

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



Year Ended  
June 30, 2022

Financial  
Statements and  
Supplementary  
Information

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

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## INDEPENDENT AUDITORS' REPORT

October 18, 2022

Board of Directors  
Holland Board of Public Works  
Holland, Michigan

### Report on the Audit of the Financial Statements

#### *Opinions*

We have audited 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, 2022, and the related notes to the financial statements, which collectively comprise the Board's basic financial statements as listed in the table of contents.

In our opinion, the accompanying 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, 2022, and the respective changes in financial position and cash flows thereof in accordance with accounting principles generally accepted in the United States of America.

#### ***Restatement - Change in Accounting Principle***

As described in Note 14, the Board implemented the provisions of GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989, FASB and other AICPA Pronouncements, Paragraphs 476-500*, in the current year. This Statement provides for the deferral of expense and revenue recognition through the use of regulatory assets and liabilities in order to follow the principle of matching costs and revenues as part of the ratemaking process. Accordingly, beginning net position of the wastewater and water utility funds were restated. Our opinion is not modified with respect to this matter.

#### ***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, 2022, 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.

### ***Basis for Opinions***

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Independent Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Board and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

### ***Responsibilities of Management for the Financial Statements***

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Board's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

### ***Independent Auditors' Responsibilities for the Audit of the Financial Statements***

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- exercise professional judgment and maintain professional skepticism throughout the audit.
- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- obtain an understanding of internal control relevant to the audit 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 Board's internal control. Accordingly, no such opinion is expressed.
- evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Board's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control–related matters that we identified during the audit.

### ***Supplementary 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 supplementary information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

### ***Other Information***

Management is responsible for the other information included in the financial statements. The other information comprises the management's discussion and analysis and the schedules for the pension and other postemployment benefit plans as listed in the table of contents but does not include the basic financial statements and our auditors' report thereon. Our opinions on the basic financial statements do not cover the other information, and we do not express an opinion or any form of assurance thereon.

In connection with our audit of the basic financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the basic financial statements, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

### ***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated October 18, 2022, on our consideration of the Board's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely 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 effectiveness of the Board's 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 Lohorn LLC". The signature is written in a cursive, flowing style.



**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, 2022 and 2021. 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 30,281 residential, commercial and industrial customers in the City of Holland and portions of Holland Charter, Park, Laketown and Fillmore Townships. HBPW has 4,691 commercial and industrial electric customers (15% of total customers) which together account for 83% of the electric load in kilowatt hours.
  - Within the electric utility, a broadband network operation that provides dark fiber, active Ethernet, and shared gigabit services to 628 residential, commercial and industrial customers.
- A Water Reclamation Facility (WRF), with an average daily treatment capacity of 12 million gallons, and associated sanitary sewer collection system. The HBPW's collection system serves 13,059 residential, commercial and industrial customers in the City of Holland, Laketown Township, Fillmore Township, and the portions of Holland Charter and Park Townships south of Lake Macatawa and the Macatawa River. The WRF also treats wastewater on a wholesale basis from the portions of Holland Charter and Park Townships north of Lake Macatawa and the Macatawa River. Wholesale sales represent 47% of the WRF's influent flow.
- A Water Treatment Plant (WTP), with capacity to treat 38.5 million gallons per day, and associated transmission and distribution system. HBPW's distribution system serves 18,052 residential, commercial, and industrial customers located in the City of Holland and portions of Park, Laketown, Fillmore and Holland Charter Townships. Water is also sold on a wholesale basis to the City of Zeeland. Wholesale sales represent 40% of the WTP output. The HBPW treats water from Lake Michigan before distribution to customers.

### FINANCIAL HIGHLIGHTS

The net position of Holland Board of Public Works has improved by \$12 million (2.6%) over the prior fiscal year.

The combined assets and deferred outflows of resources of HBPW exceeded its liabilities and deferred inflows of resources at the close of the most recent fiscal year by \$484.1M (net position). Of this amount, \$89.1M (18.4 percent) was unrestricted and may be used to meet the HBPW's ongoing obligations to customers and creditors. A substantial portion of the HBPW's net position, \$384.1M (79.3 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.

## Adoption of Regulatory Accounting

The use of regulatory accounting is common practice in the municipal utility industry, used to bridge the gap between costs incurred in one period that may benefit future periods, and to recover those costs from utility customers through rates. Regulatory accounting is also used in a similar manner to apply income received in one period to future periods benefitted. In May HBPW received approval to adopt regulatory accounting for certain transactions, in order to align revenues or expenses to expected rate recovery from customers. Regulatory accounting minimizes the fluctuations in the financial statements and rate adjustments to customers. Governmental Accounting Standards Board (GASB) No. 62 Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements - Regulated Operations provides guidance for utilities to match revenues or expenses to rate recovery. Under GASB 62, if a regulatory body provides assurance incurred costs will be recovered in the future, the utility can record the costs as an asset. If there are revenues incurred in the current period relating to future costs, the utility can recognize the receipt of the revenues as a liability or a deferred inflow of resources. For example, contributions from developers previously were recognized in one year. Regulatory accounting allows contribution revenue to be recognized over the useful life of the assets acquired. Adoption of GASB 62 required a restatement of prior years' financial statement for certain transactions. Additional information on the change in accounting can be found in note 14.

## Net Position

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, \$10.9M (2.3 percent), represents resources that are subject to external restrictions on how they may be used: 7% related to debt, 53% related to investment in joint venture, 40% related to equipment replacement fund.

### Condensed Financial Information

	Net Position (In Millions)							
	Electric		Wastewater		Water		Total	
	2022	2021	2022	2021	2022	2021	2022	2021
Current Assets	\$ 78	\$ 77	\$ 14	\$ 15	\$ 15	\$ 14	\$ 107	\$ 106
Noncurrent assets	21	28	15	9	17	5	53	42
Capital assets, net	289	295	81	69	65	54	435	418
Total Assets	388	400	110	93	97	73	595	566
Total Deferred Outflows of Resources	1	1	0	0	0	0	1	1
Current liabilities	12	10	6	3	9	4	27	17
Noncurrent liabilities	18	40	18	13	23	9	59	62
Total Liabilities	30	50	24	16	32	13	86	79
Total Deferred Inflows of Resources	4	3	21	14	1	0	26	17
Net investment in capital assets	276	262	60	57	48	45	384	364
Restricted	6	6	4	4	1	1	11	11
Unrestricted	73	80	1	2	15	14	89	96
Total Net Position	\$ 355	\$ 348	\$ 65	\$ 63	\$ 64	\$ 60	\$ 484	\$ 471

## Defined Benefit Pension Plan

HBPW offered a defined benefit pension plan (closed to new employees in phases from 2003 to 2008) as part of its compensation package. The plan is administered by Municipal Employees' Retirement System (MERS). Each year, MERS arranges for the completion of an annual actuarial valuation report of the combined City/HBPW plan. The percent funded for the HBPW plan was 93.3% as of December 31, 2021 which is an increase from the 2020 funding level of 87.6%. The improving funding level can be attributed to healthy investment returns. The *smoothed* actuarial rate of return for 2021 was 17.04%, while the actual market rate of return was 13.97%. This compares to the 2020 actuarial rate of return of 8.17% and actual market rate of return of 12.70%. MERS *smooths* each year's investment gains and losses over a five year period in an effort to minimize year to year fluctuations of pension funding requirements.

## FINANCIAL PERFORMANCE

### Challenges

HBPW was impacted by inflation and supply chain disruptions. Some examples in the Electric Utility are materials such as transformers, prices increased 74% on average and lead times increased about one year from 10-20 weeks to 60-62 weeks, the most common wire increased 51%, and meter sockets increased about 33%. Chemical cost increases in the Wastewater Utility are sodium hydroxide (211%), cationic emulsion (76%) and lime slurry (4%). Chemical cost increases for the Water Utility include sodium hypochlorite (190%), polymer (32%) and aluminum sulfate (23%). In addition to cost increases, HBPW experienced delivery disruptions of chemicals. Although still receiving deliveries, they were not on a regular basis due to supply chain issues in both the chemical and trucking markets. For example, a chemical production facility was destroyed by fire and will not be rebuilt. Longer lead times and cost increases resulted in \$1.7M increase of Inventories from the prior year. Sludge Disposal is an increasing expense for Wastewater. Actual disposal costs increased about 26% in FY2022. Capital projects have also been impacted by supply chain disruptions. Purchased equipment deliveries have been delayed, equipment lead times have been extended, and the number of bidders have decreased.

Condensed Financial Information	Results of Operations							
	(In Millions)							
	Electric		Wastewater		Water		Total	
	<u>2022</u>	<u>2021</u>	<u>2022</u>	<u>2021</u>	<u>2022</u>	<u>2021</u>	<u>2022</u>	<u>2021</u>
Operating revenues	\$ 100	\$ 109	\$ 13	\$ 11	\$ 13	\$ 12	\$ 126	\$ 132
Operating expenses	(84)	(74)	(12)	(10)	(8)	(8)	(104)	(92)
Nonoperating income (expenses), net	<u>(1)</u>	<u>(2)</u>	<u>0</u>	<u>0</u>	<u>(1)</u>	<u>0</u>	<u>(2)</u>	<u>(2)</u>
Net Income Before Contributions and Transfer	15	33	1	1	4	4	20	38
Capital contributions	0	0	1	2	0	2	1	4
Contributions to City	<u>(8)</u>	<u>(8)</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>(8)</u>	<u>(8)</u>
Change In Net Position	7	25	2	3	4	6	13	34
Beginning net position	<u>348</u>	<u>323</u>	<u>63</u>	<u>60</u>	<u>60</u>	<u>54</u>	<u>471</u>	<u>437</u>
Ending Net Position	\$ 355	\$ 348	\$ 65	\$ 63	\$ 64	\$ 60	\$ 484	\$ 471

Cash reserves for each of the utilities are funded as planned.

The Wastewater Utility had rate increase in FY2022 of 3.6%. There was no rate change for the Electric and Water Utilities.

## Electric

- The Electric Utility ended the year with an Operating Income \$18.5M lower than FY2021 results. Total Revenue was \$8.5M (7.9%) lower while Operating Expenses were \$10.0M (13.6%) higher. The change in revenues is due primarily to a 9.7% reduction in rates at the beginning of FY22. Also, wholesale revenues declined due to an equipment outage coinciding with sales opportunities. Expenses were higher mainly due to rising natural gas prices and higher cost of resources used during the equipment outage. The utility had natural gas hedges of 84% at a weighted average cost \$2.2557 per dekatherm. Unhedged prices were up to four times higher. Electric customer consumption ended the year 2.1% higher than budget and increased 2.7% compared to FY2021. This was mainly the result of the commercial sector recovering from lockdowns and capacity limits due to the pandemic.
- HBPW earned a Reliable Public Power Provider (RP3) ® designation from the American Public Power Association (APPA) for providing reliable and safe electric service. The RP3 designation, which lasts for three years, recognizes public power utilities that demonstrate proficiency in four key disciplines: reliability, safety, workforce development, and system improvement. Criteria include sound business practices and a utility-wide commitment to safe and reliable delivery of electricity. HBPW received a perfect score on the RP3 application and received a Diamond rating, which is the highest of three levels.
- HBPW earned the APPA's Smart Energy Provider (SEP) designation for 2021. SEP is a two-year designation. The purpose of the Smart Energy program is to provide national recognition for utility efforts to incorporate energy efficiencies and sustainability, while providing affordable electric service. Additionally, achieving SEP designation will help public power utilities benchmark and evaluate their work on these topics against a set of industry best practices.
- HBPW currently has Power Purchase Agreements (PPAs) with multiple renewable energy suppliers as part of its power generation portfolio. Historically this has been comprised of a combination of landfill gas and wind resources. Solar resources have been recently added including Assembly Solar I which began commercial operation in December 2020 and the Assembly Solar II which began commercial operation in December 2021. Three more solar farms are slated to be added to HBPW's portfolio over the next three years. All combined, HBPW is currently expecting to have nearly 30 megawatts of installed solar capacity as part of its power generation portfolio based on current commitments.
- In addition to the solar resources already referenced, HBPW is working to finalize an amendment to extend an existing PPA with Wildcat Wind Farm for 15 megawatts of installed capacity. The amendment is expected to extend HBPW's participation in that renewable resource through May 31, 2033.
- An Electric Cost of Service Study (ECOS) and Financial Projection Report has been completed by an external consultant. ECOS conclusions include:
  - HBPW is not projected to require overall increases in rates over the financial projection period (FY2023 – FY2027).
  - Cash balances are strong and projected to be above recommended minimums.

- Current rate-related revenues are projected to be less than COS targets (yet cash is building).
  - HBPW system losses of 1.4% are significantly below typical municipal system losses of 5.4%.
- Since 2010, LG Energy Solution Michigan (LG) has been an important corporate figure in the Holland community. When the original facility was developed, many public investments and commitments were made including extension of new utility services. The City of Holland (City) and HBPW used a local development agreement to capture the obligations of all parties. LG has now indicated its intent to make a \$1.7 Billion investment that would increase battery production from the current 5 gigawatt-hour (GWh) capacity up to 25 GWh. There are significant City and HBPW investments and commitments that are necessary to facilitate and serve this development. Electric system demands and energy requirements are significant:
  - LG requested 71 megawatts of additional service.
  - Requires additional substation to serve the new facility (new East Point Substation).
  - The LG planned expansion will have a significant impact on surplus capacity associated with Holland Energy Park's production which is currently forecasted to be 66 MW in 2026.
  - Projected to increase the Electric Utility annual load by 40%.
  - Projected to increase annual retail electric revenue by over 28%.

During FY2022, to prepare for the LG expansion, HBPW began engineering a new \$10 million substation. Site acquisition is underway, and much of the equipment ordered. Estimated completion is July 2023.

- Every seven years, the HBPW is required to complete an inline inspection (ILI), followed by verification digs, on the natural gas pipelines which supply gas to production facilities. Results from the ILI yielded no features that required immediate action to repair or investigate, clearing the pipelines for continued operation.
- In FY2022, HBPW put into service a hybridized small bucket truck from ETI equipped with a diesel engine and advanced li-ion auxiliary power system developed by Volta Power Systems, a Holland-area energy technology company. The 13.2 kilowatt hour system runs hydraulic equipment such as the bucket, power tools, and exportable worksite power. Line workers work from the truck nearly all day on a single charge without the need for idling. HBPW's investment in the clean technology truck represents an important step in aligning distribution operations with the Holland Community Energy Plan. The newest utility truck is cleaner, quieter, and less expensive to maintain. The vehicle is estimated to save the utility up to \$14,000 per year in reduced fuel and maintenance costs while eliminating about 42,000 lbs. in annual CO2 emissions. HBPW will be adding to the success of the hybridized utility truck by purchasing two additional bucket trucks, using similar technology, to support building and maintaining the electric distribution system. The trucks have nearly a two year lead time and will arrive in mid FY2024.
- Results of the Broadband Utility are accounted for within the Electric Utility. The Broadband Utility continued to grow, primarily in the shared gigabit and dark fiber areas and added 61 new customers. The Broadband Utility spent \$0.2M on capital improvements during the year. Several projects were completed to enhance the fiber network. In August 2022, City of Holland voters approved a millage to fund up to \$30 million to be used to expand the high-speed broadband system throughout the City. It will be an open access network which invites competition and the potential for lower cost and increased service choices.

## **Wastewater**

- The Wastewater Utility ended the year with an Operating Income \$0.3M (32.7%) higher than FY2021. Units processed by the utility increased 1.7% compared to plan and 4.7% higher than prior year actual. Wastewater volumes and associated revenues increased mainly due to industrial customers.
- The Water Reclamation Facility (WRF) was recognized by the Water Environment Federation (WEF) for a national award and recognition program labeled Utility of the Future Today in 2020 with additional recognition provided for 2021. The program recognizes water resource recovery facilities for transformational work in community engagement, watershed stewardship, and recovery of resources such as water, energy, and nutrients. The WRF was initially recognized for beneficial reuse of solids and for workplace culture in 2020 and for partnering and engagement in 2021.
- WEF also awarded the WRF the George W. Burke Jr. award. This award recognizes a wastewater facility for establishing and maintaining an active and effective safety program. As of June 30, 2022, WRF had 2,612 days since the last recordable injury.
- The WRF was recognized by National Association of Clean Water Agencies (NACWA). The Peak Performance Gold was awarded in 2020 and 2021 and is presented to facilities with no permit violations for the entire previous calendar year.
- The WRF completed its Master Plan in FY2022. The master plan is used to review the facility's capacity, ability to expand, and to plan future capital improvements.
- Construction continued on the estimated \$33.7M anaerobic digester. Spending as of June 30 was \$19.9M. Construction began October 1, 2020 and is expected to be completed during FY2024.
- The Wastewater Utility spent \$2.3M on improvements to the collection system. In FY2022, the utility initiated a four-year effort to clean and inspect HBPW's entire sanitary sewer system. The inspection results are utilized to target maintenance activities and capital improvements in future years. The first year contract included the inspection of 370,365 feet (70.2 miles) of sewer mains, 1,393 manholes, and resulted in the collection of 16,067 inspection observations. This scope represents 37.4% of the complete sewer system.

## **Water**

- The Water Utility ended the year with an Operating Income \$0.4M (8.2%) lower than FY2021. Water Utility customer consumption ended the year 4.8% higher than budget and 1.0% higher than prior year actual. The increased usage was driven by higher production activity of industrial customers and by the wholesale customer, also driven by its industrial customers.
- In FY2022, HBPW approved the restated retail water agreement with Fillmore Township. As part of a negotiated conditional land transfer agreement, the City of Holland extended water service to areas of Fillmore Township, north of I-196. The agreement builds upon a previously executed agreement from 2010, which came about as part of a land transfer to facilitate the first LG Energy Solution development. The restated agreement provides HBPW with exclusive rights to sell retail water within the service territory. Rates will be uniform with those charged to customers in the City of Holland.

- The Park Township retail water agreement, signed in FY2020, resulted in the addition of approximately 3,800 new retail water customers to the HBPW water system. The Park Township water meters were incompatible with HBPW’s Advanced Metering Infrastructure. HBPW solicited proposals for the replacement of the meters and installation of new meter transmitting units. The total approved budget for the meter replacements was \$1.6M. The project was completed in FY2022 at a cost of \$1.5M.
- In FY2022, the Water Utility issued Water Supply System Revenue Bonds Series 2022A. The 20-year bonds added \$15.3M debt to the utility. S&P Global assigned its ‘AA’ long-term rating to the revenue bonds, citing affordable rates, strong all-in debt service coverage, and robust liquidity. The bonds were sold at a premium and the \$16.5M proceeds will be used to pay the costs of a new 17,900 foot long 36-inch transmission line. This line will provide redundancy to the line connecting the WTP to the City’s water distribution system, along with increased water volume and improved flow dynamics, while also providing future capacity expansion potential to the service area. Kestrel Verifiers, a Climate Bonds Initiative Approved Verifier, designated the Water Supply System Revenue Bonds Series 2022A as Green Bonds.
- Each year, the Water Utility replaces aging water mains as part of on-going maintenance to the distribution system. In FY2022, 9,500 feet of water mains were replaced at a cost of \$4.6M.
- In 2018, Michigan adopted the revised Lead and Copper Rule with the goal of reducing lead exposure through drinking water. Utilities must replace all lead service lines (LSL) by 2041. On average, the HBPW will need to replace about 90 LSL’s each year of this 20-year period. HBPW continued to make progress towards this goal and replaced 110 LSL’s during FY2022.

## CAPITAL ASSETS

HBPW has \$754.3M invested in capital assets (\$435.1M net of depreciation). The capital assets, net of depreciation, by utility are: Electric Utility \$289.0M, Wastewater Utility \$81.2M; and Water Utility \$65.0M. Capital assets include property, plant and equipment and are defined by HBPW as assets with an initial individual cost of more than \$10,000 and an estimated useful life in excess of three years.

### Condensed Financial Information

	Capital Assets (In Millions)							
	Electric		Wastewater		Water		Total	
	<u>2022</u>	<u>2021</u>	<u>2022</u>	<u>2021</u>	<u>2022</u>	<u>2021</u>	<u>2022</u>	<u>2021</u>
Land	\$ 22	\$ 22	\$ 0	\$ 0	\$ 2	\$ 2	\$ 24	\$ 24
Construction in progress	5	3	20	8	12	4	37	15
Capital assets, net	<u>263</u>	<u>270</u>	<u>61</u>	<u>61</u>	<u>51</u>	<u>48</u>	<u>375</u>	<u>379</u>
Total Capital Assets	\$ 289	\$ 295	\$ 81	\$ 69	\$ 65	\$ 54	\$ 435	\$ 418

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

Capitalized asset activity which began depreciating during the current year included:

### Electric

- Electric Production improvements; \$0.8M.
- Distribution improvements and extensions; \$3.9M.



- Non-Operation equipment and structures additions; \$0.4M.
- Streetlight additions, replacements and upgrading fixtures to LED; \$0.1M.
- Total spending on various fiber projects was \$0.2M.

### **Wastewater**

- Water Reclamation Facility improvements; \$1.6M.
- Sewer mains and collection system improvements; \$2.3M.
- Non-Operation equipment and structures additions; \$0.1M.

### **Water**

- Water Treatment Plant improvements; \$0.3M.
- Water mains and distribution improvements; \$4.6M.
- Non-Operation equipment and structures additions; \$0.1M.

HBPW completed a Radio System Upgrade project during the year. This project replaced the existing analog radio system with a digital system that will provide enhanced coverage, improved voice quality, and expanded functionality.

### **SUMMARY OF DEBT**

HBPW has a total of \$56.9M in installment debt outstanding as of June 30, 2022.

The Electric Utility has outstanding debt of \$12.8M. The purpose of the outstanding debt was for refunding bonds issued in 2014 (for the new power plant project) in order to reduce the interest rate. The direct placement revenue bonds have an interest rate of 0.39% and replace bonds with a true interest cost of 4.06%. All electric debt is planned to be retired prior to FY2024.

The Wastewater Utility has outstanding debt of \$17.0M. All of the outstanding debt will be paid by April 1, 2043. The installment sales agreement to Ottawa County as well as the Wastewater Revenue Bonds are for the cost of acquiring and constructing additional improvements (biosolids handling, secondary treatment processes, and anaerobic digester project) at the Holland Area Water Reclamation Facility.

The Water Utility has outstanding debt of \$21.1M. All of the outstanding debt will be paid by April 1, 2042. The direct placement revenue bonds are for refunding bonds issued in 2012 in order to reduce the interest rate. The revenue bonds issued in 2011, were issued for the purpose of constructing an emergency interconnection with the City of Wyoming's water system. The newly issued revenue bonds were issued for the purpose of constructing a redundant transmission line connecting the water treatment plant to the distribution system.

In 2016, Pension Bonds were issued by the City of Holland for \$25M with interest rates ranging from 0.76% to 3.42%. These bonds were issued for the purpose of funding a portion of the costs of the unfunded pension liability of the City's defined benefit pension plan for general employees and to pay costs of issuance incurred with respect to the Bonds. HBPW's portion of the bond is \$6.0M as of June 30, 2022.

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

## **GENERAL ECONOMIC CONDITION**

According to the Annual Energy Outlook 2022, released March 2022 by the Energy Information Administration (EIA), the three-year rolling average growth rate of electricity consumption is projected to peak in 2023 as the economy returns to pre-pandemic levels of economic activity. EIA expects consumption to increase 2.4% in 2022, 2.9% in 2023, and then remain below 1% for much of the projection period which goes to 2050. Increasing electricity demand is mainly driven by population and economic growth and is partially offset by efficiency improvements of products such as appliances, equipment and computers. The EIA also stated that electricity demand in the transportation sector remains at less than 3% of economy-wide demand throughout the projection period, even though it is the fastest growing sector. Fully electric vehicles are estimated to grow from less than 1% of vehicles on the road in 2021 to a little over 7% in 2050. Vehicle sales and miles driven would need to increase substantially for EV's to increase demand by more than a fraction of a percentage point per year.

HBPW is forecasting essentially flat demand for electricity in its service area for FY2023. Growth of 31% is forecasted for FY2024 and for FY2025 due to the LG Energy Solution expansion that will add to the load in phases. Growth averaging 0.4% is forecasted for FY2026-FY2027. There is no growth in volume forecasted for either the Wastewater Utility or Water Utility for the forecasted periods of FY2023-FY2027.

## **Community Outlook**

Lakeshore Advantage is a non-profit economic development organization that connects businesses to the resources they need to grow in Ottawa and Allegan counties of Michigan. In January 2022, the Lakeshore Advantage published its 2021 Business Intelligence Report which was based on responses from 120 companies in these counties. According to the report, despite a crippling pandemic, the future of West Michigan's economy is bright. Increasing sales, product adaptation and an ongoing labor shortage were major factors in the race to recovery. The diverse manufacturing base in the area helped create a stable economy throughout the COVID-19 crisis and strong, stable growth during recovery. Manufacturing accounted for 44% of total Gross Regional Product in 2020 compared to just over 10% nationwide. The diversification of manufacturers provides a distinct competitive advantage for the area and indicates the workforce is skilled at making many different things which attracts growth and investment. Product adaptation is also a major factor. Eighty seven percent of companies surveyed anticipate introducing new products, services and capabilities over the next two years. The report also noted a couple of challenges, chiefly ongoing labor shortages and lengthy supply chain disruptions. According to the report, 83% of employers reported supply chain disruption as their biggest barrier to growth in 2021 and 75% of companies said recruitment problems also were a roadblock. Sixty percent of small and mid-size manufacturers say they are very or somewhat prepared to add technology such as robotics and automation, cybersecurity and cloud computing to existing facilities; however, the labor shortage, for example the necessary expertise on staff, is the biggest barrier.

## **Holland Community Energy Plan**

The City of Holland has adopted new, more aggressive strategies for reducing Holland's carbon footprint after a yearlong review of the City's Community Energy Plan (CEP). The plan was created by a mayor-appointed task force, the Strategic Development Team (SDT), directed to develop the City's energy-efficiency strategies for the next three to five years as part of the CEP. The set of strategies for reducing and "greening" energy use endorsed by Holland City Council on October 20, 2021 encompasses the HBPW's electric portfolio, energy use in buildings, transportation, community education and carbon offsets. If successful, the SDT calculated Holland's greenhouse gas emissions could drop from the baseline 2010 level of 24 metric tons (MT) of carbon dioxide per capita to 12.25 MT/capita by 2030. City's long-term goal is to achieve 10 MT/capita by 2050. Reducing emissions from HBPW's electric supply is a key part of the plan. The plan sets a target of a 70% reduction in carbon emissions in the electric portfolio from 2005 levels by 2030, while maintaining electric service reliability and keeping customer rates at or below 90% of those charged by private utilities. HBPW also wants more customers to take advantage of its electric renewable energy rate, where customers can pay more to receive electricity from renewable sources. In the transportation sector, the City would like to incentivize electric vehicles (EV) and fast-charging stations for those vehicles. More EV's and charging stations has the potential to increase electric demand for HBPW. Reducing one's carbon footprint was also pitched as a good economic boost for the community, since businesses face increasing pressure from their peers and customers to be more environmentally friendly.

## **Conservation Programming at HBPW**

HBPW promotes waste reduction and conservation through its Energy Waste Reduction & Renewable Energy plan. The plan reports on a calendar year basis. Results reported in the 2021 Annual Summary Report, filed with the Michigan Public Service Commission, include:

- 1,608 HBPW residential customers received rebates for purchasing 3,441 ENERGY STAR and other high-efficiency electric products for their homes. Customers received rebates totaling more than \$190,000, saving more than 1.8 million kilowatt hours of electricity.
- Promoted the dramatic energy-saving benefits of light-emitting diode (LED) technology by distributing 30,869 free A-line bulbs and 11,453 indoor/outdoor floodlights at community events and through the Free Light Bulb home delivery program.
- Distributed 473 programmable thermostats to residential customers.
- 49 commercial and industrial customers received incentives totaling \$617,116 for upgrading lighting to LED and installing high-efficiency equipment. The energy savings was 10 million kilowatt hours.
- The Small business program helped 118 companies receive rebates totaling \$494,945, mainly for upgrading lighting to LED, and saved 4 million kilowatt hours (4 times more than 2020 in both rebates and kWh).
- Provided 2,250 60W A19 light bulbs at no cost to Community Action House for Food Club members that can be purchased through the food point system.

Michigan Public Act 295 (amended by PA 341 and 342), known as the Clean, Renewable and Efficient Energy Act, calls on all utilities in Michigan to implement a Renewable Energy Plan and an Energy Waste Reduction (EWR) program for their customers. The Act requires utilities to source at least 15% of their energy from renewable technologies and to implement programs that help customers improve energy efficiency. HBPW acquired 61,350 megawatt hours (MWh) of electricity generated from landfill gas, 99,673 MWh from wind, and 9,030 MWh from solar for a total of 170,053 MWh of renewable energy during the 2021 calendar year. This resulted in 15.69% of HBPW's total sales being supplied by renewable energy. Through the Michigan Public Power Agency (MPPA), HBPW authorized 17.7 MW of installed capacity from two solar projects in Michigan. Both projects are expected to be commercially operational in early 2024.

Provisions of PA 342 that require EWR sunset after December 2021. HBPW agrees with the intent of the PA 342 EWR program, so has continued through its Beneficial Electrification program, launched in 2022. Beneficial electrification is a term for replacing direct fossil fuel use (e.g., propane, heating oil, gasoline) with electricity in a way that reduces overall emissions and energy costs. Electrification of home and business energy sources has the potential to reduce community carbon emissions and increase revenue for the Electric Utility. The program will have multiple new sources of rebates and incentives and will require a new education campaign.

### **Downtown Holland**

Each year, The Holland Sentinel newspaper analyzes closures, relocations, name changes and openings in ground floor restaurants and retailers in downtown Holland. Results were published July 17, 2022. According to the analysis, storefronts downtown continue to fill quickly, usually less than a year between official closure and openings. Two vacancies were in place the entire year. The surveyed area has 108 storefronts resulting in a ground-floor vacancy rate of less than 5%. Downtown Holland continues to thrive and remains attractive to people and business due to its high occupancy rate and diversity of retailers and restaurants.

### **Economic Development**

There are a number of companies in the HBPW service area that announced expansions during the fiscal year. Coastal Container will grow its facility by 65,000 square feet, adding new equipment and manufacturing space to meet increasing demand. Request Foods secured an incentive package from the Michigan Economic Development Corporation (MEDC) to stay in Holland Township and expand facilities there. Request Foods will invest \$205 million for a new manufacturing plant, a cold storage warehouse, an expansion of one of its existing plants and an upgrade to its wastewater treatment facilities. Hyperion Automation completed a newly constructed 15,000 square foot manufacturing facility in July 2022 which doubles their footprint. Art Mulder and Sons Trucking will invest \$31 million on a 147,000 square foot expansion. The new facility will include freezer and cooler warehouse storage, refrigerated and cooler dock space, office space, mechanical rooms, maintenance areas, training and conference rooms, and capacity for food processing and packaging functions. In August 2022, the City was awarded the

Redevelopment Ready Communities Certification from the MEDC for efforts on various redevelopment projects. In just five years, the City completely redeveloped its Civic Center; added a block of new dining, shopping and entertainment on Eighth Street; and added a multi-story senior residence where a single-story furniture store once stood. The award signifies to developers that Holland is an efficient and effective community in which to make investments. Holland is working on a proposed waterfront development project. A rendering from Geenen Dekock Properties, one of the developers who submitted a proposal for the project, would include residential units, a marina, a waterfront restaurant and a hotel where Verplank Dock Co. is currently located. The site of the decommissioned James DeYoung power plant will factor into the redevelopment. The property will either be redeveloped or swapped and repurposed for property that is redeveloped.

### **NEXT YEAR'S BUDGET AND RATES**

A 5-year operating budget and capital plan for FY2023 was presented to HBPW's Board and City Council. During the process of developing the budget, the operating and capital needs of the utilities were evaluated and a financial plan established to meet those specific needs. There are no rate changes proposed for the Electric Utility in FY2023; however, the plan may need to be revised for a rate increase to maintain appropriate cash levels. Persistent, high inflation and higher natural gas prices, discussed earlier, are increasing the operating costs for the Electric Utility beyond what was projected in the financial plan.

The Water Utility will expend about 53% of its operating budget on chemicals, production, and distribution expenses. This is up slightly from last year and due largely to increased chemical costs related to supply disruptions and diminishing manufacturer capacities. Lead service line replacements and inspections are State-mandated, unfunded costs. The budget for these costs is a 248% increase over FY2022. To support expenditures and capital acquisitions, the Board and City Council approved a rate increase of 2.0% for the Water Utility for FY2023.

The Wastewater Utility will expend 53% of its operating budget on chemicals, treatment, and collections expenses, the same as the FY2022 budget. Chemicals and waste disposal costs are increasing. In accordance with the rate plan approved in FY2019, The Board and City Council approved a rate increase of 3.7% for FY2023 for the Wastewater Utility. 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, 2022

(with comparative totals for the year ended June 30, 2021)

	Electric Utility	Wastewater Utility	Water Utility	Business-Type Activities	
				2022	2021
<b>Assets</b>					
Current assets:					
Cash and cash equivalents	\$ 19,332,451	\$ 8,485,995	\$ 6,240,473	\$ 34,058,919	\$ 49,554,156
Investments	32,688,425	3,643,024	4,838,683	41,170,132	29,323,719
Receivables:					
Accounts receivable	7,742,909	1,207,774	1,404,079	10,354,762	9,433,579
Unbilled revenue	7,178,594	749,904	881,266	8,809,764	8,172,606
Special assessments and other	-	26,957	22,898	49,855	63,024
Accrued interest	80,700	6,896	-	87,596	210,063
Due from other funds of the					
City of Holland	1,082,395	3,355	1,225,776	2,311,526	1,234,746
Inventories	6,581,080	16,045	554,461	7,151,586	5,443,050
Prepaid items and other assets	3,170,880	57,403	49,960	3,278,243	3,096,763
<b>Total current assets</b>	<b>77,857,434</b>	<b>14,197,353</b>	<b>15,217,596</b>	<b>107,272,383</b>	<b>106,531,706</b>
Noncurrent assets:					
Restricted assets:					
Cash and cash equivalents	-	4,608,296	3,045,702	7,653,998	4,968,455
Investments	5,823,914	-	10,130,049	15,953,963	6,099,040
Accrued interest	-	-	17,245	17,245	-
<b>Total restricted assets</b>	<b>5,823,914</b>	<b>4,608,296</b>	<b>13,192,996</b>	<b>23,625,206</b>	<b>11,067,495</b>
Capital assets:					
Land	21,047,820	260,673	2,178,242	23,486,735	23,486,735
Construction in progress	5,012,676	20,332,476	12,172,004	37,517,156	15,013,166
Plant and equipment	490,672,093	115,424,326	87,167,016	693,263,435	680,409,080
Accumulated depreciation	(227,769,756)	(54,795,416)	(36,556,568)	(319,121,740)	(301,045,873)
<b>Total capital assets, net</b>	<b>288,962,833</b>	<b>81,222,059</b>	<b>64,960,694</b>	<b>435,145,586</b>	<b>417,863,108</b>
Other noncurrent assets:					
Long-term investments	15,047,696	1,205,159	1,518,880	17,771,735	25,803,751
Regulatory cost for future recovery	534,643	-	-	534,643	-
Due from other local units	-	9,291,149	360,000	9,651,149	3,967,072
Due from City of Wyoming	-	-	1,540,097	1,540,097	1,689,395
<b>Total other noncurrent assets</b>	<b>15,582,339</b>	<b>10,496,308</b>	<b>3,418,977</b>	<b>29,497,624</b>	<b>31,460,218</b>
<b>Total noncurrent assets</b>	<b>310,369,086</b>	<b>96,326,663</b>	<b>81,572,667</b>	<b>488,268,416</b>	<b>460,390,821</b>
<b>Total assets</b>	<b>388,226,520</b>	<b>110,524,016</b>	<b>96,790,263</b>	<b>595,540,799</b>	<b>566,922,527</b>
<b>Deferred outflows of resources</b>					
Deferred pension amounts	406,571	117,042	92,401	616,014	1,192,789
Deferred other postemployment benefit amounts	11,453	2,655	2,041	16,149	-
<b>Total deferred outflows of resources</b>	<b>418,024</b>	<b>119,697</b>	<b>94,442</b>	<b>632,163</b>	<b>1,192,789</b>

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

**Statement of Net Position**

June 30, 2022

(with comparative totals for the year ended June 30, 2021)

	Electric Utility	Wastewater Utility	Water Utility	Business-Type Activities	
				2022	2021
<b>Liabilities</b>					
Current liabilities:					
Accounts payable	\$ 8,447,259	\$ 4,813,969	\$ 7,610,543	\$ 20,871,771	\$ 8,804,132
Accrued salaries and wages payable	411,801	118,436	101,931	632,168	542,278
Due to other funds of the City of Holland	265,988	2,886	14,597	283,471	1,292,285
Deposits	1,098,929	110	19,370	1,118,409	1,062,183
Accrued interest payable	10,643	52,732	168,148	231,523	88,785
Current portion of long-term debt	2,016,367	881,004	776,488	3,673,859	3,522,259
Current liabilities payable from restricted assets:					
Current portion of long-term debt	-	-	-	-	1,285,000
Accrued interest payable	-	-	-	-	15,909
<b>Total current liabilities</b>	<b>12,250,987</b>	<b>5,869,137</b>	<b>8,691,077</b>	<b>26,811,201</b>	<b>16,612,831</b>
Noncurrent liabilities:					
Long-term debt, net of current portion	16,461,944	17,406,993	20,156,539	54,025,476	54,197,808
Long-term debt payable from restricted assets, net of current portion	-	-	2,490,000	2,490,000	3,710,000
Net pension liability	1,496,380	430,774	340,086	2,267,240	4,003,975
Net other postemployment benefit liability	150,931	34,987	26,900	212,818	269,706
<b>Total noncurrent liabilities</b>	<b>18,109,255</b>	<b>17,872,754</b>	<b>23,013,525</b>	<b>58,995,534</b>	<b>62,181,489</b>
<b>Total liabilities</b>	<b>30,360,242</b>	<b>23,741,891</b>	<b>31,704,602</b>	<b>85,806,735</b>	<b>78,794,320</b>
<b>Deferred inflows of resources</b>					
Deferred charge on refunding	196,642	-	-	196,642	393,284
Regulatory credits	-	20,559,081	448,117	21,007,198	14,285,062
Deferred pension amounts	2,956,972	851,249	672,039	4,480,260	2,355,383
Deferred other postemployment benefit amounts	392,443	90,973	69,945	553,361	618,313
<b>Total deferred inflows of resources</b>	<b>3,546,057</b>	<b>21,501,303</b>	<b>1,190,101</b>	<b>26,237,461</b>	<b>17,652,042</b>
<b>Net position</b>					
Net investment in capital assets	275,735,722	59,715,154	48,606,163	384,057,039	364,309,607
Restricted for:					
Debt service	-	240,000	499,500	739,500	499,500
Equipment replacement	-	4,368,296	-	4,368,296	4,468,955
Cooperative payments	5,823,914	-	-	5,823,914	6,099,040
Unrestricted	73,178,609	1,077,069	14,884,339	89,140,017	96,291,852
<b>Total net position</b>	<b>\$ 354,738,245</b>	<b>\$ 65,400,519</b>	<b>\$ 63,990,002</b>	<b>\$ 484,128,766</b>	<b>\$ 471,668,954</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, 2022

(with comparative totals for the year ended June 30, 2021)

	Electric Utility	Wastewater Utility	Water Utility	Business-Type Activities	
				2022	2021
<b>Operating revenues</b>					
Residential sales	\$ 21,340,125	\$ 3,823,690	\$ 5,266,610	\$ 30,430,425	\$ 31,818,014
Commercial sales	31,721,676	3,113,312	3,533,246	38,368,234	39,491,458
Industrial sales	43,241,160	1,138,655	1,218,017	45,597,832	49,029,486
Wholesale	2,433,736	2,429,845	1,814,394	6,677,975	7,595,539
Fees and other	859,369	2,897,628	636,058	4,393,055	4,462,557
<b>Total operating revenues</b>	<b>99,596,066</b>	<b>13,403,130</b>	<b>12,468,325</b>	<b>125,467,521</b>	<b>132,397,054</b>
<b>Operating expenses</b>					
Salaries and wages	5,319,464	1,526,431	1,364,387	8,210,282	8,077,810
Employee benefits	3,725,065	1,026,807	947,633	5,699,505	4,956,117
Production	42,398,042	3,777,127	853,860	47,029,029	37,785,160
Distribution	8,116,552	674,683	800,454	9,591,689	9,120,902
Administrative and general	10,363,286	2,392,919	1,811,338	14,567,543	13,763,742
Depreciation and amortization	13,467,474	2,912,406	2,226,964	18,606,844	18,336,785
<b>Total operating expenses</b>	<b>83,389,883</b>	<b>12,310,373</b>	<b>8,004,636</b>	<b>103,704,892</b>	<b>92,040,516</b>
Operating income	16,206,183	1,092,757	4,463,689	21,762,629	40,356,538
<b>Nonoperating income (expense), net</b>					
Investment income (loss)	(1,246,319)	(67,426)	(69,047)	(1,382,792)	498,526
Interest expense	(69,278)	(250,959)	(477,819)	(798,056)	(3,261,558)
Other income, net	167,722	-	(17,660)	150,062	-
Gain (loss) on sale and disposal of capital assets	19,631	16,205	(195,157)	(159,321)	(90,634)
<b>Total nonoperating income (expense), net</b>	<b>(1,128,244)</b>	<b>(302,180)</b>	<b>(759,683)</b>	<b>(2,190,107)</b>	<b>(2,853,666)</b>
Net income before contributions and transfers	15,077,939	790,577	3,704,006	19,572,522	37,502,872
<b>Capital contributions</b>					
Trunkage and assessments	-	493,094	201,012	694,106	581,437
Contributions from other local units	-	7,337,801	-	7,337,801	3,342,455
Regulatory credits	-	(7,251,015)	-	(7,251,015)	-
Federal and state capital grants	-	701,782	-	701,782	541,764
<b>Total capital contributions</b>	<b>-</b>	<b>1,281,662</b>	<b>201,012</b>	<b>1,482,674</b>	<b>4,465,656</b>
Transfers out to other funds of the City of Holland	(8,595,384)	-	-	(8,595,384)	(7,968,900)
<b>Change in net position</b>	<b>6,482,555</b>	<b>2,072,239</b>	<b>3,905,018</b>	<b>12,459,812</b>	<b>33,999,628</b>
Net position, beginning of year, as restated	348,255,690	63,328,280	60,084,984	471,668,954	437,669,326
<b>Net position, end of year</b>	<b>\$ 354,738,245</b>	<b>\$ 65,400,519</b>	<b>\$ 63,990,002</b>	<b>\$ 484,128,766</b>	<b>\$ 471,668,954</b>

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, 2022  
(with comparative totals for the year ended June 30, 2021)

	Electric Utility	Wastewater Utility	Water Utility	Business-Type Activities	
				2022	2021
<b>Cash flows from operating activities</b>					
Receipts from customers and users	\$ 98,637,740	\$ 13,124,329	\$ 11,288,164	\$ 123,050,233	\$ 133,594,777
Payments to suppliers	(60,526,416)	(8,646,320)	(4,344,874)	(73,517,610)	(61,178,391)
Payments to/for employees	(8,483,529)	(2,378,971)	(2,174,228)	(13,036,728)	(12,763,735)
<b>Net cash provided by operating activities</b>	<u>29,627,795</u>	<u>2,099,038</u>	<u>4,769,062</u>	<u>36,495,895</u>	<u>59,652,651</u>
<b>Cash flows from noncapital financing activities</b>					
Transfers to other funds of the City of Holland	(8,595,384)	-	-	(8,595,384)	(7,968,900)
Other income received	167,722	-	(17,660)	150,062	-
Principal paid on pension bonds	(929,939)	(267,710)	(211,350)	(1,408,999)	(1,372,367)
Interest paid on pension bonds	(163,468)	(47,059)	(37,152)	(247,679)	(278,565)
<b>Net cash used in noncapital financing activities</b>	<u>(9,521,069)</u>	<u>(314,769)</u>	<u>(266,162)</u>	<u>(10,102,000)</u>	<u>(9,619,832)</u>
<b>Cash flows from capital and related financing activities</b>					
Principal paid on capital related debt	(20,000,000)	(437,500)	(2,795,000)	(23,232,500)	(707,500)
Interest paid on capital related debt	(115,178)	(191,170)	(347,584)	(653,932)	(6,689,417)
Proceeds from Clean Water State Revolving Fund Bonds	-	5,614,262	-	5,614,262	4,334,107
Issuance of refunding bonds	-	-	-	-	37,755,000
Issuance of capital related debt	-	-	15,335,000	15,335,000	-
Premium on issuance of bonds	-	-	1,282,287	1,282,287	-
Cash transferred to escrow for defeased bonds	-	-	-	-	(148,466,891)
Capital Grant - Clean Water State Revolving Fund	-	701,782	-	701,782	541,764
Capital contributions received	-	1,920,269	381,012	2,301,281	3,626,247
Proceeds from sale of capital assets	68,167	-	-	68,167	25,412
Regulatory cost for future recovery	(541,084)	-	-	(541,084)	-
Purchase/construction of property, plant and equipment	(7,308,593)	(11,179,640)	(6,643,729)	(25,131,962)	(21,169,166)
<b>Net cash provided by (used in) capital and related financing activities</b>	<u>(27,896,688)</u>	<u>(3,571,997)</u>	<u>7,211,986</u>	<u>(24,256,699)</u>	<u>(130,750,444)</u>
<b>Cash flows from investing activities</b>					
Interest received	350,953	21,827	39,791	412,571	1,455,541
Purchase of investment securities	(54,862,746)	(5,032,297)	(16,690,928)	(76,585,971)	(62,308,936)
Proceeds from sale or maturities of investment securities	49,843,042	4,925,075	6,458,393	61,226,510	147,037,868
<b>Net cash provided by (used in) investing activities</b>	<u>(4,668,751)</u>	<u>(85,395)</u>	<u>(10,192,744)</u>	<u>(14,946,890)</u>	<u>86,184,473</u>
<b>Net increase (decrease) in cash and cash equivalents</b>	<u>(12,458,713)</u>	<u>(1,873,123)</u>	<u>1,522,142</u>	<u>(12,809,694)</u>	<u>5,466,848</u>
Cash and cash equivalents, beginning of year	<u>31,791,164</u>	<u>14,967,414</u>	<u>7,764,033</u>	<u>54,522,611</u>	<u>49,055,763</u>
<b>Cash and cash equivalents, end of year</b>	<u>\$ 19,332,451</u>	<u>\$ 13,094,291</u>	<u>\$ 9,286,175</u>	<u>\$ 41,712,917</u>	<u>\$ 54,522,611</u>

continued...

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

**Statement of Cash Flows**

For the Year Ended June 30, 2022  
(with comparative totals for the year ended June 30, 2021)

	Electric Utility	Wastewater Utility	Water Utility	Business-Type Activities	
				2022	2021
<b>Classified on the statement of net position as</b>					
Cash and cash equivalents	\$ 19,332,451	\$ 8,485,995	\$ 6,240,473	\$ 34,058,919	\$ 49,554,156
Restricted cash and cash equivalents	-	4,608,296	3,045,702	7,653,998	4,968,455
<b>Total cash and cash equivalents</b>	<b>\$ 19,332,451</b>	<b>\$ 13,094,291</b>	<b>\$ 9,286,175</b>	<b>\$ 41,712,917</b>	<b>\$ 54,522,611</b>
<b>Reconciliation of operating income to net cash provided by operating activities</b>					
Operating income	\$ 16,206,183	\$ 1,092,757	\$ 4,463,689	\$ 21,762,629	\$ 40,356,538
Adjustments to reconcile operating income net cash provided by operating activities:					
Depreciation and amortization	13,461,033	2,912,406	2,226,964	18,600,403	18,336,785
Amortization of regulatory credits	6,441	-	-	6,441	-
Changes in operating assets and liabilities which provided (used) cash:					
Receivables	(1,113,158)	(279,355)	(152,659)	(1,545,172)	445,741
Due from other funds of the City of Holland	98,006	474	(1,175,260)	(1,076,780)	520,290
Inventories	(1,554,600)	(6,284)	(147,652)	(1,708,536)	(816,296)
Prepaid items and other assets	(123,115)	(26,854)	(31,511)	(181,480)	(16,566)
Due from the City of Wyoming	-	-	148,438	148,438	132,659
Accounts payable	2,045,783	(1,768,798)	329,917	606,902	(669,925)
Accrued salaries and wages payable	63,428	8,339	18,123	89,890	(35,590)
Due to other funds of the City of Holland	20,817	345	(1,029,976)	(1,008,814)	1,006,174
Deposits	56,826	80	(680)	56,226	99,033
Landfill postclosure liability	(37,421)	-	-	(37,421)	(8,999)
Compensated absences	(40,967)	5,724	(8,516)	(43,759)	62,211
Net pension liability	(1,146,245)	(329,980)	(260,510)	(1,736,735)	(1,970,857)
Deferred outflows of resources related to the net pension liability	380,672	109,587	86,516	576,775	264,495
Deferred inflows of resources related to the net pension liability	1,402,419	403,726	318,732	2,124,877	2,228,453
Net other postemployment benefit liability	(40,479)	(9,488)	(6,921)	(56,888)	(470,006)
Deferred outflows of resources related to the net other postemployment benefit liability	(11,453)	(2,655)	(2,041)	(16,149)	-
Deferred inflows of resources related to the net other postemployment benefit liability	(46,375)	(10,986)	(7,591)	(64,952)	188,511
<b>Net cash provided by operating activities</b>	<b>\$ 29,627,795</b>	<b>\$ 2,099,038</b>	<b>\$ 4,769,062</b>	<b>\$ 36,495,895</b>	<b>\$ 59,652,651</b>

concluded

**Non-cash transaction:**

The Authority had purchases/construction of property, plant and equipment through accounts payable for the fiscal year ended June 30, 2022 of \$270,469 for the electric fund, \$4,528,536 for the wastewater fund, and \$6,661,732 for the water fund.

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

## **NOTES TO FINANCIAL STATEMENTS**

# HOLLAND BOARD OF PUBLIC WORKS

## (Enterprise Funds of the City of Holland, Michigan)

### Notes to Financial Statements

#### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

##### **Reporting Entity**

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

##### ***Basis of Presentation***

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund’s principal ongoing operations. The principal operating revenues of the Board’s enterprise funds are charges to customers for sales and services. The Board also recognizes as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the system. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

##### ***Government-wide and Fund Financial Statements***

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

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

##### ***Measurement Focus, Basis of Accounting, and Financial Statement Presentation***

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

The Board follows the accounting and reporting requirements of GASB 62, paragraphs 476-500, which require that the effects of the ratemaking process be recorded in the financial statements. Such effects primarily concern the time at which various items enter into the determination of the change in net position in order to follow the principle of matching costs and revenues. Accordingly, the Board records various regulatory assets and liabilities to reflect the regulator's actions (see Note 10). Management believes that the Board meets the criteria for application of GASB 62 paragraphs 476-500, but will continue to evaluate its applicability based on changes in the regulatory and competitive environment.

# HOLLAND BOARD OF PUBLIC WORKS

## (Enterprise Funds of the City of Holland, Michigan)

### Notes to Financial 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.

The Board reports the following major enterprise funds:

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

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

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

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

#### *Cash and Cash Equivalents*

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

#### *Investments*

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

#### *Receivables*

All receivables are reported at their gross value and, where appropriate, are reduced by the estimated portion that is expected to be uncollectible. At June 30, 2022, the allowance for uncollectible amounts in the electric, wastewater and water utility funds was \$171,016, \$1,785, and \$9,444, respectively.

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

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

#### *Inventories*

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

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

**Notes to Financial Statements**

***Prepaid Items***

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

***Restricted Assets***

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

***Capital Assets***

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

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

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

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

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

Capital assets of the Water and Wastewater Utility Funds include assets purchased with funds provided by participating townships. Depreciation on these assets were \$189,678 and \$909,162, respectively.



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

### Notes to Financial Statements

#### *Due From Other Local Units*

In fiscal year 2021, the Board entered into a long term agreement with Park Township to provide retail water services to approximately 3,800 residential and commercial customers. To facilitate these services, the Board agreed to replace existing customer water meters with units compatible with the Board's automated meter reading system, at an estimated cost of \$1.6 million. Park Township agreed to fund \$0.9 million of the cost, ratably over 5 years. At June 30, 2022, Park Township had paid \$0.4 million, leaving a balance due of \$0.5 million.

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

The Northern service area is represented by Holland Charter Township ("HCT"). Total project costs (net of a proportionate share of the principal forgiveness described above) incurred as of fiscal year 2022 were \$21.0 million, resulting in an accrued amount due from HCT of \$9.3 million.

#### *Due From City of Wyoming*

The Board entered into a cost sharing agreement with the City of Wyoming to finance and construct the Wyoming Interconnect Water Project to be financed by a State Drinking Water Revolving fund bond issue. Upon completion, an estimated 15% of the related debt is scheduled to be forgiven by the grantor agency. Completion of the construction project and repayment of the associated bonds will be the responsibility of the Board. Under the cost sharing agreement, 47.54% of the assets constructed have been transferred to the City of Wyoming, along with an equal proportion of the related debt payments to be paid to the Board by the City of Wyoming, based on the installment payments on the related debt. The balance of this receivable at June 30, 2022 is equal to 47.54% of the assets completed and capitalized at that date, less a ratable share of the estimated debt forgiveness and principal payments made by the City of Wyoming.

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

### Notes to Financial Statements

#### *Deferred Outflows of Resources*

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

Additionally, as authorized by City of Holland resolution, the Board has adopted the provisions for regulatory accounting as promulgated by GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989, FASB and other AICPA Pronouncements*. This Statement provides for the deferral of expense and revenue recognition through the use of regulatory assets and liabilities in order to follow the principle of matching costs and revenues as part of the ratemaking process. Adoption of GASB 62 required a restatement of prior years' financial statements for certain transactions. See Note 14 Restatement - Change in Accounting Principle and Note 10 Regulatory Accounting for details.

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

***Transfers***

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

***Use of Estimates***

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

**2. DEPOSITS AND INVESTMENTS**

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

<b>Statement of net position</b>	
Cash and cash equivalents	\$ 34,058,919
Investments	41,170,132
Long-term investments	17,771,735
Restricted assets:	
Cash and cash equivalents	7,653,998
Investments	<u>15,953,963</u>
<b>Total</b>	<u><u>\$ 116,608,747</u></u>

Deposits and investments consist of the following at June 30, 2022:

<b>Deposits and investments</b>	
Checking and savings accounts	\$ 43,334,629
Certificates of deposit (due within one year)	800,616
Investments	72,469,380
Cash on hand	<u>4,122</u>
<b>Total</b>	<u><u>\$ 116,608,747</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	\$ -	\$ 5,473,667	\$ 19,189,687	\$ 24,663,354
Money market securities	12,107,189	-	-	12,107,189
Treasury bills	-	7,291,441	4,237,710	11,529,151
Commercial paper	-	19,971,596	-	19,971,596
Michigan Public Power Agency (MPPA) investments	4,198,090	-	-	4,198,090
	<u>\$ 16,305,279</u>	<u>\$ 32,736,704</u>	<u>\$ 23,427,397</u>	<u>\$ 72,469,380</u>

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

**Notes to Financial Statements**

*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, \$43,487,296 of the Board’s bank balance of \$44,237,296 was exposed to custodial credit risk because it was uninsured and uncollateralized.

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

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

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

S&P AAA	\$ 40,313,807
S&P AA+	5,575,679
S&P AA	1,949,324
S&P AA1	4,658,974
S&P A-1+	3,992,996
S&P A-1	<u>15,978,600</u>
	<u>\$ 72,469,380</u>

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

***Fair Value Measurement***

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

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

**Notes to Financial Statements**

The Board has the following recurring fair value measurements as of June 30, 2022:

- U.S. government securities and treasury bills with a balance of \$36,192,505 (level 2 inputs).
- Commercial paper with a balance of \$19,971,596 (level 2 inputs).
- Assets held with Michigan Public Power Agency, with a balance of \$4,198,090 (level 3 inputs).

The Board has money market securities, with a balance of \$1,977,149 and \$10,130,040, that are recorded at amortized cost and level 1 inputs, respectively.

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

	<b>Electric Utility</b>	<b>Wastewater Utility</b>	<b>Water Utility</b>	<b>Total</b>
City trunkage	\$ -	\$ 2,418,612	\$ 1,120,931	\$ 3,539,543
System expansion and decommissioning	22,854,799	2,368,840	5,368,666	30,592,305
Future debt payments	14,130,789	1,436,835	1,879,959	17,447,583
Maintenance	5,103,821	1,283,686	1,069,917	7,457,424
Operating	7,391,090	574,553	164,547	8,130,190
Insurance/risk retention	5,117,278	1,156,848	893,453	7,167,579
<b>Total</b>	<u>\$ 54,597,777</u>	<u>\$ 9,239,374</u>	<u>\$ 10,497,473</u>	<u>\$ 74,334,624</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, 2022 is as follows:

	<b>Beginning Balance</b>	<b>Additions</b>	<b>Deletions</b>	<b>Transfers</b>	<b>Ending Balance</b>
<b>Business-type activities</b>					
Capital assets, not being depreciated:					
Land	\$ 23,486,735	\$ -	\$ -	\$ -	\$ 23,486,735
Construction in progress	15,013,166	36,592,699	-	(14,088,709)	37,517,156
	<u>38,499,901</u>	<u>36,592,699</u>	<u>-</u>	<u>(14,088,709)</u>	<u>61,003,891</u>
Capital assets, being depreciated:					
Production plant	391,294,708	-	(192,711)	2,673,623	393,775,620
Distribution/collection system	111,923,764	-	(333,419)	7,072,265	118,662,610
Transmission	121,632,715	-	(664,011)	3,555,177	124,523,881
General plant	55,557,893	-	(44,213)	787,644	56,301,324
	<u>680,409,080</u>	<u>-</u>	<u>(1,234,354)</u>	<u>14,088,709</u>	<u>693,263,435</u>
Less accumulated depreciation for:					
Production plant	(143,514,920)	(10,623,124)	192,711	-	(153,945,333)
Distribution/collection system	(38,666,143)	(2,920,208)	138,263	-	(41,448,088)
Transmission	(90,114,366)	(3,163,152)	640,890	-	(92,636,628)
General plant	(28,750,444)	(2,376,249)	35,002	-	(31,091,691)
	<u>(301,045,873)</u>	<u>(19,082,733)</u>	<u>1,006,866</u>	<u>-</u>	<u>(319,121,740)</u>
Total capital assets being depreciated, net	<u>379,363,207</u>	<u>(19,082,733)</u>	<u>(227,488)</u>	<u>14,088,709</u>	<u>374,141,695</u>
<b>Business-type activities capital assets, net</b>	<u>\$ 417,863,108</u>	<u>\$ 17,509,966</u>	<u>\$ (227,488)</u>	<u>\$ -</u>	<u>\$ 435,145,586</u>

Depreciation and amortization expense as noted on the Statement of Revenues, Expenses, and Changes in Fund Net Position includes \$(6,441) of current year amortization expense related to regulatory cost for future recovery and \$482,330 of current year amortization expense related to regulatory credits, see Note 10 Regulatory Accounting, that off-sets the depreciation of \$19,082,733 as noted above.

**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:

	<b>Beginning Balance</b>	<b>Additions</b>	<b>Deductions</b>	<b>Ending Balance</b>	<b>Due Within One Year</b>
Direct placement revenue bonds	\$ 37,755,000	\$ -	\$ (22,505,000)	\$ 15,250,000	\$ -
Revenue bonds	7,937,717	20,949,262	(290,000)	28,596,979	295,000
Pension bonds	7,481,790	-	(1,408,999)	6,072,791	1,448,452
Installment sales agreement	7,467,500	-	(437,500)	7,030,000	450,000
Total installment debt	60,642,007	20,949,262	(24,641,499)	56,949,770	2,193,452
Unamortized net premium/ discount on revenue bonds	-	1,282,287	(34,602)	1,247,685	138,407
Compensated absences	1,385,759	1,342,000	(1,385,759)	1,342,000	1,342,000
Landfill postclosure	687,301	-	(37,421)	649,880	-
	<u>\$ 62,715,067</u>	<u>\$ 23,573,549</u>	<u>\$ (26,099,281)</u>	<u>\$ 60,189,335</u>	<u>\$ 3,673,859</u>

**Direct placement revenue bonds**

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

\$ 2,490,000

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

12,760,000

**Total direct placement revenue bonds**

15,250,000

**Revenue bonds**

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

3,313,610

\$30,000,000 2021 Wastewater Revenue Bonds, \$6,000,000 expected to be forgiven, \$12,435,461 drawn as of June 30, 2022, net of \$2,487,092 forgiveness, due in annual installments of \$990,000 to \$1,440,000 plus interest at 2.0%, payable semi-annually, through April 1, 2043.

9,948,369



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

**Revenue bonds (concluded)**

\$15,335,000 2022 Water Revenue Bonds, due in annual installments of \$430,000 to \$1,385,000 plus interest ranging from 3.375% to 5.0%, payable semi-annually, through April 1, 2042.

\$ 15,335,000

**Total revenue bonds**

28,596,979

**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.

6,072,791

**Installment Sales Agreement**

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

7,030,000

**Total installment debt**

\$ 56,949,770

The annual requirements to maturity on bonds outstanding as of June 30, 2022 are as follows:

Year Ended June 30,	Bonds Payable			
	Direct Placement		Other	
	Principal	Interest	Principal	Interest
2023	\$ -	\$ 24,882	\$ 1,743,452	\$ 1,337,937
2024	14,000,000	49,284	2,785,722	1,308,817
2025	1,250,000	12,250	2,856,446	1,232,927
2026	-	-	3,367,171	1,152,648
2027	-	-	1,825,000	1,075,422
2028-2032	-	-	9,938,610	4,565,764
2033-2037	-	-	11,500,000	2,997,460
2038-2042	-	-	13,265,000	1,235,052
2043	-	-	1,440,000	28,800
	<u>\$ 15,250,000</u>	<u>\$ 86,416</u>	48,721,401	<u>\$ 14,934,827</u>
			(14,051,631)	
			<u>\$ 34,669,770</u>	

Less amounts not yet drawn

(14,051,631)

\$ 34,669,770

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The annual requirements to maturity on installment sales agreement outstanding as of June 30, 2022 are as follows:

Year Ended June 30,	Principal	Interest
2023	\$ 450,000	\$ 198,865
2024	462,500	189,640
2025	472,500	179,465
2026	485,000	168,598
2027	500,000	156,957
2028-2032	2,755,000	572,412
2033-2035	1,905,000	128,881
	<u>\$ 7,030,000</u>	<u>\$ 1,594,818</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 Postclosure Care***

State and federal laws and regulations require the Board to place a final cover on its fly ash and wastewater treatment bio solids landfill when it stops accepting waste and to perform certain maintenance and monitoring functions at the site for thirty years after closure. The Board has received a letter from the Department of Environment, Great Lakes and Energy (EGLE) acknowledging the landfill closed effective July 10, 2020. The remaining liability is for the estimated cost for postclosure care for the next 28 years.

The Board is required by state and federal laws and regulations to make annual contributions to a trust to finance closure and postclosure care. The Board is in compliance with these requirements. At June 30, 2022, the closure and postclosure costs have been assured by a \$100,000 letter of credit and \$18,913 held in trust.

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**Notes to Financial Statements**

**5. PENSION PLANS**

**Defined Benefit Pension Plan**

***General Information About the Plan***

*Plan Description.* The Board's defined benefit pension plan provides certain retirement, disability and death benefits to plan members and beneficiaries. The Board participates in the Municipal Employees Retirement System (MERS) of Michigan. MERS is an agent multiple-employer, statewide public employee pension plan established by the Michigan Legislature under Public Act 135 of 1945 and administered by a nine member Retirement Board. MERS issues a publicly available financial report that includes financial statements and required supplementary information. This report may be obtained accessing the MERS website at [www.mersofmich.com](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, 2021 valuation date, plan membership consisted of the following:

Inactive employees or beneficiaries currently receiving benefits	142
Inactive employees entitled to but not yet receiving benefits	25
Active employees	<u>48</u>
<b>Total membership</b>	<b><u><u>215</u></u></b>

*Contributions.* The employer is required to contribute amounts at least equal to the actuarially determined rate, as established by the MERS Retirement Board. The actuarially determined rate is the estimated amount necessary to finance the cost of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. In addition, the employer may establish contribution rates to be paid by its covered employees.

Employer and employee contribution amounts or rates, by division/bargaining unit, were as follows for the year ended June 30, 2022:

Division/Bargaining Unit	Employer Contribution	Employee Contribution	Status
11 - PubWks Local 586	\$56,898/month	3.0%	Closed
13 - PubWks-NonUnion	\$41,444/month	3.0%	Closed
14 - Clerical	\$4,327/month	3.0%	Closed

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

*Net Pension Liability.* The Board's net pension liability was measured as of December 31, 2021, 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, 2021 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.50%
Salary increases	3.00% in the long-term
Investment rate of return	7.00%, net of investment and administrative expense including inflation

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

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

The actuarial assumptions used in the December 31, 2021 valuation were based on the results of the most recent actuarial experience study of 2014-2018.

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**Notes to Financial Statements**

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

Asset Class	Target Allocation	Long-term Expected Real Rate of Return	Expected Money-Weighted Rate of Return
Global equity	60.0%	4.50%	2.70%
Global fixed income	20.0%	2.00%	0.40%
Private investments	20.0%	7.00%	1.40%
	100.0%		
Inflation			2.50%
Administrative expenses netted above			0.25%
<b>Investment rate of return</b>			<b>7.25%</b>

*Discount Rate.* The discount rate used to measure the total pension liability as of December 31, 2021 was 7.25% (down from 7.60% at December 31, 2020). 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.

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**Notes to Financial Statements**

*Changes in Net Pension Liability*

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

	<b>Total Pension Liability (a)</b>	<b>Plan Fiduciary Net Position (b)</b>	<b>Net Pension Liability (a) - (b)</b>
Balances at December 31, 2020	\$ 61,164,046	\$ 57,160,071	\$ 4,003,975
Changes for the year:			
Service cost	331,687	-	331,687
Interest	4,511,877	-	4,511,877
Differences between expected and actual experience	20,228	-	20,228
Changes in assumptions	2,107,212	-	2,107,212
Employer contributions	-	1,109,908	(1,109,908)
Employee contributions	-	123,597	(123,597)
Net investment income	-	7,564,052	(7,564,052)
Benefit payments, including refunds of employee contributions	(3,926,180)	(3,926,180)	-
Administrative expense	-	(89,818)	89,818
Net changes	<u>3,044,824</u>	<u>4,781,559</u>	<u>(1,736,735)</u>
<b>Balances at December 31, 2021</b>	<u>\$ 64,208,870</u>	<u>\$ 61,941,630</u>	<u>\$ 2,267,240</u>

*Changes in assumptions.* In 2022, amounts reported as changes of assumptions resulted from a decrease in the assumed rate of return from 7.35% to 7.00%.

*Sensitivity of the Net Pension Liability to Changes in the Discount Rate.* The following presents the net pension liability of the Board, calculated using the discount rate of 7.25%, as well as what the Board's net pension liability would be if it were calculated using a discount rate that is 1% lower (6.25%) or 1% higher (8.25%) than the current rate:

	<b>1% Decrease (6.25%)</b>	<b>Current Discount Rate (7.25%)</b>	<b>1% Increase (8.25%)</b>
Net pension liability (asset)	\$ 8,984,878	\$ 2,267,240	\$ (3,461,437)

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**Notes to Financial Statements**

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

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

For the year ended June 30, 2022, the Board recognized pension expense of \$2,213,107. 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
Net difference between projected and actual earnings on pension plan investments	\$ -	\$ 4,480,260	\$ (4,480,260)
Contributions subsequent to the measurement date	616,014	-	616,014
<b>Total</b>	<u>\$ 616,014</u>	<u>\$ 4,480,260</u>	<u>\$ (3,864,246)</u>

The amount reported as deferred outflows of resources resulting from contributions subsequent to the measurement date will be recognized as a reduction in the net pension liability for the year ending June 30, 2023. 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
2023	\$ (624,899)
2024	(1,868,683)
2025	(1,321,553)
2026	<u>(665,125)</u>
<b>Total</b>	<u>\$ (4,480,260)</u>

*Payable to the Pension Plan.* At June 30, 2022, the Board reported a payable of \$102,669 for the outstanding amount of contributions to the pension plan.

# HOLLAND BOARD OF PUBLIC WORKS

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### Notes to Financial Statements

#### Defined Contribution Pension Plan

The Board participates in a defined contribution retirement plan which is administered by the ICMA in participation with MERS for both nonbargaining and union employees. The defined contribution provisions of the plan require the Board to contribute 6% of covered employee payroll and to match employee contributions up to 2% for nonbargaining employees and up to 2% for union employees. The participants direct their investments under defined contribution provisions. During the year ended June 30, 2022, the Board contributed \$849,792 and employees contributed \$215,610 to the defined contribution plan.

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

#### *General Information About the OPEB Plan*

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

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

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

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



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*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, 2022, the date of the most recent actuarial valuation, OPEB Plan membership consisted of the following:

Inactive plan members or beneficiaries currently receiving benefit payments	10
Active plan members	<u>173</u>
<b>Total membership</b>	<b><u><u>183</u></u></b>

*Net OPEB Liability.* The Board's net OPEB liability was measured as of June 30, 2022, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of that date.

*Actuarial Assumptions.* The total OPEB liability in the June 30, 2022 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

Inflation	2.50%
Salary increases	2.00%
Investment rate of return	7.00%
Healthcare cost trend rate	N/A as this is a stipend only plan
Utilization	85% of eligible employees will elect coverage at early retirement; actual coverage used for non-active
Mortality	Public General 2010 Employee and Healthy Retiree, Headcount weighted, MP-2021

*Discount Rate.* The discount rate used to measure the total OPEB liability as of June 30, 2022 was 7.00% (down from 7.35% as of June 30, 2021). The projection of cash flows used to determine the discount rate assumes that the Board will fully fund the OPEB Plan by contributing the actuarially determined contribution. Based on these assumptions, the OPEB Plan's fiduciary net position was projected to be available to pay all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on OPEB Plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

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**Notes to Financial Statements**

***Changes in the Net OPEB Liability***

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

	<b>Total OPEB Liability (a)</b>	<b>Plan Fiduciary Net Position (b)</b>	<b>Net OPEB Liability (a) - (b)</b>
Balances at June 30, 2021	\$ 571,674	\$ 301,968	\$ 269,706
Changes for the year:			
Service cost	14,242	-	14,242
Interest	42,859	-	42,859
Differences between expected and actual experience	(37,700)	-	(37,700)
Changes in assumptions	11,530	-	11,530
Employer contributions	-	119,881	(119,881)
Contributions/benefit from general operating funds	-	5,593	(5,593)
Net investment loss	-	(37,000)	37,000
Benefit payments, including refunds of employee contributions	(5,593)	(5,593)	-
Administrative expense	-	(655)	655
Net changes	<u>25,338</u>	<u>82,226</u>	<u>(56,888)</u>
<b>Balances at June 30, 2022</b>	<u>\$ 597,012</u>	<u>\$ 384,194</u>	<u>\$ 212,818</u>

Amounts reported as changes in assumptions resulted from a decrease in the discount rate from 7.35% to 7.00%, and the mortality improvement scale updated from MP-2020 to MP-2021.

*Sensitivity of the Net OPEB Liability to Changes in the Discount Rate.* The following presents the net OPEB liability of the Board, calculated using the discount rate of 7.00%, as well as what the Board's net OPEB liability would be if it were calculated using a discount rate that is 1% lower (6.00%) or 1% higher (8.00%) than the current rate:

	<b>1% Decrease (6.00%)</b>	<b>Current Discount Rate (7.00%)</b>	<b>1% Increase (8.00%)</b>
Net OPEB liability	\$ 247,140	\$ 212,818	\$ 180,851

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

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**Notes to Financial Statements**

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

For the year ended June 30, 2022, the Board recognized OPEB expense of \$(12,516). The Board reported deferred outflows/inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources	Net Deferred Outflows (Inflows) of Resources
Difference between expected and actual experience	\$ -	\$ 332,018	\$ (332,018)
Changes of assumptions	-	221,343	(221,343)
Net difference between projected and actual earnings on OPEB plan investments	16,149	-	16,149
	<u>\$ 16,149</u>	<u>\$ 553,361</u>	<u>\$ (537,212)</u>

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

Year Ended June 30,	Amount
2023	\$ (65,889)
2024	(65,889)
2025	(65,887)
2026	(60,234)
2027	(68,512)
Thereafter	<u>(210,801)</u>
<b>Total</b>	<u><u>\$ (537,212)</u></u>

*Payable to the OPEB Plan.* At June 30, 2022, the Board had no amounts payable for contributions to the OPEB Plan.

# HOLLAND BOARD OF PUBLIC WORKS

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### Notes to Financial Statements

#### 7. RISK MANAGEMENT

The Board is exposed to various risks of loss related to property loss, torts, errors and omissions, employee injuries (workers' compensation), as well as medical benefits provided to employees. The Board is self-insured for these risks through the City of Holland's self-insurance program except for workers' compensation risks which are covered through commercial insurance. The City purchases excess reinsurance and allocates risk management costs among the various funds of the City, including the Board of Public Works. The schedule of changes in the self-insured liability balances is included in the City of Holland's financial statements for the year ended June 30, 2022.

#### 8. COMMITMENTS

The Board has contracts outstanding for remaining project costs of approximately \$17,910,000 for various electric utility projects, \$21,773,000 for various water projects, and \$12,550,000 for various wastewater projects.

#### 9. JOINT VENTURE

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

Under the joint venture, the Board has entered into Power Sales Contracts and Project Support Contracts. These contracts provide for the Board to purchase from MPPA 15.66% of the energy generated by MPPA's 18.61% ownership in Detroit Edison's Belle River, 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 PPA'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 11 megawatts of power, respectively, in 1995 and thereafter for the Belle River and Campbell projects. The contracts relating to the Fremont project requires the Board to purchase approximately 5 megawatts of power in 2013 and thereafter.

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

For the year ended June 30, 2022, the Board recognized expenses totaling \$10,072,362 under the terms of the contracts which represented \$347,861 for fixed operating costs, \$846,131 for debt service and \$8,878,370 for the purchase of power. Accounts payable to MPPA totaled net \$100,950 at June 30, 2022. Under the terms of its contracts, the Board must make minimum annual payments equal to its share of debt service and its share of the fixed operating costs of Consumers Energy’s Campbell Unit No. 3 and American Municipal Power’s AMP Fremont Energy Center Project (AFEC). The estimated required payments presented below consider the dynamics of the PJM and MISO markets. Debt service payments assume no early calls or refinancing of existing revenue bonds.

A summary of future transactions with the MPPA related to Fremont project (AFEC) is as follows:

Year Ended June 30,	Debt Service	Fixed Operating	Total
2023	\$ 357,625	\$ 280,749	\$ 638,374
2024	358,135	286,364	644,499
2025	357,892	292,091	649,983
2026	357,576	297,933	655,509
2027	357,854	303,892	661,746
2028-2032	1,788,533	1,613,094	3,401,627
	<u>\$ 3,577,615</u>	<u>\$ 3,074,123</u>	<u>\$ 6,651,738</u>

Debt service requirements for the Belle River project expired in 2018. Debt service requirements for the Campbell project expired in 2022. Debt service requirements for the Fremont project expire in 2032. At June 30, 2022, the total debt service for Fremont was \$3,577,615, ending June 30, 2032. The above amounts include estimated fixed operating costs for the same period as the debt service. The contracts for the Board’s commitment for fixed operating costs to extend beyond these dates is dependent upon the use of the facilities. The joint venture is a result of an ongoing financial responsibility. The Board did not have an initial equity interest and does not participate in net income or losses.

**10. REGULATORY ACCOUNTING**

***Regulatory assets - Regulatory cost for future recovery***

*Holland Energy Park Natural Gas Pipeline Inspection* - \$541,095 was expended in fiscal year 2022 to inspect the natural gas pipeline serving the Holland Energy Park. These inspections are required every 7 years. The inspection in fiscal year 2022 was completed in May 2022. The regulatory asset established for these costs will be amortized over 84 months beginning June 2022. The regulatory asset amortization recognized in fiscal year 2022 was \$6,441 resulting in a balance of \$534,643 at June 30, 2022. Such treatment provides more consistent and comparable financial information, in addition to aligning expenses with rates.

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

### Notes to Financial Statements

#### *Regulatory credits - Deferred inflows of resources*

##### *Wastewater Contributions in Aid of Construction (CAIC)*

*Biosolids Improvement Project* – This asset was placed in service in April 2018 at a cost of \$21,609,872. The Northern Service Area contributed \$9,447,600 toward the project, recognized as contributed capital (CAIC) in the fiscal years received. This revenue was restated as a regulatory credit in fiscal year 2022, resulting in a net deferred inflow of resources of \$6,613,320 as of June 30, 2022. The Board will amortize this credit over the life of the asset, recognizing the revenue as an offset to depreciation expense.

*Anaerobic Digester* – Construction started in fiscal year 2021 with completion expected in fiscal year 2024. Contributed capital (CAIC) toward the project from the Northern Service Area of \$3,968,835 was recognized in fiscal year 2021, which was restated as a regulatory credit in fiscal year 2022. An additional \$6,549,233 was recognized as a regulatory credit in fiscal year 2022, reflecting the Northern Service Area's contribution (CAIC) for fiscal year 2022 construction costs. This resulted in deferred inflow of resources of \$10,518,076 as of June 30, 2022. Additional contributions will be recognized as regulatory credits as construction continues. Amortization of the regulatory credit will begin at the time the digester is placed in service (currently scheduled for June 2023) and will be recognized as revenue over the life of the asset as an offset to depreciation expense.

*Capacity and Operations Contract* – Pursuant to this agreement, the Northern Service Area (NSA) makes annual payments to the Board to be used for the acquisition of new or replacement capital equipment. The funds related to these payments are placed into a restricted replacement cash fund until expended for these capital items. The funds received for the Replacement Fund have historically been recorded as operating revenues. Under GASB 62, the amounts received for the replacement fund will be classified as a regulatory credit. As the funds are expended, they will be recognized as contributed capital on the Statement of Revenues, Expenses, and Changes in Net Position. The replacement fund deferred credit was \$2,184,147 at June 30, 2022.

##### *Wastewater Grant*

*Anaerobic Digester* – A loan from the Clean Water State Revolving Fund (CWSRF) was used to finance \$30,000,000 of the estimated \$33,525,000 in project costs for the digester. The project also qualified for a grant, in the form of debt principal forgiveness, under the CWSRF Green Project Reserve. The total grant award is \$6,000,000 (20% of the CWSRF loan). Grant income of \$1,083,527 (20% of fiscal year 2021 loan draws) was awarded in fiscal year 2021. The Board allocates grant income to the NSA due to its capacity interest. Therefore, \$541,763 was recognized as grant income in fiscal year 2021. This has been restated as a regulatory credit in fiscal year 2022. A regulatory credit of \$701,783 was recognized for the fiscal year 2022 forgiveness. This has resulted in deferred inflow of resources of \$1,243,546 as of June 30, 2022. Additional loan forgiveness under the grant will be recognized as regulatory credits as future loan draws are made. Amortization of the regulatory credit will begin at the time the digester is placed in service and will be recognized as revenue over the life of the asset as an offset to depreciation expense.

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

*Water Grant*

*Wyoming Water Interconnect Project* – Financial assistance from the CWSRF was used to finance \$6,638,648 of project costs for the Interconnect. The project also qualified for a grant, in the form of debt principal forgiveness, under the CWSRF Green Project Reserve. The grant amount was \$995,797 (15% of the CWSRF loan). The Board has a 50% interest in the project, and recognized \$497,899 as grant income in fiscal year 2017. This has been restated as regulatory credit in fiscal year 2022, thus resulted in a net deferred inflow of resources of \$448,109 as of June 30, 2022. The Board will amortize this credit over the life of the asset recognizing the revenue as an offset to depreciation expense.

**11. LITIGATION**

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

**12. NET POSITION**

The composition of net investment in capital assets as of June 30, 2022, was as follows:

Capital assets:	
Capital assets not being depreciated	\$ 61,003,891
Capital assets being depreciated, net	<u>374,141,695</u>
	<u>435,145,586</u>
Related debt:	
Total installment debt	56,949,770
Less pension bonds	(6,072,791)
Net bond premium/discount	1,247,685
Deferred charge on refunding	196,642
Unspent bond proceeds	(12,693,496)
Accounts payable related to capital purchases	<u>11,460,737</u>
	<u>51,088,547</u>
<b>Net investment in capital assets</b>	<u><u>\$ 384,057,039</u></u>

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

**Notes to Financial Statements**

The composition of restricted net position as of June 30, 2022, was as follows:

Restricted assets:	
Cash and cash equivalents	\$ 7,653,998
Investments	15,953,963
Accrued interest	<u>17,245</u>
	<u>23,625,206</u>
Unspent bond proceeds	<u>(12,693,496)</u>
<b>Restricted net position</b>	<b><u><u>\$ 10,931,710</u></u></b>

**13. CORONAVIRUS (COVID-19)**

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

**14. RESTATEMENT - CHANGE IN ACCOUNTING PRINCIPLE**

At the May 18, 2022 meeting, the Holland City Council adopted a resolution authorizing the Board to apply the standards of GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989, FASB and other AICPA Pronouncements, Paragraphs 476-500*. The Board has applied these standards to certain transactions that occurred prior to fiscal year 2022, as such treatment provides more consistent and comparable financial information, in addition to aligning expenses with rates. The effect of this change in account principal is summarized below:

	<b>Wastewater Utility</b>	<b>Water Utility</b>	<b>Total</b>
Net position as reported at June 30, 2021	\$ 76,903,271	\$ 60,543,051	\$ 137,446,322
Regulatory credit - Biosolids Improvement	(7,081,919)	-	(7,081,919)
Regulatory credit - Anaerobic Digester	(4,510,599)	-	(4,510,599)
Regulatory credit - Capacity & Operations	(2,234,477)	-	(2,234,477)
Regulatory credit - Wyoming Interconnect	-	(458,067)	(458,067)
Due from other local units	<u>252,004</u>	<u>-</u>	<u>252,004</u>
Net position as restated at June 30, 2021	<u><u>\$ 63,328,280</u></u>	<u><u>\$ 60,084,984</u></u>	<u><u>\$ 123,413,264</u></u>





**UNAUDITED SUPPLEMENTARY INFORMATION**

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

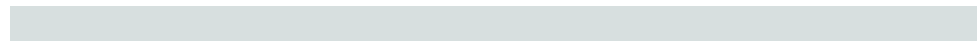
**Unaudited Supplementary Information**

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,		
	2022	2021	2020
<b>Total pension liability</b>			
Service cost	\$ 331,687	\$ 420,437	\$ 465,098
Interest	4,511,877	4,340,120	4,340,973
Changes in benefits	-	-	-
Differences between expected and actual experience	20,228	(109,017)	(253,861)
Changes of assumptions	2,107,212	1,430,115	1,843,738
Benefit payments, including refunds of employee contributions	(3,926,180)	(3,628,472)	(3,429,403)
<b>Net change in total pension liability</b>	<b>3,044,824</b>	<b>2,453,183</b>	<b>2,966,545</b>
Total pension liability, beginning of year	61,164,046	58,710,863	55,744,318
<b>Total pension liability, end of year</b>	<b>64,208,870</b>	<b>61,164,046</b>	<b>58,710,863</b>
<b>Plan fiduciary net position</b>			
Employer contributions	1,109,908	835,308	687,360
Employee contributions	123,597	136,537	140,820
Net investment income (loss)	7,564,052	7,185,160	6,539,901
Benefit payments, including refunds of employee contributions	(3,926,180)	(3,628,472)	(3,429,403)
Administrative expense	(89,818)	(104,493)	(112,608)
<b>Net change in plan fiduciary net position</b>	<b>4,781,559</b>	<b>4,424,040</b>	<b>3,826,070</b>
Plan fiduciary net position, beginning of year	57,160,071	52,736,031	48,909,961
<b>Plan fiduciary net position, end of year</b>	<b>61,941,630</b>	<b>57,160,071</b>	<b>52,736,031</b>
<b>Board's net pension liability</b>	<b>\$ 2,267,240</b>	<b>\$ 4,003,975</b>	<b>\$ 5,974,832</b>
Plan fiduciary net position as a percentage of total pension liability	96.5%	93.5%	89.8%
Covered payroll	\$ 3,961,073	\$ 4,204,277	\$ 4,646,185
Board's net pension liability as a percentage of covered payroll	57.2%	95.2%	128.6%

See notes to unaudited supplementary information.



Year Ended June 30,				
2019	2018	2017	2016	2015
\$ 459,607	\$ 468,117	\$ 494,584	\$ 508,116	\$ 534,319
4,281,669	4,227,124	4,131,826	3,988,984	3,877,167
-	-	-	(6,591)	-
(593,283)	(705,307)	(266,556)	(581,928)	-
-	-	-	2,486,206	-
<u>(3,389,456)</u>	<u>(3,218,276)</u>	<u>(3,092,525)</u>	<u>(3,090,521)</u>	<u>(2,995,515)</u>
758,537	771,658	1,267,329	3,304,266	1,415,971
<u>54,985,781</u>	<u>54,214,123</u>	<u>52,946,794</u>	<u>49,642,528</u>	<u>48,226,557</u>
<u>55,744,318</u>	<u>54,985,781</u>	<u>54,214,123</u>	<u>52,946,794</u>	<u>49,642,528</u>
557,523	404,799	1,623,277	15,566,146	1,500,624
139,999	145,954	158,497	140,340	128,691
(2,031,816)	6,496,694	5,249,048	(448,173)	2,086,857
(3,389,456)	(3,218,276)	(3,092,525)	(3,090,521)	(2,995,515)
<u>(102,570)</u>	<u>(103,062)</u>	<u>(103,380)</u>	<u>(76,287)</u>	<u>(76,418)</u>
(4,826,320)	3,726,109	3,834,917	12,091,505	644,239
<u>53,736,281</u>	<u>50,010,172</u>	<u>46,175,255</u>	<u>34,083,750</u>	<u>33,439,511</u>
<u>48,909,961</u>	<u>53,736,281</u>	<u>50,010,172</u>	<u>46,175,255</u>	<u>34,083,750</u>
<u>\$ 6,834,357</u>	<u>\$ 1,249,500</u>	<u>\$ 4,203,951</u>	<u>\$ 6,771,539</u>	<u>\$ 15,558,778</u>
87.7%	97.7%	92.2%	87.2%	68.7%
\$ 4,561,399	\$ 4,647,824	\$ 4,899,166	\$ 5,317,097	\$ 5,581,027
149.8%	26.9%	85.8%	127.4%	278.8%

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

**Unaudited Supplementary Information**

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

Fiscal Year Ending June 30,	Actuarially Determined Contribution	Contributions in Relation to the Actuarially Determined Contribution	Contribution (Deficiency) Excess	Covered Payroll	Contributions as Percentage of Covered Payroll
2022	\$ 1,248,190	\$ 1,248,190	\$ -	\$ 4,015,010	31.1%
2021	955,464	955,464	-	4,328,245	22.1%
2020	715,152	715,152	-	4,690,883	15.2%
2019	659,463	659,463	-	4,664,822	14.1%
2018	455,133	455,133	-	4,715,326	9.7%
2017	355,020	355,020	-	5,106,936	7.0%
2016	957,317	16,226,621	15,269,304	5,543,402	292.7%
2015	1,570,584	1,570,584	-	5,483,611	28.6%

See notes to unaudited supplementary information.

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

**Unaudited Supplementary Information**

Other Postemployment Benefits Plan

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

	Year Ended June 30				
	2022	2021	2020	2019	2018
<b>Total OPEB liability</b>					
Service cost	\$ 14,242	\$ 33,265	\$ 31,613	\$ 33,434	\$ 47,727
Interest	42,859	20,699	22,780	22,489	34,642
Differences between expected and actual experience	(37,700)	(60,378)	(55,080)	(47,109)	(296,134)
Changes in assumptions	11,530	(172,033)	9,834	-	(165,318)
Benefit payments, including refunds of employee contributions	(5,593)	10,409	5,657	(160)	(23,281)
<b>Net change in total OPEB liability</b>	<b>25,338</b>	<b>(168,038)</b>	<b>14,804</b>	<b>8,654</b>	<b>(402,364)</b>
Total OPEB liability, beginning of year	571,674	739,712	724,908	716,254	1,118,618
<b>Total OPEB liability, end of year</b>	<b>597,012</b>	<b>571,674</b>	<b>739,712</b>	<b>724,908</b>	<b>716,254</b>
<b>Plan fiduciary net position</b>					
Employer contributions	119,881	270,382	-	-	-
Contributions/benefit from general operating funds	5,593	(10,409)	-	-	-
Net investment income (loss)	(37,000)	31,855	-	-	-
Benefit payments, including refunds of employee contributions	(5,593)	10,409	-	-	-
Administrative expense	(655)	(269)	-	-	-
<b>Net change in plan fiduciary net position</b>	<b>82,226</b>	<b>301,968</b>	<b>-</b>	<b>-</b>	<b>-</b>
Plan fiduciary net position, beginning of year	301,968	-	-	-	-
<b>Plan fiduciary net position, end of year</b>	<b>384,194</b>	<b>301,968</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Board's net OPEB liability</b>	<b>\$ 212,818</b>	<b>\$ 269,706</b>	<b>\$ 739,712</b>	<b>\$ 724,908</b>	<b>\$ 716,254</b>
Plan fiduciary net position as a percentage of total pension liability	64.35%	52.82%	0.00%	0.00%	0.00%
Covered payroll	\$ 14,775,206	\$ 14,218,012	\$ 13,534,177	\$ 13,212,453	\$ 12,170,006
Board's net OPEB liability as a percentage of covered payroll	1.44%	1.90%	5.47%	5.49%	5.89%

See notes to unaudited supplementary information.

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

**Unaudited Supplementary Information**

Other Postemployment Benefits Plan  
Schedule of Contributions

<b>Fiscal Year Ending June 30,</b>	<b>Actuarially Determined Contribution</b>	<b>Contributions in Relation to the Actuarially Determined Contribution</b>	<b>Contribution (Deficiency) Excess</b>	<b>Covered Payroll</b>	<b>Contributions as Percentage of Covered Payroll</b>
2022	\$ 49,881	\$ 125,474	\$ 75,593	\$ 14,775,206	0.8%
2021	106,963	259,973	153,010	14,218,012	1.8%
2020	93,418	(5,657)	(99,075)	13,534,177	0.0%
2019	90,539	160	(90,379)	13,212,453	0.0%
2018	131,327	23,281	(108,046)	12,170,006	0.2%

See notes to unaudited supplementary information.

# HOLLAND BOARD OF PUBLIC WORKS

## Notes to Unaudited Supplementary Information

### *MERS Agent Multiple-Employer Defined Benefit Pension Plan*

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

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

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

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

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

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

In 2022, amounts reported as changes of assumptions resulted from a decrease in the assumed rate of return from 7.35% to 7.00%.

#### Notes to Schedule of Contributions

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

Valuation Date Actuarially determined contribution rates are calculated as of the December 31 that is 18 months prior to the beginning of the fiscal year in which contributions are reported.

Methods and assumptions used to determine contribution rates (2022, based on the 12/31/2019 actuarial valuation):

Actuarial cost method	Entry-age normal
Amortization method	Level percent of payroll, open
Remaining amortization period	4-11 years, depending on division
Asset valuation method	5-year smooth market
Inflation	2.50%
Salary increases	3.00% in the long-term
Investment rate of return	7.35%, net of investment and administrative expense including inflation
Normal retirement age	Age 60
Mortality	50% Female/50% Male blend of the RP-2014 Healthy Annuitant Mortality Tables with rates multiplied by 105%, the RP-2014 Employee Mortality Tables, and the RP-2014 Juvenile Mortality Tables





## **SUPPLEMENTARY INFORMATION**

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

**Combining Statement of Net Position**

June 30, 2021

	Electric Utility	Wastewater Utility	Water Utility	Total
<b>Assets</b>				
Current assets:				
Cash and cash equivalents	\$ 31,791,164	\$ 10,498,459	\$ 7,264,533	\$ 49,554,156
Investments	22,296,177	2,997,942	4,029,600	29,323,719
Receivables:				
Accounts receivable	7,071,137	1,067,571	1,294,871	9,433,579
Unbilled revenue	6,737,208	610,752	824,646	8,172,606
Special assessments and other	-	26,957	36,067	63,024
Accrued interest	182,558	11,900	15,605	210,063
Due from other funds of the				
City of Holland	1,180,401	3,829	50,516	1,234,746
Inventories	5,026,480	9,761	406,809	5,443,050
Prepaid items and other assets	3,047,765	30,549	18,449	3,096,763
<b>Total current assets</b>	<b>77,332,890</b>	<b>15,257,720</b>	<b>13,941,096</b>	<b>106,531,706</b>
Noncurrent assets:				
Restricted assets:				
Cash and cash equivalents	-	4,468,955	499,500	4,968,455
Investments	6,099,040	-	-	6,099,040
<b>Total restricted assets</b>	<b>6,099,040</b>	<b>4,468,955</b>	<b>499,500</b>	<b>11,067,495</b>
Capital assets:				
Land	21,047,820	260,673	2,178,242	23,486,735
Construction in progress	2,616,659	8,561,487	3,835,020	15,013,166
Plant and equipment	486,371,177	111,640,365	82,397,538	680,409,080
Accumulated depreciation	(214,949,613)	(51,679,926)	(34,416,334)	(301,045,873)
<b>Total capital assets, net</b>	<b>295,086,043</b>	<b>68,782,599</b>	<b>53,994,466</b>	<b>417,863,108</b>
Other noncurrent assets:				
Long-term investments	21,447,825	1,927,133	2,428,793	25,803,751
Due from other local units	-	3,427,072	540,000	3,967,072
Due from City of Wyoming	-	-	1,689,395	1,689,395
<b>Total other noncurrent assets</b>	<b>21,447,825</b>	<b>5,354,205</b>	<b>4,658,188</b>	<b>31,460,218</b>
<b>Total noncurrent assets</b>	<b>322,632,908</b>	<b>78,605,759</b>	<b>59,152,154</b>	<b>460,390,821</b>
<b>Total assets</b>	<b>399,965,798</b>	<b>93,863,479</b>	<b>73,093,250</b>	<b>566,922,527</b>
<b>Deferred outflows of resources</b>				
Deferred pension amounts	787,243	226,629	178,917	1,192,789

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

**Combining Statement of Net Position**

June 30, 2021

	Electric Utility	Wastewater Utility	Water Utility	Total
<b>Liabilities</b>				
Current liabilities:				
Accounts payable	\$ 6,131,007	\$ 2,054,231	\$ 618,894	\$ 8,804,132
Accrued salaries and wages payable	348,373	110,097	83,808	542,278
Due to other funds of the				
City of Holland	245,171	2,541	1,044,573	1,292,285
Deposits	1,042,103	30	20,050	1,062,183
Accrued interest payable	23,369	40,002	25,414	88,785
Current portion of long-term debt	2,031,296	855,284	635,679	3,522,259
Current liabilities payable from restricted assets:				
Current portion of long-term debt	-	-	1,285,000	1,285,000
Accrued interest payable	-	-	15,909	15,909
<b>Total current liabilities</b>	<b>9,821,319</b>	<b>3,062,185</b>	<b>3,729,327</b>	<b>16,612,831</b>
Noncurrent liabilities:				
Long-term debt, net of current portion	37,455,342	12,517,937	4,224,529	54,197,808
Long-term debt payable from restricted assets, net of current portion	-	-	3,710,000	3,710,000
Net pension liability	2,642,625	760,754	600,596	4,003,975
Net other postemployment benefit liability	191,410	44,475	33,821	269,706
<b>Total noncurrent liabilities</b>	<b>40,289,377</b>	<b>13,323,166</b>	<b>8,568,946</b>	<b>62,181,489</b>
<b>Total liabilities</b>	<b>50,110,696</b>	<b>16,385,351</b>	<b>12,298,273</b>	<b>78,794,320</b>
<b>Deferred inflows of resources</b>				
Deferred charge on refunding	393,284	-	-	393,284
Regulatory credits	-	13,826,995	458,067	14,285,062
Deferred pension amounts	1,554,553	447,523	353,307	2,355,383
Deferred other postemployment benefit amounts	438,818	101,959	77,536	618,313
<b>Total deferred inflows of resources</b>	<b>2,386,655</b>	<b>14,376,477</b>	<b>888,910</b>	<b>17,652,042</b>
<b>Net position</b>				
Net investment in capital assets	261,932,759	56,980,992	45,395,856	364,309,607
Restricted for:				
Debt service	-	-	499,500	499,500
Equipment replacement	-	4,468,955	-	4,468,955
Cooperative payments	6,099,040	-	-	6,099,040
Unrestricted	80,223,891	1,878,333	14,189,628	96,291,852
<b>Total net position</b>	<b>\$ 348,255,690</b>	<b>\$ 63,328,280</b>	<b>\$ 60,084,984</b>	<b>\$ 471,668,954</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, 2021

	<b>Electric Utility</b>	<b>Wastewater Utility</b>	<b>Water Utility</b>	<b>Total</b>
<b>Operating revenues</b>				
Residential sales	\$ 22,671,333	\$ 3,752,041	\$ 5,394,640	\$ 31,818,014
Commercial sales	33,046,868	2,846,591	3,597,999	39,491,458
Industrial sales	46,915,817	944,930	1,168,739	49,029,486
Wholesale	4,266,157	1,637,394	1,691,988	7,595,539
Fees and other	1,556,243	2,280,710	625,604	4,462,557
<b>Total operating revenues</b>	<b>108,456,418</b>	<b>11,461,666</b>	<b>12,478,970</b>	<b>132,397,054</b>
<b>Operating expenses</b>				
Salaries and wages	5,291,673	1,530,446	1,255,691	8,077,810
Employee benefits	3,221,128	912,319	822,670	4,956,117
Production	34,337,400	2,748,115	699,645	37,785,160
Distribution	7,491,413	623,193	1,006,296	9,120,902
Administrative and general	9,785,398	2,169,638	1,808,706	13,763,742
Depreciation and amortization	13,446,399	2,875,563	2,014,823	18,336,785
<b>Total operating expenses</b>	<b>73,573,411</b>	<b>10,859,274</b>	<b>7,607,831</b>	<b>92,040,516</b>
Operating income	34,883,007	602,392	4,871,139	40,356,538
<b>Nonoperating income (expense), net</b>				
Investment income	443,644	26,626	28,256	498,526
Interest expense	(2,741,316)	(275,377)	(244,865)	(3,261,558)
Loss on sale and disposal of capital assets	(487)	-	(90,147)	(90,634)
<b>Total nonoperating income (expense), net</b>	<b>(2,298,159)</b>	<b>(248,751)</b>	<b>(306,756)</b>	<b>(2,853,666)</b>
Net income before contributions and transfers	32,584,848	353,641	4,564,383	37,502,872
<b>Capital contributions</b>				
Trunkage	-	414,547	166,890	581,437
Contributions from other local units	-	1,266,455	2,076,000	3,342,455
Federal and state capital grants	-	541,764	-	541,764
<b>Total capital contributions</b>	<b>-</b>	<b>2,222,766</b>	<b>2,242,890</b>	<b>4,465,656</b>
Transfers out to other funds of the City of Holland	(7,968,900)	-	-	(7,968,900)
<b>Change in net position</b>	<b>24,615,948</b>	<b>2,576,407</b>	<b>6,807,273</b>	<b>33,999,628</b>
Net position, beginning of year, as restated	323,639,742	60,751,873	53,277,711	437,669,326
<b>Net position, end of year, as restated</b>	<b>\$ 348,255,690</b>	<b>\$ 63,328,280</b>	<b>\$ 60,084,984</b>	<b>\$ 471,668,954</b>

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

**Combining Statement of Cash Flows**  
For the Year Ended June 30, 2021

	Electric Utility	Wastewater Utility	Water Utility	Total
<b>Cash flows from operating activities</b>				
Receipts from customers and users	\$ 109,140,035	\$ 11,487,313	\$ 12,967,429	\$ 133,594,777
Payments to suppliers	(53,828,087)	(4,280,698)	(3,069,606)	(61,178,391)
Payments to/for employees	(8,335,391)	(2,383,545)	(2,044,799)	(12,763,735)
<b>Net cash provided by operating activities</b>	<u>46,976,557</u>	<u>4,823,070</u>	<u>7,853,024</u>	<u>59,652,651</u>
<b>Cash flows from noncapital financing activities</b>				
Transfers to other funds of the City of Holland	(7,968,900)	-	-	(7,968,900)
Principal paid on pension bonds	(905,762)	(260,750)	(205,855)	(1,372,367)
Interest paid on pension bonds	(183,853)	(52,927)	(41,785)	(278,565)
<b>Net cash used in noncapital financing activities</b>	<u>(9,058,515)</u>	<u>(313,677)</u>	<u>(247,640)</u>	<u>(9,619,832)</u>
<b>Cash flows from capital and related financing activities</b>				
Principal paid on capital related debt	-	(427,500)	(280,000)	(707,500)
Interest paid on capital related debt	(6,302,314)	(204,464)	(182,639)	(6,689,417)
Proceed from Clean Water State Revolving Fund Bonds	-	4,334,107	-	4,334,107
Issuance of refunding bonds	32,760,000	-	4,995,000	37,755,000
Cash transferred to escrow for defeased bonds	(143,007,284)	-	(5,459,607)	(148,466,891)
Capital grant - Clean Water State Revolving Fund	-	541,764	-	541,764
Capital contributions received	-	1,923,357	1,702,890	3,626,247
Proceed from sale of capital assets	7,410	4	17,998	25,412
Purchase/construction of property, plant and equipment	(5,007,916)	(8,490,357)	(7,670,893)	(21,169,166)
<b>Net cash used in capital and related financing activities</b>	<u>(121,550,104)</u>	<u>(2,323,089)</u>	<u>(6,877,251)</u>	<u>(130,750,444)</u>
<b>Cash flows from investing activities</b>				
Interest received	1,288,901	93,768	72,872	1,455,541
Purchase of investment securities	(50,804,767)	(4,992,991)	(6,511,178)	(62,308,936)
Proceeds from sale or maturities of investment securities	131,406,283	9,370,944	6,260,641	147,037,868
<b>Net cash provided by (used in) investing activities</b>	<u>81,890,417</u>	<u>4,471,721</u>	<u>(177,665)</u>	<u>86,184,473</u>
<b>Net increase (decrease) in cash and cash equivalents</b>	(1,741,645)	6,658,025	550,468	5,466,848
Cash and cash equivalents, beginning of year	33,532,809	8,309,389	7,213,565	49,055,763
<b>Cash and cash equivalents, end of year</b>	<u>\$ 31,791,164</u>	<u>\$ 14,967,414</u>	<u>\$ 7,764,033</u>	<u>\$ 54,522,611</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, 2021

	Electric Utility	Wastewater Utility	Water Utility	Total
<b>Classified on the statement of net position as</b>				
Cash and cash equivalents	\$ 31,791,164	\$ 10,498,459	\$ 7,264,533	\$ 49,554,156
Restricted cash and cash equivalents	-	4,468,955	499,500	4,968,455
<b>Total cash and cash equivalents</b>	<b><u>\$ 31,791,164</u></b>	<b><u>\$ 14,967,414</u></b>	<b><u>\$ 7,764,033</u></b>	<b><u>\$ 54,522,611</u></b>
<b>Reconciliation of operating income to net cash provided by operating activities</b>				
Operating income	\$ 34,883,007	\$ 602,392	\$ 4,871,139	\$ 40,356,538
Adjustments to reconcile operating income to net cash provided by operating activities:				
Depreciation and amortization	13,446,399	2,875,563	2,014,823	18,336,785
Changes in operating assets and liabilities which provided (used) cash:				
Receivables	534,886	25,974	(115,119)	445,741
Due from other funds of the City of Holland	68,563	(357)	452,084	520,290
Inventories	(676,998)	238	(139,536)	(816,296)
Prepaid items and other assets	(42,790)	18,489	7,735	(16,566)
Due from the City of Wyoming	-	-	132,659	132,659
Accounts payable	(1,447,944)	1,242,140	(464,121)	(669,925)
Accrued salaries and wages payable	(28,498)	(3,007)	(4,085)	(35,590)
Due to other funds of the City of Holland	(37,145)	2,356	1,040,963	1,006,174
Deposits	80,168	30	18,835	99,033
Landfill postclosure liability	(8,999)	-	-	(8,999)
Compensated absences	63,326	509	(1,624)	62,211
Net pension liability	(1,300,765)	(374,463)	(295,629)	(1,970,857)
Deferred outflows of resources related to the net pension liability	174,566	50,254	39,675	264,495
Deferred inflows of resources related to the net pension liability	1,470,779	423,406	334,268	2,228,453
Total other postemployment benefit liability	(334,969)	(73,731)	(61,306)	(470,006)
Deferred inflows of resources related to the total other postemployment benefit liability	132,971	33,277	22,263	188,511
<b>Net cash provided by operating activities</b>	<b><u>\$ 46,976,557</u></b>	<b><u>\$ 4,823,070</u></b>	<b><u>\$ 7,853,024</u></b>	<b><u>\$ 59,652,651</u></b>

concluded

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

**Holland Area Waste Treatment Plant Reserve for Equipment Replacement**

Year Ended June 30,	Contributions From Billings	Other	Interest		Improvements	Reserve Balance
			Rate	Amount		
1989	\$ 124,116	\$ 292,722	8.02%	\$ 85,061	\$ 446,514	\$ 1,130,832
1990	124,116	14,045	8.21%	95,519	72,939	1,291,573
1991	124,116	-	7.06%	91,161	124,794	1,382,056
1992	124,116	-	5.49%	64,501	538,427	1,032,246
1993	188,364	12,555	4.21%	27,927	1,161,092	100,000
1994	195,180	-	3.46%	6,640	18,347	283,473
1995	208,680	-	5.41%	21,139	14,662	498,630
1996	224,508	2,190	6.24%	36,008	45,287	716,049
1997	229,350	-	6.14%	47,244	145,361	847,282
1998	244,651	-	6.30%	58,314	163,918	986,329
1999	250,903	77,335	6.00%	62,497	501,228	875,836
2000	272,594	804,159	5.59%	44,448	619,685	1,377,352
2001	278,479	-	6.26%	84,190	427,542	1,312,479
2002	298,340	-	3.64%	34,041	173,806	1,471,054
2003	361,244	-	2.95%	43,426	123,853	1,751,871
2004	403,722	-	-1.14%	(20,012)	116,985	2,018,596
2005	448,249	-	2.81%	74,659	1,404,334	1,137,170
2006	518,220	-	1.90%	25,608	117,955	1,563,043
2007	575,848	-	4.20%	78,629	37,557	2,179,963
2008	609,002	-	4.79%	113,392	345,695	2,556,662
2009	611,793	-	1.31%	74,514	91,189	3,151,780
2010	659,495	-	0.81%	51,516	639,343	3,223,448
2011	1,260,575	-	0.23%	17,304	144,684	4,356,643
2012	1,261,837	929,543	0.11%	11,247	747,485	5,811,785
2013	1,083,730	565,569	0.07%	4,948	5,681,152	1,784,880
2014	1,113,274	621,602	0.15%	7,467	329,618	3,197,605
2015	1,145,758	656,077	0.17%	14,261	-	5,013,701
2016	1,208,638	334,673	0.05%	5,776	898,836	5,663,952
2017	1,156,529	18,838,482	0.08%	8,685	20,456,372	5,211,276
2018	1,296,320	-	0.31%	35,435	409,348	6,133,683
2019	1,315,714	-	0.36%	47,906	223,628	7,273,675
2020	1,357,619	-	0.04%	5,081	2,492,638	6,143,737
2021	1,401,654	-	0.37%	39,762	3,116,198	4,468,955
2022	1,473,826	-	0.03%	2,639	1,577,124	4,368,296

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, 2022

	Electric Utility	Wastewater Utility	Water Utility	Total
Land	\$ 21,047,820	\$ 260,673	\$ 2,178,242	\$ 23,486,735
Construction in progress	5,012,676	20,332,476	12,172,004	37,517,156
Production plant	306,120,748	62,587,657	25,067,215	393,775,620
Distribution/collection system	10,559,073	49,142,940	58,960,597	118,662,610
Transmission	124,523,881	-	-	124,523,881
General plant	49,468,391	3,693,729	3,139,204	56,301,324
	<u>516,732,589</u>	<u>136,017,475</u>	<u>101,517,262</u>	<u>754,267,326</u>
Total				
Accumulated depreciation	<u>(227,769,756)</u>	<u>(54,795,416)</u>	<u>(36,556,568)</u>	<u>(319,121,740)</u>
<b>Total capital assets, net</b>	<u><u>\$ 288,962,833</u></u>	<u><u>\$ 81,222,059</u></u>	<u><u>\$ 64,960,694</u></u>	<u><u>\$ 435,145,586</u></u>



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

**Schedule of Capital Assets**

June 30, 2021

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

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## **INTERNAL CONTROL AND COMPLIANCE**

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

October 18, 2022

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, 2022, 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 18, 2022.

**Report on Internal Control Over Financial Reporting**

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

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

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 or significant deficiencies may exist that have not been identified.

### **Report on Compliance and Other Matters**

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

### **Purpose of this Report**

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

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