

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



Year Ended
June 30, 2023

Financial
Statements and
Supplementary
Information

Rehmann

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

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INDEPENDENT AUDITORS' REPORT

November 7, 2023

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, 2023, 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, 2023, and the respective changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Reporting Entity

As discussed in Note 1, the financial statements referred to above present only the Holland Board of Public Works enterprise funds and do not purport to, and do not, present fairly the financial position of the City of Holland, Michigan as of June 30, 2023, 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 November 7, 2023, 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 Johnson LLC". The signature is written in a cursive style with a large, prominent 'R' at the beginning.

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, 2023, and 2022. 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 30,855 residential, commercial and industrial customers in the City of Holland and portions of Holland Charter, Park, Laketown and Fillmore Townships. HBPW has 4,755 commercial and industrial electric customers (15% of total customers) which together account for 84% 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 652 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 13,172 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 55% 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 18,206 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 \$14.7M (3.0%) 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 \$498.8M (net position). Of this amount, \$82.2M (16.5 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, \$390.3M (78.2 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.

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, \$26.3M (5.3 percent), represents resources that are subject to external restrictions on how they may be used: 56% related to debt, 22% related to investment in joint venture, 22% related to equipment replacement fund.

Condensed Financial Information

	Net Position (In Millions)							
	Electric		Wastewater		Water		Total	
	<u>2023</u>	<u>2022</u>	<u>2023</u>	<u>2022</u>	<u>2023</u>	<u>2022</u>	<u>2023</u>	<u>2022</u>
Current Assets	\$ 71	\$ 78	\$ 21	\$ 14	\$ 16	\$ 15	\$ 108	\$ 107
Noncurrent assets	33	21	19	15	4	17	56	53
Capital assets, net	<u>294</u>	<u>289</u>	<u>89</u>	<u>81</u>	<u>73</u>	<u>65</u>	<u>456</u>	<u>435</u>
Total Assets	398	388	129	110	93	97	620	595
Total Deferred Outflows of Resources	<u>4</u>	<u>1</u>	<u>1</u>	<u>0</u>	<u>1</u>	<u>0</u>	<u>6</u>	<u>1</u>
Current liabilities	24	12	7	6	4	9	35	27
Noncurrent liabilities	<u>11</u>	<u>18</u>	<u>30</u>	<u>18</u>	<u>23</u>	<u>23</u>	<u>64</u>	<u>59</u>
Total Liabilities	35	30	37	24	27	32	99	86
Total Deferred Inflows of Resources	<u>1</u>	<u>4</u>	<u>27</u>	<u>21</u>	<u>1</u>	<u>1</u>	<u>29</u>	<u>26</u>
Net investment in capital assets	280	276	59	60	51	48	390	384
Restricted	19	6	6	4	1	1	26	11
Unrestricted	<u>67</u>	<u>73</u>	<u>1</u>	<u>1</u>	<u>14</u>	<u>15</u>	<u>82</u>	<u>89</u>
Total Net Position	\$ 366	\$ 355	\$ 66	\$ 65	\$ 66	\$ 64	\$ 498	\$ 484

FINANCIAL PERFORMANCE

Challenges

Water and wastewater utilities are generally seeing inflationary pressures on chemicals, labor, and power costs. Prices on other supplies have generally stabilized. According to an American Public Power Association survey of its (electric utility) members, production of distribution transformers is not meeting current demand resulting in growing lead times and lack of inventory. HBPW qualified a new supplier of transformers based in South Korea. This has been a win-win situation, providing the company with its first customer in the United States and providing HBPW with a reliable supply of high quality transformers competitively priced and with shorter delivery lead times than US based suppliers. Lead times on transformers are currently about 52 weeks, compared with 10-20 weeks two years ago and 60-62 weeks last year.

Condensed Financial Information**Results of Operations**

(In Millions)

	Electric		Wastewater		Water		Total	
	<u>2023</u>	<u>2022</u>	<u>2023</u>	<u>2022</u>	<u>2023</u>	<u>2022</u>	<u>2023</u>	<u>2022</u>
Operating revenues	\$ 104	\$ 100	\$ 13	\$ 13	\$ 13	\$ 13	\$ 130	\$ 126
Operating expenses	(82)	(84)	(13)	(12)	(10)	(8)	(105)	(104)
Nonoperating income (expenses), net	<u>(2)</u>	<u>(1)</u>	<u>0</u>	<u>0</u>	<u>(1)</u>	<u>(1)</u>	<u>(3)</u>	<u>(2)</u>
Net Income Before Contributions and Transfer	20	15	0	1	2	4	22	20
Capital contributions	0	0	1	1	0	0	1	1
Contributions to City	<u>(9)</u>	<u>(8)</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>(9)</u>	<u>(8)</u>
Change In Net Position	11	7	1	2	2	4	14	13
Beginning net position	<u>355</u>	<u>348</u>	<u>65</u>	<u>63</u>	<u>64</u>	<u>60</u>	<u>484</u>	<u>471</u>
Ending Net Position	\$ 366	\$ 355	\$ 66	\$ 65	\$ 66	\$ 64	\$ 498	\$ 484

Cash reserves for each of the utilities are funded as planned. Currently, investments at June 30, 2023, are at a weighted average yield of 3.15%, compared to 0.70% at June 30, 2022. The weighted average maturity is 0.53 years, compared to 0.93 years at June 30, 2022.

The Water Utility had a rate increase in FY2023 of 2%, and the Wastewater Utility had an increase of 3.7%. There was no rate change for the Electric Utility.

Electric

- The Electric Utility ended the year with an Operating Income \$5.7M (35.3%) higher than FY2022 results. Total Revenue was \$4.8M (4.8%) higher while Operating Expenses were \$0.9M (1.1%) lower. The change in revenues is due primarily to a 140.1% increase in wholesale revenues. The utility sold power into the wholesale market due to favorable market rates greater than production costs. The electric utility maintained good cost control through a variety of measures including use of natural gas hedges, purchase power agreements, and seeking alternate sources for materials such as the transformer example stated above. The utility had natural gas physical hedges of 78% at a weighted average cost of \$2.674 per dekatherm. Unhedged prices were up to four times higher. Electric customer consumption ended the year 5.4% higher than budget and increased 3.0% compared to FY2022. This was mainly due to higher than expected industrial customer consumption.
- HBPW was one of the 219 electric utilities receiving the Certificate of Excellence in Reliability from the American Public Power Association (APPA). The Certificates recognize utilities that provided exceptionally reliable service and power to their communities. Utilities that are subscribers to APPA's eReliability Tracker service are eligible. A utility's 2022 System Average Interruption Duration Index (SAIDI) must fall in the top quartile of all utilities' SAIDI numbers averaged from the past five years based on U.S. Energy Information Administration survey data.
- HBPW currently has Power Purchase Agreements (PPAs) with multiple renewable energy suppliers as part of its power generation portfolio. These resources include landfill gas, solar and wind. Approximately 5.5 megawatts of installed capacity of solar power was added at the end of April 2023 through the Calhoun Solar project developed by Invenergy. Two more solar farms are slated to be added to HBPW's portfolio over the next two years, which are expected to provide HBPW with another 17.7 megawatts of solar power. 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 February 2023, HBPW authorized a 10-year commitment for capacity from a Battery Energy Storage System (BESS) being developed by White Ox LLC in Washtenaw County, Michigan. The BESS will provide HBPW with 3.5 megawatts of capacity in years 1-3 and 6.0 megawatts of capacity in years 4-7. Commercial Operation of the BESS facility is currently expected sometime in 2025 or 2026.
- During the FY2022 fiscal year, a large industrial customer, LG Energy Solution Michigan (LG), announced their \$1.7 billion facility investment that would increase battery production from the current 5 gigawatt-hour (GWh) capacity up to 25 GWh. LG's electrical load is expected to ramp up approximately 70 megawatts from December 2023 to April 2026. Electric system demands and energy requirements are significant to support this expansion. During FY2022, to prepare for the LG expansion, HBPW began engineering a new \$14 million substation (new East Point Substation). Also, much of the equipment was ordered due to long lead times. Construction began in FY2023, and the project was approximately 70% complete at the end of the fiscal year.
- Decommissioning continued at the James De Young (JDY) power plant. The aging coal plant was replaced with Holland Energy Park to support the growth of the community and to improve the efficiency and environmental performance of the portfolio of power supply resources, including helping to reduce carbon emissions by 50%. The demolition of JDY was a methodical multi-year process that started when the power plant went offline in 2017. Since that time, a series of decommissioning and demolition activities have taken place involving environmental assessments regulated by the Michigan Department of Environment Great Lakes and Energy and safe remediation of the site. The building was imploded August 2023. The next steps are to recycle and dispose of the remnants, backfill the basement of the building, and plant grass. Sixth Street Peaking Unit (Unit 6) was also abated and demolished. Control of the properties will be returned to the City of Holland for redevelopment.
- In FY2023, the Electric Utility completed a five-year plan to upgrade all of the security and streetlights from high pressure sodium and metal halide to the light-emitting diode (LED) technology. LED lights use less energy and, because the light can be directed, produce less light pollution. Altogether, the Electric Utility spent \$7.9M on distribution improvements and \$0.1M on production assets.
- Results of the Broadband Utility are accounted for within the Electric Utility. The Broadband Utility spent \$0.2M on capital improvements during the year, adding to and upgrading the fiber network. The Broadband Utility added 24 new customers and is poised for a major expansion. 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. HBPW plans to operate an open access network, which invites competition and the potential for lower cost and increased service choices. As part of this project, HBPW selected an engineering services provider to assist HBPW as the owners engineer in the selection of a contractor for the design and construction of the fiber optic passings network. In addition, approximately 50% of the materials needed for the network passings construction were purchased to help avoid supply chain issues that could delay the start of construction on the project. In August 2023, the Holland City Council authorized issuance of

\$23 million in bonds to fund the installation of the passings portion of the high-speed fiber optic broadband network. Construction will begin in FY2024.

Wastewater

- The Wastewater Utility ended the year with an Operating Income \$1.3M (120.8%) lower than FY2022. Total Revenue was \$0.3M (2.3%) lower while Operating Expenses were \$1.0M (8.2%) higher. Operating expenses ended the year over budget due to escalating chemical prices and sludge handling costs. The utility had a positive Net Position due to favorable investment income and trunkage revenues from area growth. Units processed by the utility increased 3.7% compared to plan but were 1.8% lower 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 and 2022. 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; for partnering and engagement in 2021; and for water reuse in 2022.
- The WRF was recognized by the National Association of Clean Water Agencies (NACWA). The *Peak Performance Gold* was awarded in 2020, 2021 and 2022 and is presented to facilities with no permit violations for the entire previous calendar year.
- At the end of the fiscal year, construction was nearing completion on the estimated \$33.7M anaerobic digester. Spending as of June 30 was \$29.0M. The biodigester earned *Envision Certification Gold* level rating for sustainability. The project was recognized for its forward-thinking sustainability efforts by the Institute for Sustainable Infrastructure's ENVISION. Envision is a third-party verification that major projects have considered environmental, social, and economic impacts of civil infrastructure. Construction began October 2020, and full operation will begin in the fall 2023. The digester will both reduce the volume and treat residual solids generated from the wastewater treatment process. The process also generates biogas as a byproduct of the digestion process which will be used as fuel for a Combined Heat and Power (CHP) unit that will supply electricity and thermal energy to offset plant needs. It is expected to reduce the amount of wastewater solids from the water reclamation process by approximately 50%, doing the same for disposal costs.
- The Wastewater Utility spent \$1.2M on improvements to the collection system in FY2023. One of the projects completed was the rehabilitation of the Cherry Walk lift station. The project increased the flow capacity of the pumps to accommodate growth in the collection district. Another project completed was a Sewer Assessment Model. The sewer model provides the HBPW with a much better understanding of the sewer collection system capacity. Understanding the capacity of the system not only points out the areas of the system that are at or near capacity, but also provides efficiencies in decision making. FY2023 was the second year of 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 second-year contract included the inspection of another 150,000 feet of sewer mains and 670 manholes. Together, this scope represents 52.5% of the complete sewer system.

- A Water and Wastewater Cost of Service Study (COS) and Financial Projection Report was completed by an external consultant. The consultant concluded that the rate trajectories planned for both utilities were adequate; therefore, no changes were recommended. COS studies are an integral part of the rate setting and rate design process and help to ensure rates are established that:
 - Maintain the long-term health and integrity of utility systems.
 - Recover the true costs of providing services.
 - Equitably recover these costs from the various customer classes.
 - Support the policies, priorities, and initiatives of HBPW and the City.

Water

- The Water Utility ended the year with an Operating Income \$1.1M (24.3%) lower than FY2022. Total Revenue was \$0.6M (4.6%) higher and Operating Expenses were \$1.7M (20.8%) higher. Water Utility customer consumption ended the year 9.5% higher than budget and 4.1% higher than prior year actual. The increased usage was driven by higher irrigation due to dry weather and higher production activity of industrial customers and by the wholesale customer. Despite the higher volumes, and resulting higher revenues, Operating Income was lower than the previous year due to increases in operating costs such as chemical and power costs and greater spending on lead service line replacements which are State-mandated, unfunded costs.
- In FY2023, HBPW sought approval to sell property purchased several years ago in anticipation of expanding water treatment/production. Over the intervening years, the production needs did not materialize. In July 2022, HBPW declared the property as surplus property. The following month, City Council approved a resolution to sell the property. In accordance with City Charter, the issue was placed on the November 8, 2022, ballot, and voters approved the disposal of the property. The property is currently listed for sale and being marketed by a realty company.
- The water supply agreement with Laketown Township was renewed during the automatic 5-year renewal period. This renewal period afforded both parties an opportunity to negotiate revised terms that could align better with the recently completed agreement with Park Township signed in FY2020. The contract renewal timeframe is of importance given the obligation HBPW would have to repair and replace infrastructure using the same approach it does for assets in the City of Holland. Knowing that a subsequent 30-year relationship is triggered with 10 years remaining on a term gives additional certainty to HBPW that the capital investments will be recovered by future rates.
- Total improvements at the Water Treatment Plant (WTP) were \$1.7M. Improvements included electrical system upgrades and replacement of two high service pumps which pump treated water out to the distribution system. The pumps have increased output and energy efficiency and are expected to reduce power costs.

- In FY2023, the Water Utility completed a new 36-inch water transmission main with a total length of 18,400 feet. The cost of the project was \$13.5M. The project was paid for with 20-year bonds issued in FY2022 which added \$15.3M debt to the utility. The new main provides redundancy to the line connecting the WTP to the City's water distribution system. The line also increases water volume and improves flow dynamics, while also providing future capacity expansion potential to the service area.
- Each year, the Water Utility replaces aging water mains as part of on-going maintenance to the distribution system. In addition to replacing end of life transmission and distribution mains, the benefits include upsizing of the transmission system to balance the system for future growth. In FY2023, 8,986 feet of water mains were replaced at a cost of \$5.9M.
- 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 toward this goal and replaced 66 LSL's during FY2023.

CAPITAL ASSETS

HBPW has \$793.5M invested in capital assets (\$456.5M net of depreciation). The capital assets, net of depreciation, by utility are: Electric Utility \$293.8M, Wastewater Utility \$88.8M; and Water Utility \$73.9M. 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>2023</u>	<u>2022</u>	<u>2023</u>	<u>2022</u>	<u>2023</u>	<u>2022</u>	<u>2023</u>	<u>2022</u>
Land	\$ 22	\$ 22	\$ 0	\$ 0	\$ 2	\$ 2	\$ 24	\$ 24
Construction in progress	14	5	30	20	2	12	46	37
Capital assets, net	<u>258</u>	<u>263</u>	<u>59</u>	<u>61</u>	<u>69</u>	<u>51</u>	<u>386</u>	<u>375</u>
Total Capital Assets	\$ 294	\$ 289	\$ 89	\$ 81	\$ 73	\$ 65	\$ 456	\$ 435

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; \$0.1M.
- Distribution improvements and extensions; \$7.7M.
- Non-Operation equipment and structures additions; \$0.6M.
- Streetlight additions, replacements and upgrading fixtures to LED; \$0.3M.
- Total spending on various fiber projects was \$0.2M.

Wastewater

- Water Reclamation Facility improvements; \$0.1M.

- Sewer mains and collection system improvements; \$1.2M.
- Non-Operation equipment and structures additions; \$0.1M.

Water

- Water Treatment Plant improvements; \$1.7M.
- Water mains and distribution improvements; \$19.4M.
- Non-Operation equipment and structures additions; \$0.1M.

SUMMARY OF DEBT

HBPW has a total of \$67.2M in installment debt outstanding as of June 30, 2023.

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 in early FY2024.

The Wastewater Utility has outstanding debt of \$29.0M. 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 \$20.8M. 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 revenue bonds issued in 2022, were issued for the construction of the 36-inch transmission main discussed above.

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 \$4.6M as of June 30, 2023.

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

GENERAL ECONOMIC CONDITION

According to the Annual Energy Outlook 2023, released March 2023 by the Energy Information Administration (EIA), moderate, stable growth is predicted for U.S. electricity consumption through 2050. Increasing electricity demand is the result of economic growth, population growth, electrification (such as vehicles, heat pumps and lawn tools) and increased travel, all of which are partially offset by efficiency

improvements. The EIA also predicts that demand-side energy intensity, which is the measure of energy consumed per household or per square foot of commercial floorspace, will decrease due to changes in technology, policy, consumer behavior, demographics, and fuel mix.

HBPW is forecasting growing demand for electricity in its service area due to the LG Energy Solution expansion that will add to the load in phases. Growth of 4% is forecasted for FY2024, 22% for FY2025, 5% for FY2026, 3% for FY2027, and 1% for FY2028. There is no growth in volume forecasted for either the Wastewater Utility or Water Utility for the forecasted periods of FY2024-FY2028.

An emerging concern in the utility sector is affordability challenges for customers. According to a June 25, 2023, article in the *Holland Sentinel*, the United Way reports that about 39% of Michigan households are either “asset limited” or in poverty. After a long period of modest price increases for utility spending, higher inflation, especially for commodities and labor, is increasing operating and capital costs. As noted above, water and wastewater utilities are seeing inflationary pressures on chemicals, labor, and power costs. Electric utilities are expected to increase capital investments to reflect changing customer needs, public policies, increased operational risk from climate- and cyber-related events, and new technologies. Spending is necessary to improve grid resilience and safety, accommodate load growth, electrification, and resource adequacy. HBPW established target metrics tracking affordability indices (share of household income needed to pay for energy, water, and sewer) by utility. All three utilities met the goals for FY2023 by staying below the targets.

Community Outlook

According to the West Coast Chamber of Commerce, which represents the Holland and Zeeland business community, challenges with talent acquisition or retention are the greatest concern. A critical issue in HBPW’s strategic plan states it will maintain a skilled workforce by being an employer of choice to both existing and future employees. HBPW developed the local youth and community outreach program to attract future employees. The new program is a three-prong approach with focus on recruiting which includes internship enhancements, career fairs and job shadowing; education which includes partnerships, programming, and field trips; and marketing such as website enhancements, career opportunity brochures, and social media.

Another action HBPW implemented in FY2023 regarding talent is a program for onboarding supervisors. The program provides organizational support to individuals hired or promoted into supervisory roles. The program format includes text-based materials, external training, and mentorship/partnership components and provides training on effective supervisory practices and HBPW specific processes and responsibilities.

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 December 2022, Lakeshore Advantage published its 2022 Industry Trends Report which was based on responses from 120 senior-level executive interviews with primary employers in these counties. According to the report, primary

employers experienced growth in 2022, with 97% reporting increased or stable market share. Sixty percent of companies interviewed plan to expand in the next three years. One of the biggest trends affirmed by the report is that manufacturing continues to be critical to the regional economy. Manufacturing accounted for 43% of total Gross Regional Product and 30% of all jobs. The diversification of manufacturers provides a distinct competitive advantage for the area and indicates the workforce is skilled at making many different products which attracts growth and investment. Eighty-two percent of companies surveyed plan to introduce new products, services, or capabilities over the next two years. The top challenges of employers are access to talent and supply chain disruptions. Top positions needed are engineers, general production labor, and machinists. Supply chain disruption continues to be a barrier to growth. In 2022, the largest disruptions were from regional and national suppliers, whereas, in 2021, it was primarily international suppliers. In response, 40% of area employers plan to bring outsourced goods and services back in house. HBPW will likely experience growth in energy sales due to these trends.

Another sign of a positive outlook for the area is population growth. Of the ten most populated counties in Michigan, Ottawa County is one of three that gained population from 2020-2022. The population increased 1.3% or 3,984 residents. This information was reported in the June 15, 2023, edition of *The Holland Sentinel*. Data is from the Ottawa Department of Strategic Impact and is sourced from the U.S. Census Bureau.

Conservation Programming at HBPW

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 58,649 megawatt hours (MWh) of electricity generated from landfill gas, 109,996 MWh from wind, and 13,732 MWh from solar for a total of 182,377 MWh of renewable energy during the 2022 calendar year. This resulted in 16.36% 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 over the next two years.

HBPW promotes energy waste reduction and conservation through its EWR & Renewable Energy plan. The plan reports on a calendar year basis. HBPW exceeded its goal of saving 1.5% of total electric sales through waste reduction measures. The actual percentage was 1.8%, or over 19 million kilowatt hours, which is more electricity than 2,500 homes use per year. Results reported in the 2022 Annual Summary Report, filed with the Michigan Public Service Commission, include:

- 805 HBPW residential customers received rebates totaling over \$80,000 for purchasing 1,231 ENERGY STAR and other high-efficiency electric products and for recycling 327 freon-containing appliances.
- 1,810 customers received over 60,000 free light-emitting diode (LED) lightbulbs through the free light bulb program, saving over 1.9 million kilowatt hours of electricity during the calendar year.

- 53 commercial and industrial customers received incentives totaling \$987,457 for upgrading lighting to LED and installing high-efficiency equipment (examples include compressed air, HVAC, refrigeration, pumps). The energy savings was 13 million kilowatt hours.
- The Small Business Program helped 73 companies receive rebates totaling \$249,257, mainly for upgrading lighting to LED, and saved 2 million kilowatt hours.
- 148 customers received new beneficial electrification rebates for electric mowers, string trimmers, leaf blowers, snow blowers, heat pumps, and heat pump water heaters. The Beneficial Electrification Rebate Program was launched in the fall of 2022.
- 36 households participated in the new, free Home Energy 101 program. Residents received 1,325 air-sealing and other efficiency measures to help save money on utility bills.

2022 also marked the fourth year of the Energy Saving Trees Project. In September 2022, 400 trees were given away to residential electric customers to help them save energy on their electric bills and increase the urban tree canopy of Holland. In the first three years, 1,164 trees were planted through the project. In 20 years, these trees are estimated to save customers \$590,000 in combined energy and community benefits, 545,000 kWh of electric energy, and over 5 million gallons of stormwater. These trees will remove over 3 million pounds of carbon dioxide from the air and will absorb 8,000 pounds of air pollutants.

Looking ahead to next year, HBPW is making some changes to the EWR program. Program updates include sunseting the free lightbulb and home energy audit programs. The goal has been increased from saving 1.5% of energy sales to 1.75%.

Conservation efforts are also occurring in the Water Utility. One way the utility manages demand is by encouraging customers to implement sustainable water use practices. Demand management has several benefits. The benefits include improving utilization of existing utility assets (Treatment Plant and Transmission), staving off costly expansions, assuring rates align with cost of service, and maintaining affordability for low-income customers. Demand management is the lowest cost solution to shaving peak usage. The next solution is to supplement water production either through purchasing water from neighboring utilities, or through expansion of the water system.

NEXT YEAR'S BUDGET AND RATES

As required by Holland's City Charter and in accordance with best business practices, HBPW developed and submitted an annual operating and capital budget for FY2024 for approval and inclusion in the General City Budget. 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.

The HBPW Board and City Council approved a rate increase of 3.5% for the Electric Utility. Fuel and purchased power costs are expected to increase about 7.5%. All other expenses are expected to increase about 16.8%, with external resource debt and O&M (MPPA) fixed costs up 75.9% due to converting an

external resource from coal to natural gas, and decommissioning costs of the Campbell plant, and internal plant maintenance costs up 13.1%. Capital projects for FY 2024 total \$17.6M which are all internally funded.

With the recent millage approved for expansion of the shared gigabit service, the Broadband utility expects a rapid increase in new customers. Operating costs are budgeted to increase about 56% as staff capacity is ramped up to facilitate system expansion. Capital expenditures for FY2024 are budgeted at \$9.3M, with all but \$0.7M slated for the expanded services.

The Wastewater Utility will expend 46% of its operating budget on chemicals, treatment, and collections expenses, down slightly from the FY2023 budget. Capital projects will total about \$9.4M in FY2024. The Board and City Council approved a rate increase of 3.6% for FY2024. The increase in rates is to support capital acquisitions and expenditures, maintain debt ratios required by bond covenants, and maintain appropriate cash levels.

The Water Utility operating expenses are budgeted to increase 12.4%, driven by higher unit volume and significant chemical cost increases. The Water Utility will expend about 51% of its operating budget on chemicals, production, and distribution expenses. Included in this amount is \$0.78M for lead service line replacements. Lead service line replacements and inspections are State-mandated, unfunded costs. The capital plan totals \$8.4M. To support expenditures and capital acquisitions, the Board and City Council approved a rate increase of 5.0% for the Water Utility for FY2024.

REQUESTS FOR INFORMATION

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

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BASIC FINANCIAL STATEMENTS

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

Statement of Net Position

June 30, 2023

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

	Electric Utility	Wastewater Utility	Water Utility	Business-Type Activities	
				2023	2022
Assets					
Current assets:					
Cash and cash equivalents	\$ 6,193,964	\$ 6,354,288	\$ 8,372,658	\$ 20,920,910	\$ 34,058,919
Investments	37,146,864	13,144,335	4,041,114	54,332,313	41,170,132
Receivables:					
Accounts receivable	6,143,204	1,232,647	1,750,899	9,126,750	10,354,762
Unbilled revenue	6,892,034	654,764	906,676	8,453,474	8,809,764
Special assessments and other	-	26,957	12,047	39,004	49,855
Accrued interest	196,684	24,452	83,558	304,694	87,596
Due from other funds of the					
City of Holland	1,078,411	3,264	81,142	1,162,817	2,311,526
Inventories	10,623,351	12,777	444,476	11,080,604	7,151,586
Prepaid items and other assets	3,044,174	44,456	23,622	3,112,252	3,278,243
Total current assets	71,318,686	21,497,940	15,716,192	108,532,818	107,272,383
Noncurrent assets:					
Restricted assets:					
Cash and cash equivalents	12,784,882	6,009,788	1,751,701	20,546,371	7,653,998
Investments	5,796,929	-	-	5,796,929	15,953,963
Accrued interest	-	-	-	-	17,245
Total restricted assets	18,581,811	6,009,788	1,751,701	26,343,300	23,625,206
Capital assets:					
Land	21,047,820	260,673	2,178,242	23,486,735	23,486,735
Construction in progress	14,452,369	29,957,289	2,186,264	46,595,922	37,517,156
Plant and equipment	498,350,534	116,748,085	108,357,834	723,456,453	693,263,435
Accumulated depreciation	(240,036,791)	(58,163,095)	(38,871,901)	(337,071,787)	(319,121,740)
Total capital assets, net	293,813,932	88,802,952	73,850,439	456,467,323	435,145,586
Other noncurrent assets:					
Long-term investments	14,281,311	650,608	791,680	15,723,599	17,771,735
Regulatory cost for future recovery	457,345	-	-	457,345	534,643
Due from other local units	-	12,273,612	180,000	12,453,612	9,651,149
Due from City of Wyoming	-	-	1,416,615	1,416,615	1,540,097
Total other noncurrent assets	14,738,656	12,924,220	2,388,295	30,051,171	29,497,624
Total noncurrent assets	327,134,399	107,736,960	77,990,435	512,861,794	488,268,416
Total assets	398,453,085	129,234,900	93,706,627	621,394,612	595,540,799
Deferred outflows of resources					
Deferred pension amounts	3,718,169	1,070,382	845,037	5,633,588	616,014
Deferred other postemployment benefit amounts	-	-	-	-	16,149
Total deferred outflows of resources	3,718,169	1,070,382	845,037	5,633,588	632,163

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

Statement of Net Position

June 30, 2023

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

	Electric Utility	Wastewater Utility	Water Utility	Business-Type Activities	
				2023	2022
Liabilities					
Current liabilities:					
Accounts payable	\$ 7,096,271	\$ 4,744,726	\$ 1,176,834	\$ 13,017,831	\$ 20,871,771
Accrued salaries and wages payable	611,821	93,269	68,696	773,786	632,168
Due to other funds of the City of Holland	345,144	112,529	435,827	893,500	283,471
Deposits	1,128,221	-	19,635	1,147,856	1,118,409
Accrued interest payable	83,160	145,176	158,156	386,492	231,523
Current portion of long-term debt	14,974,442	1,915,269	825,680	17,715,391	3,673,859
Current liabilities payable from restricted assets:					
Current portion of long-term debt	-	-	1,240,000	1,240,000	-
Accrued interest payable	-	-	12,201	12,201	-
Total current liabilities	24,239,059	7,010,969	3,937,029	35,187,057	26,811,201
Noncurrent liabilities:					
Long-term debt, net of current portion	2,694,856	28,122,200	19,489,524	50,306,580	54,025,476
Long-term debt payable from restricted assets, net of current portion	-	-	1,250,000	1,250,000	2,490,000
Net pension liability	8,320,981	2,395,432	1,891,132	12,607,545	2,267,240
Net other postemployment benefit liability	44,422	15,030	12,558	72,010	212,818
Total noncurrent liabilities	11,060,259	30,532,662	22,643,214	64,236,135	58,995,534
Total liabilities	35,299,318	37,543,631	26,580,243	99,423,192	85,806,735
Deferred inflows of resources					
Deferred charge on refunding	-	-	-	-	196,642
Regulatory credits	418,011	27,081,761	774,690	28,274,462	21,007,198
Deferred pension amounts	-	-	-	-	4,480,260
Deferred other postemployment benefit amounts	355,148	97,997	77,719	530,864	553,361
Total deferred inflows of resources	773,159	27,179,758	852,409	28,805,326	26,237,461
Net position					
Net investment in capital assets	280,633,710	58,310,589	51,321,521	390,265,820	384,057,039
Restricted for:					
Debt service	12,784,882	240,000	1,751,701	14,776,583	739,500
Equipment replacement	-	5,769,788	-	5,769,788	4,368,296
Cooperative payments	5,796,929	-	-	5,796,929	5,823,914
Unrestricted	66,883,256	1,261,516	14,045,790	82,190,562	89,140,017
Total net position	\$ 366,098,777	\$ 65,581,893	\$ 67,119,012	\$ 498,799,682	\$ 484,128,766

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, 2023

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

	Electric Utility	Wastewater Utility	Water Utility	Business-Type Activities	
				2023	2022
Operating revenues					
Residential sales	\$ 20,410,678	\$ 4,029,227	\$ 5,512,359	\$ 29,952,264	\$ 30,430,425
Commercial sales	32,124,524	3,607,488	3,963,080	39,695,092	38,368,234
Industrial sales	44,791,961	3,050,761	1,122,507	48,965,229	45,597,832
Wholesale	5,843,337	2,274,462	2,084,165	10,201,964	6,677,975
Fees and other	1,241,507	132,867	365,736	1,740,110	4,393,055
Total operating revenues	<u>104,412,007</u>	<u>13,094,805</u>	<u>13,047,847</u>	<u>130,554,659</u>	<u>125,467,521</u>
Operating expenses					
Salaries and wages	4,901,657	1,651,949	1,390,537	7,944,143	8,210,282
Employee benefits	3,903,363	1,089,817	971,767	5,964,947	5,699,505
Production	41,391,144	4,140,895	1,099,936	46,631,975	47,029,029
Distribution	8,207,679	815,946	1,752,688	10,776,313	9,591,689
Administrative and general	10,497,024	2,670,251	2,162,498	15,329,773	14,567,543
Depreciation and amortization	13,583,483	2,954,698	2,291,696	18,829,877	18,606,844
Total operating expenses	<u>82,484,350</u>	<u>13,323,556</u>	<u>9,669,122</u>	<u>105,477,028</u>	<u>103,704,892</u>
Operating income (loss)	<u>21,927,657</u>	<u>(228,751)</u>	<u>3,378,725</u>	<u>25,077,631</u>	<u>21,762,629</u>
Nonoperating income (expense), net					
Investment income (loss)	1,376,877	185,468	188,595	1,750,940	(1,382,792)
Interest expense	35,378	(370,088)	(567,768)	(902,478)	(798,056)
Other income (expense)	136,206	-	(71,368)	64,838	150,062
Gain (loss) on sale and disposal of capital assets	(3,710,817)	20,718	526	(3,689,573)	(159,321)
Total nonoperating income (expense), net	<u>(2,162,356)</u>	<u>(163,902)</u>	<u>(450,015)</u>	<u>(2,776,273)</u>	<u>(2,190,107)</u>
Net income (loss) before contributions and transfers	<u>19,765,301</u>	<u>(392,653)</u>	<u>2,928,710</u>	<u>22,301,358</u>	<u>19,572,522</u>
Capital contributions					
Trunkage and assessments	-	535,432	200,300	735,732	694,106
Contributions from other local units	52,087	4,780,187	342,000	5,174,274	7,337,801
Regulatory credits	(418,011)	(6,297,960)	(342,000)	(7,057,971)	(7,251,015)
Federal and state capital grants	418,011	1,556,368	-	1,974,379	701,782
Total capital contributions	<u>52,087</u>	<u>574,027</u>	<u>200,300</u>	<u>826,414</u>	<u>1,482,674</u>
Transfers out to other funds of the City of Holland	<u>(8,456,856)</u>	<u>-</u>	<u>-</u>	<u>(8,456,856)</u>	<u>(8,595,384)</u>
Change in net position	<u>11,360,532</u>	<u>181,374</u>	<u>3,129,010</u>	<u>14,670,916</u>	<u>12,459,812</u>
Net position, beginning of year	<u>354,738,245</u>	<u>65,400,519</u>	<u>63,990,002</u>	<u>484,128,766</u>	<u>471,668,954</u>
Net position, end of year	<u>\$ 366,098,777</u>	<u>\$ 65,581,893</u>	<u>\$ 67,119,012</u>	<u>\$ 498,799,682</u>	<u>\$ 484,128,766</u>

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

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

Statement of Cash Flows

For the Year Ended June 30, 2023
(with comparative totals for the year ended June 30, 2022)

	Electric Utility	Wastewater Utility	Water Utility	Business-Type Activities	
				2023	2022
Cash flows from operating activities					
Receipts from customers and users	\$ 106,331,548	\$ 13,165,053	\$ 13,953,980	\$ 133,450,581	\$ 123,050,233
Payments to suppliers	(65,306,454)	(7,570,477)	(10,891,278)	(83,768,209)	(73,517,610)
Payments to/for employees	(8,011,144)	(2,593,408)	(2,240,843)	(12,845,395)	(13,036,728)
Net cash provided by operating activities	<u>33,013,950</u>	<u>3,001,168</u>	<u>821,859</u>	<u>36,836,977</u>	<u>36,495,895</u>
Cash flows from noncapital financing activities					
Transfers to other funds of the City of Holland	(8,456,856)	-	-	(8,456,856)	(8,595,384)
Other income (expense) received (paid)	136,206	-	(71,368)	64,838	150,062
Principal paid on pension bonds	(955,979)	(275,206)	(217,268)	(1,448,453)	(1,408,999)
Interest paid on pension bonds	(113,812)	(32,764)	(25,866)	(172,442)	(247,679)
Net cash used in noncapital financing activities	<u>(9,390,441)</u>	<u>(307,970)</u>	<u>(314,502)</u>	<u>(10,012,913)</u>	<u>(10,102,000)</u>
Cash flows from capital and related financing activities					
Principal paid on capital related debt	-	(450,000)	(295,000)	(745,000)	(23,232,500)
Interest paid on capital related debt	25,065	(244,880)	(677,231)	(897,046)	(653,932)
Proceeds from Clean Water State Revolving Fund Bonds	-	12,450,944	-	12,450,944	5,614,262
Issuance of capital related debt	-	-	-	-	15,335,000
Premium on issuance of bonds	-	-	-	-	1,282,287
Capital contributions received	470,098	4,590,268	722,300	5,782,666	3,003,063
Proceeds from sale of capital assets	41,184	20,718	526	62,428	68,167
Costs incurred on disposal of capital assets	(3,731,412)	-	-	(3,731,412)	-
Regulatory cost for future recovery	-	-	-	-	(541,084)
Purchase/construction of property, plant and equipment	(18,377,873)	(11,011,615)	(11,196,868)	(40,586,356)	(25,131,962)
Net cash provided by (used in) capital and related financing activities	<u>(21,572,938)</u>	<u>5,355,435</u>	<u>(11,446,273)</u>	<u>(27,663,776)</u>	<u>(24,256,699)</u>
Cash flows from investing activities					
Interest received	1,182,726	167,543	125,094	1,475,363	412,571
Purchase of investment securities	(57,146,937)	(13,794,574)	(4,835,606)	(75,777,117)	(76,585,971)
Proceeds from sale or maturities of investment securities	53,560,035	4,848,183	16,487,612	74,895,830	61,226,510
Net cash provided by (used in) investing activities	<u>(2,404,176)</u>	<u>(8,778,848)</u>	<u>11,777,100</u>	<u>594,076</u>	<u>(14,946,890)</u>
Net increase (decrease) in cash and cash equivalents	<u>(353,605)</u>	<u>(730,215)</u>	<u>838,184</u>	<u>(245,636)</u>	<u>(12,809,694)</u>
Cash and cash equivalents, beginning of year	<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>
Cash and cash equivalents, end of year	<u>\$ 18,978,846</u>	<u>\$ 12,364,076</u>	<u>\$ 10,124,359</u>	<u>\$ 41,467,281</u>	<u>\$ 41,712,917</u>

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

Statement of Cash Flows

For the Year Ended June 30, 2023

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

	Electric Utility	Wastewater Utility	Water Utility	Business-Type Activities	
				2023	2022
Classified on the statement of net position as					
Cash and cash equivalents	\$ 6,193,964	\$ 6,354,288	\$ 8,372,658	\$ 20,920,910	\$ 34,058,919
Restricted cash and cash equivalents	12,784,882	6,009,788	1,751,701	20,546,371	7,653,998
Total cash and cash equivalents	\$ 18,978,846	\$ 12,364,076	\$ 10,124,359	\$ 41,467,281	\$ 41,712,917
Reconciliation of operating income (loss) to net cash provided by operating activities					
Operating income (loss)	\$ 21,927,657	\$ (228,751)	\$ 3,378,725	\$ 25,077,631	\$ 21,762,629
Adjustments to reconcile operating income net cash provided by operating activities:					
Depreciation and amortization	13,506,185	2,954,698	2,291,696	18,752,579	18,600,403
Amortization of regulatory asset	77,298	-	-	77,298	6,441
Changes in operating assets and liabilities which provided (used) cash:					
Receivables	1,886,265	70,267	(361,379)	1,595,153	(1,545,172)
Due from other funds of the City of Holland	3,984	91	1,144,634	1,148,709	(1,076,780)
Inventories	(4,042,271)	3,268	109,985	(3,929,018)	(1,708,536)
Prepaid items and other assets	126,706	12,947	26,338	165,991	(181,480)
Due from the City of Wyoming	-	-	122,613	122,613	148,438
Accounts payable	(1,350,988)	(69,243)	(6,433,709)	(7,853,940)	606,902
Accrued salaries and wages payable	200,020	(25,167)	(33,235)	141,618	89,890
Due to other funds of the City of Holland	79,156	109,643	421,230	610,029	(1,008,814)
Deposits	29,292	(110)	265	29,447	56,226
Landfill postclosure liability	(23,210)	-	-	(23,210)	(37,421)
Compensated absences	170,176	23,734	32,852	226,762	(43,759)
Net pension liability	6,824,601	1,964,658	1,551,046	10,340,305	(1,736,735)
Deferred outflows of resources related to the net pension liability	(3,311,598)	(953,340)	(752,636)	(5,017,574)	576,775
Deferred inflows of resources related to the net pension liability	(2,956,972)	(851,249)	(672,039)	(4,480,260)	2,124,877
Net other postemployment benefit liability	(106,509)	(19,957)	(14,342)	(140,808)	(56,888)
Deferred outflows of resources related to the net other postemployment benefit liability	11,453	2,655	2,041	16,149	(16,149)
Deferred inflows of resources related to the net other postemployment benefit liability	(37,295)	7,024	7,774	(22,497)	(64,952)
Net cash provided by operating activities	\$ 33,013,950	\$ 3,001,168	\$ 821,859	\$ 36,836,977	\$ 36,495,895

concluded

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

NOTES TO FINANCIAL STATEMENTS

HOLLAND BOARD OF PUBLIC WORKS

(Enterprise Funds of the City of Holland, Michigan)

Notes to Financial Statements

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

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

Basis of Presentation

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

Government-wide and Fund Financial Statements

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

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

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

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

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, 2023, the allowance for uncollectible amounts in the electric, wastewater and water utility funds was \$84,066, \$2,388, and \$6,818, 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 \$195,169 and \$909,571, 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, 2023, Park Township had paid \$0.5 million, leaving a balance due of \$0.4 million, of which \$0.2 millions is a noncurrent asset and \$0.2 is included in accounts receivable as it is due in one year.

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 2023 were \$30.0 million, resulting in an accrued amount due from HCT of \$12.3 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, 2023 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 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:

Statement of net position	
Cash and cash equivalents	\$ 20,920,910
Investments	54,332,313
Restricted assets:	
Cash and cash equivalents	20,546,371
Investments	5,796,929
Long-term investments	<u>15,723,599</u>
Total	<u><u>\$ 117,320,122</u></u>

Deposits and investments consist of the following at June 30, 2023:

Deposits and investments	
Checking and savings accounts	\$ 35,835,207
Investments	81,482,570
Cash on hand	<u>2,345</u>
Total	<u><u>\$ 117,320,122</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	\$ -	\$ 8,825,104	\$ 10,292,050	\$ 19,117,154
Money market securities	44,114,896	-	-	44,114,896
Treasury bills	-	4,332,540	9,746,875	14,079,415
Michigan Public Power Agency (MPPA) investments	4,171,105	-	-	4,171,105
	<u>\$ 48,286,001</u>	<u>\$ 13,157,644</u>	<u>\$ 20,038,925</u>	<u>\$ 81,482,570</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, \$36,683,079 of the Board’s bank balance of \$37,183,079 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	\$ 61,728,320
S&P AA+	12,451,137
S&P AA	665,946
S&P AA1	2,466,062
Not rated	<u>4,171,105</u>
	<u>\$ 81,482,570</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, 2023:

- U.S. government securities and treasury bills with a balance of \$33,196,569 (level 2 inputs).
- Assets held with Michigan Public Power Agency, consisting entirely of municipal bonds, with a balance of \$4,171,105 (level 2 inputs).

The Board has money market securities, with a balance of \$26,746,471 and \$17,368,425, 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:

	Electric Utility	Wastewater Utility	Water Utility	Total
City trunkage	\$ -	\$ 2,936,307	\$ 1,304,055	\$ 4,240,362
System expansion and decommissioning	17,187,400	2,368,840	5,368,666	24,924,906
Future debt payments	13,802,154	1,865,111	1,967,027	17,634,292
Maintenance	5,617,202	1,274,382	1,181,855	8,073,439
Operating	12,882,519	643,589	218,125	13,744,233
Insurance/risk retention	5,338,507	1,469,660	1,127,223	7,935,390
Decommissioning	2,160,000	-	-	2,160,000
Total	\$ 56,987,782	\$ 10,557,889	\$ 11,166,951	\$ 78,712,622

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, 2023 is as follows:

	Beginning Balance	Additions	Deletions	Transfers	Ending Balance
Business-type activities					
Capital assets, not being depreciated:					
Land	\$ 23,486,735	\$ -	\$ -	\$ -	\$ 23,486,735
Construction in progress	37,517,156	40,586,356	-	(31,507,590)	46,595,922
	<u>61,003,891</u>	<u>40,586,356</u>	<u>-</u>	<u>(31,507,590)</u>	<u>70,082,657</u>
Capital assets, being depreciated:					
Production plant	393,775,620	-	(54,826)	1,815,459	395,536,253
Distribution/collection system	118,662,610	-	-	27,725,446	146,388,056
Transmission	124,523,881	-	(1,150,442)	1,252,332	124,625,771
General plant	56,301,324	-	(109,304)	714,353	56,906,373
	<u>693,263,435</u>	<u>-</u>	<u>(1,314,572)</u>	<u>31,507,590</u>	<u>723,456,453</u>
Less accumulated depreciation for:					
Production plant	(153,945,333)	(10,589,212)	54,826	-	(164,479,719)
Distribution/collection system	(41,448,088)	(3,088,855)	-	-	(44,536,943)
Transmission	(92,636,628)	(3,331,529)	1,129,853	-	(94,838,304)
General plant	(31,091,691)	(2,234,434)	109,304	-	(33,216,821)
	<u>(319,121,740)</u>	<u>(19,244,030)</u>	<u>1,293,983</u>	<u>-</u>	<u>(337,071,787)</u>
Total capital assets being depreciated, net	<u>374,141,695</u>	<u>(19,244,030)</u>	<u>(20,589)</u>	<u>31,507,590</u>	<u>386,384,666</u>
Business-type activities capital assets, net	<u>\$ 435,145,586</u>	<u>\$ 21,342,326</u>	<u>\$ (20,589)</u>	<u>\$ -</u>	<u>\$ 456,467,323</u>

Depreciation and amortization expense as noted on the Statement of Revenues, Expenses, and Changes in Fund Net Position includes \$(77,298) of current year amortization expense related to regulatory cost for future recovery and \$491,451 of current year amortization expense related to regulatory credits, see Note 10 Regulatory Accounting, that off-sets the depreciation of \$19,244,030 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:

	Beginning Balance	Additions	Deductions	Ending Balance	Due Within One Year
Direct placement revenue bonds	\$ 15,250,000	\$ -	\$ -	\$ 15,250,000	\$ 14,000,000
Revenue bonds	28,596,979	12,450,944	(295,000)	40,752,923	1,295,000
Pension bonds	6,072,791	-	(1,448,453)	4,624,338	1,490,722
Installment sales agreement	7,030,000	-	(450,000)	6,580,000	462,500
Total installment debt	56,949,770	12,450,944	(2,193,453)	67,207,261	17,248,222
Unamortized net premium/ discount on revenue bonds	1,247,685	-	(138,407)	1,109,278	138,407
Compensated absences	1,342,000	1,568,762	(1,342,000)	1,568,762	1,568,762
Landfill postclosure	649,880	-	(23,210)	626,670	-
	<u>\$ 60,189,335</u>	<u>\$ 14,019,706</u>	<u>\$ (3,697,070)</u>	<u>\$ 70,511,971</u>	<u>\$ 18,955,391</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.

3,018,610

\$30,000,000 2021 Wastewater Revenue Bonds, \$6,000,000 expected to be forgiven, \$27,999,141 drawn as of June 30, 2022, net of \$5,599,828 forgiveness, due in annual installments of \$990,000 to \$1,440,000 plus interest at 2.0%, payable semi-annually, through April 1, 2043.

22,399,313

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

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

40,752,923

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.

4,624,338

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.

6,580,000

Total installment debt

\$ 67,207,261

The annual requirements to maturity on bonds outstanding as of June 30, 2023 are as follows:

Year Ended June 30,	Bonds Payable			
	Direct Placement		Other	
	Principal	Interest	Principal	Interest
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	-	-	3,367,170	1,152,648
2027	-	-	1,825,000	1,075,422
2028	-	-	1,880,000	1,023,798
2029-2033	-	-	10,218,610	4,279,598
2034-2038	-	-	11,850,000	2,650,560
2039-2043	-	-	12,195,000	873,120
	<u>\$ 15,250,000</u>	<u>\$ 61,534</u>	46,977,948	<u>\$ 13,596,890</u>
Less amounts not yet drawn			<u>(1,600,687)</u>	
			<u>\$ 45,377,261</u>	

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

Notes to Financial Statements

The annual requirements to maturity on installment sales agreement outstanding as of June 30, 2023 are as follows:

Year Ended June 30,	Principal	Interest
2024	\$ 462,500	\$ 189,640
2025	472,500	179,465
2026	485,000	168,598
2027	500,000	156,957
2028	512,500	144,208
2029-2033	2,855,000	4,914,210
2034-2035	1,292,500	65,665
	<u>\$ 6,580,000</u>	<u>\$ 5,818,743</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 27 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, 2023, the closure and postclosure costs have been assured by a \$100,000 letter of credit and \$18,913 held in trust.

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

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.

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, 2022 valuation date, plan membership consisted of the following:

Inactive employees or beneficiaries currently receiving benefits	146
Inactive employees entitled to but not yet receiving benefits	22
Active employees	<u>45</u>
Total membership	<u><u>213</u></u>

Contributions. The employer is required to contribute amounts at least equal to the actuarially determined rate, as established by the MERS Retirement Board. The actuarially determined rate is the estimated amount necessary to finance the cost of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. 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, 2023:

Division/Bargaining Unit	Employer Contribution	Employee Contribution	Status
11 - PubWks Local 586	\$58,229/month	3.0%	Closed
13 - PubWks-NonUnion	\$24,338/month	3.0%	Closed
14 - Clerical	\$4,664/month	3.0%	Closed

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

Notes to Financial Statements

Net Pension Liability. The Board's net pension liability was measured as of December 31, 2022, 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, 2022 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, 2022 valuation were based on the results of the most recent actuarial experience study of 2014-2018.

HOLLAND BOARD OF PUBLIC WORKS
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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%
Investment rate of return			7.25%

Discount Rate. The discount rate used to measure the total pension liability as of December 31, 2022 was 7.25%. The projection of cash flows used to determine the discount rate assumes that employer and employee contributions will be made at the rates agreed upon for employees and the actuarially determined rates for employers. Based on these assumptions, the pension plan’s fiduciary net position was projected to be available to pay all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

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

Notes to Financial Statements

Changes in Net Pension Liability

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

	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) - (b)
Balances at December 31, 2021	\$ 64,208,870	\$ 61,941,630	\$ 2,267,240
Changes for the year:			
Service cost	358,361	-	358,361
Interest	4,524,061	-	4,524,061
Differences between expected and actual experience	(211,554)	-	(211,554)
Employer contributions	-	1,139,400	(1,139,400)
Employee contributions	-	121,517	(121,517)
Net investment loss	-	(6,818,602)	6,818,602
Benefit payments, including refunds of employee contributions	(3,974,425)	(3,974,425)	-
Administrative expense	-	(111,752)	111,752
Net changes	<u>696,443</u>	<u>(9,643,862)</u>	<u>10,340,305</u>
Balances at December 31, 2022	<u>\$ 64,905,313</u>	<u>\$ 52,297,768</u>	<u>\$ 12,607,545</u>

Sensitivity of the Net Pension Liability to Changes in the Discount Rate. The following presents the net pension liability of the Board, calculated using the discount rate of 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:

	1% Decrease (6.25%)	Current Discount Rate (7.25%)	1% Increase (8.25%)
Net pension liability	\$ 19,303,372	\$ 12,607,545	\$ 6,886,515

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

Notes to Financial Statements

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

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

For the year ended June 30, 2023, the Board recognized pension expense of \$1,889,243. 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	\$ 5,110,202	\$ -	\$ 5,110,202
Contributions subsequent to the measurement date	523,386	-	523,386
Total	\$ 5,633,588	\$ -	\$ 5,633,588

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, 2024. 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
2024	\$ 372,708
2025	919,838
2026	1,576,266
2027	<u>2,241,390</u>
Total	\$ <u>5,110,202</u>

Payable to the Pension Plan. At June 30, 2023, the Board reported a payable of \$87,231 for the outstanding amount of contributions to the pension plan.

HOLLAND BOARD OF PUBLIC WORKS

(Enterprise Funds of the City of Holland, Michigan)

Notes to Financial Statements

Defined Contribution Pension Plan

The Board participates in a defined contribution retirement plan which is administered by the ICMA in participation with MERS for both nonbargaining and union employees. The defined contribution provisions of the plan require the Board to contribute 6% of covered employee payroll and to match employee contributions up to 2% for nonbargaining employees and up to 2% for union employees. The participants direct their investments under defined contribution provisions. During the year ended June 30, 2023, the Board contributed \$922,954 and employees contributed \$227,842 to the defined contribution plan.

6. OTHER POSTEMPLOYMENT BENEFITS (OPEB) PLAN

General Information About the OPEB Plan

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

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

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

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

HOLLAND BOARD OF PUBLIC WORKS
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Notes to Financial Statements

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

Plan Membership. At June 30, 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>
Total membership	<u><u>183</u></u>

Net OPEB Liability. The Board's net OPEB liability was measured as of June 30, 2023, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of June 30, 2022, rolled forward to the measurement date of June 30, 2023.

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	3.25%
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, 2023 was 7.00%. The projection of cash flows used to determine the discount rate assumes that the Board will fully fund the OPEB Plan by contributing the actuarially determined contribution. Based on these assumptions, the OPEB Plan's fiduciary net position was projected to be available to pay all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on OPEB Plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

HOLLAND BOARD OF PUBLIC WORKS
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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:

	Total OPEB Liability (a)	Plan Fiduciary Net Position (b)	Net OPEB Liability (a) - (b)
Balances at June 30, 2022	\$ 597,012	\$ 384,194	\$ 212,818
Changes for the year:			
Service cost	16,908	-	16,908
Interest	42,428	-	42,428
Differences between expected and actual experience	(40,127)	-	(40,127)
Employer contributions	-	116,472	(116,472)
Contributions/benefit from general operating funds	-	15,639	(15,639)
Net investment income	-	28,631	(28,631)
Benefit payments, including refunds of employee contributions	(15,639)	(15,639)	-
Administrative expense	-	(725)	725
Net changes	<u>3,570</u>	<u>144,378</u>	<u>(140,808)</u>
Balances at June 30, 2023	<u>\$ 600,582</u>	<u>\$ 528,572</u>	<u>\$ 72,010</u>

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:

	1% Decrease (6.00%)	Current Discount Rate (7.00%)	1% Increase (8.00%)
Net OPEB liability	\$ 106,033	\$ 72,010	\$ 40,311

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

HOLLAND BOARD OF PUBLIC WORKS
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Notes to Financial Statements

OPEB Expense and Deferred Outflows/Inflows of Resources Related to OPEB

For the year ended June 30, 2023, the Board recognized OPEB expense of \$(18,307). 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	\$ -	\$ 327,402	\$ (327,402)
Changes of assumptions	-	194,063	(194,063)
Net difference between projected and actual earnings on OPEB plan investments	-	9,399	(9,399)
	<u>\$ -</u>	<u>\$ 530,864</u>	<u>\$ (530,864)</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
2024	\$ (74,316)
2025	(74,314)
2026	(68,659)
2027	(76,942)
2028	(72,021)
Thereafter	<u>(164,612)</u>
Total	<u>\$ (530,864)</u>

Payable to the OPEB Plan. At June 30, 2023, the Board had a \$116,472 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, 2023.

8. COMMITMENTS

The Board has contracts outstanding for remaining project costs of approximately \$19,131,000 for various electric utility projects, \$4,119,000 for various water projects, and \$6,951,000 for various wastewater projects.

9. JOINT VENTURE

The Board entered into a joint venture, the Michigan Public Power Agency (MPPA), with other municipal electric systems in the State of Michigan. The MPPA was formed in 1978 as a joint action agency to buy or generate power and provide other related services to their members. Each of MPPA's 22 full and 6 associate members 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
(Enterprise Funds of the City of Holland, Michigan)

Notes to Financial Statements

For the year ended June 30, 2023, the Board recognized expenses totaling \$1,142,113 under the terms of the contracts which represented \$389,984 for fixed operating costs, \$357,625 for debt service and \$394,504 for the purchase of power. Accounts payable to MPPA totaled net \$914,883 at June 30, 2023. 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 AMP’s 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
2024	\$ 358,135	\$ 426,411	\$ 784,546
2025	357,892	447,731	805,623
2026	357,576	470,118	827,694
2027	357,854	493,624	851,478
2028	357,380	518,305	875,685
2029-2032	<u>1,431,153</u>	<u>2,345,657</u>	<u>3,776,810</u>
	<u>\$ 3,219,990</u>	<u>\$ 4,701,846</u>	<u>\$ 7,921,836</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, 2023, the total debt service for Fremont was \$3,219,990, 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.

HOLLAND BOARD OF PUBLIC WORKS
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Notes to Financial Statements

10. REGULATORY ACCOUNTING

The Board has established various regulatory assets and credits that result in differences between the recognition of revenues and expenses for ratemaking purposes, as described above. These actions result in regulatory assets and credits (deferred inflow of resources), which are summarized below. Changes to these balances, and their inclusion in rates, occur only at the direction of the Board. A summary of the balances of regulatory assets and credits as of June 30, 2023 is as follows:

	Electric Utility	Wastewater Utility	Water Utility	Total
Regulatory Assets				
Gas Pipeline Inspection	\$ 457,345	\$ -	\$ -	\$ 457,345
Regulatory Credits				
Contributions in aid of construction:				
Biosolids Improvement	\$ -	\$ 6,140,940	\$ -	\$ 6,140,940
Vista Green Housing	-	224,356	336,531	560,887
Anaerobic Digester	-	15,031,661	-	15,031,661
NSA Equipment Replacement	-	2,884,893	-	2,884,893
Grant contributions:				
Anaerobic Digester	-	2,799,911	-	2,799,911
Interconnect	-	-	438,159	438,159
Holland Fiber	418,011	-	-	418,011
	<u>\$ 418,011</u>	<u>\$ 27,081,761</u>	<u>\$ 774,690</u>	<u>\$ 28,274,462</u>

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 regulatory asset established for these costs will be amortized over 84 months beginning June 2022 and charged to gas pipeline operations and maintenance expense. Amortization expense for the year ended June 30, 2023 related to these regulatory assets was \$77,298.

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

Notes to Financial Statements

Regulatory Credits - Deferred Inflows of Resources

Electric Grant

Holland Fiber – The City of Holland is making American Rescue Plan funds available to provide partial funding for materials related to build-out of the fiber network. The project began ramping up in fiscal year 2023, during which \$418,011 was received. Amortization of the regulatory credit will begin at the time the fiber project is placed in service and will be recognized as an offset to depreciation expense.

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. The Board will amortize this credit over the life of the asset, recognizing the revenue as an offset to depreciation expense.

Vista Green Housing Project – Developer contributed wastewater infrastructure assets valued at \$228,000 during fiscal year 2023. The regulatory credit is amortized over the life of the assets 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 \$10,503,634 received from the Northern Service Area through the end of fiscal year 2022 and \$4,528,027 was received in fiscal year 2023. 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 and will be recognized as revenue over the life of the asset as an offset to depreciation expense.

NSA Equipment Replacement Fund Contributions – Pursuant to an agreement between the Northern Service Area (NSA) and the Board, the NSA makes annual payments to the Board to be used for the acquisition of new or replacement capital equipment. As the funds are expended, they will be recognized as contributed capital on the Statement of Revenues, Expenses, and Changes in Net Position.

The NSA, comprised of all of Holland and Park Townships located north of Lake Macatawa and the Macatawa River (excluding those areas of Holland Township located within the City of Zeeland Waste Water Treatment Plant service area) has contracted for a 50% capacity interest in the Board's wastewater reclamation facility.

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

Notes to Financial Statements

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). The Board allocates 50% of grant income to the NSA due to its capacity interest. 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.

Water Contributions in Aid of Construction (CAIC)

Vista Green Housing Project – Developer contributed wastewater infrastructure assets valued at \$342,000 during fiscal year 2023. The regulatory credit is amortized over the life of the assets as an offset to depreciation expense.

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. 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.

HOLLAND BOARD OF PUBLIC WORKS
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Notes to Financial Statements

12. NET POSITION

The composition of net investment in capital assets as of June 30, 2023, was as follows:

Capital assets:	
Capital assets not being depreciated	\$ 70,082,657
Capital assets being depreciated, net	<u>386,384,666</u>
	<u>456,467,323</u>
Related debt:	
Total installment debt	67,207,261
Less pension bonds	(4,624,338)
Net bond premium/discount	1,109,278
Retainage payable related to capital purchases	<u>2,509,302</u>
	<u>66,201,503</u>
Net investment in capital assets	<u><u>\$ 390,265,820</u></u>

The composition of restricted net position as of June 30, 2023, was as follows:

Restricted assets:	
Cash and cash equivalents	\$ 20,546,371
Investments	<u>5,796,929</u>
Restricted net position	<u><u>\$ 26,343,300</u></u>

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.



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UNAUDITED SUPPLEMENTARY INFORMATION

HOLLAND BOARD OF PUBLIC WORKS
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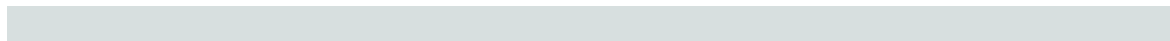
Unaudited Supplementary Information

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,		
	2023	2022	2021
Total pension liability			
Service cost	\$ 358,361	\$ 331,687	\$ 420,437
Interest	4,524,061	4,511,877	4,340,120
Changes in benefits	-	-	-
Differences between expected and actual experience	(211,554)	20,228	(109,017)
Changes of assumptions	-	2,107,212	1,430,115
Benefit payments, including refunds of employee contributions	(3,974,425)	(3,926,180)	(3,628,472)
Net change in total pension liability	<u>696,443</u>	<u>3,044,824</u>	<u>2,453,183</u>
Total pension liability, beginning of year	<u>64,208,870</u>	<u>61,164,046</u>	<u>58,710,863</u>
Total pension liability, end of year	<u>64,905,313</u>	<u>64,208,870</u>	<u>61,164,046</u>
Plan fiduciary net position			
Employer contributions	1,139,400	1,109,908	835,308
Employee contributions	121,517	123,597	136,537
Net investment income (loss)	(6,818,602)	7,564,052	7,185,160
Benefit payments, including refunds of employee contributions	(3,974,425)	(3,926,180)	(3,628,472)
Administrative expense	(111,752)	(89,818)	(104,493)
Net change in plan fiduciary net position	<u>(9,643,862)</u>	<u>4,781,559</u>	<u>4,424,040</u>
Plan fiduciary net position, beginning of year	<u>61,941,630</u>	<u>57,160,071</u>	<u>52,736,031</u>
Plan fiduciary net position, end of year	<u>52,297,768</u>	<u>61,941,630</u>	<u>57,160,071</u>
Board's net pension liability	<u>\$ 12,607,545</u>	<u>\$ 2,267,240</u>	<u>\$ 4,003,975</u>
Plan fiduciary net position as a percentage of total pension liability	80.6%	96.5%	93.5%
Covered payroll	\$ 3,966,750	\$ 3,961,073	\$ 4,204,277
Board's net pension liability as a percentage of covered payroll	317.8%	57.2%	95.2%

See notes to unaudited supplementary information.



Year Ended June 30,					
2020	2019	2018	2017	2016	2015
\$ 465,098	\$ 459,607	\$ 468,117	\$ 494,584	\$ 508,116	\$ 534,319
4,340,973	4,281,669	4,227,124	4,131,826	3,988,984	3,877,167
-	-	-	-	(6,591)	-
(253,861)	(593,283)	(705,307)	(266,556)	(581,928)	-
1,843,738	-	-	-	2,486,206	-
<u>(3,429,403)</u>	<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>
2,966,545	758,537	771,658	1,267,329	3,304,266	1,415,971
<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>	<u>48,226,557</u>
<u>58,710,863</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>
687,360	557,523	404,799	1,623,277	15,566,146	1,500,624
140,820	139,999	145,954	158,497	140,340	128,691
6,539,901	(2,031,816)	6,496,694	5,249,048	(448,173)	2,086,857
(3,429,403)	(3,389,456)	(3,218,276)	(3,092,525)	(3,090,521)	(2,995,515)
<u>(112,608)</u>	<u>(102,570)</u>	<u>(103,062)</u>	<u>(103,380)</u>	<u>(76,287)</u>	<u>(76,418)</u>
3,826,070	(4,826,320)	3,726,109	3,834,917	12,091,505	644,239
<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>33,439,511</u>
<u>52,736,031</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>\$ 5,974,832</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>
89.8%	87.7%	97.7%	92.2%	87.2%	68.7%
\$ 4,646,185	\$ 4,561,399	\$ 4,647,824	\$ 4,899,166	\$ 5,317,097	\$ 5,581,027
128.6%	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
2023	\$ 1,046,772	\$ 1,046,772	\$ -	\$ 4,055,802	25.8%
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.

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

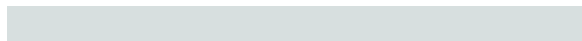
Unaudited Supplementary Information

Other Postemployment Benefits Plan

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

	Year Ended June 30,		
	2023	2022	2021
Total OPEB liability			
Service cost	\$ 16,908	\$ 14,242	\$ 33,265
Interest	42,428	42,859	20,699
Differences between expected and actual experience	(40,127)	(37,700)	(60,378)
Changes in assumptions	-	11,530	(172,033)
Benefit payments, including refunds of employee contributions	(15,639)	(5,593)	10,409
Net change in total OPEB liability	<u>3,570</u>	<u>25,338</u>	<u>(168,038)</u>
Total OPEB liability, beginning of year	<u>597,012</u>	<u>571,674</u>	<u>739,712</u>
Total OPEB liability, end of year	<u>600,582</u>	<u>597,012</u>	<u>571,674</u>
Plan fiduciary net position			
Employer contributions	116,472	119,881	270,382
Contributions/benefit from general operating funds	15,639	5,593	(10,409)
Net investment income (loss)	28,631	(37,000)	31,855
Benefit payments, including refunds of employee contributions	(15,639)	(5,593)	10,409
Administrative expense	(725)	(655)	(269)
Net change in plan fiduciary net position	<u>144,378</u>	<u>82,226</u>	<u>301,968</u>
Plan fiduciary net position, beginning of year	<u>384,194</u>	<u>301,968</u>	<u>-</u>
Plan fiduciary net position, end of year	<u>528,572</u>	<u>384,194</u>	<u>301,968</u>
Board's net OPEB liability	<u>\$ 72,010</u>	<u>\$ 212,818</u>	<u>\$ 269,706</u>
Plan fiduciary net position as a percentage of total pension liability	88.01%	64.35%	52.82%
Covered payroll	\$ 15,794,307	\$ 14,775,206	\$ 14,218,012
Board's net OPEB liability as a percentage of covered payroll	0.46%	1.44%	1.90%

See notes to unaudited supplementary information.



Year Ended June 30,

2020	2019	2018
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\$ 31,613	\$ 33,434	\$ 47,727
22,780	22,489	34,642
(55,080)	(47,109)	(296,134)
9,834	-	(165,318)
5,657	(160)	(23,281)
14,804	8,654	(402,364)
724,908	716,254	1,118,618
739,712	724,908	716,254

-	-	-
-	-	-
-	-	-
-	-	-
-	-	-
-	-	-

-	-	-
-	-	-

-	-	-
-	-	-
\$ 739,712	\$ 724,908	\$ 716,254

0.00%	0.00%	0.00%
\$ 13,534,177	\$ 13,212,453	\$ 12,170,006
5.47%	5.49%	5.89%

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

Unaudited Supplementary Information

Other Postemployment Benefits Plan
Schedule of Contributions

Fiscal Year Ending June 30,	Actuarially Determined Contribution	Contributions in Relation to the Actuarially Determined Contribution	Contribution (Deficiency) Excess	Covered Payroll	Contributions as Percentage of Covered Payroll
2023	\$ 46,472	\$ 132,111	\$ 85,639	\$ 15,794,307	0.8%
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 (2023, based on the 12/31/2020 actuarial valuation):

Actuarial cost method	Entry-age normal
Amortization method	Level percent of payroll, open
Remaining amortization period	3-10 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

HOLLAND BOARD OF PUBLIC WORKS

Notes to Unaudited Supplementary Information

Mortality

- 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

Other Postemployment Benefits Plan

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

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

The OPEB Plan's trust fund was initially funded during the year ended June 30, 2021.

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

Changes in assumptions for the June 30, 2020 actuarial valuation include mortality updated to public employer tables, discount rate lowered from 3.0% to 2.66% to reflect current municipal bond rates, and medical trend rates were changed to 5.0%. Because premiums are set and fully phased in such that pre-65 costs for those groups are expected to be fully covered by the amount charged, no subsidy beyond the stipend was valued for these groups.

Changes in assumptions for the June 30, 2021 actuarial valuation include an increase in the discount rate from 2.66% to 7.35%, and mortality rates updated.

Changes in assumptions for the June 30, 2022 actuarial valuation 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.

HOLLAND BOARD OF PUBLIC WORKS

Notes to Unaudited Supplementary Information

Notes to Schedule of Contributions

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

Valuation Date June 30, 2022

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Entry-age normal
Amortization method	Level percent of payroll, open
Remaining amortization period	10 years
Asset valuation method	Market value of assets
Inflation	2.50%
Salary increases	2.00%
Investment rate of return	7.00%, including inflation
Mortality	Public General 2010 Employee and Healthy Retiree, Headcount weighted, MP-2021

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SUPPLEMENTARY INFORMATION

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

Combining Statement of Net Position

June 30, 2022

	Electric Utility	Wastewater Utility	Water Utility	Total
Assets				
Current assets:				
Cash and cash equivalents	\$ 19,332,451	\$ 8,485,995	\$ 6,240,473	\$ 34,058,919
Investments	32,688,425	3,643,024	4,838,683	41,170,132
Receivables:				
Accounts receivable	7,742,909	1,207,774	1,404,079	10,354,762
Unbilled revenue	7,178,594	749,904	881,266	8,809,764
Special assessments and other	-	26,957	22,898	49,855
Accrued interest	80,700	6,896	-	87,596
Due from other funds of the				
City of Holland	1,082,395	3,355	1,225,776	2,311,526
Inventories	6,581,080	16,045	554,461	7,151,586
Prepaid items and other assets	3,170,880	57,403	49,960	3,278,243
Total current assets	77,857,434	14,197,353	15,217,596	107,272,383
Noncurrent assets:				
Restricted assets:				
Cash and cash equivalents	-	4,608,296	3,045,702	7,653,998
Investments	5,823,914	-	10,130,049	15,953,963
Accrued interest	-	-	17,245	17,245
Total restricted assets	5,823,914	4,608,296	13,192,996	23,625,206
Capital assets:				
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
Plant and equipment	490,672,093	115,424,326	87,167,016	693,263,435
Accumulated depreciation	(227,769,756)	(54,795,416)	(36,556,568)	(319,121,740)
Total capital assets, net	288,962,833	81,222,059	64,960,694	435,145,586
Other noncurrent assets:				
Long-term investments	15,047,696	1,205,159	1,518,880	17,771,735
Regulatory cost for future recovery	534,643	-	-	534,643
Due from other local units	-	9,291,149	360,000	9,651,149
Due from City of Wyoming	-	-	1,540,097	1,540,097
Total other noncurrent assets	15,582,339	10,496,308	3,418,977	29,497,624
Total noncurrent assets	310,369,086	96,326,663	81,572,667	488,268,416
Total assets	388,226,520	110,524,016	96,790,263	595,540,799
Deferred outflows of resources				
Deferred pension amounts	406,571	117,042	92,401	616,014
Deferred other postemployment benefit amounts	11,453	2,655	2,041	16,149
Total deferred outflows of resources	418,024	119,697	94,442	632,163

continued...

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

Combining Statement of Net Position

June 30, 2022

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

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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, 2022

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

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

Combining Statement of Cash Flows

For the Year Ended June 30, 2022

	Electric Utility	Wastewater Utility	Water Utility	Total
Cash flows from operating activities				
Receipts from customers and users	\$ 98,637,740	\$ 13,124,329	\$ 11,288,164	\$ 123,050,233
Payments to suppliers	(60,526,416)	(8,646,320)	(4,344,874)	(73,517,610)
Payments to/for employees	(8,483,529)	(2,378,971)	(2,174,228)	(13,036,728)
Net cash provided by operating activities	<u>29,627,795</u>	<u>2,099,038</u>	<u>4,769,062</u>	<u>36,495,895</u>
Cash flows from noncapital financing activities				
Transfers to other funds of the City of Holland	(8,595,384)	-	-	(8,595,384)
Other income received	167,722	-	(17,660)	150,062
Principal paid on pension bonds	(929,939)	(267,710)	(211,350)	(1,408,999)
Interest paid on pension bonds	(163,468)	(47,059)	(37,152)	(247,679)
Net cash used in noncapital financing activities	<u>(9,521,069)</u>	<u>(314,769)</u>	<u>(266,162)</u>	<u>(10,102,000)</u>
Cash flows from capital and related financing activities				
Principal paid on capital related debt	(20,000,000)	(437,500)	(2,795,000)	(23,232,500)
Interest paid on capital related debt	(115,178)	(191,170)	(347,584)	(653,932)
Proceed from Clean Water State Revolving Fund Bonds	-	5,614,262	-	5,614,262
Issuance of capital related debt	-	-	15,335,000	15,335,000
Premium on issuance of bonds	-	-	1,282,287	1,282,287
Capital contributions received	-	2,622,051	381,012	3,003,063
Proceed from sale of capital assets	68,167	-	-	68,167
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)
Net cash provided by (used in) capital and related financing activities	<u>(27,896,688)</u>	<u>(3,571,997)</u>	<u>7,211,986</u>	<u>(24,256,699)</u>
Cash flows from investing activities				
Interest received	350,953	21,827	39,791	412,571
Purchase of investment securities	(54,862,746)	(5,032,297)	(16,690,928)	(76,585,971)
Proceeds from sale or maturities of investment securities	49,843,042	4,925,075	6,458,393	61,226,510
Net cash used in investing activities	<u>(4,668,751)</u>	<u>(85,395)</u>	<u>(10,192,744)</u>	<u>(14,946,890)</u>
Net increase (decrease) in cash and cash equivalents	(12,458,713)	(1,873,123)	1,522,142	(12,809,694)
Cash and cash equivalents, beginning of year	31,791,164	14,967,414	7,764,033	54,522,611
Cash and cash equivalents, end of year	<u>\$ 19,332,451</u>	<u>\$ 13,094,291</u>	<u>\$ 9,286,175</u>	<u>\$ 41,712,917</u>

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

Combining Statement of Cash Flows
For the Year Ended June 30, 2022

	Electric Utility	Wastewater Utility	Water Utility	Total
Classified on the statement of net position as				
Cash and cash equivalents	\$ 19,332,451	\$ 8,485,995	\$ 6,240,473	\$ 34,058,919
Restricted cash and cash equivalents	-	4,608,296	3,045,702	7,653,998
Total cash and cash equivalents	\$ 19,332,451	\$ 13,094,291	\$ 9,286,175	\$ 41,712,917
Reconciliation of operating income to net cash provided by operating activities				
Operating income	\$ 16,206,183	\$ 1,092,757	\$ 4,463,689	\$ 21,762,629
Adjustments to reconcile operating income to net cash provided by operating activities:				
Depreciation and amortization	13,461,033	2,912,406	2,226,964	18,600,403
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)
Due from other funds of the City of Holland	98,006	474	(1,175,260)	(1,076,780)
Inventories	(1,554,600)	(6,284)	(147,652)	(1,708,536)
Prepaid items and other assets	(123,115)	(26,854)	(31,511)	(181,480)
Due from the City of Wyoming	-	-	148,438	148,438
Accounts payable	2,045,783	(1,768,798)	329,917	606,902
Accrued salaries and wages payable	63,428	8,339	18,123	89,890
Due to other funds of the City of Holland	20,817	345	(1,029,976)	(1,008,814)
Deposits	56,826	80	(680)	56,226
Landfill postclosure liability	(37,421)	-	-	(37,421)
Compensated absences	(40,967)	5,724	(8,516)	(43,759)
Net pension liability	(1,146,245)	(329,980)	(260,510)	(1,736,735)
Deferred outflows of resources related to the net pension liability	380,672	109,587	86,516	576,775
Deferred inflows of resources related to the net pension liability	1,402,419	403,726	318,732	2,124,877
Net other postemployment benefit liability	(40,479)	(9,488)	(6,921)	(56,888)
Deferred outflows of resources related to the total other postemployment benefit liability	(11,453)	(2,655)	(2,041)	(16,149)
Deferred inflows of resources related to the total other postemployment benefit liability	(46,375)	(10,986)	(7,591)	(64,952)
Net cash provided by operating activities	\$ 29,627,795	\$ 2,099,038	\$ 4,769,062	\$ 36,495,895

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.

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
2023	1,504,926	-	0.03%	2,621	106,055	5,769,788

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, 2023

	Electric Utility	Wastewater Utility	Water Utility	Total
Land	\$ 21,047,820	\$ 260,673	\$ 2,178,242	\$ 23,486,735
Construction in progress	14,452,369	29,957,289	2,186,264	46,595,922
Production plant	306,120,748	62,633,884	26,781,621	395,536,253
Distribution/collection system	17,634,836	50,390,132	78,363,088	146,388,056
Transmission	124,625,771	-	-	124,625,771
General plant	49,969,179	3,724,069	3,213,125	56,906,373
Total	533,850,723	146,966,047	112,722,340	793,539,110
Accumulated depreciation	<u>(240,036,791)</u>	<u>(58,163,095)</u>	<u>(38,871,901)</u>	<u>(337,071,787)</u>
Total capital assets, net	<u>\$ 293,813,932</u>	<u>\$ 88,802,952</u>	<u>\$ 73,850,439</u>	<u>\$ 456,467,323</u>

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>
Total capital assets, net	<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>

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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***

November 7, 2023

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, 2023, and the related notes to the financial statements, which collectively comprise the Board's basic financial statements, and have issued our report thereon dated November 7, 2023.

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.

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



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. We consider the deficiency described in the accompanying schedule of findings and responses as item 2023-001 to be a material weakness.

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. We consider the deficiency described in the accompanying schedule of findings and responses as item 2023-002 to be a significant deficiency.

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*.

Holland Board of Public Works' Response to Findings

Government Auditing Standards requires the auditor to perform limited procedures on the Board's responses to the findings identified in our audit and described in the accompanying schedule of findings and responses. The Board's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

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.

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

Schedule of Findings and Responses

For the Year Ended June 30, 2023

2023-001 – Material Audit Adjustments

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

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

Condition. We identified and proposed certain adjustments (which were approved and posted by management) to adjust the Board's general ledger to the appropriate balances. This included a material audit entry that was recorded related to cash and long-term debt resulting from the timing of principal payments. Additionally, there were additional entries that were the direct result of audit inquiry and request for account reconciliations to the trial balance.

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

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

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

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

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

Schedule of Findings and Responses

For the Year Ended June 30, 2023

2023-002 – Timely Reconciliations

Finding Type. Significant Deficiency in Internal Control over Financial Reporting.

Criteria. Timely account reconciliations represent an important control used to detect and prevent material misstatements. Generally, accounts should be reconciled on a monthly basis.

Condition. As of the scheduled dates of our audit fieldwork (approximately 3 months after the end of the fiscal year), the Board had not yet fully reconciled its capital asset, accounts receivable, and accounts payable records. In addition, a significant number of adjusting entries were not yet posted by management.

Cause. This condition was caused, in part, by staffing limitations in the Finance Department, which impacted the ability to complete reconciliations for all accounts in a timely manner.

Effect. As a result of this condition, the Board was exposed to an increased risk that misstatements, whether caused by error or fraud, could occur and not be detected by management in a timely manner.

Recommendation. Management should establish a policy requiring all significant balance sheet accounts to be reconciled to the general ledger to be prepared on a monthly basis. Additionally, these reconciliations should be reviewed for an independent individual. In prior years, the Finance Department would prepare internal financial statements that would mirror the audited financials and were available at the start of the audit. We encourage the Finance department staff to return to completing these internal financial statements prior to the start of the audit to ensure that all balances are ready and adjusted for the audit.

View of Responsible Officials. Due to findings in an earlier audit, The Board's finance department has made a concerted effort to complete timely reconciliations of all significant accounts. Based on the information the finance department had at year-end, the finance department had reconciled the asset, accounts receivable and accounts payable accounts. Receiving capital project information for fiscal year 2023 as late as September 2023 resulted in significant movement between accounts. As a result, the finance department has had several meetings with operations and IT staff to implement procedures and controls to prevent a recurrence of this issue.

