

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



Year Ended  
June 30, 2012

Financial  
Statements and  
Supplementary  
Information

# HOLLAND BOARD OF PUBLIC WORKS

(Enterprise Funds of the City of Holland, Michigan)

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**INDEPENDENT AUDITORS' REPORT**

August 30, 2012

Board of Directors  
Holland Board of Public Works  
Holland, Michigan

We have audited the accompanying financial statements of the business-type activities and each major fund of the *Holland Board of Public Works*, (the "Board" enterprise funds of the City of Holland, Michigan) as of and for the year ended June 30, 2012, as listed in the table of contents. These financial statements are the responsibility of the Board's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As discussed in Note 1, the financial statements 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, 2012 and the changes in its financial position and cash flows where applicable, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities and each major fund of the Holland Board of Public Works, as of June 30, 2012, and the respective changes in financial position and cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 30, 2012 on our consideration of the Board's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the Schedules of Funding Progress and Employer Contributions for the pension and other postemployment benefit plans on page 26 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide assurance.

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 on the table of contents is presented for purposes of additional analysis and are not a required part of the 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 financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

A handwritten signature in cursive script that reads "Lehmann Lobson".

## BASIC FINANCIAL STATEMENTS

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

**Statement of Net Assets**

June 30, 2012

(with comparative totals for the year ended June 30, 2011)

	Electric Utility	Wastewater Utility	Water Utility	Business-Type Activities	
				2012	2011
<b>Assets</b>					
<b>Current assets</b>					
Cash and cash equivalents	\$ 42,787,898	\$ 4,687,342	\$ 2,625,476	\$ 50,100,716	\$ 58,298,177
Investments	62,836,669	3,519,259	1,500,375	67,856,303	52,531,395
Receivables:					
Accounts receivable	6,178,631	892,037	639,353	7,710,021	8,595,476
Unbilled revenue	5,208,262	241,766	454,758	5,904,786	5,309,706
Special assessments and other	-	136,859	123,390	260,249	172,323
Accrued interest	80,727	2,226	1,754	84,707	132,397
Due from other funds of the					
City of Holland	139,975	2,084	42,899	184,958	266,406
Inventories	10,304,662	56,743	206,492	10,567,897	8,952,611
Prepaid expenses and other assets	332,840	28,348	226,123	587,311	387,001
<b>Total current assets</b>	<b>127,869,664</b>	<b>9,566,664</b>	<b>5,820,620</b>	<b>143,256,948</b>	<b>134,645,492</b>
<b>Noncurrent assets</b>					
Restricted assets:					
Cash and cash equivalents	-	5,136,663	3,302,216	8,438,879	6,768,348
Investments	5,381,112	1,500,584	-	6,881,696	6,150,605
Accrued interest	-	151	-	151	374
<b>Total restricted assets</b>	<b>5,381,112</b>	<b>6,637,398</b>	<b>3,302,216</b>	<b>15,320,726</b>	<b>12,919,327</b>
Capital assets:					
Land	4,809,939	260,673	1,866,923	6,937,535	6,903,029
Construction in progress	2,653,345	6,660,882	5,061,185	14,375,412	6,919,222
Plant and equipment	224,078,454	69,870,554	55,397,803	349,346,811	342,444,333
Accumulated depreciation	(170,206,211)	(40,665,507)	(21,894,486)	(232,766,204)	(222,417,358)
<b>Total capital assets, net</b>	<b>61,335,527</b>	<b>36,126,602</b>	<b>40,431,425</b>	<b>137,893,554</b>	<b>133,849,226</b>
<b>Total noncurrent assets</b>	<b>66,716,639</b>	<b>42,764,000</b>	<b>43,733,641</b>	<b>153,214,280</b>	<b>146,768,553</b>
<b>Total assets</b>	<b>194,586,303</b>	<b>52,330,664</b>	<b>49,554,261</b>	<b>296,471,228</b>	<b>281,414,045</b>

continued...

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 Net Assets**

June 30, 2012

(with comparative totals for the year ended June 30, 2011)

	Electric Utility	Wastewater Utility	Water Utility	Business-Type Activities	
				2012	2011
<b>Liabilities</b>					
<b>Current liabilities</b>					
Accounts payable	\$ 5,518,418	\$ 635,022	\$ 1,890,805	\$ 8,044,245	\$ 6,375,169
Accrued salaries and wages payable	1,003,547	238,688	222,794	1,465,029	1,187,443
Due to other funds of the					
City of Holland	134,557	25,511	34,493	194,561	103,946
Deposits	337,019	-	-	337,019	239,420
Accrued interest payable	-	2,246	-	2,246	3,337
Current maturities of bonds payable	-	620,874	-	620,874	610,374
Current liabilities payable from restricted assets:					
Bonds payable	-	-	1,133,661	1,133,661	830,517
Accrued interest payable	-	-	132,274	132,274	331,725
<b>Total current liabilities</b>	<b>6,993,541</b>	<b>1,522,341</b>	<b>3,414,027</b>	<b>11,929,909</b>	<b>9,681,931</b>
<b>Noncurrent liabilities</b>					
Landfill closure and postclosure cost	327,450	-	-	327,450	327,450
Long-term debt, net of current portion	-	642,051	16,792,536	17,434,587	16,338,105
Net other postemployment benefit obligation	185,687	83,339	65,489	334,515	344,523
<b>Total noncurrent liabilities</b>	<b>513,137</b>	<b>725,390</b>	<b>16,858,025</b>	<b>18,096,552</b>	<b>17,010,078</b>
<b>Total liabilities</b>	<b>7,506,678</b>	<b>2,247,731</b>	<b>20,272,052</b>	<b>30,026,461</b>	<b>26,692,009</b>
<b>Net assets</b>					
Invested in capital assets, net of related debt	61,335,527	34,863,677	22,505,228	118,704,432	116,070,230
Restricted for:					
Debt service	-	-	2,960,807	2,960,807	3,099,156
Equipment replacement	-	6,559,269	-	6,559,269	4,356,643
Park Township	-	-	254,859	254,859	234,084
Cooperative payments	5,355,790	-	-	5,355,790	5,151,347
Unrestricted	120,388,308	8,659,987	3,561,315	132,609,610	125,810,576
<b>Total net assets</b>	<b>\$187,079,625</b>	<b>\$ 50,082,933</b>	<b>\$ 29,282,209</b>	<b>\$266,444,767</b>	<b>\$254,722,036</b>

concluded

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

**Statement of Revenues, Expenses, and Changes in Fund Net Assets**

For the Year Ended June 30, 2012

(with comparative totals for the year ended June 30, 2011)

	Electric Utility	Wastewater Utility	Water Utility	Business-Type Activities	
				2012	2011
Operating revenue					
Residential sales	\$ 17,619,583	\$ 2,124,736	\$ 2,261,991	\$ 22,006,310	\$ 21,615,802
Commercial sales	29,243,896	1,734,481	1,969,078	32,947,455	31,193,647
Industrial sales	36,680,851	597,525	669,792	37,948,168	35,056,818
Wholesale	-	2,640,423	1,952,301	4,592,724	4,383,239
Fees and other	4,521,878	1,522,809	493,101	6,537,788	8,149,324
<b>Total operating revenue</b>	<b>88,066,208</b>	<b>8,619,974</b>	<b>7,346,263</b>	<b>104,032,445</b>	<b>100,398,830</b>
Operating expenses					
Salaries and wages	3,437,494	1,075,642	834,564	5,347,700	5,382,606
Employee benefits	2,500,289	728,873	601,388	3,830,550	3,641,260
Production	52,332,338	2,167,479	626,697	55,126,514	51,522,957
Distribution	3,230,925	693,939	505,656	4,430,520	4,198,941
Administrative and general	7,112,313	1,947,377	1,694,553	10,754,243	11,484,698
Depreciation	7,410,180	1,699,376	1,392,353	10,501,909	10,824,222
<b>Total operating expenses</b>	<b>76,023,539</b>	<b>8,312,686</b>	<b>5,655,211</b>	<b>89,991,436</b>	<b>87,054,684</b>
<b>Operating income</b>	<b>12,042,669</b>	<b>307,288</b>	<b>1,691,052</b>	<b>14,041,009</b>	<b>13,344,146</b>
Nonoperating income (expense), net					
Interest income	622,775	82,060	28,394	733,229	809,955
Interest expense	-	(90,564)	(649,885)	(740,449)	(829,833)
Insurance refunds	1,747,384	-	-	1,747,384	-
Gain (loss) on sale and disposal of capital assets	15,745	2,200	(778)	17,167	(35,290)
<b>Total nonoperating income (expense), net</b>	<b>2,385,904</b>	<b>(6,304)</b>	<b>(622,269)</b>	<b>1,757,331</b>	<b>(55,168)</b>
<b>Net income before contributions and transfers</b>	<b>14,428,573</b>	<b>300,984</b>	<b>1,068,783</b>	<b>15,798,340</b>	<b>13,288,978</b>
Capital contributions					
Infrastructure	-	128,210	43,400	171,610	491,044
Trunkage	-	41,240	18,581	59,821	148,119
<b>Total capital contributions</b>	<b>-</b>	<b>169,450</b>	<b>61,981</b>	<b>231,431</b>	<b>639,163</b>
Transfers out to other funds of the City of Holland	(4,307,040)	-	-	(4,307,040)	(4,001,600)
<b>Change in net assets</b>	<b>10,121,533</b>	<b>470,434</b>	<b>1,130,764</b>	<b>11,722,731</b>	<b>9,926,541</b>
Net assets, beginning of year	176,958,092	49,612,499	28,151,445	254,722,036	244,795,495
<b>Net assets, end of year</b>	<b>\$187,079,625</b>	<b>\$ 50,082,933</b>	<b>\$ 29,282,209</b>	<b>\$266,444,767</b>	<b>\$254,722,036</b>

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



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

**Statement of Cash Flows**

For the Year Ended June 30, 2012

(with comparative totals for the year ended June 30, 2011)

	Electric Utility	Wastewater Utility	Water Utility	Business-Type Activities	
				2012	2011
<b>Cash flows from operating activities</b>					
Receipts from customers and users	\$ 88,448,748	\$ 8,792,117	\$ 7,173,076	\$104,413,941	\$ 98,445,832
Payments to suppliers	(64,344,359)	(4,771,407)	(1,077,697)	(70,193,463)	(66,487,860)
Payments to employees	(5,548,587)	(1,887,180)	(1,464,897)	(8,900,664)	(8,852,625)
<b>Net cash provided by operating activities</b>	<b>18,555,802</b>	<b>2,133,530</b>	<b>4,630,482</b>	<b>25,319,814</b>	<b>23,105,347</b>
<b>Cash flows from noncapital financing activities</b>					
Insurance refunds	1,747,384	-	-	1,747,384	-
Transfers to other funds	(4,307,040)	-	-	(4,307,040)	(4,001,600)
<b>Net cash used in noncapital financing activities</b>	<b>(2,559,656)</b>	<b>-</b>	<b>-</b>	<b>(2,559,656)</b>	<b>(4,001,600)</b>
<b>Cash flows from capital and related financing activities</b>					
Principal paid on long-term debt	-	(654,500)	(875,000)	(1,529,500)	(1,464,224)
Interest paid on long-term debt	-	(47,529)	(752,472)	(800,001)	(762,478)
Capital contributions received	-	41,240	18,581	59,821	148,119
Proceeds received on refunded bonds	-	-	9,740,000	9,740,000	-
Proceeds from State Drinking Water Revolving Fund	-	-	2,776,651	2,776,651	-
Premium on issuance of refunded bonds	-	-	799,587	799,587	-
Bond issuance costs paid	-	-	(183,727)	(183,727)	-
Cash transferred to escrow for defeased bonds	-	-	(10,517,602)	(10,517,602)	-
Proceeds from sale of capital assets	195,660	2,200	19,402	217,262	85,554
Purchase/construction of property, plant and equipment	(4,289,976)	(5,107,728)	(5,177,018)	(14,574,722)	(14,326,634)
<b>Net cash used in capital and related financing activities</b>	<b>(4,094,316)</b>	<b>(5,766,317)</b>	<b>(4,151,598)</b>	<b>(14,012,231)</b>	<b>(16,319,663)</b>
<b>Cash flows from investing activities</b>					
Interest income	642,061	112,301	26,780	781,142	859,527
Purchase of investment securities	(68,217,781)	(5,019,843)	(1,500,375)	(74,737,999)	(58,682,000)
Proceeds from sale or maturities of investment securities	52,155,102	6,027,663	499,235	58,682,000	55,726,580
<b>Net cash provided by (used in) investing activities</b>	<b>(15,420,618)</b>	<b>1,120,121</b>	<b>(974,360)</b>	<b>(15,274,857)</b>	<b>(2,095,893)</b>
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>(3,518,788)</b>	<b>(2,512,666)</b>	<b>(495,476)</b>	<b>(6,526,930)</b>	<b>688,191</b>
Cash and cash equivalents, beginning of year	46,306,686	12,336,671	6,423,168	65,066,525	64,378,334
<b>Cash and cash equivalents, end of year</b>	<b>\$ 42,787,898</b>	<b>\$ 9,824,005</b>	<b>\$ 5,927,692</b>	<b>\$ 58,539,595</b>	<b>\$ 65,066,525</b>

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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, 2012

(with comparative totals for the year ended June 30, 2011)

	Electric Utility	Wastewater Utility	Water Utility	Business-Type Activities	
				2012	2011
Statement of net assets classification of cash and cash equivalents					
Cash and cash equivalents	\$ 42,787,898	\$ 4,687,342	\$ 2,625,476	\$ 50,100,716	\$ 58,298,177
Restricted cash and cash equivalents	-	5,136,663	3,302,216	8,438,879	6,768,348
<b>Total cash and cash equivalents</b>	<b>\$ 42,787,898</b>	<b>\$ 9,824,005</b>	<b>\$ 5,927,692</b>	<b>\$ 58,539,595</b>	<b>\$ 65,066,525</b>
Reconciliation of operating income to net cash provided by operating activities:					
Operating income	\$ 12,042,669	\$ 307,288	\$ 1,691,052	\$ 14,041,009	\$ 13,344,146
Adjustments to reconcile operating income net cash provided by operating activities:					
Depreciation	7,410,180	1,699,376	1,392,353	10,501,909	10,824,222
Changes in operating assets and liabilities which provided (used) cash					
Receivables	230,713	125,947	(154,211)	202,449	(2,092,746)
Due from other funds of the					
City of Holland	54,228	46,196	(18,976)	81,448	103,881
Inventories	(1,636,907)	6,117	15,504	(1,615,286)	(1,799,949)
Prepaid expenses	22,816	(1,341)	(38,058)	(16,583)	469,231
Accounts payable	(103,032)	40,706	1,731,402	1,669,076	2,242,115
Accrued salaries and wages payable	389,196	(82,665)	(28,945)	277,586	171,241
Due to other funds of the					
City of Holland	128,077	(48,117)	10,655	90,615	(348,854)
Deposits	97,599	-	-	97,599	35,867
Net other postemployment benefit obligation	(79,737)	40,023	29,706	(10,008)	156,193
<b>Net cash provided by operating activities</b>	<b>\$ 18,555,802</b>	<b>\$ 2,133,530</b>	<b>\$ 4,630,482</b>	<b>\$ 25,319,814</b>	<b>\$ 23,105,347</b>

**Non-cash transactions**

The Board received non-cash bond refunding of \$9,990,000 in the water utility. The Board also received non-cash capital contributions of infrastructure in the amount of \$43,400 and \$128,210 for the Water and Wastewater Utilities funds, respectively.

concluded

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

## NOTES TO FINANCIAL STATEMENTS

# HOLLAND BOARD OF PUBLIC WORKS

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

### Notes to Financial Statements

#### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

##### Reporting Entity

The Holland Board of Public Works (the “Board”) is comprised of three enterprise funds of the City of Holland (the “City”). The Board operates under direction of the City Charter and City Council resolution subject to direction by a Council appointed Board of Directors, and provides electric, water and wastewater services to users in the City of Holland and portions of the surrounding area. The economic resources measurement focus and the accrual basis of accounting are used in preparing the financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

##### *Basis of Presentation*

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

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

The government-wide financial statements (i.e., the statement of net assets and the statement of revenues, expenses and changes in net assets) 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.

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

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

When both restricted and unrestricted resources are available for use, it is the Board’s policy to use restricted resources first, then unrestricted resources as they are needed.

The Board reports the following major enterprise funds:

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

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

# HOLLAND BOARD OF PUBLIC WORKS

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

### Notes to Financial Statements

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, liabilities and equity

##### *Cash and cash equivalents*

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

##### *Investments*

Investments consist primarily of Repurchase Agreements collateralized by U.S. Government Securities and U.S. Agency debt securities, both of which are carried at fair value.

##### *Receivables*

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

##### *Due to/from other funds*

During the course of its operations, the Board has numerous transactions between funds to finance operations and to provide services. To the extent that certain transactions between funds had not been paid or received as of fiscal year end, interfund accounts receivable or payable were recorded.

##### *Inventories*

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

##### *Prepaid items*

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

##### *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 assets 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.

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

**Notes to Financial Statements**

*Capital assets*

Capital assets, which include property, plant and equipment, are reported in the financial statements. Capital assets are defined by the Board as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of three years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Depreciation is computed by the straight-line method based on the economic useful lives of the related assets.

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

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

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

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

Capital assets of the Water and Wastewater Utility Funds include assets purchased with funds provided by participating townships. Depreciation on these assets were approximately \$22,063 and \$128,050 respectively.

*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, deferred refunding costs and bond issuance costs*

Premiums, discounts, deferred refunding costs and bond issuance 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.

*Transfers*

Transfers from the electric fund represent contributions to the City of Holland's general fund, based on Board and City agreements.

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

**Notes to Financial Statements**

*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 assets under the following classifications:

Statement of Net Assets	
Cash and cash equivalents	\$ 50,100,716
Investments	67,856,303
Restricted assets:	
Cash and cash equivalents	8,438,879
Investments	<u>6,881,696</u>
<b>Total</b>	<b><u>\$ 133,277,594</u></b>

Deposits and investments consist of the following at June 30, 2012:

Deposits and investments	
Checking and savings accounts	\$ 1,715,853
Certificates of deposit (due within one year)	6,250,000
Certificates of deposit (due within one to five years)	1,000,000
Investments	124,309,391
Cash on hand	<u>2,350</u>
<b>Total</b>	<b><u>\$ 133,277,594</u></b>

*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.

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

**Notes to Financial Statements**

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.

The Board's investment policy allows for all of these types of investments. The Board chooses to disclose its investments by specifically identifying each. As of year-end, the Board had the following investments:

Investment	Maturity Date	Fair Market Value	Rating
Federal Farm Credit Bank	09/06/13	\$ 2,000,644	S&P AA+
Federal Farm Credit Bank	12/05/13	2,001,218	S&P AA+
Federal Home Loan Bank	12/27/13	2,019,572	S&P AA+
Federal Home Loan Bank	12/30/13	2,019,648	S&P AA+
Federal Farm Credit Bank	02/17/15	2,000,056	S&P AA+
Federal Farm Credit Bank	05/15/15	2,000,750	S&P AA+
Federal Farm Credit Bank	05/21/15	2,000,574	S&P AA+
Federal Farm Credit Bank	12/23/13	2,000,020	S&P AA+
Federal Farm Credit Bank	07/25/14	2,000,040	S&P AA+
Federal Farm Credit Bank	08/15/14	1,999,480	S&P AA+
Federal Home Loan Bank	08/22/14	1,998,440	S&P AA+
Federal Farm Credit Bank	06/11/15	1,999,900	S&P AA+
Federal Farm Credit Bank	10/30/15	2,000,700	S&P AA+
Federal Home Loan Bank	02/23/17	250,013	S&P AA+
Federal Home Loan Bank	11/09/17	500,500	S&P AA+
Federal Farm Credit Bank	11/29/17	251,497	S&P AA+
Federal Home Loan Bank	06/21/13	2,004,500	S&P AA+
Federal Farm Credit Bank	08/01/13	2,004,280	S&P AA+
Federal Home Loan Bank	08/28/13	2,004,780	S&P AA+
Federal Farm Credit Bank	11/18/13	2,000,020	S&P AA+
Federal Farm Credit Bank	12/05/13	2,001,220	S&P AA+
Federal Home Loan Bank	12/30/13	2,019,640	S&P AA+
Federal Home Loan Bank	02/13/14	1,998,220	S&P AA+
Federal Farm Credit Bank	02/21/14	1,999,360	S&P AA+
Federal Home Loan Bank	06/27/14	2,000,040	S&P AA+
Federal Farm Credit Bank	08/07/14	1,999,660	S&P AA+
Federal Home Loan Bank	08/28/14	2,000,160	S&P AA+
Federal Home Loan Bank	09/05/14	2,000,800	S&P AA+
Federal Farm Credit Bank	12/09/14	2,009,240	S&P AA+
Federal Farm Credit Bank	03/05/15	1,000,020	S&P AA+
Federal Home Loan Bank	03/05/15	2,000,060	S&P AA+



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

**Notes to Financial Statements**

Investment	Maturity Date	Fair Market Value	Rating
Federal Farm Credit Bank	05/07/15	\$ 2,000,720	S&P AA+
Federal Farm Credit Bank	05/22/15	2,001,700	S&P AA+
Michigan State Taxable Refunding Bonds	11/01/13	507,325	S&P AA-
Michigan State Taxable Refunding Bonds	11/01/14	514,080	S&P AA-
Federal Farm Credit Bank	08/22/13	2,000,020	S&P AA+
MPPA Investments	Various	5,381,112	S&P AAA
Repurchase agreements *	n/a	<u>55,819,382</u>	Not rated
		<u>\$ 124,309,391</u>	

\* Investments are collateralized by US government securities

*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 above for investments held at year end.

*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 above for investments held at year end.

*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, \$9,643,935 of the Board’s bank balance of \$10,643,935 was exposed to custodial credit risk because it was uninsured and uncollateralized.

*Custodial Credit Risk - Investments.* For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Board will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. State law does not require and the Board does not have a policy for investment custodial credit risk which is more restrictive than state law. The Board is not exposed to custodial credit risk because \$55,819,382 of the above \$124,309,391 of investments is held in an overnight sweep account which is collateralized by U.S. government securities while the remainder of investments are held in the name of the Board.

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

**Notes to Financial Statements**

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

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

	Electric Utility	Wastewater Utility	Water Utility	Total
City trunkage	\$ -	\$ 171,564	\$ 292,875	\$ 464,439
Township trunkage	-	-	163,159	163,159
Insurance/risk retention	3,165,299	674,636	681,242	4,521,177
<b>Total</b>	<b>\$ 3,165,299</b>	<b>\$ 846,200</b>	<b>\$ 1,137,276</b>	<b>\$ 5,148,775</b>

**3. CAPITAL ASSETS**

A summary of capital assets at June 30, 2012 is as follows:

	Beginning Balance	Additions	Deletions	Transfers	Ending Balance
<b>Business-type Activities</b>					
Capital assets, not being depreciated:					
Land	\$ 6,903,029	\$ 34,506	\$ -	\$ -	\$ 6,937,535
Construction in progress	6,919,222	11,792,769	(125,544)	(4,211,035)	14,375,412
	<u>13,822,251</u>	<u>11,827,275</u>	<u>(125,544)</u>	<u>(4,211,035)</u>	<u>21,312,947</u>
Capital assets, being depreciated:					
Production plant	171,434,279	1,180,443	(52,284)	731,162	173,293,600
Distribution/Collection system	110,701,722	1,313,529	(106,046)	2,962,735	114,871,940
Transmission	41,953,134	188,854	-	40,760	42,182,748
General plant	18,355,198	236,231	(69,284)	476,378	18,998,523
	<u>342,444,333</u>	<u>2,919,057</u>	<u>(227,614)</u>	<u>4,211,035</u>	<u>349,346,811</u>
Less accumulated depreciation for:					
Production plant	(122,492,795)	(5,447,012)	3,921	-	(127,935,886)
Distribution/Collection system	(71,347,700)	(3,391,968)	79,858	-	(74,659,810)
Transmission	(18,178,176)	(956,149)	-	-	(19,134,325)
General plant	(10,398,687)	(706,780)	69,284	-	(11,036,183)
	<u>(222,417,358)</u>	<u>(10,501,909)</u>	<u>153,063</u>	<u>-</u>	<u>(232,766,204)</u>
Total capital assets being depreciated, net	<u>120,026,975</u>	<u>(7,582,852)</u>	<u>(74,551)</u>	<u>4,211,035</u>	<u>116,580,607</u>
Governmental activities capital assets, net	\$ 133,849,226	\$ 4,244,423	\$ (200,095)	\$ -	\$ 137,893,554

**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
2005A Water Supply System Revenue Refunding Bonds due in annual installments of \$635,000 to \$915,000 plus interest from 3.0 to 4.0% through 2018	\$ 5,650,000	\$ -	\$ (715,000)	\$ 4,935,000	\$ 740,000
2005B Water Supply System Revenue Refunding Bonds due in annual installments of \$165,000 plus interest of 3.5% through 2014, partially refunded in 2012	10,480,000	-	(10,150,000)	330,000	165,000
2011 Ottawa County Refunding Sewage Bonds (city assumed 70% of total 2011 Ottawa County disposal) due in annual installments of \$52,500 to \$682,500 plus 2.0% interest through 2015	2,002,000	-	(654,500)	1,347,500	665,000
2011A Drinking Water Revolving Bonds due in annual installments of \$236,500 to \$375,000 plus 2.5% interest through 2032; the full amount of the bonds has not been sold as of June 30, 2012; current balance only amortizes through 2026	-	2,776,651	-	2,776,651	236,500
2012A Water Supply System Revenue Refunding Bonds due in annual installments of \$195,000 to \$1,430,000 plus interest 2.0 to 4.0% through 2025	-	9,740,000	-	9,740,000	-
<b>Total installment debt</b>	<b>18,132,000</b>	<b>12,516,651</b>	<b>(11,519,500)</b>	<b>19,129,151</b>	<b>1,806,500</b>

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

**Notes to Financial Statements**

	Beginning Balance	Additions	Deductions	Ending Balance	Due Within One Year
Unamortized discounts/premiums:					
2005A Water Supply					
System Revenue	\$ (6,957)	\$ -	\$ 1,860	\$ (5,097)	\$ (1,611)
2005B Water Supply					
System Revenue	(93,934)	-	84,434	(9,500)	(9,500)
2012A Water Supply					
System Revenue	-	799,587	-	799,587	93,614
Unamortized deferred refunding loss:					
2005A Water Supply					
System Revenue	(123,412)	-	33,000	(90,412)	(28,571)
2011 Ottawa County					
Refunding Sewage	(128,701)	-	44,126	(84,575)	(44,126)
2012A Water Supply					
System Revenue	-	(550,032)	-	(550,032)	(61,771)
<b>Total long-term debt</b>	<b>\$ 17,778,996</b>	<b>\$ 12,766,206</b>	<b>\$ (11,356,080)</b>	<b>\$ 19,189,122</b>	<b>\$ 1,754,535</b>

The annual requirements to maturity on debt outstanding as of June 30, 2012, excluding unamortized discount and deferred refunding costs on bonds payable are as follows:

Year Ended June 30,	Principal	Interest	Total
2013	\$ 1,806,500	\$ 606,720	\$ 2,413,220
2014	2,052,500	530,529	2,583,029
2015	1,240,000	476,616	1,716,616
2016	1,280,000	435,866	1,715,866
2017	1,325,000	391,491	1,716,491
2018-2022	8,490,000	1,263,181	9,753,181
2023-2026	2,935,151	172,654	3,107,805
	<u>\$ 19,129,151</u>	<u>\$ 3,877,057</u>	<u>\$ 23,006,208</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.

# HOLLAND BOARD OF PUBLIC WORKS

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

### Notes to Financial Statements

#### Refunded and Defeased Debt

During fiscal year 2012, the Board advance refunded \$9,990,000 of 2005B Water Supply System Revenue Bonds to provide resources to purchase U.S. government securities that were placed in an escrow fund for the purpose of generating resources for all future debt service payments of \$10,629,066 of refunded debt. As a result, the bonds are considered defeased and the liability has been removed from the statement of net assets. The refunding resulted in a savings of \$1,479,316 and an economic gain of \$1,404,080.

### 5. BENEFIT PLANS

#### Defined Benefit Pension Plan

The information for the Board's defined benefit pension plan is as of December 31, 2010, which is the most recent information available.

*Plan Description.* The Board participates with the City in a defined benefit pension plan. The City's defined benefit pension plan provides retirement and disability benefits and death benefits to plan members and beneficiaries. The City participates in the Municipal Employees Retirement System of Michigan (MERS), an agent multiple-employer plan administered by the MERS Retirement Board.

Act No. 427 of the Public Acts of 1984, as amended, establishes and amends the benefit provisions of the participants in MERS. The Municipal Employees Retirement System of Michigan issues a publicly available financial report that includes financial statements and required supplementary information for MERS. That report may be obtained by writing to the Municipal Employees Retirement System of Michigan, 447 N. Canal Road, Lansing, Michigan 48917 or by calling (800) 767-6377.

*Funding Policy.* The Board is required to contribute at an actuarially determined fixed rate; the current rate is \$95,149 per month. Employees are required to contribute 2.0% to the Plan. The contribution requirements of the Board are established and may be amended by the Retirement Board of MERS. The contribution requirements of plan members, if any, are established and may be amended by the City, depending on the MERS contribution program adopted by the Board of Public Works.

*Annual Pension Cost.* For the year ended June 30, 2012, the Board's annual pension cost of \$1,148,256 for MERS was equal to the Board's required and actual contributions. The required contribution was determined as part of the December 31, 2009 actuarial valuation using the entry age actuarial cost method. The actuarial assumptions included (a) a rate of return on the investment of present and future assets of 8.0%, (b) projected salary increases of 4.5% per year compounded annually, attributable to inflation, and (c) additional projected salary increases of 0.0% to 8.4% per year, depending on age, attributable to seniority/merit. The actuarial value of MERS assets was determined on the basis of a valuation method that assumes the fund earns the expected rate of return, and includes an adjustment to reflect fair value. The Board's unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at December 31, 2010, the date of the latest actuarial valuation, ranges from 14 to 30 years, depending on the specific employee group. Employee contributions for the year ended June 30, 2012 were \$51,509.

# HOLLAND BOARD OF PUBLIC WORKS

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

### Notes to Financial Statements

*Funded Status and Funding Progress.* A separate actuarial valuation is not prepared for the Board. The schedule of funding progress for the City of Holland is included in the City's financial statements for the year ended June 30, 2012. The schedule of employer contributions, presented as required supplementary information (RSI) following the notes to the financial statements, presents multiyear trend information about how the Board is funding its annual pension costs.

#### Defined Contribution Pension Plan

The Board participates in a defined contribution retirement plan which is administered by the ICMA in participation with MERS for both nonbargaining and union employees. The defined contribution provisions of the plan require the Board to contribute 6% of covered employee payroll and to match employee contributions up to 2% for nonbargaining employees and up to 4% for union employees. The participants direct their investments under defined contribution provisions. The Board contributed \$342,278 and employees contributed \$104,956 to the defined contribution plan.

### 6. OTHER POSTEMPLOYMENT BENEFITS

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

The City provides a monthly subsidy payment for the retiree health insurance premium charged by the City's Health and Dental Insurance Fund for single or two-person coverage, depending on employment contract.

No subsidy payment is made if the retiree can obtain no cost coverage through other employment or through a spouse's employment. However, retired employees who are eligible to receive hospital, surgical and medical coverage from another employer sponsored plan may request reimbursement for any premium cost up to the maximum amounts.

*Funding Policy.* Contribution requirements of Plan members, the Board and the City are established and may be amended by the City Council. The required contribution is based on projected pay-as-you-go financing requirements. For the year ended June 30, 2012, the Board contributed \$295,495.

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

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

**Notes to Financial Statements**

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

Annual required contribution	\$ 289,911
Interest on net OPEB obligation	9,371
Adjustment to annual required contribution	<u>(13,795)</u>
Net OPEB cost (expense)	285,487
Contributions made	<u>(295,495)</u>
Decrease in net OPEB obligation	(10,008)
Net OPEB obligation, beginning of year	<u>344,523</u>
Net OPEB obligation, end of year	<u><u>\$ 334,515</u></u>

*Funded Status and Funding Progress.* A separate actuarial valuation is not prepared for the Board. The schedule of funding progress for the City of Holland is included in the City’s financial statements for the year ended June 30, 2012. The schedule of employer contributions, presented as required supplementary information (RSI) following the notes to the financial statements, presents multiyear trend information about how the Board is funding its annual OPEB costs.

**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, 2012.

**8. COMMITMENTS**

The Board has contracts outstanding for remaining project costs of approximately \$2,395,410 for various electric utility projects, \$2,737,877 for various water projects, \$2,027,076 for various wastewater projects and \$107,020 for administration.

# HOLLAND BOARD OF PUBLIC WORKS

(Enterprise Funds of the City of Holland, Michigan)

## Notes to Financial Statements

### 9. LANDFILL CLOSURE AND POST CLOSURE CARE

The Board owns and maintains a landfill for fly ash and wastewater treatment bio solids. In accordance with Michigan Department of Environmental Quality requirements, funding for closure cost estimates of \$111,000 and post-closure cost estimates of \$216,450 have been assured with a \$100,000 letter of credit and \$10,226 held in trust at June 30, 2012.

The Board has recognized a liability for closure and postclosure cost of \$327,450 based on the percentage of landfill capacity used to date. The landfill is expected to have a remaining life of at least 50 years with approximately 67% of the landfill's capacity currently utilized. These estimates are expected to fluctuate based on current usage, inflation, deflation, changes in technology, applicable laws and regulations.

### 10. JOINT VENTURE

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

Under the joint venture, the Board has entered into Power Sales Contracts and Project Support Contracts. These contracts provide for the Board to purchase from MPPA 15.66% of the energy generated by MPPA's 37.22% ownership in Detroit Edison's Belle River Unit No. 1, which became operational in August 1984, and 26.35% of MPPA's 4.8% ownership in Consumers Energy's Campbell Unit No. 3, which became operational in September 1980. These contracts required the Board to purchase approximately 38 and 10 megawatts of power, respectively, in 1995 and thereafter.

For the year ended June 30, 2012, the Board recognized expenses totaling \$17,888,494 under the terms of the contract which represented \$3,0198,916 for fixed operating costs, \$5,228,181 for debt service and \$9,641,397 for the purchase of power. Accounts payable to MPPA totaled \$2,713,324 at June 30, 2012. For the year ended June 30, 2011, the Board recognized expenses totaling \$13,937,763 under the terms of the contract which represented \$5,225,641 for fixed operating costs, \$5,225,641 for debt service and \$5,473,380 for the purchase of power. Under the terms of its contracts, the Board must make minimum annual payments equal to its share of debt service and its share of the fixed operating costs of Detroit Edison's Belle River No. 1 and Consumers Energy's Campbell Unit No. 3. The estimated required payments presented below assume no early calls or refinancing of existing revenue bonds and 3.0% annual inflation of fixed operating costs.



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

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

Year Ended June 30,	Belle River		Campbell		Total
	Debt Service	Fixed Operating	Debt Service	Fixed Operating	
2013	\$ 4,305,460	\$ 2,498,865	\$ 923,442	\$ 799,986	\$ 8,527,753
2014	4,305,960	2,573,831	909,075	823,986	8,612,852
2015	4,305,533	2,651,046	869,550	848,705	8,674,834
2016	12,916,954	2,730,577	830,025	874,166	17,351,722
2017	-	2,812,495	-	-	2,812,495
2018	-	2,896,869	-	-	2,896,869
	<u>\$ 25,833,907</u>	<u>\$ 16,163,683</u>	<u>\$ 3,532,092</u>	<u>\$ 3,346,843</u>	<u>\$ 48,876,525</u>

Debt Service requirements expire in the years 2018 and 2016 for the Belle River and Campbell projects, respectively. 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 Board has entered into a Power Sales Contract and Project Support Contract to provide for the Board to purchase from MPPA 13.35% of the energy generated by MPPA’s 5.16% ownership in the AMP Fremont Energy Center (AFEC), which has not yet become operational. During the year ended June 30, 2012, but subsequent to MPPA’s most recent fiscal year end, MPPA issued bonds in the amount of \$32,520,000 for the purpose of funding MPPA’s costs of the 5.16% interest in the AFEC project, to fund a deposit to the reserve and contingency fund and to pay the costs of issuing the bonds. Inasmuch as this arrangement occurred after MPPA’s fiscal year end of December 31, 2011, current financial information about the project is not readily available.

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.

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

■ Notes to Financial Statements

12. INVESTED IN CAPITAL ASSETS NET OF RELATED DEBT

The composition of net assets invested in capital assets, net of related debt as of June 30, 2012, was as follows:

Capital assets:	
Capital assets not being depreciated	\$ 21,312,947
Capital assets being depreciated, net	<u>116,580,607</u>
	<u>137,893,554</u>
Related debt:	
Total installment debt	19,129,151
Net bond premium/discount	784,990
Deferred loss on advance refunding	<u>(725,019)</u>
	<u>19,189,122</u>
Invested in capital assets, net of capital - related debt	<u>\$ 118,704,432</u>



## REQUIRED SUPPLEMENTARY INFORMATION

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

**Required Supplementary Information**

Schedule of Employer Contributions  
 Defined Benefit Pension Plan

Year Ended	Annual Pension Cost (APC)	Percentage Contributed	Net Pension Obligation
2007	\$ 840,908	100%	\$ -
2008	895,157	100%	-
2009	865,829	100%	-
2010	881,831	100%	-
2011	1,135,005	100%	-
2012	1,148,256	100%	-

Schedule of Employer Contributions  
 Other Postemployment Benefits Plan

Year Ended	Annual OPEB Cost	Percentage Contributed	Net OPEB Obligation
* 2009	\$ 175,724	38%	\$ 109,560
2010	214,175	63%	188,330
2011	214,175	27%	344,523
2012	285,487	104%	334,515

\* Only 4 years of data available

## SUPPLEMENTARY INFORMATION

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

**Combining Statement of Net Assets**  
 June 30, 2011

	Electric Utility	Wastewater Utility	Water Utility	Total
<b>Assets</b>				
<b>Current assets</b>				
Cash and cash equivalents	\$ 46,306,686	\$ 8,901,563	\$ 3,089,928	\$ 58,298,177
Investments	47,003,755	5,028,405	499,235	52,531,395
Receivables:				
Accounts receivable	6,880,795	1,072,398	642,283	8,595,476
Unbilled revenue	4,736,811	224,649	348,246	5,309,706
Special assessments and other	-	99,562	72,761	172,323
Accrued interest	100,013	32,244	140	132,397
Due from other funds of the City of Holland	194,203	48,280	23,923	266,406
Inventories	8,667,755	62,860	221,996	8,952,611
Prepaid expenses	355,656	27,007	4,338	387,001
<b>Total current assets</b>	<b>114,245,674</b>	<b>15,496,968</b>	<b>4,902,850</b>	<b>134,645,492</b>
<b>Noncurrent assets</b>				
<b>Restricted assets:</b>				
Cash and cash equivalents	-	3,435,108	3,333,240	6,768,348
Investments	5,151,347	999,258	-	6,150,605
Accrued interest	-	374	-	374
<b>Total restricted assets</b>	<b>5,151,347</b>	<b>4,434,740</b>	<b>3,333,240</b>	<b>12,919,327</b>
<b>Capital assets:</b>				
Land	4,809,939	260,673	1,832,417	6,903,029
Construction in progress	2,398,350	2,988,045	1,532,827	6,919,222
Plant and equipment	220,290,311	68,321,295	53,832,727	342,444,333
Accumulated depreciation	(162,862,954)	(38,979,973)	(20,574,431)	(222,417,358)
<b>Total capital assets, net</b>	<b>64,635,646</b>	<b>32,590,040</b>	<b>36,623,540</b>	<b>133,849,226</b>
<b>Total noncurrent assets</b>	<b>69,786,993</b>	<b>37,024,780</b>	<b>39,956,780</b>	<b>146,768,553</b>
<b>Total assets</b>	<b>184,032,667</b>	<b>52,521,748</b>	<b>44,859,630</b>	<b>281,414,045</b>

continued...

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

**Combining Statement of Net Assets**  
June 30, 2011

	Electric Utility	Wastewater Utility	Water Utility	Total
<b>Liabilities</b>				
<b>Current liabilities</b>				
Accounts payable	\$ 5,621,450	\$ 594,316	\$ 159,403	\$ 6,375,169
Accrued salaries and wages payable	614,351	321,353	251,739	1,187,443
Due to other funds of the				
City of Holland	6,480	73,628	23,838	103,946
Deposits	239,420	-	-	239,420
Accrued interest payable	-	3,337	-	3,337
Current maturities of bonds payable	-	610,374	-	610,374
Current liabilities payable from restricted assets:				
Bonds payable	-	-	830,517	830,517
Accrued interest payable	-	-	331,725	331,725
<b>Total current liabilities</b>	<b>6,481,701</b>	<b>1,603,008</b>	<b>1,597,222</b>	<b>9,681,931</b>
<b>Noncurrent liabilities</b>				
Landfill closure and postclosure cost	327,450	-	-	327,450
Long-term debt - net of current portion	-	1,262,925	15,075,180	16,338,105
Net other postemployment benefit obligation	265,424	43,316	35,783	344,523
<b>Total noncurrent liabilities</b>	<b>592,874</b>	<b>1,306,241</b>	<b>15,110,963</b>	<b>17,010,078</b>
<b>Total liabilities</b>	<b>7,074,575</b>	<b>2,909,249</b>	<b>16,708,185</b>	<b>26,692,009</b>
<b>Net assets</b>				
Invested in capital assets, net of related debt	64,635,646	30,716,741	20,717,843	116,070,230
Restricted for:				
Debt service	-	-	3,099,156	3,099,156
Equipment replacement	-	4,356,643	-	4,356,643
Park Township	-	-	234,084	234,084
Cooperative payments	5,151,347	-	-	5,151,347
Unrestricted	107,171,099	14,539,115	4,100,362	125,810,576
<b>Total net assets</b>	<b>\$ 176,958,092</b>	<b>\$ 49,612,499</b>	<b>\$ 28,151,445</b>	<b>\$ 254,722,036</b>

concluded

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

**Combining Statement of Revenues, Expenses, and Changes in Fund Net Assets**  
For the Year Ended June 30, 2011

	Electric Utility	Wastewater Utility	Water Utility	Total
Operating revenue				
Residential sales	\$ 17,312,118	\$ 2,132,128	\$ 2,171,556	\$ 21,615,802
Commercial sales	27,748,366	1,629,823	1,815,458	31,193,647
Industrial sales	33,990,072	451,576	615,170	35,056,818
Wholesale	-	2,514,785	1,868,454	4,383,239
Fees and other	5,360,763	2,125,782	662,779	8,149,324
<b>Total operating revenue</b>	<b>84,411,319</b>	<b>8,854,094</b>	<b>7,133,417</b>	<b>100,398,830</b>
Operating expenses				
Salaries and wages	3,516,105	1,027,699	838,802	5,382,606
Employee benefits	2,428,698	667,262	545,300	3,641,260
Production	48,829,730	2,127,181	566,046	51,522,957
Distribution	2,891,963	706,861	600,117	4,198,941
Administrative and general	7,876,636	1,917,722	1,690,340	11,484,698
Depreciation	7,813,259	1,668,564	1,342,399	10,824,222
<b>Total operating expenses</b>	<b>73,356,391</b>	<b>8,115,289</b>	<b>5,583,004</b>	<b>87,054,684</b>
<b>Operating income</b>	<b>11,054,928</b>	<b>738,805</b>	<b>1,550,413</b>	<b>13,344,146</b>
Nonoperating income (expense) - net				
Interest income	681,160	94,136	34,659	809,955
Interest expense	-	(117,285)	(712,548)	(829,833)
Gain (loss) on sale and disposal of capital assets	(38,546)	1,628	1,628	(35,290)
<b>Total nonoperating income (expense) - net</b>	<b>642,614</b>	<b>(21,521)</b>	<b>(676,261)</b>	<b>(55,168)</b>
<b>Net income before contributions and transfers</b>	<b>11,697,542</b>	<b>717,284</b>	<b>874,152</b>	<b>13,288,978</b>
Capital contributions				
Infrastructure	-	-	491,044	491,044
Trunkage	-	106,564	41,555	148,119
<b>Total capital contributions</b>	<b>-</b>	<b>106,564</b>	<b>532,599</b>	<b>639,163</b>
Transfers out to other funds of the City of Holland	(4,001,600)	-	-	(4,001,600)
<b>Change in net assets</b>	<b>7,695,942</b>	<b>823,848</b>	<b>1,406,751</b>	<b>9,926,541</b>
Net assets, beginning of year	169,262,150	48,788,651	26,744,694	244,795,495
<b>Net assets, end of year</b>	<b>\$ 176,958,092</b>	<b>\$ 49,612,499</b>	<b>\$ 28,151,445</b>	<b>\$ 254,722,036</b>



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

**Combining Statement of Cash Flows**  
For the Year Ended June 30, 2011

	Electric Utility	Wastewater Utility	Water Utility	Total
Cash flows from operating activities				
Receipts from customers and users	\$ 82,464,421	\$ 8,800,220	\$ 7,181,191	\$ 98,445,832
Payments to suppliers	(58,635,193)	(4,741,654)	(3,111,013)	(66,487,860)
Payments to employees	(5,875,070)	(1,632,289)	(1,345,266)	(8,852,625)
Net cash provided by operating activities	<u>17,954,158</u>	<u>2,426,277</u>	<u>2,724,912</u>	<u>23,105,347</u>
Cash flows from noncapital financing activities				
Transfers to other funds of the City of Holland	(4,001,600)	-	-	(4,001,600)
Cash flows from capital and related financing activities				
Principal paid on long-term debt	-	(619,223)	(845,001)	(1,464,224)
Interest paid on long-term debt	-	(85,903)	(676,575)	(762,478)
Capital contributions received	-	106,564	41,555	148,119
Proceed from sale of capital assets	51,559	1,927	32,068	85,554
Purchase/construction of property, plant and equipment	(9,330,728)	(3,199,676)	(1,796,230)	(14,326,634)
Net cash used in capital and related financing activities	<u>(9,279,169)</u>	<u>(3,796,311)</u>	<u>(3,244,183)</u>	<u>(16,319,663)</u>
Cash flows from investing activities				
Interest income	721,535	100,945	37,047	859,527
Purchase of investment securities	(52,155,102)	(6,027,663)	(499,235)	(58,682,000)
Proceeds from sale or maturities of investment securities	46,642,420	8,079,160	1,005,000	55,726,580
Net cash provided by (used in) investing activities	<u>(4,791,147)</u>	<u>2,152,442</u>	<u>542,812</u>	<u>(2,095,893)</u>
Net increase (decrease) in cash and cash equivalents	(117,758)	782,408	23,541	688,191
Cash and cash equivalents, beginning of year	<u>46,424,444</u>	<u>11,554,263</u>	<u>6,399,627</u>	<u>64,378,334</u>
Cash and cash equivalents, end of year	<u>\$ 46,306,686</u>	<u>\$ 12,336,671</u>	<u>\$ 6,423,168</u>	<u>\$ 65,066,525</u>
Classified on the statement of net assets as				
Cash and cash equivalents	\$ 46,306,686	\$ 8,901,563	\$ 3,089,928	\$ 58,298,177
Restricted assets, cash and cash equivalents	-	3,435,108	3,333,240	6,768,348
Total cash and cash equivalents	<u>\$ 46,306,686</u>	<u>\$ 12,336,671</u>	<u>\$ 6,423,168</u>	<u>\$ 65,066,525</u>

continued...

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

**Combining Statement of Cash Flows**  
 For the Year Ended June 30, 2011

	Electric Utility	Wastewater Utility	Water Utility	Total
Reconciliation of operating income to net cash provided by operating activities:				
Operating income	\$ 11,054,928	\$ 738,805	\$ 1,550,413	\$ 13,344,146
Adjustments to reconcile operating income to net cash provided by operating activities				
Depreciation	7,813,259	1,668,564	1,342,399	10,824,222
Changes in operating assets and liabilities which provided (used) cash				
Receivables	(1,973,639)	(42,274)	(76,833)	(2,092,746)
Due from other funds of the City of Holland	(9,126)	(11,600)	124,607	103,881
Inventories	(1,743,330)	(16,952)	(39,667)	(1,799,949)
Prepaid expenses	496,161	(27,007)	77	469,231
Accounts payable	2,078,915	226,297	(63,097)	2,242,115
Accrued salaries and wages payable	69,733	62,672	38,836	171,241
Due to other funds of the City of Holland	(24,803)	(172,228)	(151,823)	(348,854)
Deposits	35,867	-	-	35,867
Net other postemployment benefit obligation	156,193	-	-	156,193
<b>Net cash provided by operating activities</b>	<b>\$ 17,954,158</b>	<b>\$ 2,426,277</b>	<b>\$ 2,724,912</b>	<b>\$ 23,105,347</b>

**Non-cash transaction**

The Board received noncash capital contributions of \$491,044 in the water utility.

The Board received non-cash bond refunding of \$1,981,000 in the wastewater utility.

concluded

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

**Holland Area Waste Treatment Plant Reserve for Equipment Replacement**  
 June 30, 2012

Year Ended June 30,	Contributions From Billings	Other	Interest		Improvements	Reserve Balance
			Rate	Amount		
1989	\$ 124,116	\$ 292,722	8.02%	\$ 85,061	\$ 446,514	\$ 1,130,832
1990	124,116	14,045	8.21%	95,519	72,939	1,291,573
1991	124,116	-	7.06%	91,161	124,794	1,382,056
1992	124,116	-	5.49%	64,501	538,427	1,032,246
1993	188,364	12,555	4.21%	27,927	1,161,092	100,000
1994	195,180	-	3.46%	6,640	18,347	283,473
1995	208,680	-	5.41%	21,139	14,662	498,630
1996	224,508	2,190	6.24%	36,008	45,287	716,049
1997	229,350	-	6.14%	47,244	145,361	847,282
1998	244,651	-	6.30%	58,314	163,917	986,329
1999	250,903	77,335	6.00%	62,497	501,228	875,836
2000	272,594	804,159	5.59%	44,448	619,684	1,377,352
2001	278,479	-	6.26%	84,190	427,542	1,312,479
2002	298,340	-	3.64%	34,041	173,806	1,471,054
2003	361,244	-	2.95%	43,426	123,852	1,751,871
2004	403,722	-	-1.14%	(20,012)	116,985	2,018,596
2005	448,249	-	2.81%	74,659	1,404,334	1,137,170
2006	518,220	-	1.90%	25,608	117,955	1,563,043
2007	575,848	-	4.20%	78,629	37,557	2,179,963
2008	609,002	-	4.79%	113,392	345,695	2,556,662
2009	611,793	-	1.31%	74,514	91,189	3,151,780
2010	659,495	-	0.81%	51,516	639,343	3,223,448
2011	1,260,575	-	0.23%	17,304	144,684	4,356,643
2012	1,359,600	929,543	0.10%	11,247	97,763	6,559,270

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, 2012

	Electric Utility	Wastewater Utility	Water Utility	Total
Land	\$ 4,809,939	\$ 260,673	\$ 1,866,923	\$ 6,937,535
Construction in progress	2,653,345	6,660,882	5,061,185	14,375,412
Production plant	120,410,493	37,252,524	15,758,792	173,421,809
Distribution system	80,296,431	5,807,182	28,124,216	114,227,829
Transmission	11,356,053	22,477,667	8,965,309	42,799,029
General plant	12,015,477	4,333,181	2,549,486	18,898,144
Total	231,541,738	76,792,109	62,325,911	370,659,758
Accumulated depreciation	(170,206,211)	(40,665,507)	(21,894,486)	(232,766,204)
Total capital assets, net	<u>\$ 61,335,527</u>	<u>\$ 36,126,602</u>	<u>\$ 40,431,425</u>	<u>\$ 137,893,554</u>

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

**Schedule of Capital Assets**  
 June 30, 2011

	Electric Utility	Wastewater Utility	Water Utility	Total
Land	\$ 4,809,939	\$ 260,673	\$ 1,832,417	\$ 6,903,029
Construction in progress	2,398,350	2,988,045	1,532,827	6,919,222
Production plant	119,093,353	36,620,020	15,720,906	171,434,279
Distribution system	78,130,306	5,618,537	26,952,879	110,701,722
Transmission	11,350,403	21,899,455	8,703,276	41,953,134
General plant	11,716,249	4,183,283	2,455,666	18,355,198
	<u>227,498,600</u>	<u>71,570,013</u>	<u>57,197,971</u>	<u>356,266,584</u>
Total				
Accumulated depreciation	(162,862,954)	(38,979,973)	(20,574,431)	(222,417,358)
	<u>(162,862,954)</u>	<u>(38,979,973)</u>	<u>(20,574,431)</u>	<u>(222,417,358)</u>
Total capital assets, net	<u>\$ 64,635,646</u>	<u>\$ 32,590,040</u>	<u>\$ 36,623,540</u>	<u>\$ 133,849,226</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*

August 30, 2012

Board of Directors  
Holland Board of Public Works  
Holland, Michigan

We have audited the financial statements of the business-type activities and each major fund of the *Holland Board of Public Works* (enterprise funds of the City of Holland, Michigan), as of and for the year ended June 30, 2012, which collectively comprise the Holland Board of Public Works' basic financial statements, and have issued our report thereon dated August 30, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

Management of the Holland Board of Public Works is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Holland Board of Public Works' internal control over financial reporting as a basis for designing our auditing procedures 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 Holland Board of Public Works' internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Holland Board of Public Works' internal control over financial reporting.

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 combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

### Compliance and Other Matters

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

This report is intended solely for the information and use of the audit committee, the governing board, management, others within the organization, and federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

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