of the City of Holland	(609,925)	29,965	(483,178)	(1,063,138)
Deposits	97,018	-	-	97,018
Landfill postclosure liability	1,046,533	-	-	1,046,533
Compensated absences	(64,168)	(30,444)	(5,237)	(99,849)
Net pension liability	(1,694,608)	(487,842)	(385,138)	(2,567,588)
Deferred outflows of resources related to the net pension liability	2,814,381	810,201	639,632	4,264,214
Deferred inflows of resources related to the net pension liability	(40,060)	(11,533)	(9,105)	(60,698)
Net other postemployment benefit obligation	1,510	1,605	1,632	4,747
<b>Net cash provided by operating activities</b>	<b>\$ 34,939,055</b>	<b>\$ 4,884,412</b>	<b>\$ 6,279,234</b>	<b>\$ 46,102,701</b>

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.

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.

**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
2018	1,296,320	-	0.31%	35,435	409,348	6,133,683

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, 2018

	Electric Utility	Wastewater Utility	Water Utility	Total
Land	\$ 21,068,626	\$ 260,673	\$ 2,096,962	\$ 23,426,261
Construction in progress	1,267,923	1,423,104	1,737,990	4,429,017
Production plant	317,741,392	58,988,835	17,804,813	394,535,040
Distribution/collection system	108,459,723	37,555,644	36,858,241	182,873,608
Transmission	15,570,931	2,249,786	12,624,244	30,444,961
General plant	37,076,674	5,271,688	4,661,399	47,009,761
Total	501,185,269	105,749,730	75,783,649	682,718,648
Accumulated depreciation	(179,024,715)	(44,891,143)	(29,707,753)	(253,623,611)
Total capital assets, net	<u>\$ 322,160,554</u>	<u>\$ 60,858,587</u>	<u>\$ 46,075,896</u>	<u>\$ 429,095,037</u>

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

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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 12, 2018

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, 2018, 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 12, 2018.

#### 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 Loborn LLC*