

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



Year Ended
June 30, 2019

Financial
Statements and
Supplementary
Information

HOLLAND BOARD OF PUBLIC WORKS

(Enterprise Funds of the City of Holland, Michigan)

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INDEPENDENT AUDITORS' REPORT

October 23, 2019

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, 2019, 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, 2019, 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, 2019, 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.

Other Information

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

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 23, 2019 on our consideration of the Board's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Board's internal control over financial reporting and compliance.

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

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MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

Management's Discussion and Analysis (Unaudited)

This section of the Holland Board of Public Works annual financial report presents an overview of the financial performance during the fiscal years ending June 30, 2019 and 2018. Please read it in conjunction with the financial statements, which follow this section.

OVERVIEW OF BUSINESS

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

- An electric system, which generates and distributes electricity to 29,131 residential, commercial and industrial customers in the City of Holland and portions of Holland, Park, Laketown and Fillmore Townships. HBPW's 174 industrial electric customers (0.6% of total customers) account for 55% of the electric load in kilowatt hours. Also within the electric utility, a broadband network that provides dark fiber, active Ethernet, and shared gigabit services to 478 residential, commercial and industrial customers.
- A Water Treatment Plant (WTP), with capacity to purify 38.5 million gallons per day and associated transmission and distribution system. HBPW's distribution system serves 13,705 residential, commercial, and industrial customers located in the City of Holland and portions of Park, Laketown and Holland Charter Townships. Water is also sold on a wholesale basis to Park Township and the City of Zeeland. Wholesale sales represent 53% of the WTP output. The HBPW receives its water from Lake Michigan.
- A Water Reclamation Facility (WRF), with an average daily treatment capacity of 12 million gallons, and associated sanitary sewer collection system. The HBPW's collection system serves 12,508 residential, commercial and industrial customers in the City of Holland, Laketown Township, Fillmore Township, and the portions of Holland Charter and Park Townships south of Lake Macatawa and the Macatawa River. Collectively, this area is known as the Southern Service Area (SSA). The WRF also treats wastewater on a wholesale basis from the Northern Service Area (NSA). The NSA includes the portions of Holland Charter and Park Townships north of Lake Macatawa and the Macatawa River. Wholesale sales represent 42% of the WRF's influent flow.

FINANCIAL HIGHLIGHTS

The net position of the Holland Board of Public Works has improved by \$31 million (7.9%) over the prior fiscal year.

The combined assets and deferred outflows of resources of HBPW exceeded its liabilities and deferred inflows of resources at the close of the most recent fiscal year by \$420.3M (net position). Of this amount, \$135.8M (32.3 percent) was unrestricted and may be used to meet the HBPW's ongoing obligations to customers and creditors. A substantial portion of the HBPW's net position, \$259.1M (61.6 percent), reflects its investment in capital assets (e.g., land, buildings, vehicles, equipment and infrastructure), less any related outstanding debt used to acquire those assets. HBPW uses these capital assets to provide services to customers; consequently, these assets are not available for future spending.

Although HBPW's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources since the capital assets themselves cannot be used to liquidate these liabilities. An additional portion of HBPW's net position, \$25.4M (6.1 percent), represents resources that are subject to external restrictions on how they may be used: 48% related to debt, 22% related to investment in joint venture, 30% related to equipment replacement fund.

Condensed Financial Information

	Net Position							
	(In Millions)							
	Electric		Wastewater		Water		Total	
	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>
Current Assets	\$ 137	\$ 102	\$ 14	\$ 15	\$ 13	\$ 11	\$ 164	\$ 128
Noncurrent assets	17	35	7	6	3	4	27	45
Capital assets, net	<u>315</u>	<u>322</u>	<u>61</u>	<u>61</u>	<u>47</u>	<u>46</u>	<u>423</u>	<u>429</u>
Total Assets	469	459	82	82	63	62	614	602
Total Deferred Outflows of Resources	2	0	1	0	1	0	4	0
Current liabilities	14	20	2	2	2	3	18	25
Noncurrent liabilities	<u>156</u>	<u>163</u>	<u>11</u>	<u>11</u>	<u>12</u>	<u>12</u>	<u>179</u>	<u>186</u>
Total Liabilities	170	183	13	13	14	16	197	211
Total Deferred Inflows of Resources	1	2	0	0	0	0	1	2
Net investment in capital assets	170	163	53	52	36	34	259	249
Restricted	17	35	7	6	1	2	25	43
Unrestricted	<u>113</u>	<u>76</u>	<u>10</u>	<u>11</u>	<u>13</u>	<u>10</u>	<u>136</u>	<u>97</u>
Total Net Position	\$ 300	\$ 274	\$ 70	\$ 69	\$ 50	\$ 46	\$ 420	\$ 389

HBPW assumed the customer service and billing of refuse collection customers from the City of Holland, successfully transitioning refuse charges to HBPW's utility customer invoices. The customer experience, for City of Holland residents, has been improved by receiving only one invoice for all utility and refuse collection services. HBPW also provides dedicated customer service support personnel for refuse collection service inquiries and problems.

The Electric Utility generated cash sufficient to fund an early redemption of 2020 and 2021 series electric bonds in the amount of \$9.66M at the end of FY2019. The utility is on track to redeem additional bonds totaling about \$91 million early in FY2022. These bonds have coupon rates of 4.1% and 5.0% and a call date of July 1, 2021.

Condensed Financial Information

	Results of Operations							
	(In Millions)							
	Electric		Wastewater		Water		Total	
	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>
Operating revenues	\$ 107	\$ 110	\$ 12	\$ 12	\$ 11	\$ 10	\$ 130	\$ 132
Operating expenses	(71)	(78)	(11)	(11)	(7)	(6)	(89)	(94)
Nonoperating income (expenses), net	<u>(3)</u>	<u>(5)</u>	<u>0</u>	<u>3</u>	<u>0</u>	<u>0</u>	<u>(3)</u>	<u>(3)</u>
Net Income Before Contributions and Transfer	33	27	1	4	4	4	38	34
Contributions to city	(7)	(6)	0	0	0	0	(7)	(6)
Extraordinary items	<u>0</u>	<u>(2)</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>(2)</u>
Change In Net Position	26	19	1	4	4	4	31	27
Beginning net position	<u>274</u>	<u>256</u>	<u>69</u>	<u>65</u>	<u>46</u>	<u>42</u>	<u>389</u>	<u>363</u>
Ending Net Position	\$ 300	\$ 274	\$ 70	\$ 69	\$ 50	\$ 46	\$ 420	\$ 389

During FY2019 HBPW engaged the services of a professional investment manager with the goal of increasing yields while still maintaining compliance with the internal investment policy. Total FY2019 investment income was \$3.3M, an increase of \$2.8M over FY2018. The improved return is attributable to an improvement in rates and the investment manager's efforts.

The Wastewater and Water utilities had rate increases in FY2019 of 3.6% and 1.9% respectively. The Electric Utility had a rate decrease of 5.7%. The rate decrease for the electric utility was the result of Holland Energy Park (HEP) experiencing better operating efficiencies and lower fuel prices than estimated during its design.

Electric:

- Electric production costs were favorable mainly due to low natural gas prices and better than expected operating efficiencies. These lower costs provided an opportunity to increase internal generation at the HEP plant, thus allowing energy from HBPW's external generating sources, such as Belle River and Campbell, to be sold into the market.
- Michigan Public Power Agency (MPPA) entered into a Power Purchase Agreement with Pegasus Wind, LLC in August of 2017, which was expected to provide HBPW with approximately 3.5 MW of additional wind power at a levelized cost of less than \$50/MWh over the 20 year term. The project was expected to commence commercial operation late in calendar year 2018 but has since been postponed. A new completion date for construction of the facility is expected to be June 2020. Additionally, the scale of the project may be reduced somewhat due to some siting issues associated with the wind turbines. This correspondingly will decrease the capacity and energy HBPW ultimately receives from the project.
- HBPW authorized approximately 9.9 MW of installed capacity from two solar projects in October of 2018. An additional 2.3 MW was authorized in May of 2019 to replace the expected reduction in energy output from Pegasus Wind. Cost of the solar projects varies but is expected to average a little over \$40/MWh in the initial year and will escalate 2% each year thereafter. Commercial operation for the solar facilities is currently estimated to begin on January 1, 2022 and continue for 25 years thereafter. The combined 12.2 MW of installed capacity that HBPW has authorized aligns well with the City's Community Energy Plan (CEP). The solar projects are also expected to provide approximately 1.7% of HBPW's annual energy needs, diversify the energy portfolio, and provide a hedge against on-peak LMP energy pricing by offsetting demands during that timeframe.
- The production assets at the James De young (JDY) coal-fired power plant were retired in FY2017. JDY decommissioning has since begun with the coal yard and ash pond remediation completed during FY2019 at a cost of \$3.6M.

Wastewater:

- Sludge disposal is a major operating expense for the wastewater utility. Sewage sludge, a byproduct of municipal wastewater treatment, requires regular disposal. The WRF disposes of sludge via a combination of land application of liquid biosolids and landfill disposal of dewatered

sludge. Due to escalating costs of land application and landfill rates as well as landfill disposal volume limits being phased in, solids disposal is a high risk area for WRF operations. A study undertaken by HBPW in FY2018 identified anaerobic digestion as the best option to mitigate risk associated with future disposal price increases and/or decreased disposal options. During FY2019, a pilot test of anaerobic digestion was conducted. Results of the pilot testing and a Conceptual Design Report were presented to the HBPW Board and management along with a recommendation to proceed with the project. Construction cost of the digester is estimated at \$23M, with the cost shared equally by the Northern and Southern Service Areas discussed in the Business Overview section. HBPW applied for a low interest loan through the Clean Water State Revolving Fund (SRF) and for the Green Project Reserve (GPR), offered through SRF. The GPR provides principal forgiveness, typically between 5 percent and 15 percent, on eligible project components. The project has been built into the five year capital improvement plan for the WRF and design is planned to begin in FY2020.

- A major project to replace the aging primary clarifiers at the WRF commenced in FY2019. The project will replace the internal components of the clarifiers as well as the electrical and controls equipment associated with the process. The existing primary clarifier equipment had been well maintained, enabling it to remain in service more than twice as long as the expected design. Primary Clarifier No. 2 was completed in FY2019 and the other three clarifiers are all planned for completion in FY2020.
- High lake levels experienced in recent years have led to a high groundwater table that has dramatically increased infiltration and inflow (I&I) into the sanitary sewer collection system. This I&I in turn increases the cost to transmit and treat the wastewater while also increasing risk of sanitary sewer overflows. HBPW continued efforts to line old sewer mains in FY2019 in order to extend the life of those assets and reduce I&I potential. A study was also completed in FY2019 to develop a new reporting tool that compares flows from HBPW's lift stations against the water usage of the customers in the associated sewersheds. This allows HBPW staff to identify areas of elevated I&I so that more focused investigations can be performed to identify and eliminate I&I sources.

Water:

- The Water Treatment Plant undertook an outage to repair fourteen valves and a leaking 36-inch pipe wall seal. The project work was coordinated with installation of new isolation valves on the transmission system that also required the plant to be completely shut down for multiple days. The full plant shutdown lasted seven days. During the shutdown, the Holland water system received water from the City of Wyoming via the 30-inch interconnect between the two water systems. The project provided a good example of the water supply risk mitigation provided by the Wyoming interconnect since much of this work would not have been possible without it. The repair project at WTP cost \$122,225.

- Water usage by retail customers remained stable again this year. Stable volumes is a trend monitored for the past five years which has seen any increase in usage by new customers added to the system being negated by conservation efforts. By contrast, wholesale units continue to grow at an average rate of 2% per year.
- Each year, the Water Utility replaces aging water mains as part of on-going maintenance to the distribution system. In FY2019, 5,000 feet of water mains were replaced. Total distribution improvements cost \$1.9M.

CAPITAL ASSETS

HBPW has \$692.5M invested in capital assets (\$422.7M net of depreciation). The capital assets, net of depreciation, by utility are: Electric Utility \$314.0M, Wastewater Utility \$61.6M; and Water Utility \$47.1M. Capital assets include property, plant and equipment and are defined by HBPW as assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of three years.

Condensed Financial Information

	Capital Assets (In Millions)							
	Electric		Wastewater		Water		Total	
	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>
Land	\$ 22	\$ 22	0	0	\$ 2	\$ 2	\$ 24	\$ 24
Construction in progress	4	1	5	1	2	2	11	4
Capital assets, net	<u>289</u>	<u>299</u>	<u>56</u>	<u>60</u>	<u>43</u>	<u>42</u>	<u>388</u>	<u>401</u>
Total Capital Assets	\$ 315	\$ 322	\$ 61	\$ 61	\$ 47	\$ 46	\$ 423	\$ 429

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

Capital asset activity for the current year included:

Electric:

- Holland Energy Park (HEP) incurred additional expenditures for various equipment and settlement costs of \$1.1M.
- Distribution improvements and extensions; \$1.8M.
- Peaking Unit repair expenditures were \$535,528.
- Substation upgrades; \$230,378.
- Upgrading streetlights to LED; \$80,698.
- Construction concluded on new fiber optic infrastructure to deliver Shared Gigabit service to downtown Holland. Total spending on the project was \$1.1M. In FY2019, 54 customers were added to the fiber network.

Wastewater:

- The Water Reclamation Facility invested \$223,523 in improvements. Approximately 50% of the capital investment funding is shared with portions of Holland, Park, Laketown and Fillmore Townships. The other 50% was contributed by the Northern Service Area.
- Lift station improvements and replacements; \$501,569.
- Sewer main improvements; \$162,663.

Water:

- Water mains replacements; \$1.9M.
- Water Treatment Plant improvements; \$169,870.
- Water meter replacements; \$147,585.

SUMMARY OF DEBT

HBPW has a total of \$169.2M in installment debt outstanding as of June 30, 2019.

The Electric Utility has a total of \$139.9M in debt outstanding as of June 30, 2019. The Electric Utility issued 25 year revenue bonds in FY2014 in the amount of \$158,840,000 for the new power plant project, with a true interest cost of 4.06%. As mentioned above, \$91 million of this debt is planned to be retired in early FY2022. All electric debt is planned to be retired prior to FY2025.

The Wastewater Utility has a total of \$8.3M in debt outstanding to Ottawa County for the cost of acquiring and constructing additional improvements (biosolids handling and secondary treatment processes) at the Holland Area Water Reclamation Facility.

The Water Utility has outstanding debt of \$10.8M. All of the Water Utility's outstanding debt will be paid by April 1, 2032. The bonds were issued for the purpose of constructing an emergency interconnection with the City of Wyoming's water system and for refunding bonds issued in 2005 in order to reduce the interest rate.

In 2016, Pension Bonds were issued by the City of Holland for \$25,000,000 with interest rates ranging from 0.76% to 3.42%. These bonds were issued for the purpose of funding a portion of the costs of the unfunded pension liability of the City's defined benefit pension plan for general employees and to pay costs of issuance incurred with respect to the Bonds. HBPW's portion of the bond is \$10.2M (56.36% of the total) as of June 30, 2019.

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

GENERAL ECONOMIC CONDITION

HBPW is forecasting a slight decline in demand for electricity in its service area of 0.84% for FY2020 but is forecasting growth averaging 1.8% for FY2021-FY2024. There are no volume increases forecasted for FY2020 in the Wastewater Utility. The Water Utility forecasts 2% growth for wholesale units only.

Two large industrial customers completed expansions of current operations during FY2019. Looking ahead at FY2020, there is a large retail commercial building being constructed within the HBPW service area. When it is complete, it will add to demand. Two large industrial customers will be completing construction on additional buildings and a new customer will occupy a currently vacant manufacturing center. Also, a large industrial customer will complete a pretreatment facility, thereby lowering water reclamation treatment plant operating costs.

HBPW promotes waste reduction and conservation through its Energy Waste Reduction & Renewable Energy plan. The plan reports on a calendar year basis. Results reported in the 2018 Annual Summary Report, filed with the Michigan Public Service Commission, include:

- 556 HBPW residential customers received rebates for purchasing more than 1,000 ENERGY STAR and other high-efficiency electric products for their homes. Customers received rebates totaling more than \$80,000, saving more than 400,000 kilowatt hours of energy.
- Promoted the dramatic energy-saving benefits of light-emitting diode (LED) technology by distributing 6,000 free light bulbs and exchanging LED string lights for 1,000 pounds of old incandescent holiday lights.
- Commercial and Industrial customers received incentives for upgrading lighting to LED and installing high-efficiency equipment; 93 businesses benefitted from the cost-saving incentives.
- Educational workshops were held covering diverse topics such as:
 - reducing energy costs for houses of worship,
 - new electric vehicle rebates,
 - tunable lighting and,
 - Strategic Energy Management.

Michigan Public Act 295 (amended by PA 341 and 342), known as the Clean, Renewable and Efficient Energy Act, calls on all utilities in Michigan to implement a Renewable Energy Plan and an Energy Waste Reduction program for their customers. The Act requires utilities to source at least 10 percent of their energy from renewable technologies and to implement programs that help customers improve energy efficiency. HBPW acquired 46,162 megawatt hours (MWh) of electricity generated from landfill gas and 92,576 MWh from wind power for a total of 138,738 MWh of renewable energy during the 2018 calendar year. This resulted in 12.32% of HBPW's total sales being supplied by renewable energy.

Holland also pioneered a new program so that homeowners could pay for their energy efficiency improvements with on-bill financing. Homeowners within the City of Holland can borrow funds from the Holland Energy Fund under attractive terms and rates. The loan payments are then included on the homeowners' monthly HBPW utility bills.

The emergence of economical distributed power generation alternatives is changing the operating environment for all electric utilities including HBPW. A study was completed in FY2019 creating short and long-term strategies to address distributed generation through rate policy. The team confirmed HBPW's existing Public Utility Regulatory Policies Act (PURPA) obligations and prepared a strategy resource document defining HBPW's role in the deployment of future distributed generation resources.

Battery storage is also an emerging technology that was studied in FY2019. The study considered the benefits and costs of installing battery storage on HBPW's distribution system and evaluated the costs and benefits of installing battery storage at a major customer site. The study team determined that, in both cases, the capital and operating costs of battery storage exceeded potential operating and financial gains, at least at the current time.

Current issues for the Water Utility include regulations for emerging contaminants, Lake Michigan water quality and level impacts, galvanized services replacements, and methods of peak water demand reduction.

- In 2018, Michigan adopted a revised Lead and Copper Rule, with the goal of reducing lead exposure through drinking water. The rule requires the replacement of all lead service lines (LSL) within twenty years. LSL's are the lines connecting the water main in the street to houses and businesses. No "lead action levels" have been detected in the HBPW water system, but the Rule requires LSL replacements nonetheless. HBPW estimates expenditures of about \$615,000 annually will be required to meet the requirements of the Rule. In addition, HBPW has proposed a new city ordinance to create local legal framework for work on private property and to allow shutoffs for non-compliance.
- Max day demands have been generally around 78% of the Water Treatment Plant's rated capacity in each of the last two fiscal years. At 80% water utilities are expected to be planning for additional capacity and at 90% they are generally expected to be implementing that additional capacity. Keeping demand below this level is critical to avoiding significant capital costs that would be required to expand the capacity of the plant. In FY2019 a study was initiated to address the peak water demands via demand side management. Four initiatives to reduce peak water usages were recommended. The first two will be implemented in FY2020 and focus on customer education and a rebate plan to reduce discretionary water usage, mainly sprinkling and irrigation.

NEXT YEARS BUDGET AND RATES

A 5-year operating and capital forecast is presented annually to HBPW's Board and City Council. The report evaluates the impact of various capital acquisitions and operating expenditures on the related utilities. Due to the operating efficiency at the new power plant (HEP), and favorable natural gas prices, the rates remain unchanged for the Electric Utility in FY2020. The Board and City Council approved a rate increase of 3.6% for the Wastewater Utility and a 1.9% rate increase for the Water Utility for FY2020. The increase in rates is to support capital acquisitions and expenditures, maintain debt ratios required by bond covenants, and maintain appropriate cash levels.

REQUESTS FOR INFORMATION

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

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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, 2019

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

	Electric Utility	Wastewater Utility	Water Utility	Business-Type Activities	
				2019	2018
Assets					
Current assets:					
Cash and cash equivalents	\$ 21,009,989	\$ 4,206,978	\$ 5,048,319	\$ 30,265,286	\$ 62,557,904
Investments	93,048,017	7,890,519	6,111,686	107,050,222	38,090,914
Receivables:					
Accounts receivable	6,716,783	1,062,445	739,418	8,518,646	9,255,110
Unbilled revenue	7,290,551	597,832	655,660	8,544,043	8,967,644
Special assessments and other	-	26,957	69,000	95,957	96,769
Accrued interest	448,243	33,037	26,523	507,803	264,584
Due from other funds of the					
City of Holland	1,132,811	5,045	507,246	1,645,102	722,738
Inventories	3,497,934	9,244	451,444	3,958,622	3,771,505
Prepaid items and other assets	3,883,546	23,906	12,101	3,919,553	3,565,960
Total current assets	137,027,874	13,855,963	13,621,397	164,505,234	127,293,128
Noncurrent assets:					
Restricted assets:					
Cash and cash equivalents	-	6,009,479	1,371,502	7,380,981	28,369,554
Investments	16,794,720	1,257,548	-	18,052,268	15,426,000
Accrued interest	-	6,648	-	6,648	5,724
Total restricted assets	16,794,720	7,273,675	1,371,502	25,439,897	43,801,278
Capital assets:					
Land	21,047,820	260,673	2,137,202	23,445,695	23,426,261
Construction in progress	3,581,905	4,814,635	2,180,176	10,576,716	4,429,017
Plant and equipment	482,496,783	102,028,877	73,963,668	658,489,328	654,863,370
Accumulated depreciation	(193,121,029)	(45,507,055)	(31,180,600)	(269,808,684)	(253,623,611)
Total capital assets, net	314,005,479	61,597,130	47,100,446	422,703,055	429,095,037
Other noncurrent assets:					
Due from City of Wyoming	-	-	1,956,675	1,956,675	2,086,386
Total noncurrent assets	330,800,199	68,870,805	50,428,623	450,099,627	474,982,701
Total assets	467,828,073	82,726,768	64,050,020	614,604,861	602,275,829
Deferred outflows of resources					
Deferred charge on refunding	-	-	144,515	144,515	195,929
Deferred pension amounts	2,542,153	731,831	577,761	3,851,745	227,844
Total deferred outflows of resources	2,542,153	731,831	722,276	3,996,260	423,773

continued...

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

Statement of Net Position

June 30, 2019

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

	Electric Utility	Wastewater Utility	Water Utility	Business-Type Activities	
				2019	2018
Liabilities					
Current liabilities:					
Accounts payable	\$ 9,996,381	\$ 1,248,142	\$ 555,942	\$ 11,800,465	\$ 9,928,519
Accrued salaries and wages payable	282,987	85,453	68,440	436,880	388,015
Due to other funds of the					
City of Holland	214,900	4,578	2,227	221,705	82,646
Deposits	924,066	-	-	924,066	844,508
Accrued interest payable	16,911	22,174	3,664	42,749	43,154
Current portion of long-term debt	1,808,016	795,443	334,890	2,938,349	2,926,976
Current liabilities payable from restricted assets:					
Current portion of long-term debt	423,213	-	1,574,636	1,997,849	6,642,954
Accrued interest payable	-	-	25,991	25,991	3,295,373
Total current liabilities	13,666,474	2,155,790	2,565,790	18,388,054	24,152,145
Noncurrent liabilities:					
Long-term debt, net of current portion	7,217,246	9,577,290	1,328,124	18,122,660	19,882,008
Long-term debt payable from restricted assets, net of current portion	144,036,979	-	9,439,056	153,476,035	165,133,885
Net pension liability	4,510,676	1,298,527	1,025,154	6,834,357	1,249,500
Total other postemployment benefit liability	515,845	115,840	93,223	724,908	716,254
Total noncurrent liabilities	156,280,746	10,991,657	11,885,557	179,157,960	186,981,647
Total liabilities	169,947,220	13,147,447	14,451,347	197,546,014	211,133,792
Deferred inflows of resources					
Deferred pension amounts	195,783	56,362	44,496	296,641	1,771,553
Deferred other postemployment benefit amounts	305,916	68,698	55,285	429,899	424,178
Total deferred inflows of resources	501,699	125,060	99,781	726,540	2,195,731
Net position					
Net investment in capital assets	169,545,287	53,284,631	36,231,268	259,061,186	248,796,627
Restricted for:					
Debt service	11,136,031	-	974,000	12,110,031	31,692,177
Equipment replacement	-	7,273,675	-	7,273,675	6,133,683
Park Township	-	-	397,502	397,502	381,881
Cooperative payments	5,658,689	-	-	5,658,689	5,593,537
Unrestricted	113,581,300	9,627,786	12,618,398	135,827,484	96,772,174
Total net position	\$299,921,307	\$ 70,186,092	\$ 50,221,168	\$420,328,567	\$389,370,079

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, 2019

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

	Electric Utility	Wastewater Utility	Water Utility	Business-Type Activities	
				2019	2018
Operating revenues					
Residential sales	\$ 21,398,432	\$ 3,368,373	\$ 3,336,273	\$ 28,103,078	\$ 28,231,204
Commercial sales	33,799,230	2,679,390	3,097,606	39,576,226	41,162,798
Industrial sales	48,608,984	890,660	1,084,346	50,583,990	52,478,295
Wholesale	677,000.0	2,274,643	2,640,193	5,591,836	4,436,062
Fees and other	2,917,102	2,632,635	638,288	6,188,025	6,007,937
Total operating revenues	107,400,748	11,845,701	10,796,706	130,043,155	132,316,296
Operating expenses					
Salaries and wages	4,778,813	1,462,405	1,091,624	7,332,842	6,710,676
Employee benefits	2,969,071	836,536	695,873	4,501,480	4,330,260
Production	34,423,756	2,756,796	627,778	37,808,330	45,329,047
Distribution	5,411,059	602,655	566,186	6,579,900	7,497,276
Administrative and general	9,609,489	1,860,295	1,547,435	13,017,219	10,908,896
Depreciation	15,181,706	3,115,922	1,799,210	20,096,838	20,011,696
Total operating expenses	72,373,894	10,634,609	6,328,106	89,336,609	94,787,851
Operating income	35,026,854	1,211,092	4,468,600	40,706,546	37,528,445
Nonoperating income (expense), net					
Investment income	2,812,930	297,014	207,220	3,317,164	503,651
Interest expense	(5,980,142)	(281,946)	(333,171)	(6,595,259)	(6,701,842)
Insurance refunds	563,484	-	-	563,484	14,916
Capacity revenue	-	-	-	-	2,865,213
Gain (loss) on sale and disposal of capital assets	(264,437)	(477,511)	(16,695)	(758,643)	152,397
Total nonoperating income (expense), net	(2,868,165)	(462,443)	(142,646)	(3,473,254)	(3,165,665)
Net income before contributions and transfers	32,158,689	748,649	4,325,954	37,233,292	34,362,780
Capital contributions					
Trunkage	-	234,144	97,052	331,196	432,658
Federal and state capital grants	-	-	-	-	86,576
Total capital contributions	-	234,144	97,052	331,196	519,234
Transfers out to other funds of the City of Holland	(6,606,000)	-	-	(6,606,000)	(6,296,016)
Change in net position before extraordinary item	25,552,689	982,793	4,423,006	30,958,488	28,585,998
Extraordinary item	-	-	-	-	(1,605,380)
Change in net position	25,552,689	982,793	4,423,006	30,958,488	26,980,618
Net position, beginning of year	274,368,618	69,203,299	45,798,162	389,370,079	362,389,461
Net position, end of year	\$299,921,307	\$ 70,186,092	\$ 50,221,168	\$420,328,567	\$389,370,079

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, 2019

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

	Electric Utility	Wastewater Utility	Water Utility	Business-Type Activities	
				2019	2018
Cash flows from operating activities					
Receipts from customers and users	\$ 108,043,748	\$ 11,878,273	\$ 10,568,098	\$ 130,490,119	\$ 138,227,013
Payments to suppliers	(48,028,390)	(4,764,394)	(3,142,850)	(55,935,634)	(76,984,656)
Payments to/for employees	(7,405,641)	(2,200,136)	(1,705,751)	(11,311,528)	(10,282,085)
Net cash provided by operating activities	52,609,717	4,913,743	5,719,497	63,242,957	50,960,272
Cash flows from noncapital financing activities					
Insurance refunds	563,484	-	-	563,484	14,916
Capacity revenue	-	-	-	-	2,865,213
Transfers to other funds of the City of Holland	(6,606,000)	-	-	(6,606,000)	(6,296,016)
Capital Grant - State Drinking Water					
Revolving Fund - Wyoming portion	-	-	-	-	2,756
Principal paid on pension bonds	(868,564)	(250,041)	(197,401)	(1,316,006)	(1,296,280)
Interest paid on pension bonds	(200,971)	(57,855)	(45,675)	(304,501)	(324,182)
Net cash used in noncapital financing activities	(7,112,051)	(307,896)	(243,076)	(7,663,023)	(5,033,593)
Cash flows from capital and related financing activities					
Principal paid on capital related debt	(14,350,000)	(405,000)	(1,455,000)	(16,210,000)	(6,405,000)
Interest paid on capital related debt	(9,466,115)	(225,509)	(314,644)	(10,006,268)	(8,112,518)
Capital contributions received	-	234,144	97,052	331,196	432,658
Proceeds from State Drinking Water					
Revolving Fund Bonds	-	-	-	-	1,043
Federal and state capital grants	-	-	-	-	81,064
Capital Grant - State Drinking Water					
Revolving Fund	-	-	-	-	5,512
Proceeds from sale of capital assets	207,575	-	-	207,575	3,646,260
Purchase/construction of property, plant and equipment	(7,540,076)	(4,314,642)	(2,816,356)	(14,671,074)	(33,365,462)
Net cash used in capital and related financing activities	(31,148,616)	(4,711,007)	(4,488,948)	(40,348,571)	(43,716,443)
Cash flows from investing activities					
Interest received	3,446,100	359,078	249,982	4,055,160	(235,195)
Purchase of investment securities	(110,650,645)	(9,241,539)	(6,192,444)	(126,084,628)	(52,927,151)
Proceeds from sale or maturities of investment securities	44,799,630	5,105,341	3,611,943	53,516,914	53,201,980
Net cash provided by (used in) investing activities	(62,404,915)	(3,777,120)	(2,330,519)	(68,512,554)	39,634
Net increase (decrease) in cash and cash equivalents	(48,055,865)	(3,882,280)	(1,343,046)	(53,281,191)	2,249,870
Cash and cash equivalents, beginning of year	69,065,854	14,098,737	7,762,867	90,927,458	88,677,588
Cash and cash equivalents, end of year	<u>\$ 21,009,989</u>	<u>\$ 10,216,457</u>	<u>\$ 6,419,821</u>	<u>\$ 37,646,267</u>	<u>\$ 90,927,458</u>

continued...

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

Statement of Cash Flows

For the Year Ended June 30, 2019

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

	Electric Utility	Wastewater Utility	Water Utility	Business-Type Activities	
				2019	2018
Classified on the statement of net position as					
Cash and cash equivalents	\$ 21,009,989	\$ 4,206,978	\$ 5,048,319	\$ 30,265,286	\$ 62,557,904
Restricted cash and cash equivalents	-	6,009,479	1,371,502	7,380,981	28,369,554
Total cash and cash equivalents	\$ 21,009,989	\$ 10,216,457	\$ 6,419,821	\$ 37,646,267	\$ 90,927,458
Reconciliation of operating income to net cash provided by operating activities					
Operating income	\$ 35,026,854	\$ 1,211,092	\$ 4,468,600	\$ 40,706,546	\$ 37,528,445
Adjustments to reconcile operating income net cash provided by operating activities:					
Depreciation	15,181,706	3,115,922	1,799,210	20,096,838	20,011,696
Changes in operating assets and liabilities which provided (used) cash:					
Receivables	995,419	35,759	129,699	1,160,877	5,586,159
Due from other funds of the					
City of Holland	(431,977)	(3,187)	(487,200)	(922,364)	126,105
Inventories	20,000	10,997	(218,114)	(187,117)	121,124
Prepaid items and other assets	(391,195)	15,203	22,399	(353,593)	121,337
Due from the City of Wyoming	-	-	128,893	128,893	124,165
Accounts payable	1,588,712	428,100	(144,867)	1,871,945	(12,833,722)
Accrued salaries and wages payable	25,760	11,665	11,440	48,865	111,271
Due to other funds of the					
City of Holland	198,876	1,052	(60,869)	139,059	(650,013)
Deposits	79,558	-	-	79,558	66,127
Landfill postclosure liability	(480)	-	-	(480)	-
Compensated absences	(17,842)	(1,917)	(6,730)	(26,489)	135,423
Net pension liability	3,686,005	1,061,123	837,729	5,584,857	(2,954,451)
Deferred outflows of resources related to the net pension liability	(2,391,774)	(688,542)	(543,585)	(3,623,901)	2,000,493
Deferred inflows of resources related to the net pension liability	(973,442)	(280,233)	(221,237)	(1,474,912)	1,444,299
Total other postemployment benefit liability	8,236	(2,127)	2,545	8,654	(402,364)
Deferred inflows of resources related to the total other postemployment benefit liability	5,301	(1,164)	1,584	5,721	424,178
Net cash provided by operating activities	\$ 52,609,717	\$ 4,913,743	\$ 5,719,497	\$ 63,242,957	\$ 50,960,272

concluded

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

NOTES TO FINANCIAL STATEMENTS

HOLLAND BOARD OF PUBLIC WORKS

(Enterprise Funds of the City of Holland, Michigan)

Notes to Financial Statements

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

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

Basis of Presentation

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

Government-wide and Fund Financial Statements

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

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

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

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

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

The Board reports the following major enterprise funds:

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

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

HOLLAND BOARD OF PUBLIC WORKS

(Enterprise Funds of the City of Holland, Michigan)

Notes to Financial Statements

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

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

Cash and Cash Equivalents

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

Investments

Investments consist primarily of U.S. government securities, commercial paper, money market securities, and treasury bills, all of which are carried at fair value.

Receivables

All receivables are reported at their gross value and, where appropriate, are reduced by the estimated portion that is expected to be uncollectible. At June 30, 2019, the allowance for uncollectible amounts in the electric, wastewater and water utility funds was \$83,737, \$1,055 and \$2,767, respectively.

Due To/From Other Funds

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

Inventories

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

Prepaid Items

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

Restricted Assets

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

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

Notes to Financial Statements

Capital Assets

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

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

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

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

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

Capital assets of the Water and Wastewater Utility Funds include assets purchased with funds provided by participating townships. Depreciation on these assets were \$72,682 and \$889,086, respectively.

Due From City of Wyoming

The Board entered into a cost sharing agreement with the City of Wyoming to finance and construct the Wyoming Interconnect Water Project to be financed by a State Drinking Water Revolving fund bond issue. Upon completion, an estimated 15% of the related debt is scheduled to be forgiven by the grantor agency. Completion of the construction project and repayment of the associated bonds will be the responsibility of the Board. Under the cost sharing agreement, 47.54% of the assets constructed have been transferred to the City of Wyoming, along with an equal proportion of the related debt payments to be paid to the Board by the City of Wyoming, based on the installment payments on the related debt. The balance of this receivable at June 30, 2019 is equal to 47.54% of the assets completed and capitalized at that date, less a ratable share of the estimated debt forgiveness and principal payments made by the City of Wyoming.

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

Notes to Financial Statements

Deferred Outflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense) until then. The Board reports a deferred outflow of resources for its deferred charge on refunding, which results from the difference in the carrying value of refunded debt and its reacquisition price. The Board also reports deferred outflows of resources related to the net pension liability, related to changes in expected and actual investment returns, assumptions, and benefits provided in its pension plan. A portion of these costs represent contributions to the plan subsequent to the plan measurement date.

Compensated Absences

Eligible employees are permitted to accumulate paid time off benefits in varying amounts based on length of service and other established criteria. Paid time off is accrued when incurred in the Board's financial statements.

Bond Discounts/Premiums and Deferred Refunding Costs

Premiums, discounts, and deferred refunding costs associated with various bond issues are being amortized by the interest or straight-line methods over the repayment periods of the related bonds. Amortization of these items is charged to interest expense.

Deferred Inflows of Resources

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

Pensions and Other Postemployment Benefits

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

Transfers

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

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

Notes to Financial Statements

Use of Estimates

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

Reclassifications

Certain amounts in the June 30, 2018 financial statements have been reclassified to conform with the June 30, 2019 presentation.

2. DEPOSITS AND INVESTMENTS

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

Statement of net position	
Cash and cash equivalents	\$ 30,265,286
Investments	107,050,222
Restricted assets:	
Cash and cash equivalents	7,380,981
Investments	18,052,268
Total	<u>\$ 162,748,757</u>

Deposits and investments consist of the following at June 30, 2019:

Deposits and investments	
Checking and savings accounts	\$ 41,766,473
Certificates of deposit (due within one to five years)	7,799,174
Investments	113,179,010
Cash on hand	4,100
Total	<u>\$ 162,748,757</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.

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

Notes to Financial Statements

- Bankers’ acceptances of United States banks.
- Obligations of the State of Michigan and its political subdivisions, that, at the time of purchase are rated as investment grade by at least one standard rating service.
- Mutual funds registered under the Investment Company Act of 1940 with the authority to purchase only investment vehicles that are legal for direct investment by a public corporation.
- External investment pools as authorized by Public Act 20 as amended through December 31, 1997.

Investment and Deposit Risk

Interest Rate Risk. State law limits the allowable investments and the maturities of some of the allowable investments as identified above. The Board’s investment policy does not have specific limits in excess of state law on investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. The maturity dates for each investment are identified below for investments held at year end.

	No maturity	Due < 1 year	Due in 1-5 years	Totals
U.S. government securities	\$ -	\$ 13,262,221	\$ 56,012,043	\$ 69,274,264
Commercial paper	-	26,511,747	-	26,511,747
Money market securities	10,939,873	-	-	10,939,873
Treasury bills	-	2,247,012	-	2,247,012
Michigan Public Power Agency (MPPA) investments	4,206,114	-	-	4,206,114
	<u>\$ 15,145,987</u>	<u>\$ 42,020,980</u>	<u>\$ 56,012,043</u>	<u>\$ 113,179,010</u>

Custodial Credit Risk - Deposits. Custodial credit risk is the risk that in the event of a bank failure, the Board’s deposits may not be returned. State law does not require and the Board’s investment policy does not have specific limits in excess of state law on custodial credit risk. As of year end, \$45,844,847 of the Board’s bank balance of \$48,139,330 was exposed to custodial credit risk because it was uninsured and uncollateralized.

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

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

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

Notes to Financial Statements

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

S&P AAA	\$ 13,131,258
S&P AA+	73,536,005
S&P A1+	2,871,037
S&P A1	<u>23,640,710</u>
	<u><u>\$ 113,179,010</u></u>

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

Fair Value Measurement

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

The Board has the following recurring fair value measurements as of June 30, 2019:

- Money market securities with a balance of \$10,939,873 (level 1 inputs).
- U.S. government securities and treasury bills with a balance of \$71,521,276 (level 2 inputs).
- Commercial paper with a balance of \$26,511,747 (level 2 inputs).
- Assets held with Michigan Public Power Agency, with a balance of \$5,658,689 (level 3 inputs).

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

	Electric Utility	Wastewater Utility	Water Utility	Total
City trunkage	\$ -	\$ 617,678	\$ 1,406,761	\$ 2,024,439
Future debt payments	52,160,744	-	2,381,906	54,542,650
Insurance/risk retention	<u>5,038,419</u>	<u>814,251</u>	<u>1,108,046</u>	<u>6,960,716</u>
Total	<u><u>\$ 57,199,163</u></u>	<u><u>\$ 1,431,929</u></u>	<u><u>\$ 4,896,713</u></u>	<u><u>\$ 63,527,805</u></u>

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

Notes to Financial Statements

3. CAPITAL ASSETS

A summary of capital assets at June 30, 2019 is as follows:

	Beginning Balance	Additions	Deletions	Transfers	Ending Balance
Business-type activities					
Capital assets, not being depreciated:					
Land	\$ 23,426,261	\$ -	\$ (20,806)	\$ 40,240	\$ 23,445,695
Construction in progress	4,429,017	14,671,074	(15,370)	(8,508,005)	10,576,716
	<u>27,855,278</u>	<u>14,671,074</u>	<u>(36,176)</u>	<u>(8,467,765)</u>	<u>34,022,411</u>
Capital assets, being depreciated:					
Production plant	394,535,040	-	(3,424,463)	2,074,516	393,185,093
Distribution/collection system	182,873,608	-	(265,484)	5,807,150	188,415,274
Transmission	30,444,961	-	(27,297)	18,230	30,435,894
General plant	47,009,761	-	(1,124,563)	567,869	46,453,067
	<u>654,863,370</u>	<u>-</u>	<u>(4,841,807)</u>	<u>8,467,765</u>	<u>658,489,328</u>
Less accumulated depreciation for:					
Production plant	(121,157,606)	(12,052,130)	2,539,732	-	(130,670,004)
Distribution/collection system	(101,417,195)	(4,926,386)	241,438	-	(106,102,143)
Transmission	(14,703,729)	(803,470)	9,688	-	(15,497,511)
General plant	(16,345,081)	(2,314,852)	1,120,907	-	(17,539,026)
	<u>(253,623,611)</u>	<u>(20,096,838)</u>	<u>3,911,765</u>	<u>-</u>	<u>(269,808,684)</u>
Total capital assets being depreciated, net	<u>401,239,759</u>	<u>(20,096,838)</u>	<u>(930,042)</u>	<u>8,467,765</u>	<u>388,680,644</u>
Business-type activities capital assets, net	<u>\$ 429,095,037</u>	<u>\$ (5,425,764)</u>	<u>\$ (966,218)</u>	<u>\$ -</u>	<u>\$ 422,703,055</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	\$ 166,498,610	\$ -	\$ (15,805,000)	\$ 150,693,610	\$ 1,510,000
Pension bonds	11,511,531	-	(1,316,006)	10,195,525	1,341,368
Capital lease	8,717,500	-	(405,000)	8,312,500	417,500
Total installment debt	186,727,641	-	(17,526,006)	169,201,635	3,268,868
Unamortized net premium/ discount on revenue bonds	5,278,229	-	(497,955)	4,780,274	487,849
Compensated absences	1,205,970	1,179,481	(1,205,970)	1,179,481	1,179,481
Landfill postclosure	1,373,983	-	(480)	1,373,503	-
	<u>\$ 194,585,823</u>	<u>\$ 1,179,481</u>	<u>\$ (19,230,411)</u>	<u>\$ 176,534,893</u>	<u>\$ 4,936,198</u>

Revenue bonds

\$5,395,110 2011A Drinking Water Revolving Bonds, due in annual installments of \$236,500 to \$368,610 plus interest at 2.5%, payable semi-annually, through April 1, 2032. \$ 4,158,610

\$9,740,000 2012A Water Supply Systems Revenue Refunding Bonds, due in annual installments of \$190,000 to \$1,430,000 plus interest ranging from 2.0 to 4.0%, payable semi-annually, through July 1, 2024. 6,645,000

\$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. 139,890,000

Total revenue bonds 150,693,610

Pension bonds

\$14,090,000 2016 Pension Bonds (Board portion), due in annual installments of \$1,282,190 to \$1,592,170 plus interest ranging from 0.76 to 3.42%, payable semi-annually, through December 1, 2025. 10,195,525

Capital lease

\$9,500,000 2015 Capital lease payable to the County of Ottawa, due in annual installments of \$387,500 to \$657,500 plus interest ranging from 0.75 to 3.4%, payable semi-annually, through June 1, 2035. 8,312,500

Total installment debt \$ 169,201,635

HOLLAND BOARD OF PUBLIC WORKS
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Notes to Financial Statements

The annual requirements to maturity on bonds outstanding as of June 30, 2019 are as follows:

Year Ended June 30,	Principal	Interest	Total
2020	\$ 2,851,368	\$ 3,727,215	\$ 6,578,583
2021	2,932,366	6,769,688	9,702,054
2022	8,009,000	6,589,308	14,598,308
2023	8,303,452	6,317,476	14,620,928
2024	8,580,722	6,022,910	14,603,632
2025-2029	34,618,617	26,018,272	60,636,889
2030-2034	38,253,610	18,086,536	56,340,146
2035-2039	57,340,000	8,628,357	65,968,357
	<u>\$ 160,889,135</u>	<u>\$ 82,159,762</u>	<u>\$ 243,048,897</u>

The annual requirements to maturity on capital leases outstanding as of June 30, 2019 are as follows:

Year Ended June 30,	Principal	Interest	Total
2020	\$ 417,500	\$ 220,066	\$ 637,566
2021	427,500	214,012	641,512
2022	437,500	206,959	644,459
2023	450,000	198,865	648,865
2024	462,500	189,640	652,140
2025-2029	2,502,500	779,854	3,282,354
2030-2034	2,957,500	404,104	3,361,604
2035	657,500	22,355	679,855
	<u>\$ 8,312,500</u>	<u>\$ 2,235,855</u>	<u>\$ 10,548,355</u>

Covenants of the Revenue Bond Resolution provide for, among other things, restrictions on the transfer of funds, issuance of additional debt, creation of liens, and the sale and lease of property. In addition, the covenants require that the rates be set sufficient to cover the scheduled debt service.

HOLLAND BOARD OF PUBLIC WORKS
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Notes to Financial Statements

Landfill Closure and Post Closure Care

State and federal laws and regulations require the Board to place a final cover on its fly ash and wastewater treatment bio solids landfill when it stops accepting waste and to perform certain maintenance and monitoring functions at the site for thirty years after closure. Although closure and postclosure care costs will be paid only near or after the date that the landfill stops accepting waste, the Board reports a portion of these closure and postclosure care costs as an operating expense in each period based on landfill capacity used as of each statement of net position date. The \$1,373,503 reported as landfill closure and postclosure liability at June 30, 2019, represents the cumulative amount reported to date based on the use of 87 percent of the estimated capacity of the landfill. The Board will recognize the remaining estimated cost of closure and postclosure care in fiscal year 2020 since the disposal related to the closure of the James De Young coal plant will fill the remaining capacity of the open landfill cell.

The Board is required by state and federal laws and regulations to make annual contributions to a trust to finance closure and postclosure care. The Board is in compliance with these requirements. At June 30, 2019, the closure and postclosure costs have been assured by a \$100,000 letter of credit and \$18,913 held in trust.

5. PENSION PLANS

Defined Benefit Pension Plan

General Information About the Plan

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

Benefits Provided. Pension benefits vary by division/bargaining unit and are calculated as final average compensation (based on a 5 year period) and multipliers ranging from 2.0% to 2.25%. Participants are considered to be fully vested in the plan after 10 years. Normal retirement age is 60 with early retirement at age 50 with 25 years of service, age 55 with 15 years of service, or age 55 with 25 years of service, depending on division/bargaining unit. The plan is closed to new entrants.

Employees Covered by Benefit Terms. At the December 31, 2018 valuation date, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	134
Inactive employees entitled to but not yet receiving benefits	32
Active employees	<u>59</u>
 Total membership	 <u><u>225</u></u>

HOLLAND BOARD OF PUBLIC WORKS

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Notes to Financial Statements

Contributions. The employer is required to contribute amounts at least equal to the actuarially determined rate, as established by the MERS Retirement Board. The actuarially determined rate is the estimated amount necessary to finance the cost of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. At June 30, 2019, monthly employer contributions ranged from \$2,910 to \$27,020, depending on division/bargaining unit. In addition, the employer may establish contribution rates to be paid by its covered employees. Currently, employees are required to contribute to the plan at 3.0% of covered payroll.

Net Pension Liability. The Board's net pension liability was measured as of December 31, 2018, 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, 2018 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.50%
Salary increases	3.75% in the long-term
Investment rate of return	7.75%, net of investment and administrative expense including inflation

Although no explicit price inflation assumption is used in the valuation, the long-term annual rate of price inflation implicit in the 3.75% base wage inflation is 2.50%.

The mortality table used to project the mortality experience of non-disabled plan members is a 50% male, 50% female blend of the following tables:

- The RP-2014 Healthy Annuitant Mortality Tables, with rates multiplied by 105%
- The RP-2014 Employee Mortality Tables
- The RP-2014 Juvenile Mortality Tables

The actuarial assumptions used in the December 31, 2018 valuation were based on the results of the most recent actuarial experience study of 2009-2013.

HOLLAND BOARD OF PUBLIC WORKS
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Notes to Financial Statements

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

Asset Class	Target Allocation	Long-term Expected Real Rate of Return	Expected Money-Weighted Rate of Return
Global equity	55.5%	6.15%	3.41%
Global fixed income	18.5%	1.26%	0.23%
Real assets	13.5%	7.22%	0.98%
Diversifying strategies	12.5%	5.00%	0.63%
	<u>100.0%</u>		
Inflation			2.50%
Administrative expenses netted above			0.25%
Investment rate of return			8.00%

Discount Rate. The discount rate used to measure the total pension liability as of December 31, 2018 was 8.0%. The projection of cash flows used to determine the discount rate assumes that employer and employee contributions will be made at the rates agreed upon for employees and the actuarially determined rates for employers. Based on these assumptions, the pension plan’s fiduciary net position was projected to be available to pay all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

HOLLAND BOARD OF PUBLIC WORKS
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Notes to Financial Statements

Changes in Net Pension Liability

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

	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) - (b)
Balances at December 31, 2017	\$ 54,985,781	\$ 53,736,281	\$ 1,249,500
Changes for the year:			
Service cost	459,607	-	459,607
Interest	4,281,669	-	4,281,669
Differences between expected and actual experience	(593,283)	-	(593,283)
Employer contributions	-	557,523	(557,523)
Employee contributions	-	139,999	(139,999)
Net investment loss	-	(2,031,816)	2,031,816
Benefit payments, including refunds of employee contributions	(3,389,456)	(3,389,456)	-
Administrative expense	-	(102,570)	102,570
Net changes	758,537	(4,826,320)	5,584,857
Balances at December 31, 2018	\$ 55,744,318	\$ 48,909,961	\$ 6,834,357

Sensitivity of the Net Pension Liability to Changes in the Discount Rate. The following presents the net pension liability of the Board, calculated using the discount rate of 8.0%, as well as what the Board's net pension liability would be if it were calculated using a discount rate that is 1% lower (7.0%) or 1% higher (9.0%) than the current rate:

1% Decrease (7.0%)	Current Discount Rate (8.0%)	1% Increase (9.0%)
\$ 12,387,343	\$ 6,834,357	\$ 2,052,826

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
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Notes to Financial Statements

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

For the year ended June 30, 2019, the Board recognized pension expense of \$1,145,507. The Board reported deferred outflows/inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources	Net Deferred Outflows (Inflows) of Resources
Difference between expected and actual experience	\$ -	\$ 296,641	\$ (296,641)
Net difference between projected and actual earnings on pension plan investments	3,521,961	-	3,521,961
	<u>3,521,961</u>	<u>296,641</u>	<u>3,225,320</u>
Contributions subsequent to the measurement date	329,784	-	329,784
	<u>329,784</u>	<u>-</u>	<u>329,784</u>
Total	\$ 3,851,745	\$ 296,641	\$ 3,555,104

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, 2020. Other amounts reported as deferred outflows/inflows of resources related to the pension will be recognized in pension expense as follows:

Year Ended June 30,	Amount
2020	\$ 858,955
2021	400,130
2022	722,449
2023	<u>1,243,786</u>
Total	\$ <u>3,225,320</u>

Payable to the Pension Plan. At June 30, 2019, the Board reported a payable of \$54,964 for the outstanding amount of contributions to the pension plan.

Defined Contribution Pension Plan

The Board participates in a defined contribution retirement plan which is administered by the ICMA in participation with MERS for both nonbargaining and union employees. The defined contribution provisions of the plan require the Board to contribute 6% of covered employee payroll and to match employee contributions up to 2% for nonbargaining employees and up to 2% for union employees. The participants direct their investments under defined contribution provisions. During the year ended June 30, 2019, the Board contributed \$676,169 and employees contributed \$165,494 to the defined contribution plan.

HOLLAND BOARD OF PUBLIC WORKS
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Notes to Financial Statements

6. OTHER POSTEMPLOYMENT BENEFITS (OPEB) PLAN

General Information About the OPEB Plan

Plan Description. The Board participates in the City of Holland Retiree Healthcare Plan (the “OPEB Plan”), a single-employer defined benefit healthcare plan administered by the City. The OPEB Plan provides 100% of health insurance benefits to eligible retirees and their dependents. The benefit is provided upon the employee attaining 50 or 55 years of age, depending on employment contract, and 25 years of service to the City or 60 years of age and 10 years of service. The coverage is maintained until the employee is eligible for federal Medicare coverage at age 65. Stand-alone financial statements are not issued for the OPEB Plan.

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

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

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

Plan Membership. At June 30, 2018, the date of the most recent actuarial valuation, OPEB Plan membership consisted of the following:

Inactive plan members or beneficiaries currently receiving benefit payments	10
Active plan members	<u>170</u>
Total membership	<u><u>180</u></u>

Total OPEB Liability

The total OPEB liability was measured as of June 30, 2019, and was determined by an actuarial valuation rolled forward from June 30, 2018.

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

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

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

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

Changes in the Total OPEB Liability

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

	Total OPEB Liability (a)
Balances at June 30, 2018	<u>\$ 716,254</u>
Changes for the year:	
Service cost	33,434
Interest	22,489
Differences between expected and actual experience	(47,109)
Benefit payments, including refunds of employee contributions	<u>(160)</u>
Net changes	<u>8,654</u>
Balances at June 30, 2019	<u><u>\$ 724,908</u></u>

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

1% Decrease (2.0%)	Current Discount Rate (3.0%)	1% Increase (4.0%)
\$ 792,339	\$ 724,908	\$ 662,530

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

1% Decrease (7.0% trending to 4.0%)	Current Healthcare Trent Rate (8.0% trending to 5.0%)	1% Increase (9.0% trending to 6.0%)
\$ 697,895	\$ 724,908	\$ 788,130

OPEB Expense and Deferred Inflows of Resources Related to OPEB

For the year ended June 30, 2019, the Board recognized OPEB expense of \$14,537. The Board reported deferred inflows of resources related to OPEB from the following sources:

	Deferred Inflows of Resources
Difference between expected and actual experience	\$ 291,289
Changes of assumptions	138,610
	<u>\$ 429,899</u>

HOLLAND BOARD OF PUBLIC WORKS
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Amounts reported as deferred inflows of resources related to the OPEB will be recognized in OPEB expense as follows:

Year Ended June 30,	Amount
2020	\$ 41,389
2021	41,389
2022	41,389
2023	41,389
2024	41,389
Thereafter	<u>222,954</u>
Total	<u>\$ 429,899</u>

Payable to the OPEB Plan. At June 30, 2019, the Board had no amounts payable for contributions to the OPEB plan.

7. RISK MANAGEMENT

The Board is exposed to various risks of loss related to property loss, torts, errors and omissions, employee injuries (workers’ compensation), as well as medical benefits provided to employees. The Board is self-insured for these risks through the City of Holland’s self-insurance program except for workers’ compensation risks which are covered through commercial insurance. The City purchases excess reinsurance and allocates risk management costs among the various funds of the City, including the Board of Public Works. The schedule of changes in the self-insured liability balances is included in the City of Holland’s financial statements for the year ended June 30, 2019.

8. COMMITMENTS

The Board has contracts outstanding for remaining project costs of approximately \$3,079,000 for various electric utility project, \$15,708,000 for electric equipment maintenance, \$443,000 for various water projects, and \$4,346,000 for various wastewater projects.

9. JOINT VENTURE

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

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

Notes to Financial Statements

Under the joint venture, the Board has entered into Power Sales Contracts and Project Support Contracts. These contracts provide for the Board to purchase from MPPA 15.66% of the energy generated by MPPA's 37.22% ownership in Detroit Edison's Belle River Unit No. 1, which became operational in August 1984, 6.35% 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 River 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, 2019, the Board recognized expenses totaling \$12,292,748 under the terms of the contracts which represented \$971,193 for fixed operating costs (including \$606,397 Belle River fixed costs that were not previously estimated), \$1,390,408 for debt service and \$9,931,147 for the purchase of power. Accounts payable to MPPA totaled \$947,362 at June 30, 2019. Under the terms of its contracts, the Board must make minimum annual payments equal to its share of debt service and its share of the fixed operating costs of Detroit Edison's Belle River No. 1, Consumers Energy's Campbell Unit No. 3 and American Municipal Power's AMP Fremont Energy Center Project (AFEC). The estimated required payments presented below consider the dynamics of the PJM and MISO markets. Debt service payments assume no early calls or refinancing of existing revenue bonds.

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

Year Ended June 30,	Campbell		Fremont (AFEC)		Total
	Debt Service	Fixed Operating	Debt Service	Fixed Operating	
2020	\$ 1,111,355	\$ 219,011	\$ 278,252	\$ 273,671	\$ 1,882,289
2021	1,111,411	225,581	278,338	255,080	1,870,410
2022	555,487	114,458	278,321	214,506	1,162,772
2023	-	-	278,232	215,469	493,701
2024	-	-	281,074	242,330	523,404
2025-2029	-	-	1,405,759	4,003,691	5,409,450
2030-2034	-	-	1,410,244	1,434,164	2,844,408
2035-2039	-	-	1,415,000	1,583,433	2,998,433
2040-2043	-	-	1,136,385	1,384,607	2,520,992
	<u>\$ 2,778,253</u>	<u>\$ 559,050</u>	<u>\$ 6,761,605</u>	<u>\$ 9,606,951</u>	<u>\$ 19,705,859</u>

Debt Service requirements for the Belle River project expired in 2018. Debt Service requirements for the Campbell and Fremont project expire in 2022 and 2043, respectively. The above amounts include estimated fixed operating costs for the same period as the debt service. The contracts for the Board's commitment for fixed operating costs to extend beyond these dates is dependent upon the use of the facilities. The joint venture is a result of an ongoing financial responsibility. The Board did not have an initial equity interest and does not participate in net income or losses.

HOLLAND BOARD OF PUBLIC WORKS
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Notes to Financial Statements

10. LITIGATION

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

11. NET INVESTMENT IN CAPITAL ASSETS

The composition of net investment in capital assets as of June 30, 2019, was as follows:

Capital assets:	
Capital assets not being depreciated	\$ 34,022,411
Capital assets being depreciated, net	<u>388,680,644</u>
	<u>422,703,055</u>
 Related debt:	
Total installment debt	169,201,635
Less pension bonds	(10,195,525)
Net bond premium/discount	4,780,274
Deferred charge on refunding	<u>(144,515)</u>
	<u>163,641,869</u>
 Net investment in capital assets	<u>\$ 259,061,186</u>



UNAUDITED SUPPLEMENTARY INFORMATION

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

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

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

	Year Ended June 30				
	2019	2018	2017	2016	2015
Total pension liability					
Service cost	\$ 459,607	\$ 468,117	\$ 494,584	\$ 508,116	\$ 534,319
Interest	4,281,669	4,227,124	4,131,826	3,988,984	3,877,167
Changes in benefits	-	-	-	(6,591)	-
Differences between expected and actual experience	(593,283)	(705,307)	(266,556)	(581,928)	-
Changes of assumptions	-	-	-	2,486,206	-
Benefit payments, including refunds of employee contributions	(3,389,456)	(3,218,276)	(3,092,525)	(3,090,521)	(2,995,515)
Net change in total pension liability	758,537	771,658	1,267,329	3,304,266	1,415,971
Total pension liability, beginning of year	54,985,781	54,214,123	52,946,794	49,642,528	48,226,557
Total pension liability, end of year	55,744,318	54,985,781	54,214,123	52,946,794	49,642,528
Plan fiduciary net position					
Employer contributions	557,523	404,799	1,623,277	15,566,146	1,500,624
Employee contributions	139,999	145,954	158,497	140,340	128,691
Net investment income (loss)	(2,031,816)	6,496,694	5,249,048	(448,173)	2,086,857
Benefit payments, including refunds of employee contributions	(3,389,456)	(3,218,276)	(3,092,525)	(3,090,521)	(2,995,515)
Administrative expense	(102,570)	(103,062)	(103,380)	(76,287)	(76,418)
Net change in plan fiduciary net position	(4,826,320)	3,726,109	3,834,917	12,091,505	644,239
Plan fiduciary net position, beginning of year	53,736,281	50,010,172	46,175,255	34,083,750	33,439,511
Plan fiduciary net position, end of year	48,909,961	53,736,281	50,010,172	46,175,255	34,083,750
Board's net pension liability	\$ 6,834,357	\$ 1,249,500	\$ 4,203,951	\$ 6,771,539	\$ 15,558,778
Plan fiduciary net position as a percentage of total pension liability	87.7%	97.7%	92.2%	87.2%	68.7%
Covered payroll	\$ 4,561,399	\$ 4,647,824	\$ 4,899,166	\$ 5,317,097	\$ 5,581,027
Board's net pension liability as a percentage of covered payroll	149.8%	26.9%	85.8%	127.4%	278.8%

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

The changes of assumptions in 2016 primarily related to an adjustment to the mortality table to reflect longer lifetimes, the assumed annual rate of return, net of all expenses, was lowered from 8.0% to 7.75%, and the asset smoothing was changed from 10 to 5 years.

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

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

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

Schedule of the Net Pension Liability

Fiscal Year Ended June 30,	Total Pension Liability	Plan Net Position	Net Pension Liability	Plan Net Position as Percentage of Total Pension Liability	Covered Payroll	Net Pension Liability as Percentage of Covered Payroll
2019	\$ 55,744,318	\$ 48,909,961	\$ 6,834,357	87.7%	\$ 4,561,399	149.8%
2018	54,985,781	53,736,281	1,249,500	97.7%	4,647,824	26.9%
2017	54,214,123	50,010,172	4,203,951	92.2%	4,899,166	85.8%
2016	52,946,794	46,175,255	6,771,539	87.2%	5,317,097	127.4%
2015	49,642,528	34,083,750	15,558,778	68.7%	5,581,027	278.8%

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

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

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

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

Schedule of Contributions

Fiscal Year Ending June 30,	Actuarially Determined Contribution	Contributions in Relation to the Actuarially Determined Contribution	Contribution Deficiency (Excess)	Covered Payroll	Contributions as Percentage of Covered Payroll
2019	\$ 659,463	\$ 659,463	\$ -	\$ 4,664,822	14.1%
2018	455,133	455,133	-	4,715,326	9.7%
2017	355,020	355,020	-	5,106,936	7.0%
2016	957,317	16,226,621	15,269,304	5,543,402	292.7%
2015	1,570,584	1,570,584	-	5,483,611	28.6%

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

Notes to Schedule of Contributions

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

Methods and assumptions used to determine contribution rates (2019, based on the 12/31/2016 actuarial valuation):

Actuarial cost method	Entry-age normal
Amortization method	Level percent of payroll, closed
Remaining amortization period	Ranges from 5 to 13 years, depending on division/bargaining unit
Asset valuation method	5-year smooth market
Inflation	2.50%
Salary increases	3.75% in the long-term
Investment rate of return	7.75%, net of investment and administrative expense including inflation
Retirement age	Age 60
Mortality	50% Female/50% Male blend of the RP-2014 Healthy Annuitant Mortality Tables with rates multiplied by 105%, the RP-2014 Employee Mortality Tables, and the RP-2014 Juvenile Mortality Tables

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

Unaudited Supplementary Information
 Other Postemployment Benefits Plan

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

	Year Ended June 30	
	2019	2018
Total OPEB liability		
Service cost	\$ 33,434	\$ 47,727
Interest	22,489	34,642
Differences between expected and actual experience	(47,109)	(296,134)
Changes of assumptions	-	(165,318)
Benefit payments, including refunds of employee contributions	(160)	(23,281)
Net change in total OPEB liability	<u>8,654</u>	<u>(402,364)</u>
Total OPEB liability, beginning of year	<u>716,254</u>	<u>1,118,618</u>
Total OPEB liability, end of year	<u>\$ 724,908</u>	<u>\$ 716,254</u>
Covered-employee payroll	\$ 4,804,537	\$ 4,715,326
Board's total OPEB liability as a percentage of covered-employee payroll	15.1%	15.2%

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

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

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

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

Unaudited Supplementary Information
 Other Postemployment Benefits Plan

Schedule of the Total OPEB Liability

Fiscal Year Ended June 30,	Total OPEB Liability	Covered-Employee Payroll	Total OPEB Liability as Percentage of Covered-Employee
2019	\$ 724,908	\$ 4,804,537	15.1%
2018	716,254	4,715,326	15.2%

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

SUPPLEMENTARY INFORMATION

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

Combining Statement of Net Position
 June 30, 2018

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

continued...

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

Combining Statement of Net Position
June 30, 2018

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

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, 2018

	Electric Utility	Wastewater Utility	Water Utility	Total
Operating revenues				
Residential sales	\$ 21,611,194	\$ 3,266,931	\$ 3,353,079	\$ 28,231,204
Commercial sales	35,264,873	2,795,203	3,102,722	41,162,798
Industrial sales	50,279,890	948,640	1,249,765	52,478,295
Wholesale	-	2,038,533	2,397,529	4,436,062
Fees and other	2,805,154	2,582,835	619,948	6,007,937
Total operating revenues	<u>109,961,111</u>	<u>11,632,142</u>	<u>10,723,043</u>	<u>132,316,296</u>
Operating expenses				
Salaries and wages	4,341,985	1,319,504	1,049,187	6,710,676
Employee benefits	2,832,506	807,176	690,578	4,330,260
Production	41,889,167	2,787,049	652,831	45,329,047
Distribution	5,869,591	961,263	666,422	7,497,276
Administrative and general	7,852,355	1,670,381	1,386,160	10,908,896
Depreciation	15,067,564	3,003,211	1,940,921	20,011,696
Total operating expenses	<u>77,853,168</u>	<u>10,548,584</u>	<u>6,386,099</u>	<u>94,787,851</u>
Operating income	<u>32,107,943</u>	<u>1,083,558</u>	<u>4,336,944</u>	<u>37,528,445</u>
Nonoperating income (expense), net				
Investment income	458,933	57,096	(12,378)	503,651
Interest expense	(6,040,466)	(290,465)	(370,911)	(6,701,842)
Insurance refunds	14,916	-	-	14,916
Capacity revenue	-	2,865,213	-	2,865,213
Gain (loss) on sale and disposal of capital assets	133,853	28,766	(10,222)	152,397
Total nonoperating income (expense), net	<u>(5,432,764)</u>	<u>2,660,610</u>	<u>(393,511)</u>	<u>(3,165,665)</u>
Net income before contributions and transfers	<u>26,675,179</u>	<u>3,744,168</u>	<u>3,943,433</u>	<u>34,362,780</u>
Capital contributions				
Trunkage	-	309,092	123,566	432,658
Federal and state capital grants	-	81,064	5,512	86,576
Total capital contributions	<u>-</u>	<u>390,156</u>	<u>129,078</u>	<u>519,234</u>
Transfers out to other funds of the City of Holland	<u>(6,296,016)</u>	<u>-</u>	<u>-</u>	<u>(6,296,016)</u>
Change in net position before extraordinary item	20,379,163	4,134,324	4,072,511	28,585,998
Extraordinary item	<u>(1,605,380)</u>	<u>-</u>	<u>-</u>	<u>(1,605,380)</u>
Change in net position	18,773,783	4,134,324	4,072,511	26,980,618
Net position, beginning of year	<u>255,594,835</u>	<u>65,068,975</u>	<u>41,725,651</u>	<u>362,389,461</u>
Net position, end of year	<u>\$ 274,368,618</u>	<u>\$ 69,203,299</u>	<u>\$ 45,798,162</u>	<u>\$ 389,370,079</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, 2018

	Electric Utility	Wastewater Utility	Water Utility	Total
Cash flows from operating activities				
Receipts from customers and users	\$ 115,105,044	\$ 11,881,244	\$ 11,240,725	\$ 138,227,013
Payments to suppliers	(66,786,542)	(7,209,816)	(2,988,298)	(76,984,656)
Payments to/for employees	(6,634,645)	(2,011,327)	(1,636,113)	(10,282,085)
Net cash provided by operating activities	<u>41,683,857</u>	<u>2,660,101</u>	<u>6,616,314</u>	<u>50,960,272</u>
Cash flows from noncapital financing activities				
Insurance refunds	14,916	-	-	14,916
Capacity revenue	-	2,865,213	-	2,865,213
Transfers to other funds of the City of Holland	(6,296,016)	-	-	(6,296,016)
Capital Grant - State Drinking Water Revolving Fund - Wyoming portion	-	-	2,756	2,756
Principal paid on pension bonds	(855,545)	(246,293)	(194,442)	(1,296,280)
Interest paid on pension bonds	(213,960)	(61,595)	(48,627)	(324,182)
Net cash provided by (used in) noncapital financing activities	<u>(7,350,605)</u>	<u>2,557,325</u>	<u>(240,313)</u>	<u>(5,033,593)</u>
Cash flows from capital and related financing activities				
Principal paid on capital related debt	(4,600,000)	(395,000)	(1,410,000)	(6,405,000)
Interest paid on capital related debt	(7,533,253)	(229,476)	(349,789)	(8,112,518)
Capital contributions received	-	309,092	123,566	432,658
Proceeds from State Drinking Water Revolving Fund Bond	-	-	1,043	1,043
Federal and state capital grants	-	81,064	-	81,064
Capital Grant - State Drinking Water Revolving Fund	-	-	5,512	5,512
Proceed from sale of capital assets	3,599,667	43,356	3,237	3,646,260
Purchase/construction of property, plant and equipment	(27,397,087)	(2,487,932)	(3,480,443)	(33,365,462)
Net cash used in capital and related financing activities	<u>(35,930,673)</u>	<u>(2,678,896)</u>	<u>(5,106,874)</u>	<u>(43,716,443)</u>
Cash flows from investing activities				
Interest received	(51,688)	(54,869)	(128,638)	(235,195)
Purchase of investment securities	(44,419,359)	(5,010,599)	(3,497,193)	(52,927,151)
Proceeds from sale or maturities of investment securities	47,753,095	2,650,083	2,798,802	53,201,980
Net cash provided by (used in) investing activities	<u>3,282,048</u>	<u>(2,415,385)</u>	<u>(827,029)</u>	<u>39,634</u>
Net increase in cash and cash equivalents	1,684,627	123,145	442,098	2,249,870
Cash and cash equivalents, beginning of year	<u>67,381,227</u>	<u>13,975,592</u>	<u>7,320,769</u>	<u>88,677,588</u>
Cash and cash equivalents, end of year	<u>\$ 69,065,854</u>	<u>\$ 14,098,737</u>	<u>\$ 7,762,867</u>	<u>\$ 90,927,458</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, 2018

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

concluded

Non-cash transactions - June 30, 2018:

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

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

Holland Area Waste Treatment Plant Reserve for Equipment Replacement

Year Ended June 30,	Contributions From Billings	Other	Interest		Improvements	Reserve Balance
			Rate	Amount		
1989	\$ 124,116	\$ 292,722	8.02%	\$ 85,061	\$ 446,514	\$ 1,130,832
1990	124,116	14,045	8.21%	95,519	72,939	1,291,573
1991	124,116	-	7.06%	91,161	124,794	1,382,056
1992	124,116	-	5.49%	64,501	538,427	1,032,246
1993	188,364	12,555	4.21%	27,927	1,161,092	100,000
1994	195,180	-	3.46%	6,640	18,347	283,473
1995	208,680	-	5.41%	21,139	14,662	498,630
1996	224,508	2,190	6.24%	36,008	45,287	716,049
1997	229,350	-	6.14%	47,244	145,361	847,282
1998	244,651	-	6.30%	58,314	163,917	986,329
1999	250,903	77,335	6.00%	62,497	501,228	875,836
2000	272,594	804,159	5.59%	44,448	619,684	1,377,352
2001	278,479	-	6.26%	84,190	427,542	1,312,479
2002	298,340	-	3.64%	34,041	173,806	1,471,054
2003	361,244	-	2.95%	43,426	123,852	1,751,871
2004	403,722	-	-1.14%	(20,012)	116,985	2,018,596
2005	448,249	-	2.81%	74,659	1,404,334	1,137,170
2006	518,220	-	1.90%	25,608	117,955	1,563,043
2007	575,848	-	4.20%	78,629	37,557	2,179,963
2008	609,002	-	4.79%	113,392	345,695	2,556,662
2009	611,793	-	1.31%	74,514	91,189	3,151,780
2010	659,495	-	0.81%	51,516	639,343	3,223,448
2011	1,260,575	-	0.23%	17,304	144,684	4,356,643
2012	1,261,837	929,543	0.11%	11,247	747,485	5,811,785
2013	1,083,730	565,569	0.07%	4,948	5,681,152	1,784,880
2014	1,113,274	621,602	0.15%	7,467	329,618	3,197,605
2015	1,145,758	656,077	0.17%	14,261	-	5,013,701
2016	1,208,638	334,673	0.05%	5,776	898,836	5,663,952
2017	1,156,529	18,838,482	0.08%	8,685	20,456,372	5,211,276
2018	1,296,320	-	0.31%	35,435	409,348	6,133,683
2019	1,315,714	-	0.36%	47,906	223,628	7,273,675

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, 2019

	Electric Utility	Wastewater Utility	Water Utility	Total
Land	\$ 21,047,820	\$ 260,673	\$ 2,137,202	\$ 23,445,695
Construction in progress	3,581,905	4,814,635	2,180,176	10,576,716
Production plant	318,875,890	56,390,460	17,918,743	393,185,093
Distribution/collection system	111,409,892	38,219,856	38,785,526	188,415,274
Transmission	15,553,259	2,249,786	12,632,849	30,435,894
General plant	36,657,742	5,168,775	4,626,550	46,453,067
Total	507,126,508	107,104,185	78,281,046	692,511,739
Accumulated depreciation	(193,121,029)	(45,507,055)	(31,180,600)	(269,808,684)
Total capital assets, net	<u>\$ 314,005,479</u>	<u>\$ 61,597,130</u>	<u>\$ 47,100,446</u>	<u>\$ 422,703,055</u>

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

Schedule of Capital Assets
 June 30, 2018

	Electric Utility	Wastewater Utility	Water Utility	Total
Land	\$ 21,068,626	\$ 260,673	\$ 2,096,962	\$ 23,426,261
Construction in progress	1,267,923	1,423,104	1,737,990	4,429,017
Production plant	317,741,392	58,988,835	17,804,813	394,535,040
Distribution/collection system	108,471,377	37,555,644	36,846,587	182,873,608
Transmission	15,570,931	2,249,786	12,624,244	30,444,961
General plant	37,076,674	5,271,688	4,661,399	47,009,761
	<u>501,196,923</u>	<u>105,749,730</u>	<u>75,771,995</u>	<u>682,718,648</u>
Total	501,196,923	105,749,730	75,771,995	682,718,648
Accumulated depreciation	(179,024,715)	(44,891,143)	(29,707,753)	(253,623,611)
	<u>(179,024,715)</u>	<u>(44,891,143)</u>	<u>(29,707,753)</u>	<u>(253,623,611)</u>
Total capital assets, net	<u>\$ 322,172,208</u>	<u>\$ 60,858,587</u>	<u>\$ 46,064,242</u>	<u>\$ 429,095,037</u>

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INTERNAL CONTROL AND COMPLIANCE

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

October 23, 2019

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, 2019, and the related notes to the financial statements, which collectively comprise the Board's basic financial statements, and have issued our report thereon dated October 23, 2019.

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.

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