

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



Year Ended
June 30, 2015

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

September 10, 2015

Board of Directors
Holland Board of Public Works
Holland, Michigan

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities and each major fund of the *Holland Board of Public Works* (the "Board"), enterprise funds of the City of Holland, Michigan, as of and for the year ended June 30, 2015, and the related notes to the financial statements which collectively comprise the Board's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Independent Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and each major fund of the Board as of June 30, 2015, and the respective changes in financial position and cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Reporting Entity

As discussed in Note 1, the financial statements referred to above present only the Holland Board of Public Works enterprise funds and do not purport to, and do not, present fairly the financial position of the City of Holland, Michigan as of June 30, 2015, and the changes in its financial position for the year then ended, in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Implementation of GASB Statement No. 68

As described in Note 13, the City implemented the provisions of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions* in the current year. Accordingly, beginning net position of business-type activities and each major fund was restated. Our opinion is not modified with respect to this matter.

Other Matters

Other Information

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

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 10, 2015 on our consideration of the Board's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Board's internal control over financial reporting and compliance.

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MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

Management's Discussion and Analysis (Unaudited)

This section of the Holland Board of Public Works annual financial report presents an overview of the financial performance during the fiscal years ending June 30, 2015 and 2014. Please read it in conjunction with the financial statements, which follow this section.

OVERVIEW OF BUSINESS

The Holland Board of Public Works is municipally owned by the City of Holland.

- It operates an electric system, which generates, transmits and distributes electricity to approximately 28,000 residential, commercial and industrial customers in the City of Holland and portions of Holland, Park, Laketown and Fillmore Townships.
- It operates a water filtration plant, with capacity to purify 38.5 million gallons per day and distributes water to approximately 13,400 residential, commercial and industrial customers located in the City of Holland and portions Park, Laketown and Holland Charter Townships. The HBPW receives its water from Lake Michigan.
- It operates a wastewater treatment plant, which the capacity to treat 12 million gallons per day and serves approximately 12,300 residential, commercial and industrial customers in the City of Holland and portions of Holland, Park, Laketown and Fillmore Townships. The wastewater is received from the City of Holland and Fillmore, Laketown, Park and Holland Charter Townships.

FINANCIAL HIGHLIGHTS

Electric, Wastewater and Water all had rate increases in FY2015 ranging from averages of 3.3% to 6.7%. The employee benefit costs are shared by employees who pay for a portion of health and pension costs.

Condensed Financial Information

	Net Position							
	(In Thousands)							
	Electric		Wastewater		Water		Total	
	<u>2015</u>	<u>2014</u>	<u>2015</u>	<u>2014</u>	<u>2015</u>	<u>2014</u>	<u>2015</u>	<u>2014</u>
Current assets	\$ 135,260	\$ 160,482	\$ 25,592	\$ 14,044	\$ 9,690	\$ 8,351	\$ 170,542	\$ 182,877
Noncurrent assets	89,258	136,665	8,601	3,199	4,509	6,065	102,368	145,929
Capital assets, net	<u>181,230</u>	<u>83,477</u>	<u>42,114</u>	<u>37,521</u>	<u>39,895</u>	<u>39,143</u>	<u>263,239</u>	<u>160,141</u>
Total assets	405,748	380,624	76,307	54,764	54,094	53,559	536,149	488,947
Deferred outflow - loss on refunding	-	-	-	-	388	467	388	467
Deferred outflow - pension amounts	<u>842</u>	-	<u>242</u>	-	<u>191</u>	-	<u>1,275</u>	-
Total Deferred outflows	842	-	242	-	579	467	1,663	467
Current liabilities	17,939	8,349	2,436	1,647	2,384	2,220	22,759	12,216
Noncurrent liabilities	<u>176,915</u>	<u>166,879</u>	<u>20,036</u>	<u>147</u>	<u>17,688</u>	<u>17,690</u>	<u>214,639</u>	<u>184,716</u>
Total liabilities	194,854	175,228	22,472	1,794	20,072	19,910	237,398	196,932
Net Investment in capital assets	87,610	37,016	40,084	37,521	23,685	20,680	151,379	95,217
Restricted	16,776	16,668	5,358	3,198	2,166	3,198	24,300	23,064
Unrestricted	<u>107,350</u>	<u>151,712</u>	<u>8,635</u>	<u>12,251</u>	<u>8,750</u>	<u>10,238</u>	<u>124,735</u>	<u>174,201</u>
Total net position	<u>\$ 211,736</u>	<u>\$ 205,396</u>	<u>\$ 54,077</u>	<u>\$ 52,970</u>	<u>\$ 34,601</u>	<u>\$ 34,116</u>	<u>\$ 300,414</u>	<u>\$ 292,482</u>

The assets and deferred outflows of resources of the Holland Board of Public Works exceeded its liabilities at the close of the most recent fiscal year by \$300,414M (net position). Of this amount, \$124,735M was unrestricted net position and may be used to meet the Board's ongoing obligations to citizens and creditors. A substantial portion of the Board's net position, \$151,379M (50.4 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. The Board uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the Board'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 the Board's net position of \$24,300M (8.1 percent) represents resources that are subject to external restrictions on how they may be used.

Holland Board of Public Works adopted the provisions of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, in the current year. As a result of this change, beginning net position of the electric, wastewater, water utility and business-type activities decreased.

Condensed Financial Information

	Results of Operations							
	(in Thousands)							
	Electric		Wastewater		Water		Total	
	<u>2015</u>	<u>2014</u>	<u>2015</u>	<u>2014</u>	<u>2015</u>	<u>2014</u>	<u>2015</u>	<u>2014</u>
Operating revenues	\$ 100,817	\$ 97,540	\$ 10,305	\$ 10,108	\$ 8,694	\$ 8,834	\$ 119,816	\$ 116,482
Operating expenses	(80,816)	(82,919)	(8,614)	(8,459)	(5,687)	(5,779)	(95,117)	(97,157)
Nonoperating income (expense), net	970	(756)	(119)	10	(506)	(443)	345	(1,189)
Net income before contributions, transfers, and extraordinary items	20,971	13,865	1,572	1,659	2,501	2,612	25,044	18,136
Capital contributions	-	-	2,209	143	95	130	2,304	273
Contributions to the City	(5,344)	(4,991)	-	-	-	-	(5,344)	(4,991)
Extraordinary Item	-	-	-	-	-	(520)	-	(520)
Change in net position	15,627	8,874	3,781	1,802	2,596	2,222	22,004	12,898
Beginning net position	205,396	196,522	52,970	51,168	34,116	31,894	292,482	279,584
Implementation of GASB 68	(9,287)	-	(2,674)	-	(2,111)	-	(14,072)	-
Ending net position	<u>\$ 211,736</u>	<u>\$ 205,396</u>	<u>\$ 54,077</u>	<u>\$ 52,970</u>	<u>\$ 34,601</u>	<u>\$ 34,116</u>	<u>\$ 300,414</u>	<u>\$ 292,482</u>

Electric:

- The Holland Board of Public Works has entered into multiple contracts to acquire, construct, improve and install a gas fired combined cycle power plant, and associated facilities and equipment, bypass discharge infrastructure, and site acquisition and improvements.
 - The Holland Board of Public Works and Holland City Council have approved an Engineering, Procurement and Construction (EPC) contract with Southfield, MI-based Barton Malow for the design and construction of the Holland Energy Park natural gas power plant. HBPW and Barton Malow entered into an engineering services agreement (ESA) to begin preliminary engineering for the plant and develop final language on the EPC, contract.
 - The Holland Board of Public Works has entered into a contract with HDR Michigan Inc. for project assessments for the new combined cycle power plant.

- The Holland Board of Public Works has entered into a contract with Siemens Energy Inc. to purchase Combustion Turbine Generators and Steam Turbine Generators for the new combined cycle power plant.
- The Holland Board of Public Works has entered into a contract with Vogt Power International Inc. to purchase two Heat Recovery Steam Generators for the new combined cycle power plant.
- The Holland Board of Public Works has entered into a contract through the Michigan Public Power Agency (MPPA) with Beebe 1B Wind Farm for additional renewable energy (Beebe 1B began commercial operations in December 2014). With this addition, HBPW projects renewable energy sales to be approximately 14% of sales by FY2016.

Wastewater:

- Bonds were issued by the Ottawa County, in the amount of \$19M, the proceeds of which are to be used by the Board for the purposes of financing a portion of the cost of acquiring, constructing, installing improvements to the existing Holland Area Wastewater Treatment Plant (WWTP) to increase bio-solids handling capabilities and optimize the secondary treatment process for additional Biochemical Oxygen Demand (BOD) capacity.
 - The Holland Board of Public Works has entered into a contract with Davis Construction Inc. to serve as the General Contractor for the Bio-solid Improvements and the Secondary Treatment projects.
 - The Holland Board of Public Works has entered into a contract with FKC Co Ltd to purchase Screw-press Equipment for the WWTP Improvements project.
 - The Holland Board of Public Works has entered into a contract with Praxair Inc. to purchase LOX tanks and equipment for the WWTP Improvements project.

Water:

- The Holland/Wyoming Interconnect experienced a water leakage event that caused a complete failure of the valve and metering station during FY2014. Management plans to rebuild the station and expects to have it operational by end of summer in FY2016. The impairment was reflected in the FY2014 financial reports as an extraordinary expense item. It is anticipated insurance will be used to rebuild the facility.

CAPITAL ASSETS

The Holland Board of Public Works has \$263,239M invested in capital assets net of depreciation. The capital assets of the Electric Utility are \$181,230M, Wastewater Utility has \$42,114M and the Water Utility has \$39,895M. Capital assets include property, plant and equipment and 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.

Capital asset activity for the current year included:

Electric:

- Property for the new power plant site has been acquired, on the east side of the City, in the amount of approximately \$10,142M (includes demolition costs). Cost incurred FY2015 \$2,742M.
- The combined cycle power plant project (construct, improve and install a gas fired combined cycle power plant) has incurred costs of \$107,219M.
- At the 48th Street Peaking Station, Unit 7 and 8 Control Systems Upgrade project was completed for approximately \$1,380M.
- The Advance Metering Infrastructure project is continuing through FY2016. Through FY2015, the project has incurred costs of \$1,077M.

Water:

- Water main replacements and improvements were completed in FY2015 costing approximately \$607M. Additional replacements and improvements are expected to continue into FY2016 with the expected costs of \$2,779M.
- Filter Pipe Gallery Rehabilitation project was completed in FY2015 costing approximately \$753M.
- Basin Rebuild project was completed in FY2015 costing approximately \$45M.
- The Waste Treatment Plant made capital investments for improvement in FY2015 costing approximately \$182M which includes the replacements and improvements to the administration building, and the Hydro Vacuum Excavator.
- The Holland/Wyoming Interconnect project experienced a leakage that caused the valve and metering station to fail in FY2014. The asset was classified as impaired causing an extraordinary expense item of approximately \$520M in FY2014. The valve and metering station is to be re-built in FY2016 and the loss is expected to be reimbursed through insurance.

Wastewater:

- The replacement and enhancement of sewer infrastructure was completed by lining over 7.2 miles of sanitary sewer mains/lining in FY2015 costing \$1,800M. These replacements and enhancements will continue into FY2016 with the expected costs of \$1,545M.
- The Wastewater Treatment Plant made capital investments for improvement in FY2015 costing approximately \$624M which includes the replacements and improvements of the odor control chemical feed pumps, raw sewage pump, and upgrades at the administration building.
- The Wastewater Treatment Plant made capital investments for improvement in FY2015 costing approximately \$846M for Azalea lift station improvements.
- The Wastewater Treatment Plant made capital investments for improvement in FY2015 costing approximately \$282M for an emergency generator.

Condensed Financial Information

	Capital Assets							
	(net of depreciation)							
	(In Thousands)							
	Electric		Wastewater		Water		Total	
	2015	2014	2015	2014	2015	2014	2015	2014
Land	\$ 14,971	\$ 4,829	\$ 260	\$ 261	\$ 1,978	\$ 1,940	\$ 17,209	\$ 7,030
Construction in progress	113,482	24,518	4,699	1,298	4,251	112	122,432	25,928
Capital assets, net	<u>52,777</u>	<u>54,130</u>	<u>37,155</u>	<u>35,962</u>	<u>33,666</u>	<u>37,091</u>	<u>123,598</u>	<u>127,183</u>
Total capital assets, net	<u>\$ 181,230</u>	<u>\$ 83,477</u>	<u>\$ 42,114</u>	<u>\$ 37,521</u>	<u>\$ 39,895</u>	<u>\$ 39,143</u>	<u>\$ 263,239</u>	<u>\$ 160,141</u>

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

SUMMARY OF DEBT

The Holland Board of Public Works has a total of \$184,356M in debt outstanding as of June 30, 2015. The Electric Utility issued 25 year revenue bonds in FY2014 in the amount of \$158,840M for the new power plant project with a true interest cost of 4.06% that will be paid off in July, 2039. The Water Utility has outstanding debt of \$16,015M with interest rates ranging from 2% to 4%. All of the Water's outstanding debt will be paid by April, 2032.

The Holland Board of Public Works has a total of \$9,500M in debt outstanding as of June 30, 2015. The Ottawa County Sewage Disposal Bonds were issued by the County of Ottawa for the cost of acquiring and constructing additional improvements to the Holland Area Wastewater Treatment Plant which serves the City of Holland, the Charter Township of Holland, the Township of Fillmore, the Township of Laketown, the Township of Park and the Charter Township of Zeeland. The 2015 Wastewater Treatment Plant Improvements Project includes improvements to the WWTP's biosolids handling, secondary treatment, and disinfection tank processes.

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

GENERAL ECONOMIC CONDITION

Property has been purchased that is needed to build the electric generation facility and provide for an additional buffer zone and easements, which will be needed for natural pipelines to the Project. The new power plant will be located in the area of the intersection of Fifth Street and Fairbanks Avenue. The project consists of the acquisition, construction, installation and equipping of a gas fired combined cycle electric generation facility. The Project will be connected to the City's existing snowmelt system to provide waste heat during winter months to melt snow on the City's sidewalks and streets.

With thoughtful design, careful construction and the installation of an attractive greenbelt, the facility and its surrounding area will provide an aesthetically pleasing entry way at the east end of the City of Holland. The HBPW is taking a giant step toward a cleaner, more sustainable energy future and using the new facility to make enhancements to the entire community.

The Holland Board of Public Works is dedicated to making education a focus with the Holland Energy Park. An observation deck has been opened to the public. Visitors of nearly every physical ability can access this ADA compliant deck to enjoy a panoramic view of construction progress on what will be the Holland Energy Park.

Holland Board of Public Works has partnered with Holland Youth Connections to employ Holland area teenagers on outdoor projects to sustain wildlife and beautify Holland's eastern gateway at the Holland Energy Park. Projects include assembling a hoop house that will be used for winter plant storage, assembling bat, bird and duck houses, and making other habitat structures out of brush piles, all near the wetlands and nature trails. Youth will also be planting native plants in the transition zone on the edge of the wetlands area to restore the ecotone. The Holland Youth Connections teens are working on projects outside the construction area due to MiOSHA and youth labor law restrictions about youth working near construction areas.

The Wastewater Plant is enhancing its treatment processes with the East Plant Optimization, the improvements to increase bio-solids handling capabilities and optimize the secondary treatment process for additional Biochemical Oxygen Demand (BOD) capacity. This will improve current and future efficiencies of the plant.

NEXT YEARS BUDGET AND RATES

Analysis for 5 year projection of financial position was presented to Board and City Council. The report evaluated the impact of various capital acquisitions and expenditures on the related utilities. In FY2014, the Board and City Council approved approximately 3% rate increases for three years (FY2014, FY2015, FY2016) for the Electric Utility in support of the capital project to build the combined cycle gas fired power plant.

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 Board's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to Ms. Freda W. Velzen, Holland Board of Public Works, 625 Hastings Avenue, Holland, Michigan 49423 or fvelzen@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, 2015

(with comparative totals for the year ended June 30, 2014)

	Electric Utility	Wastewater Utility	Water Utility	Business-Type Activities	
				2015	2014
Assets					
Current assets:					
Cash and cash equivalents	\$ 82,417,395	\$ 11,540,920	\$ 4,716,758	\$ 98,675,073	\$ 72,037,277
Investments	25,983,133	998,574	3,102,497	30,084,204	79,328,224
Receivables:					
Accounts receivable	7,356,484	939,724	951,020	9,247,228	8,445,804
Unbilled revenue	5,358,217	416,532	508,955	6,283,704	5,884,438
Special assessments and other	-	68,969	115,550	184,519	211,749
Accrued interest	135,271	1,295	16,896	153,462	75,748
Due from other government	-	11,555,075	-	11,555,075	-
Due from other funds of the					
City of Holland	166,670	1,855	28,691	197,216	219,608
Inventories	10,548,368	52,451	239,271	10,840,090	15,417,704
Prepaid expenses and other assets	3,294,076	16,754	10,135	3,320,965	1,256,806
Total current assets	135,259,614	25,592,149	9,689,773	170,541,536	182,877,358
Noncurrent assets:					
Restricted assets:					
Cash and cash equivalents	46,824,990	4,086,961	1,865,367	52,777,318	137,621,236
Investments	42,433,569	4,505,486	300,396	47,239,451	5,439,938
Accrued interest	-	7,823	-	7,823	-
Total restricted assets	89,258,559	8,600,270	2,165,763	100,024,592	143,061,174
Capital assets:					
Land	14,971,375	260,673	1,977,800	17,209,848	7,029,854
Construction in progress	113,482,488	4,698,522	4,250,732	122,431,742	25,928,124
Plant and equipment	240,793,367	82,365,408	59,465,882	382,624,657	377,816,972
Accumulated depreciation	(188,016,638)	(45,210,548)	(25,799,670)	(259,026,856)	(250,633,917)
Total capital assets, net	181,230,592	42,114,055	39,894,744	263,239,391	160,141,033
Other noncurrent assets:					
Due from City of Wyoming	-	-	2,343,835	2,343,835	2,867,070
Total noncurrent assets	270,489,151	50,714,325	44,404,342	365,607,818	306,069,277
Total assets	405,748,765	76,306,474	54,094,115	536,149,354	488,946,635
Deferred outflows of resources					
Deferred loss on refunding	-	-	388,397	388,397	467,469
Deferred pension amounts	841,638	242,289	191,282	1,275,209	-
Total deferred outflows of resources	841,638	242,289	579,679	1,663,606	467,469

continued...

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

Statement of Net Position

June 30, 2015

(with comparative totals for the year ended June 30, 2014)

	Electric Utility	Wastewater Utility	Water Utility	Business-Type Activities	
				2015	2014
Liabilities					
Current liabilities:					
Accounts payable	\$ 15,344,136	\$ 1,992,589	\$ 313,291	\$ 17,650,016	\$ 6,977,747
Accrued salaries and wages payable	1,207,347	275,248	231,023	1,713,618	1,610,100
Due to other funds of the City of Holland	511,137	115,341	417,975	1,044,453	51,688
Deposits	571,867	-	-	571,867	413,539
Accrued interest payable	-	52,588	-	52,588	-
Current liabilities payable from restricted assets:					
Bonds payable	304,729	-	1,391,338	1,696,067	1,664,367
Accrued interest payable	-	-	30,728	30,728	1,498,308
Total current liabilities	17,939,216	2,435,766	2,384,355	22,759,337	12,215,749
Noncurrent liabilities:					
Landfill closure and postclosure cost	327,450	-	-	327,450	327,450
Long-term debt, net of current portion	165,797,974	9,500,000	15,206,876	190,504,850	183,724,390
Unearned revenue	-	7,397,765	-	7,397,765	-
Net pension liability	10,268,794	2,956,167	2,333,817	15,558,778	-
Net other postemployment benefit obligation	521,049	182,022	147,344	850,415	664,390
Total noncurrent liabilities	176,915,267	20,035,954	17,688,037	214,639,258	184,716,230
Total liabilities	194,854,483	22,471,720	20,072,392	237,398,595	196,931,979
Net position					
Net investment in capital assets	87,610,244	40,084,283	23,684,927	151,379,454	95,217,265
Restricted for:					
Debt service	11,259,585	344,353	1,851,693	13,455,631	14,128,644
Equipment replacement	-	5,013,701	-	5,013,701	3,197,605
Park Township	-	-	314,070	314,070	297,467
Cooperative payments	5,516,619	-	-	5,516,619	5,439,938
Unrestricted	107,349,472	8,634,706	8,750,712	124,734,890	174,201,206
Total net position	\$211,735,920	\$ 54,077,043	\$ 34,601,402	\$300,414,365	\$292,482,125

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, 2015

(with comparative totals for the year ended June 30, 2014)

	Electric Utility	Wastewater Utility	Water Utility	Business-Type Activities	
				2015	2014
Operating revenues					
Residential sales	\$ 19,033,166	\$ 2,774,388	\$ 2,925,964	\$ 24,733,518	\$ 24,567,353
Commercial sales	31,742,068	2,169,133	2,309,885	36,221,086	35,188,358
Industrial sales	44,938,338	744,612	1,003,131	46,686,081	43,960,369
Wholesale	-	2,571,178	1,953,944	4,525,122	4,681,656
Fees and other	5,103,081	2,045,704	501,098	7,649,883	8,085,361
Total operating revenues	100,816,653	10,305,015	8,694,022	119,815,690	116,483,097
Operating expenses					
Salaries and wages	3,938,973	1,262,234	893,371	6,094,578	5,887,805
Employee benefits	2,711,504	800,844	651,166	4,163,514	4,033,936
Production	57,383,338	2,239,260	575,593	60,198,191	63,725,478
Distribution	2,973,703	733,547	681,707	4,388,957	3,888,220
Administrative and general	7,377,511	1,604,308	1,337,448	10,319,267	9,832,198
Depreciation	6,430,984	1,974,058	1,547,628	9,952,670	9,789,568
Total operating expenses	80,816,013	8,614,251	5,686,913	95,117,177	97,157,205
Operating income	20,000,640	1,690,764	3,007,109	24,698,513	19,325,892
Nonoperating income (expense), net					
Investment income	1,001,438	37,496	55,031	1,093,965	745,380
Interest expense	(303)	(72,463)	(388,062)	(460,828)	(1,983,402)
Insurance refunds	-	2,996	-	2,996	17,974
Gain (loss) on sale and disposal of capital assets	(30,718)	(86,384)	(173,450)	(290,552)	31,135
Total nonoperating income (expense), net	970,417	(118,355)	(506,481)	345,581	(1,188,913)
Net income before contributions and transfers	20,971,057	1,572,409	2,500,628	25,044,094	18,136,979
Capital contributions					
Infrastructure	-	2,029,772	-	2,029,772	116,780
Trunkage	-	178,974	95,114	274,088	152,442
Federal and state capital grants	-	-	-	-	3,593
Total capital contributions	-	2,208,746	95,114	2,303,860	272,815
Transfers out to other funds of the City of Holland	(5,344,000)	-	-	(5,344,000)	(4,990,800)
Change in net position before extraordinary item	15,627,057	3,781,155	2,595,742	22,003,954	13,418,994
Extraordinary Item	-	-	-	-	(520,415)
Change in net position	15,627,057	3,781,155	2,595,742	22,003,954	12,898,579
Net position, beginning of year	205,396,194	52,969,514	34,116,417	292,482,125	279,583,546
Implementation of GASB 68 (Note 13)	(9,287,331)	(2,673,626)	(2,110,757)	(14,071,714)	-
Net position, end of year	\$211,735,920	\$ 54,077,043	\$ 34,601,402	\$300,414,365	\$292,482,125

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, 2015

(with comparative totals for the year ended June 30, 2014)

	Electric Utility	Wastewater Utility	Water Utility	Business-Type Activities	
				2015	2014
Cash flows from operating activities					
Receipts from customers and users	\$100,039,422	\$ 8,161,530	\$ 8,988,934	\$117,189,886	\$115,781,373
Payments to suppliers	(54,897,917)	(3,676,128)	(2,153,881)	(60,727,926)	(81,123,692)
Payments to employees	(6,004,812)	(2,137,072)	(1,614,810)	(9,756,694)	(9,835,814)
Net cash provided by operating activities	39,136,693	2,348,330	5,220,243	46,705,266	24,821,867
Cash flows from noncapital financing activities					
Insurance refunds	-	2,996	-	2,996	17,974
Transfers to other funds of the City of Holland	(5,344,000)	-	-	(5,344,000)	(4,990,800)
Capital Grant - State Drinking Water					
Revolving Fund - Wyoming portion	-	-	-	-	945
Purchase/construction of property, plant and equipment owned by the City of Wyoming	-	-	-	-	(33,506)
Net cash provided by (used in) noncapital financing activities	(5,344,000)	2,996	-	(5,341,004)	(5,005,387)
Cash flows from capital and related financing activities					
Principal paid on long-term debt	-	-	(2,210,000)	(2,210,000)	(1,857,500)
Interest paid on long-term debt	(1,624,923)	(92,338)	(538,813)	(2,256,074)	(814,143)
Capital contributions received	-	178,974	95,114	274,088	152,442
Proceeds received on refunded bonds	-	-	-	-	3,260,000
Proceeds on issuance of long-term debt	-	9,500,000	-	9,500,000	158,840,000
Proceeds from State Drinking Water					
Revolving Fund Bonds	-	-	10,247	10,247	38,737
Capital Grant - State Drinking Water					
Revolving Fund	-	-	-	-	3,593
Premium in issuance of refunded bonds	-	-	-	-	151,423
Premium in issuance of bonds	-	-	-	-	7,618,220
Cash transferred to escrow for defeased bonds	-	-	-	-	(3,441,256)
Proceeds from sale of capital assets	88,106	6,794	4,439	99,339	196,410
Purchase/construction of property, plant and equipment	(104,303,610)	(6,659,850)	(2,477,459)	(113,440,919)	(33,031,575)
Net cash provided by (used in) capital and related financing activities	(105,840,427)	2,933,580	(5,116,472)	(108,023,319)	131,116,351
Cash flows from investing activities					
Interest received	859,733	29,460	26,135	915,328	579,617
Purchase of investment securities	(68,337,228)	(5,503,623)	(3,389,704)	(77,230,555)	(84,598,637)
Proceeds from sale or maturities of investment securities	79,867,394	3,203,997	1,696,771	84,768,162	72,643,161
Net cash provided by (used in) investing activities	12,389,899	(2,270,166)	(1,666,798)	8,452,935	(11,375,859)
Net increase (decrease) in cash and cash equivalents	(59,657,835)	3,014,740	(1,563,027)	(58,206,122)	139,556,972
Cash and cash equivalents, beginning of year	188,900,220	12,613,141	8,145,152	209,658,513	70,101,541
Cash and cash equivalents, end of year	\$129,242,385	\$ 15,627,881	\$ 6,582,125	\$151,452,391	\$209,658,513

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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, 2015

(with comparative totals for the year ended June 30, 2014)

	Electric Utility	Wastewater Utility	Water Utility	Business-Type Activities	
				2015	2014
Statement of net position classification of cash and cash equivalents					
Cash and cash equivalents	\$ 82,417,395	\$ 11,540,920	\$ 4,716,758	\$ 98,675,073	\$ 72,037,277
Restricted cash and cash equivalents	46,824,990	4,086,961	1,865,367	52,777,318	137,621,236
Total cash and cash equivalents	\$129,242,385	\$ 15,627,881	\$ 6,582,125	\$151,452,391	\$209,658,513
Reconciliation of operating income to net cash provided by operating activities					
Operating income	\$ 20,000,640	\$ 1,690,764	\$ 3,007,109	\$ 24,698,513	\$ 19,325,892
Adjustments to reconcile operating income net cash provided by operating activities:					
Depreciation	6,430,984	1,974,058	1,547,628	9,952,670	9,789,568
Changes in operating assets and liabilities which provided (used) cash:					
Receivables	(958,045)	(88,283)	(127,132)	(1,173,460)	(733,671)
Due from other government	-	(2,055,075)	-	(2,055,075)	-
Due from other funds of the City of Holland	22,486	(127)	33	22,392	(42,993)
Inventories	4,608,345	2,299	(33,030)	4,577,614	(1,840,255)
Prepaid expenses	(2,089,660)	13,145	12,356	(2,064,159)	(947,767)
Due from the City of Wyoming	-	-	422,011	422,011	-
Accounts payable	9,829,869	778,814	63,586	10,672,269	(876,216)
Accrued salaries and wages payable	385,099	(149,438)	(132,143)	103,518	85,927
Due to other funds of the City of Holland	488,081	106,729	397,955	992,765	(164,398)
Deposits	158,328	-	-	158,328	74,940
Net pension liability	509,344	146,628	115,760	771,732	-
Net other postemployment benefit obligation	120,741	35,192	30,092	186,025	150,840
Deferred pension amounts	(369,519)	(106,376)	(83,982)	(559,877)	-
Net cash provided by operating activities	\$ 39,136,693	\$ 2,348,330	\$ 5,220,243	\$ 46,705,266	\$ 24,821,867

Non-cash transactions

In 2015, the Board's Wastewater Utility fund entered into an agreement to receive \$9.5 million in non-cash capital contributions from Holland Township. As of year end, the Board has recognized non-cash capital contributions of \$2,029,772, unearned revenue of \$7,397,765 and bond issuance expense of \$72,463 related to this agreement.

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

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

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

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

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

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.

HOLLAND BOARD OF PUBLIC WORKS

(Enterprise Funds of the City of Holland, Michigan)

Notes to Financial Statements

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

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

Assets, Deferred Outflows of Resources, Liabilities 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.

HOLLAND BOARD OF PUBLIC WORKS

(Enterprise Funds of the City of Holland, Michigan)

Notes to Financial Statements

Restricted Assets

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

Capital Assets

Capital assets, which include property, plant and equipment, are reported in the financial statements. Capital assets are defined by the Board as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of three years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated 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 \$23,249 and \$118,598 respectively.

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

Notes to Financial Statements

Due from City of Wyoming

The Board entered into a cost sharing agreement with the City of Wyoming to finance and construct the Wyoming Interconnect Water Project to be financed by a State Drinking Water Revolving fund bond issue. Upon completion, an estimated 15% of the related debt is scheduled to be forgiven by the grantor agency. Completion of the construction project and repayment of the associated bonds will be the responsibility of the Board. Under the cost sharing agreement, 47.44% of the assets constructed have been transferred to the City for Wyoming, along with an equal proportion of the related debt payments to be paid to the Board by the City of Wyoming, based on the installment payments on the related debt. The balance of this receivable at June 30, 2015 is equal to 47.44% of the assets completed and capitalized at that date, less a ratable share of the estimated debt forgiveness and principal payments by the City of Wyoming.

Deferred Outflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/ expenditure) until then. The Board reports a deferred outflow of resources for its deferred loss on refunding, which results from the difference in the carrying value of refunded debt and its reacquisition price. The Board also reports deferred outflows of resources related to the net pension liability, related to changes in expected and actual investment returns, assumptions, and benefits provided in its pension plan. More detailed information can be found in Note 5.

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.

Unearned Revenue

The Board entered into an agreement with various municipalities to design, construct, and install certain capital improvements for a plant expansion. In accordance with a separate agreement, the County of Ottawa issued bonds in the amount of \$19 million for the benefit of the Board and Holland Township. The Board is responsible for 50% of the outstanding bonds. The Board will be completing the construction of the project and will retain full ownership of the asset at completion. The Board has recognized a receivable from Ottawa County for the amount of bond proceeds not yet received. Unearned revenue was recorded for the capital contributions from Holland Township not yet recognized. The Board plans to recognize the capital contribution as the construction is completed.

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

Notes to Financial Statements

Pensions

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

Transfers

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

Reclassifications

Certain items in the 2014 information were reclassified to conform to the 2015 presentation.

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	\$ 98,675,073
Investments	30,084,204
Restricted assets:	
Cash and cash equivalents	52,777,318
Investments	<u>47,239,451</u>
Total	<u><u>\$ 228,776,046</u></u>

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

Notes to Financial Statements

Deposits and investments consist of the following at June 30, 2015:

Deposits and investments	
Checking and savings accounts	\$ 114,732,746
Certificates of deposit (due within one year)	1,000,000
Certificates of deposit (due within one to five years)	40,901,340
Certificates of deposit (due within six to ten years)	1,000,320
Investments	71,138,740
Cash on hand	<u>2,900</u>
 Total	 <u><u>\$ 228,776,046</u></u>

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 above for investments held at year end.

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

Notes to Financial Statements

Maturity dates for investments held at year-end are summarized as follows:

	No maturity	Due < 1 year	Due in 1-5 years	Totals
U.S. government securities	\$ -	\$ 2,002,520	\$ 28,498,861	\$ 30,501,381
Repurchase agreements	35,120,740	-	-	35,120,740
MPPA Investments	5,516,619	-	-	5,516,619
	<u>\$ 40,637,359</u>	<u>\$ 2,002,520</u>	<u>\$ 28,498,861</u>	<u>\$ 71,138,740</u>

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.

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, \$155,651,635 of the Board’s bank balance of \$157,901,635 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 \$35,120,740 of the above \$71,138,740 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.

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

S&P AA+	\$ 30,501,381
Unrated	5,516,619
Not subject to credit risk	<u>35,120,740</u>
	<u>\$ 71,138,740</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 repurchase agreements and government agency securities as noted above.

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

Notes to Financial Statements

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	\$ -	\$ 228,532	\$ 591,643	\$ 820,175
Township trunkage	-	-	205,558	205,558
Insurance/risk retention	2,175,186	679,007	684,626	3,538,819
Total	\$ 2,175,186	\$ 907,539	\$ 1,481,827	\$ 4,564,552

3. CAPITAL ASSETS

A summary of capital assets at June 30, 2015 is as follows:

	Beginning Balance	Additions	Deletions	Transfers	Ending Balance
Business-type Activities					
Capital assets, not being depreciated:					
Land	\$ 7,029,854	\$ 2,871,945	\$ -	\$ 7,308,049	\$ 17,209,848
Construction in progress	25,928,124	105,639,102	(39,030)	(9,096,454)	122,431,742
	<u>32,957,978</u>	<u>108,511,047</u>	<u>(39,030)</u>	<u>(1,788,405)</u>	<u>139,641,590</u>
Capital assets, being depreciated:					
Production plant	180,887,687	1,105,681	(987,329)	1,478,357	182,484,396
Distribution/Collection system	148,817,547	2,545,220	(629,160)	2,659,370	153,392,977
Transmission	25,111,399	-	(92,942)	(2,689,066)	22,329,391
General plant	23,000,339	1,278,971	(201,161)	339,744	24,417,893
	<u>377,816,972</u>	<u>4,929,872</u>	<u>(1,910,592)</u>	<u>1,788,405</u>	<u>382,624,657</u>
Less accumulated depreciation for:					
Production plant	(136,949,517)	(4,760,138)	750,150	-	(140,959,505)
Distribution/Collection system	(86,581,229)	(3,528,277)	547,951	-	(89,561,555)
Transmission	(14,576,878)	(635,433)	85,780	-	(15,126,531)
General plant	(12,526,293)	(1,028,822)	175,850	-	(13,379,265)
	<u>(250,633,917)</u>	<u>(9,952,670)</u>	<u>1,559,731</u>	<u>-</u>	<u>(259,026,856)</u>
Total capital assets being depreciated, net	127,183,055	(5,022,798)	(350,861)	1,788,405	123,597,801
Business-type activities capital assets, net	<u>\$ 160,141,033</u>	<u>\$ 103,488,249</u>	<u>\$ (389,891)</u>	<u>\$ -</u>	<u>\$ 263,239,391</u>

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

Notes to Financial Statements

4. LONG-TERM DEBT

Long-term debt outstanding is as follows:

	Beginning Balance	Additions	Deductions	Ending Balance	Due Within One Year
Revenue bonds	\$ 177,055,301	\$ 10,247	\$ (2,210,000)	\$ 174,855,548	\$ 1,275,000
Capital lease	-	9,500,000	-	9,500,000	-
Unamortized net premium/ discount on revenue bonds	8,333,456	-	(488,087)	7,845,369	421,067
	<u>\$ 185,388,757</u>	<u>\$ 9,510,247</u>	<u>\$ (2,698,087)</u>	<u>\$ 192,200,917</u>	<u>\$ 1,696,067</u>

Revenue bonds

\$5,632,736 2011A Drinking Water Revolving Bonds, due in annual installments of \$236,500 to \$375,000 plus interest at 2.5%, payable semi-annually, through April 1, 2032. \$ 4,975,548

\$9,740,000 2012A Water Supply Systems Revenue Refunding Bonds, due in annual installments of \$190,000 to \$1,430,000 plus interest ranging from 2.0 to 4.0%, payable semi-annually, through July 1, 2024. 9,355,000

\$3,260,000 2013A Water Supply Systems Revenue Refunding Bonds, due in annual installments of \$780,000 to \$855,000 plus interest ranging from 2.0 to 3.0%, payable semi-annually, through July 1, 2017. 1,685,000

\$158,840,000 2014A Electric Utility System Revenue Bonds, due in annual installments of \$4,600,000 to \$10,705,000 plus interest ranging from 1.659 to 4.919%, payable semi-annually, through July 1, 2039. 158,840,000

Total revenue bonds 174,855,548

Capital lease

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

Total revenue bonds and capital lease \$ 184,355,548

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

Notes to Financial Statements

The annual requirements to maturity on debt outstanding as of June 30, 2015, excluding unamortized premium/discounts on bonds payable are as follows:

Year Ended June 30,	Principal	Interest	Total
2016	\$ 1,275,000	\$ 7,345,477	\$ 8,620,477
2017	6,292,500	7,289,765	13,582,265
2018	6,495,000	7,158,908	13,653,908
2019	6,635,000	7,044,586	13,679,586
2020	6,822,500	6,877,848	13,700,348
2021-2025	35,980,000	31,152,828	67,132,828
2026-2030	36,690,000	24,554,793	61,244,793
2031-2035	44,215,548	15,675,495	59,891,043
2036-2040	39,950,000	4,927,982	44,877,982
	<u>\$ 184,355,548</u>	<u>\$ 112,027,682</u>	<u>\$ 296,383,230</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.

5. BENEFIT PLANS

General Information About the Plan

Plan Description. The Board participates in the Municipal Employees' Retirement System (MERS) of Michigan, a defined benefit pension plan providing certain retirement, disability and death benefits to plan members and beneficiaries. 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. Public Act 427 of 1984, as amended, establishes and amends the benefit provisions of the participants in MERS. 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 employer may establish contribution rates to be paid by its covered employees. Currently, employees are required to contribute to the plan at rates ranging from 2.0% to 3.0%, depending on division/bargaining unit. The plan is closed to new entrants.

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

Notes to Financial Statements

Employees Covered by Benefit Terms. At December 31, 2014, plan membership consisted of the following:

Inactive employees or beneficiaries currently receiving benefits	121
Inactive employees entitled to but not yet receiving benefits	31
Active employees	<u>82</u>
 Total membership	 <u><u>234</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. Monthly employer contributions range from \$5,729 to \$70,283, depending on division/bargaining unit.

Net Pension Liability. The Board's net pension liability was measured as of December 31, 2014, 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, 2014 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3% to 4%
Salary increases	4.5% in the long-term (1%, 2% and 3% for calendar years 2014, 2015 and 2016, respectively)
Investment rate of return	8.25%, net of investment expense and including inflation

Although no specific price inflation assumptions are needed for the valuation, the 4.5% long-term wage inflation assumption would be consistent with a price inflation of 3%-4%.

Mortality rates used were based on the 1994 Group Annuity Mortality Table of a 50% Male and 50% Female blend. For disabled retirees, the regular mortality table is used with a 10-year set forward in ages to reflect the higher expected mortality rates of disabled members.

The actuarial assumptions used in the December 31, 2014 valuation were based on the results of an actuarial experience study conducted in 2008. (MERS Retirement Board is currently conducting an actuarial experience study covering the period from January 1, 2009, through December 31, 2013.)

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

Notes to Financial Statements

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

Asset Class	Target Allocation	Long-term Expected Real Rate of Return	Expected Money-Weighted Rate of Return
Global equity	57.5%	5.02%	2.89%
Global fixed income	20.0%	2.18%	0.44%
Real assets	12.5%	4.23%	0.53%
Diversifying strategies	10.0%	6.56%	0.65%
	<u>100.0%</u>		
Inflation			3.50%
Administrative expenses netted above			<u>0.25%</u>
Investment rate of return			<u>8.25%</u>

Discount Rate. The discount rate used to measure the total pension liability is 8.25% for 2014. 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, 2013	\$ 48,226,557	\$ 33,439,511	\$ 14,787,046
Changes for the year:			
Service cost	534,319	-	534,319
Interest	3,877,167	-	3,877,167
Employer contributions	-	1,500,624	(1,500,624)
Employee contributions	-	128,691	(128,691)
Net investment income	-	2,086,857	(2,086,857)
Benefit payments, including refunds of employee contributions	(2,995,515)	(2,995,515)	-
Administrative expense	-	(76,418)	76,418
Net changes	1,415,971	644,239	771,732
Balances at December 31, 2014	\$ 49,642,528	\$ 34,083,750	\$ 15,558,778

Sensitivity of the Net Pension Liability to Changes in the Discount Rate. The following presents the net pension liability of the Board, calculated using the discount rate of 8.25%, as well as what the Board's net pension liability would be if it were calculated using a discount rate that is 1% lower (7.25%) or 1% higher (9.25%) than the current rate:

1% Decrease (7.25%)	Current Discount Rate (8.25%)	1% Increase (9.25%)
\$ 20,682,965	\$ 15,558,778	\$ 11,153,055

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

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

Notes to Financial Statements

Pension Expense and Deferred Outflows of Resources Related to Pensions

For the year ended June 30, 2015, the Board recognized pension expense of \$1,782,439. The Board reported deferred outflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources
Difference between expected and actual experience	\$ -
Changes in assumptions	-
Net difference between projected and actual earnings on pension plan investments	489,917
	<u>489,917</u>
Contributions subsequent to the measurement date	<u>785,292</u>
Total	<u>\$ 1,275,209</u>

The amount reported as deferred outflows of resources resulting from contributions subsequent to the measurement date will be recognized as a reduction in the net pension liability for the year ending June 30, 2016. Other amounts reported as deferred outflows of resources related to the pension will be recognized in pension expense as follows:

Year Ended June 30,	Amount
2016	\$ 122,479
2017	122,479
2018	122,479
2019	<u>122,480</u>
Total	<u>\$ 489,917</u>

Payable to the Pension Plan. At June 30, 2015, the Board reported a payable of \$130,882 for the outstanding amount of contributions to the pension plan required for the year ended June 30, 2015.

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 \$451,259 and employees contributed \$112,510 to the defined contribution plan.

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

Notes to Financial Statements

6. OTHER POSTEMPLOYMENT BENEFITS

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

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

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

Funding Policy. Contribution requirements of Plan members, the Board and the City are established and may be amended by the City Council. The required contribution is based on projected pay-as-you-go financing requirements. For the year ended June 30, 2015, the Board contributed \$100,432.

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

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

Annual required contribution	\$ 301,780
Interest on net OPEB obligation	26,576
Adjustment to annual required contribution	<u>(41,899)</u>
Net OPEB cost (expense)	286,457
Contributions made	<u>(100,432)</u>
Increase in net OPEB obligation	186,025
Net OPEB obligation, beginning of year	<u>664,390</u>
Net OPEB obligation, end of year	<u><u>\$ 850,415</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, 2015. The schedule of employer contributions, presented as unaudited supplementary information following the notes to the financial statements, presents multiyear trend information about how the Board is funding its annual OPEB costs.

HOLLAND BOARD OF PUBLIC WORKS

(Enterprise Funds of the City of Holland, Michigan)

Notes to Financial Statements

7. RISK MANAGEMENT

The Board is exposed to various risks of loss related to property loss, torts, errors and omissions, employee injuries (workers' compensation), as well as medical benefits provided to employees. The Board is self-insured for these risks through the City of Holland's self-insurance program except for workers' compensation risks which are covered through commercial insurance. The City purchases excess reinsurance and allocates risk management costs among the various funds of the City, including the Board of Public Works. The schedule of changes in the self-insured liability balances is included in the City of Holland's financial statements for the year ended June 30, 2015.

8. COMMITMENTS

The Board has contracts outstanding for remaining project costs of approximately \$119,227,000 for various electric utility projects, \$407,000 for various water projects, \$14,934,000 for various wastewater projects and \$143,000 for administration projects.

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 \$10,309 held in trust at June 30, 2015.

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 68% 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.

HOLLAND BOARD OF PUBLIC WORKS

(Enterprise Funds of the City of Holland, Michigan)

Notes to Financial Statements

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

For the year ended June 30, 2015, the Board recognized expenses totaling \$18,977,518 under the terms of the contracts which represented \$1,251,993 for fixed operating costs, \$5,493,723 for debt service and \$12,231,802 for the purchase of power. Accounts payable to MPPA totaled \$1,784,472 at June 30, 2015. Under the terms of its contracts, the Board must make minimum annual payments equal to its share of debt service and its share of the fixed operating costs of Detroit Edison's Belle River No. 1, Consumers Energy's Campbell Unit No. 3 and American Municipal Power's AMP Fremont Energy Center Project (AFEC). The estimated required payments presented below assume no early calls or refinancing of existing revenue bonds and 3.0% annual inflation of fixed operating costs.

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

Year Ended June 30,	Belle River		Campbell		Fremont (AFEC)		Total
	Debt Service	Fixed Operating	Debt Service	Fixed Operating	Debt Service	Fixed Operating	
2016	\$ 4,305,533	\$ 840,684	\$ 1,011,353	\$ 431,313	\$ 278,177	\$ 17,556	\$ 6,884,616
2017	4,305,335	865,904	971,828	444,252	278,317	18,083	6,883,719
2018	4,305,656	891,881	1,111,483	457,580	278,691	18,626	7,063,917
2019	4,305,962	918,638	1,111,242	471,307	278,264	19,184	7,104,597
2020	-	946,197	1,111,967	485,446	278,665	19,760	2,842,035
2021-2025	-	-	3,333,683	2,091,853	1,391,701	108,055	6,925,292
2026-2030	-	-	-	-	1,391,771	125,265	1,517,036
2031-2035	-	-	-	-	1,391,738	145,218	1,536,956
2036-2040	-	-	-	-	1,391,404	168,347	1,559,751
2041-2044	-	-	-	-	1,112,889	195,160	1,308,049
	<u>\$17,222,486</u>	<u>\$ 4,463,304</u>	<u>\$ 8,651,556</u>	<u>\$ 4,381,751</u>	<u>\$ 8,071,617</u>	<u>\$ 835,254</u>	<u>\$43,625,968</u>

Debt Service requirements expire in the years 2019 and 2023 for the Belle River and Campbell projects, respectively and in 2044 for the Fremont project. The above amounts include estimated fixed operating costs for the same period as the Debt Service. The contracts for the Board's commitment for fixed operating costs to extend beyond these dates is dependent upon the use of the facilities.

The joint venture is a result of an ongoing financial responsibility. The Board did not have an initial equity interest and does not participate in net income or losses.

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

Notes to Financial Statements

11. LITIGATION

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

12. NET INVESTMENT IN CAPITAL ASSETS

The composition of net investment in capital assets as of June 30, 2015, was as follows:

Capital assets:	
Capital assets not being depreciated	\$ 139,641,590
Capital assets being depreciated, net	<u>123,597,801</u>
	<u>263,239,391</u>
Related debt:	
Total installment debt	184,355,548
Net bond premium/discount	7,845,369
Deferred loss on advance refunding	(388,397)
Unspent bond proceeds	<u>(79,952,583)</u>
	<u>111,859,937</u>
Net investment in capital assets	<u>\$ 151,379,454</u>

13. RESTATEMENT

The Board adopted the provisions of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, in the current year. As a result of this change, beginning net position of the electric utility, wastewater utility, water utility, and business-type activities was decreased by \$9,287,331, \$2,673,626, \$2,110,757, and \$14,071,714, respectively.



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UNAUDITED SUPPLEMENTARY INFORMATION

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

Unaudited Supplementary Information

MERS Agent Multiple-Employer Defined Benefit Pension Plan

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

	Year Ended June 30, 2015
Total pension liability	
Service cost	\$ 534,319
Interest	3,877,167
Changes in benefit terms	-
Differences between expected and actual experience	-
Changes of assumptions	-
Benefit payments, including refunds of employee contributions	(2,995,515)
Net change in total pension liability	<u>1,415,971</u>
Total pension liability, beginning of year	<u>48,226,557</u>
Total pension liability, end of year	<u>49,642,528</u>
Plan fiduciary net position	
Employer contributions	1,500,624
Employee contributions	128,691
Net investment income	2,086,857
Benefit payments, including refunds of employee contributions	(2,995,515)
Administrative expense	(76,418)
Other	-
Net change in plan fiduciary net position	<u>644,239</u>
Plan fiduciary net position, beginning of year	<u>33,439,511</u>
Plan fiduciary net position, end of year	<u>34,083,750</u>
Board's net pension liability	<u>\$ 15,558,778</u>
Plan fiduciary net position as a percentage of total pension liability	68.7%
Covered-employee payroll	5,581,027
Board's net pension liability as a percentage of covered-employee payroll	278.8%

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

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

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

Unaudited Supplementary Information
 MERS Agent Multiple-Employer Defined Benefit Pension Plan

Schedule of the Net Pension Liability

Fiscal Year Ended June 30,	Total Pension Liability	Plan Net Position	Net Pension Liability	Plan Net Position as Percentage of Total Pension Liability	Covered-Employee Payroll	Net Pension Liability as Percentage of Covered Payroll
2015	\$ 49,642,528	\$ 34,083,750	\$ 15,558,778	68.7%	\$ 5,581,027	278.8%

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

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

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

Unaudited Supplementary Information
 MERS Agent Multiple-Employer Defined Benefit Pension Plan

Schedule of Contributions

Fiscal Year Ending June 30,	Actuarially Determined Contribution	Contributions in Relation to the Actuarially Determined Contribution	Contribution Deficiency (Excess)	Covered-Employee Payroll	Contributions as Percentage of Covered-Employee Payroll
2015	\$ 1,570,584	\$ 1,570,584	\$ -	\$ 5,483,611	28.6%

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

Notes to Schedule of Contributions

Valuation Date December 31, 2014
 Notes Actuarially determined contribution rates are calculated as of the June 30 that is 12 months prior to the beginning of the fiscal year in which contributions are reported.

Methods and assumptions used to determine contribution rates:

Actuarial cost method Entry-age normal
 Amortization method Level percent of payroll, closed
 Remaining amortization period Ranges from 6 to 14 years, depending on division/bargaining unit
 Asset valuation method Open; 10-year smooth market
 Inflation 3.0% to 4.0%
 Salary increases 4.5% in the long-term (1%, 2% and 3% for calendar years 2014, 2015 and 2016, respectively)
 Investment rate of return 8.00%
 Retirement age Age-based table of rates that are specific to the type of eligibility condition. The Normal Retirement rates were first used for the December 31, 2009 actuarial valuations. The Early Retirement rates were first used for the December 31, 2011 actuarial valuations.
 Mortality 1994 Group Annuity Mortality Table of a 50% Male and 50% Female blend. For disabled retirees, the regular mortality table is used with a 10-year set forward in ages to reflect the higher expected mortality rates of disabled members.

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

Unaudited Supplementary Information

Schedule of Employer Contributions
Other Postemployment Benefits Plan

Year Ended June 30,	Annual Required Contribution (ARC)	Percentage Contributed
2010	\$ 214,175	63%
2011	214,175	27%
2012	285,487	104%
2013	306,304	40%
2014	279,475	44%
2015	301,780	33%

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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, 2014

	Electric Utility	Wastewater Utility	Water Utility	Total
Assets				
Current assets:				
Cash and cash equivalents	\$ 57,674,950	\$ 9,415,536	\$ 4,946,791	\$ 72,037,277
Investments	74,427,456	3,203,997	1,696,771	79,328,224
Receivables:				
Accounts receivable	6,774,096	868,766	802,942	8,445,804
Unbilled revenue	4,982,560	387,815	514,063	5,884,438
Special assessments and other	-	80,361	131,388	211,749
Accrued interest	73,040	1,519	1,189	75,748
Due from other funds of the				
City of Holland	189,156	1,728	28,724	219,608
Inventories	15,156,713	54,750	206,241	15,417,704
Prepaid expenses and other assets	1,204,416	29,899	22,491	1,256,806
Total current assets	160,482,387	14,044,371	8,350,600	182,877,358
Noncurrent assets:				
Restricted assets:				
Cash and cash equivalents	131,225,270	3,197,605	3,198,361	137,621,236
Investments	5,439,938	-	-	5,439,938
Total restricted assets	136,665,208	3,197,605	3,198,361	143,061,174
Capital assets:				
Land	4,829,437	260,673	1,939,744	7,029,854
Construction in progress	24,517,939	1,297,791	112,394	25,928,124
Plant and equipment	236,437,443	79,870,961	61,508,568	377,816,972
Accumulated depreciation	(182,308,029)	(43,907,984)	(24,417,904)	(250,633,917)
Total capital assets, net	83,476,790	37,521,441	39,142,802	160,141,033
Other noncurrent assets:				
Due from City of Wyoming	-	-	2,867,070	2,867,070
Total noncurrent assets	220,141,998	40,719,046	45,208,233	306,069,277
Total assets	380,624,385	54,763,417	53,558,833	488,946,635
Deferred outflows of resources				
Deferred loss on refunding	-	-	467,469	467,469

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

Combining Statement of Net Position
June 30, 2014

	Electric Utility	Wastewater Utility	Water Utility	Total
Liabilities				
Current liabilities:				
Accounts payable	\$ 5,514,267	\$ 1,213,775	\$ 249,705	\$ 6,977,747
Accrued salaries and wages payable	822,248	424,686	363,166	1,610,100
Due to other funds of the				
City of Holland	23,056	8,612	20,020	51,688
Deposits	413,539	-	-	413,539
Current liabilities payable from restricted assets:				
Bonds payable	306,797	-	1,357,570	1,664,367
Accrued interest payable	1,269,103	-	229,205	1,498,308
Total current liabilities	8,349,010	1,647,073	2,219,666	12,215,749
Noncurrent liabilities:				
Landfill closure and postclosure cost	327,450	-	-	327,450
Long-term debt, net of current portion	166,151,423	-	17,572,967	183,724,390
Net other postemployment benefit obligation	400,308	146,830	117,252	664,390
Total noncurrent liabilities	166,879,181	146,830	17,690,219	184,716,230
Total liabilities	175,228,191	1,793,903	19,909,885	196,931,979
Net position				
Net investment in capital assets	37,016,090	37,521,441	20,679,734	95,217,265
Restricted for:				
Debt service	11,227,750	-	2,900,894	14,128,644
Equipment replacement	-	3,197,605	-	3,197,605
Park Township	-	-	297,467	297,467
Cooperative payments	5,439,938	-	-	5,439,938
Unrestricted	151,712,416	12,250,468	10,238,322	174,201,206
Total net position	\$ 205,396,194	\$ 52,969,514	\$ 34,116,417	\$ 292,482,125

concluded

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

Combining Statement of Revenues, Expenses, and Changes in Fund Net Position
For the Year Ended June 30, 2014

	Electric Utility	Wastewater Utility	Water Utility	Total
Operating revenues				
Residential sales	\$ 19,072,375	\$ 2,598,797	\$ 2,896,181	\$ 24,567,353
Commercial sales	30,667,895	2,054,958	2,465,505	35,188,358
Industrial sales	42,272,414	728,709	959,246	43,960,369
Wholesale	-	2,638,719	2,042,937	4,681,656
Fees and other	5,526,935	2,086,406	472,020	8,085,361
Total operating revenues	<u>97,539,619</u>	<u>10,107,589</u>	<u>8,835,889</u>	<u>116,483,097</u>
Operating expenses				
Salaries and wages	3,730,420	1,235,602	921,783	5,887,805
Employee benefits	2,594,422	801,568	637,946	4,033,936
Production	60,930,105	2,187,379	607,994	63,725,478
Distribution	2,469,664	755,076	663,480	3,888,220
Administrative and general	6,713,506	1,664,158	1,454,534	9,832,198
Depreciation	6,480,527	1,815,330	1,493,711	9,789,568
Total operating expenses	<u>82,918,644</u>	<u>8,459,113</u>	<u>5,779,448</u>	<u>97,157,205</u>
Operating income	<u>14,620,975</u>	<u>1,648,476</u>	<u>3,056,441</u>	<u>19,325,892</u>
Nonoperating income (expense) - net				
Investment income	646,468	46,432	52,480	745,380
Interest expense	(1,427,884)	(52,961)	(502,557)	(1,983,402)
Insurance refunds	-	17,974	-	17,974
Gain (loss) on sale and disposal of capital assets	25,661	(1,577)	7,051	31,135
Total nonoperating income (expense) - net	<u>(755,755)</u>	<u>9,868</u>	<u>(443,026)</u>	<u>(1,188,913)</u>
Net income before contributions and transfers	<u>13,865,220</u>	<u>1,658,344</u>	<u>2,613,415</u>	<u>18,136,979</u>
Capital contributions				
Infrastructure	-	41,600	75,180	116,780
Trunkage	-	101,551	50,891	152,442
Federal and state capital grants	-	-	3,593	3,593
Total capital contributions	<u>-</u>	<u>143,151</u>	<u>129,664</u>	<u>272,815</u>
Transfers out to other funds of the City of Holland	<u>(4,990,800)</u>	<u>-</u>	<u>-</u>	<u>(4,990,800)</u>
Change in net position before extraordinary item	<u>8,874,420</u>	<u>1,801,495</u>	<u>2,743,079</u>	<u>13,418,994</u>
Extraordinary item	<u>-</u>	<u>-</u>	<u>(520,415)</u>	<u>(520,415)</u>
Change in net position	<u>8,874,420</u>	<u>1,801,495</u>	<u>2,222,664</u>	<u>12,898,579</u>
Net position, beginning of year	<u>196,521,774</u>	<u>51,168,019</u>	<u>31,893,753</u>	<u>279,583,546</u>
Net position, end of year	<u>\$ 205,396,194</u>	<u>\$ 52,969,514</u>	<u>\$ 34,116,417</u>	<u>\$ 292,482,125</u>

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

Combining Statement of Cash Flows
For the Year Ended June 30, 2014

	Electric Utility	Wastewater Utility	Water Utility	Total
Cash flows from operating activities				
Receipts from customers and users	\$ 97,170,198	\$ 10,024,219	\$ 8,586,956	\$ 115,781,373
Payments to suppliers	(73,953,070)	(4,167,858)	(3,002,764)	(81,123,692)
Payments to employees	(6,620,208)	(1,822,458)	(1,393,148)	(9,835,814)
Net cash provided by operating activities	<u>16,596,920</u>	<u>4,033,903</u>	<u>4,191,044</u>	<u>24,821,867</u>
Cash flows from noncapital financing activities				
Insurance refunds	-	17,974	-	17,974
Transfers to other funds of the City of Holland	(4,990,800)	-	-	(4,990,800)
Capital Grant - State Drinking Water Revolving Fund - Wyoming portion	-	-	945	945
Purchase/construction of property, plant and equipment owned by the City of Wyoming	-	-	(33,506)	(33,506)
Net cash used in noncapital financing activities	<u>(4,990,800)</u>	<u>17,974</u>	<u>(32,561)</u>	<u>(5,005,387)</u>
Cash flows from capital and related financing activities				
Principal paid on long-term debt	-	(682,500)	(1,175,000)	(1,857,500)
Interest paid on long-term debt	(158,781)	(13,650)	(641,712)	(814,143)
Capital contributions received	-	101,551	50,891	152,442
Proceeds received on refunded bonds	-	-	3,260,000	3,260,000
Proceeds on issuance of long-term debt	158,840,000	-	-	158,840,000
Proceeds from State Drinking Water Revolving Fund	-	-	38,737	38,737
Capital Grant - State Drinking Water Revolving Fund	-	-	3,593	3,593
Premium on issuance of refunded bonds	-	-	151,423	151,423
Premium on issuance of bonds	7,618,220	-	-	7,618,220
Cash transferred to escrow for defeased bonds	-	-	(3,441,256)	(3,441,256)
Proceed from sale of capital assets	97,022	32,535	66,853	196,410
Purchase/construction of property, plant and equipment	(26,737,357)	(4,323,828)	(1,970,390)	(33,031,575)
Net cash provided by (used in) capital and related financing activities	<u>139,659,104</u>	<u>(4,885,892)</u>	<u>(3,656,861)</u>	<u>131,116,351</u>
Cash flows from investing activities				
Interest received	519,318	42,889	17,410	579,617
Purchase of investment securities	(79,740,899)	(3,194,848)	(1,662,890)	(84,598,637)
Proceeds from sale or maturities of investment securities	66,655,563	4,996,698	990,900	72,643,161
Net cash provided by investing activities	<u>(12,566,018)</u>	<u>1,844,739</u>	<u>(654,580)</u>	<u>(11,375,859)</u>
Net increase in cash and cash equivalents	138,699,206	1,010,724	(152,958)	139,556,972
Cash and cash equivalents, beginning of year	50,201,014	11,602,417	8,298,110	70,101,541
Cash and cash equivalents, end of year	<u>\$ 188,900,220</u>	<u>\$ 12,613,141</u>	<u>\$ 8,145,152</u>	<u>\$ 209,658,513</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, 2014

	Electric Utility	Wastewater Utility	Water Utility	Total
Classified on the statement of net position as				
Cash and cash equivalents	\$ 57,674,950	\$ 9,415,536	\$ 4,946,791	\$ 72,037,277
Restricted assets, cash and cash equivalents	131,225,270	3,197,605	3,198,361	137,621,236
Total cash and cash equivalents	\$ 188,900,220	\$ 12,613,141	\$ 8,145,152	\$ 209,658,513
Reconciliation of operating income to net cash provided by operating activities				
Operating income	\$ 14,620,975	\$ 1,648,476	\$ 3,056,441	\$ 19,325,892
Adjustments to reconcile operating income to net cash provided by operating activities:				
Depreciation	6,480,527	1,815,330	1,493,711	9,789,568
Changes in operating assets and liabilities which provided (used) cash:				
Receivables	(411,107)	(83,783)	(238,781)	(733,671)
Due from other funds of the City of Holland	(33,254)	413	(10,152)	(42,993)
Inventories	(1,813,692)	(6,918)	(19,645)	(1,840,255)
Prepaid expenses	(905,430)	(23,226)	(19,111)	(947,767)
Accounts payable	(1,232,516)	498,570	(142,270)	(876,216)
Accrued salaries and wages payable	(295,366)	214,712	166,581	85,927
Due to other funds of the City of Holland	13,905	(58,178)	(120,125)	(164,398)
Deposits	74,940	-	-	74,940
Net other postemployment benefit obligation	97,938	28,507	24,395	150,840
Net cash provided by operating activities	\$ 16,596,920	\$ 4,033,903	\$ 4,191,044	\$ 24,821,867

concluded

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

Holland Area Waste Treatment Plant Reserve for Equipment Replacement

Year Ended June 30,	Contributions From Billings	Other	Interest		Improvements	Reserve Balance
			Rate	Amount		
1989	\$ 124,116	\$ 292,722	8.02%	\$ 85,061	\$ 446,514	\$ 1,130,832
1990	124,116	14,045	8.21%	95,519	72,939	1,291,573
1991	124,116	-	7.06%	91,161	124,794	1,382,056
1992	124,116	-	5.49%	64,501	538,427	1,032,246
1993	188,364	12,555	4.21%	27,927	1,161,092	100,000
1994	195,180	-	3.46%	6,640	18,347	283,473
1995	208,680	-	5.41%	21,139	14,662	498,630
1996	224,508	2,190	6.24%	36,008	45,287	716,049
1997	229,350	-	6.14%	47,244	145,361	847,282
1998	244,651	-	6.30%	58,314	163,917	986,329
1999	250,903	77,335	6.00%	62,497	501,228	875,836
2000	272,594	804,159	5.59%	44,448	619,684	1,377,352
2001	278,479	-	6.26%	84,190	427,542	1,312,479
2002	298,340	-	3.64%	34,041	173,806	1,471,054
2003	361,244	-	2.95%	43,426	123,852	1,751,871
2004	403,722	-	-1.14%	(20,012)	116,985	2,018,596
2005	448,249	-	2.81%	74,659	1,404,334	1,137,170
2006	518,220	-	1.90%	25,608	117,955	1,563,043
2007	575,848	-	4.20%	78,629	37,557	2,179,963
2008	609,002	-	4.79%	113,392	345,695	2,556,662
2009	611,793	-	1.31%	74,514	91,189	3,151,780
2010	659,495	-	0.81%	51,516	639,343	3,223,448
2011	1,260,575	-	0.23%	17,304	144,684	4,356,643
2012	1,261,837	929,543	0.11%	11,247	747,485	5,811,785
2013	1,083,730	565,569	0.07%	4,948	5,681,152	1,784,880
2014	1,113,274	621,602	0.15%	7,467	329,618	3,197,605
2015	1,145,758	656,077	0.17%	14,261	-	5,013,701

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, 2015

	Electric Utility	Wastewater Utility	Water Utility	Total
Land	\$ 14,971,375	\$ 260,673	\$ 1,977,800	\$ 17,209,848
Construction in progress	113,482,488	4,698,522	4,250,732	122,431,742
Production plant	122,769,299	43,187,634	16,527,463	182,484,396
Distribution/collection system	91,465,717	32,575,049	29,352,211	153,392,977
Transmission	11,519,946	1,848,170	8,961,275	22,329,391
General plant	15,038,405	4,754,555	4,624,933	24,417,893
Total	369,247,230	87,324,603	65,694,414	522,266,247
Accumulated depreciation	(188,016,638)	(45,210,548)	(25,799,670)	(259,026,856)
Total capital assets, net	<u>\$ 181,230,592</u>	<u>\$ 42,114,055</u>	<u>\$ 39,894,744</u>	<u>\$ 263,239,391</u>

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

Schedule of Capital Assets
 June 30, 2014

	Electric Utility	Wastewater Utility	Water Utility	Total
Land	\$ 4,829,437	\$ 260,673	\$ 1,939,744	\$ 7,029,854
Construction in progress	24,517,939	1,297,791	112,394	25,928,124
Production plant	121,276,832	42,975,825	16,622,628	180,875,285
Distribution/collection system	89,808,312	30,327,033	28,716,766	148,852,111
Transmission	11,519,946	1,848,170	11,730,419	25,098,535
General plant	13,832,353	4,719,933	4,438,755	22,991,041
Total	265,784,819	81,429,425	63,560,706	410,774,950
Accumulated depreciation	(182,308,029)	(43,907,984)	(24,417,904)	(250,633,917)
Total capital assets, net	<u>\$ 83,476,790</u>	<u>\$ 37,521,441</u>	<u>\$ 39,142,802</u>	<u>\$ 160,141,033</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*

September 10, 2015

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, 2015, and the related notes to the financial statements, which collectively comprise the Board's basic financial statements, and have issued our report thereon dated September 10, 2015.

Internal Control Over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

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

Purpose of this Report

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

Rehmann Lobson LLC