



HOLLAND BOARD OF PUBLIC WORKS

HOLLAND, MICHIGAN

**FINANCIAL STATEMENTS
AND
SUPPLEMENTARY INFORMATION**

FOR THE YEAR ENDED JUNE 30, 2011

HOLLAND BOARD OF PUBLIC WORKS

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INDEPENDENT AUDITORS' REPORT

September 12, 2011

Board of Directors
Holland Board of Public Works
Holland, Michigan

We have audited the accompanying financial statements of the business-type activities and each major fund of the **Holland Board of Public Works**, (enterprise funds of the City of Holland, Michigan) as of and for the year ended June 30, 2011, as listed in the table of contents. These financial statements are the responsibility of the Holland Board of Public Works' management. Our responsibility is to express opinions on these financial statements based on our audit.

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

As discussed in Note 1, the financial statements present only the Holland Board of Public Works enterprise funds and do not purport to, and do not present fairly the financial position of the City of Holland, Michigan, as of June 30, 2011 and the changes in its financial position and cash flows where applicable, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities and each major fund of the Holland Board of Public Works, as of June 30, 2011, and the respective changes in financial position and cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 12, 2011 on our consideration of the Holland Board of Public Works' internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Schedules of Employer Contributions for the pension and other postemployment benefit plans on page 21 are not required parts of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Board of Public Works' financial statements. The fund financial statements and schedules listed in the table of contents are presented for purposes of additional analysis and are not a required part of the financial statements of the Holland Board of Public Works. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly presented in all material respects in relation to the financial statements taken as a whole.

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

HOLLAND BOARD OF PUBLIC WORKS

Statement of Net Assets

June 30, 2011

(with comparative totals for the year ended June 30, 2010)

	Electric Utility	Wastewater Utility	Water Utility	Business-Type Activities	
				2011	2010
Assets					
Current assets					
Cash and cash equivalents	\$ 46,306,686	\$ 8,901,563	\$ 3,089,928	\$ 58,298,177	\$ 57,658,013
Investments	47,003,755	5,028,405	499,235	52,531,395	48,695,164
Receivables:					
Accounts receivable	6,880,795	1,072,398	642,283	8,595,476	6,987,773
Unbilled revenue	4,736,811	224,649	348,246	5,309,706	4,788,720
Special assessments and other	-	99,562	72,761	172,323	208,266
Accrued interest	100,013	32,244	140	132,397	171,646
Due from other funds of the					
City of Holland	194,203	48,280	23,923	266,406	370,287
Inventories	8,667,755	62,860	221,996	8,952,611	7,152,662
Prepaid expenses	355,656	27,007	4,338	387,001	856,232
Total current assets	114,245,674	15,496,968	4,902,850	134,645,492	126,888,763
Noncurrent assets					
Restricted assets:					
Cash and cash equivalents	-	3,435,108	3,333,240	6,768,348	6,720,321
Investments	5,151,347	999,258	-	6,150,605	7,031,416
Accrued interest	-	374	-	374	10,697
Total restricted assets	5,151,347	4,434,740	3,333,240	12,919,327	13,762,434
Capital assets:					
Land	4,809,939	260,673	1,832,417	6,903,029	6,869,529
Construction in progress	2,398,350	2,988,045	1,532,827	6,919,222	1,716,320
Plant and equipment	220,290,311	68,321,295	53,832,727	342,444,333	334,252,381
Accumulated depreciation	(162,862,954)	(38,979,973)	(20,574,431)	(222,417,358)	(212,861,616)
Total capital assets, net	64,635,646	32,590,040	36,623,540	133,849,226	129,976,614
Total noncurrent assets	69,786,993	37,024,780	39,956,780	146,768,553	143,739,048
Total assets	184,032,667	52,521,748	44,859,630	281,414,045	270,627,811

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

	<u>Electric Utility</u>	<u>Wastewater Utility</u>	<u>Water Utility</u>	<u>Business-Type Activities</u>	
				<u>2011</u>	<u>2010</u>
Liabilities					
Current liabilities					
Accounts payable	\$ 5,621,450	\$ 594,316	\$ 159,403	\$ 6,375,169	\$ 4,133,054
Accrued salaries and wages payable	614,351	321,353	251,739	1,187,443	1,016,202
Due to other funds of the City of Holland	6,480	73,628	23,838	103,946	452,800
Deposits	239,420	-	-	239,420	203,553
Accrued interest payable	-	3,337	-	3,337	9,901
Current maturities of bonds payable	-	610,374	-	610,374	567,269
Current liabilities payable from restricted assets:					
Bonds payable	-	-	830,517	830,517	796,152
Accrued interest payable	-	-	331,725	331,725	344,600
Total current liabilities	<u>6,481,701</u>	<u>1,603,008</u>	<u>1,597,222</u>	<u>9,681,931</u>	<u>7,523,531</u>
Noncurrent liabilities					
Landfill closure and postclosure cost	327,450	-	-	327,450	327,450
Long-term debt - net of current portion	-	1,262,925	15,075,180	16,338,105	17,793,005
Net other postemployment benefit obligation	265,424	43,316	35,783	344,523	188,330
Total noncurrent liabilities	<u>592,874</u>	<u>1,306,241</u>	<u>15,110,963</u>	<u>17,010,078</u>	<u>18,308,785</u>
Total liabilities	<u>7,074,575</u>	<u>2,909,249</u>	<u>16,708,185</u>	<u>26,692,009</u>	<u>25,832,316</u>
Net assets					
Invested in capital assets, net of related debt	64,635,646	30,716,741	20,717,843	116,070,230	110,820,188
Restricted for:					
Debt service	-	-	3,099,156	3,099,156	3,059,398
Equipment replacement	-	4,356,643	-	4,356,643	3,223,448
Park Township	-	-	234,084	234,084	214,051
Cooperative payments	5,151,347	-	-	5,151,347	5,023,761
Construction	-	-	-	-	84,895
Unrestricted	<u>107,171,099</u>	<u>14,539,115</u>	<u>4,100,362</u>	<u>125,810,576</u>	<u>122,369,754</u>
Total net assets	<u>\$ 176,958,092</u>	<u>\$ 49,612,499</u>	<u>\$ 28,151,445</u>	<u>\$ 254,722,036</u>	<u>\$ 244,795,495</u>

HOLLAND BOARD OF PUBLIC WORKS

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

For the Year Ended June 30, 2011
(with comparative totals for the year ended June 30, 2010)

	Electric Utility	Wastewater Utility	Water Utility	Business-Type Activities	
				2011	2010
Operating revenue					
Residential sales	\$ 17,312,118	\$ 2,132,128	\$ 2,171,556	\$ 21,615,802	\$ 20,035,303
Commercial sales	27,748,366	1,629,823	1,815,458	31,193,647	30,289,725
Industrial sales	33,990,072	451,576	615,170	35,056,818	31,835,930
Wholesale	-	2,514,785	1,868,454	4,383,239	4,022,455
Fees and other	5,360,763	2,125,782	662,779	8,149,324	6,559,270
Total operating revenue	<u>84,411,319</u>	<u>8,854,094</u>	<u>7,133,417</u>	<u>100,398,830</u>	<u>92,742,683</u>
Operating expenses					
Salaries and wages	3,516,105	1,027,699	838,802	5,382,606	5,185,564
Employee benefits	2,428,698	667,262	545,300	3,641,260	3,431,922
Production	48,829,730	2,127,181	566,046	51,522,957	47,457,759
Distribution	2,891,963	706,861	600,117	4,198,941	3,817,537
Administrative and general	7,876,636	1,917,722	1,690,340	11,484,698	10,592,935
Depreciation	7,813,259	1,668,564	1,342,399	10,824,222	10,978,260
Total operating expenses	<u>73,356,391</u>	<u>8,115,289</u>	<u>5,583,004</u>	<u>87,054,684</u>	<u>81,463,977</u>
Operating income	<u>11,054,928</u>	<u>738,805</u>	<u>1,550,413</u>	<u>13,344,146</u>	<u>11,278,706</u>
Nonoperating income (expense) - net					
Interest income	681,160	94,136	34,659	809,955	1,598,261
Interest expense	-	(117,285)	(712,548)	(829,833)	(914,969)
Gain (loss) on sale and disposal of capital assets	(38,546)	1,628	1,628	(35,290)	(42,817)
Total nonoperating income (expense) - net	<u>642,614</u>	<u>(21,521)</u>	<u>(676,261)</u>	<u>(55,168)</u>	<u>640,475</u>
Net income before contributions and transfers	<u>11,697,542</u>	<u>717,284</u>	<u>874,152</u>	<u>13,288,978</u>	<u>11,919,181</u>
Capital contributions					
Infrastructure	-	-	491,044	491,044	449,015
Trunkage	-	106,564	41,555	148,119	61,022
Total capital contributions	<u>-</u>	<u>106,564</u>	<u>532,599</u>	<u>639,163</u>	<u>510,037</u>
Transfers out to other funds of the City of Holland	<u>(4,001,600)</u>	<u>-</u>	<u>-</u>	<u>(4,001,600)</u>	<u>(3,799,200)</u>
Change in net assets	7,695,942	823,848	1,406,751	9,926,541	8,630,018
Net assets, beginning of year	<u>169,262,150</u>	<u>48,788,651</u>	<u>26,744,694</u>	<u>244,795,495</u>	<u>236,165,477</u>
Net assets, end of year	<u>\$ 176,958,092</u>	<u>\$ 49,612,499</u>	<u>\$ 28,151,445</u>	<u>\$ 254,722,036</u>	<u>\$ 244,795,495</u>

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

HOLLAND BOARD OF PUBLIC WORKS

Statement of Cash Flows

For the Year Ended June 30, 2011
(with comparative totals for the year ended June 30, 2010)

	Electric Utility	Wastewater Utility	Water Utility	Business-Type Activities	
				2011	2010
Cash flows from operating activities					
Receipts from customers and users	\$ 82,464,421	\$ 8,800,220	\$ 7,181,191	\$ 98,445,832	\$ 90,890,979
Payments to suppliers	(58,635,193)	(4,741,654)	(3,111,013)	(66,487,860)	(60,506,270)
Payments to employees	(5,875,070)	(1,632,289)	(1,345,266)	(8,852,625)	(8,532,571)
Net cash provided by operating activities	17,954,158	2,426,277	2,724,912	23,105,347	21,852,138
Cash flows from noncapital financing activities					
Transfers to other funds of the City of Holland	(4,001,600)	-	-	(4,001,600)	(3,799,200)
Cash flows from capital and related financing activities					
Principal paid on long-term debt	-	(619,223)	(845,001)	(1,464,224)	(1,394,000)
Interest paid on long-term debt	-	(85,903)	(676,575)	(762,478)	(845,307)
Capital contributions received	-	106,564	41,555	148,119	61,022
Proceeds from sale of capital assets	51,559	1,927	32,068	85,554	559,183
Purchase/construction of property, plant and equipment	(9,330,728)	(3,199,676)	(1,796,230)	(14,326,634)	(7,041,440)
Net cash used in capital and related financing activities	(9,279,169)	(3,796,311)	(3,244,183)	(16,319,663)	(8,660,542)
Cash flows from investing activities					
Interest income	721,535	100,945	37,047	859,527	1,746,099
Purchase of investment securities	(52,155,102)	(6,027,663)	(499,235)	(58,682,000)	(55,726,580)
Proceeds from sale or maturities of investment securities	46,642,420	8,079,160	1,005,000	55,726,580	60,368,009
Net cash provided by (used in) investing activities	(4,791,147)	2,152,442	542,812	(2,095,893)	6,387,528
Net increase (decrease) in cash and cash equivalents	(117,758)	782,408	23,541	688,191	15,779,924
Cash and cash equivalents, beginning of year	46,424,444	11,554,263	6,399,627	64,378,334	48,598,410
Cash and cash equivalents, end of year	\$ 46,306,686	\$ 12,336,671	\$ 6,423,168	\$ 65,066,525	\$ 64,378,334
Statement of net assets classification of cash and cash equivalents					
Cash and cash equivalents	\$ 46,306,686	\$ 8,901,563	\$ 3,089,928	\$ 58,298,177	\$ 57,658,013
Restricted cash and cash equivalents	-	3,435,108	3,333,240	6,768,348	6,720,321
Total cash and cash equivalents	\$ 46,306,686	\$ 12,336,671	\$ 6,423,168	\$ 65,066,525	\$ 64,378,334

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HOLLAND BOARD OF PUBLIC WORKS

Statement of Cash Flows (Concluded)

For the Year Ended June 30, 2011
(with comparative totals for the year ended June 30, 2010)

	Electric Utility	Wastewater Utility	Water Utility	Business-Type Activities	
				2011	2010
Reconciliation of operating income to net cash provided by operating activities:					
Operating income	\$ 11,054,928	\$ 738,805	\$ 1,550,413	\$ 13,344,146	\$ 11,278,706
Adjustments to reconcile operating income net cash provided by operating activities:					
Depreciation	7,813,259	1,668,564	1,342,399	10,824,222	10,978,260
Changes in operating assets and liabilities which provided (used) cash					
Receivables	(1,973,639)	(42,274)	(76,833)	(2,092,746)	(1,899,051)
Due from other funds of the					
City of Holland	(9,126)	(11,600)	124,607	103,881	34,636
Inventories	(1,743,330)	(16,952)	(39,667)	(1,799,949)	3,772,795
Prepaid expenses	496,161	(27,007)	77	469,231	(740,406)
Accounts payable	2,078,915	226,297	(63,097)	2,242,115	(1,768,666)
Accrued salaries and wages payable	69,733	62,672	38,836	171,241	84,915
Due to other funds of the					
City of Holland	(24,803)	(172,228)	(151,823)	(348,854)	19,468
Deposits	35,867	-	-	35,867	12,711
Net other postemployment benefit obligation	156,193	-	-	156,193	78,770
Net cash provided by operating activities	\$ 17,954,158	\$ 2,426,277	\$ 2,724,912	\$ 23,105,347	\$ 21,852,138

Non-cash transactions

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

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

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

HOLLAND BOARD OF PUBLIC WORKS

NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

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

Basis of Presentation

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

Government-wide and Fund Financial Statements

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

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

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

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

The Board reports the following major enterprise funds:

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

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

HOLLAND BOARD OF PUBLIC WORKS

NOTES TO FINANCIAL STATEMENTS

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

Cash and Cash Equivalents

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

Investments

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

Receivables

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

Due to/from Other Funds

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

Inventories

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

Prepaid Items

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

Restricted Assets

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

HOLLAND BOARD OF PUBLIC WORKS

NOTES TO FINANCIAL STATEMENTS

Capital Assets

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

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

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

Capital assets of the Wastewater Utility include assets purchased with funds provided by participating townships. Depreciation on these assets was approximately \$127,013.

Compensated Absences

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

Bond Discounts, Premiums, Deferred Refunding Costs and Bond Issuance Costs

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

Transfers

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

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.

HOLLAND BOARD OF PUBLIC WORKS

NOTES TO FINANCIAL STATEMENTS

2. DEPOSITS AND INVESTMENTS

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

	<u>Total</u>
Cash and cash equivalents	\$ 58,298,177
Investments	52,531,395
Restricted assets:	
Cash and cash equivalents	6,768,348
Investments	<u>6,150,605</u>
Total	<u>\$ 123,748,525</u>

Deposits and investments consist of the following at June 30, 2011:

Checking and savings accounts	\$ 1,712,786
Certificates of deposit (due within one year)	4,000,000
Investments	118,033,489
Cash on hand	<u>2,250</u>
Total	<u>\$ 123,748,525</u>

Statutory Authority

State statutes authorize the Board to invest in:

- a. Bonds, securities, other obligations and repurchase agreements of the United States, or an agency or instrumentality of the United States.
- b. Certificates of deposit, savings accounts, deposit accounts or depository receipts of a qualified financial institution.
- c. 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.
- d. Bankers acceptances of United States banks.
- e. 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.
- f. 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.
- g. External investment pools as authorized by Public Act 20 as amended through 12/31/97.

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

HOLLAND BOARD OF PUBLIC WORKS

NOTES TO FINANCIAL STATEMENTS

<u>Investment</u>	<u>Maturity Date</u>	<u>Fair Market Value</u>	<u>Rating</u>
Federal Home Loan Bank	10/19/2012	\$ 1,000,180	S&P AAA
Federal Home Loan Bank	08/01/2013	1,000,060	S&P AAA
Michigan Municipal Bond Authority	11/01/2011	530,329	S&P AAA
Federal Farm Credit Bank	07/08/2013	2,000,420	S&P AAA
Federal Farm Credit Bank	10/28/2013	2,000,180	S&P AAA
Federal Farm Credit Bank	06/12/2013	2,001,280	S&P AAA
Federal Farm Credit Bank	06/13/2013	1,996,940	S&P AAA
Federal Home Loan Bank	07/29/2013	2,001,440	S&P AAA
Federal Home Loan Bank	08/23/2013	2,002,400	S&P AAA
Federal Home Loan Bank	12/09/2013	2,003,240	S&P AAA
Federal Home Loan Bank	12/30/2013	2,013,280	S&P AAA
Federal Home Loan Bank	08/09/2013	2,000,100	S&P AAA
Federal Home Loan Bank	12/02/2013	2,002,960	S&P AAA
Federal Home Loan Bank	03/20/2013	1,999,340	S&P AAA
Federal Home Loan Bank	06/21/2013	1,999,420	S&P AAA
Federal Farm Credit Bank	10/12/2012	1,001,129	S&P AAA
Federal Farm Credit Bank	12/06/2013	2,004,888	S&P AAA
Federal Farm Credit Bank	11/23/2012	4,000,184	S&P AAA
Federal Farm Credit Bank	06/13/2013	1,996,936	S&P AAA
Federal Home Loan Bank	12/27/2013	2,013,416	S&P AAA
Federal Home Loan Bank	12/09/2013	2,003,250	S&P AAA
Federal Home Loan Bank	12/30/2013	2,013,286	S&P AAA
Federal Home Loan Bank	12/09/2013	947,532	S&P AAA
Federal Home Loan Bank	03/20/2013	1,999,334	S&P AAA
Federal Home Loan Bank	06/28/2013	1,995,694	S&P AAA
Federal Home Loan Bank	08/26/2015	2,004,060	S&P AAA
Federal Home Loan Bank	07/28/2015	250,407	S&P AAA
Federal Home Loan Bank	11/22/2013	250,268	S&P AAA
Federal Home Loan Bank	07/29/2016	500,670	S&P AAA
Michigan State Taxable Refunding Bonds	11/01/2013	499,815	S&P AA-
Michigan State Taxable Refunding Bonds	11/01/2014	499,560	S&P AA-
MPPA Investments	Various	5,151,347	S&P AAA
Repurchase agreements*	N/A	62,350,144	Not rated
Total Investments		<u>\$118,033,489</u>	

*Denotes investments are collateralized by US government securities

HOLLAND BOARD OF PUBLIC WORKS

NOTES TO FINANCIAL STATEMENTS

Investment and Deposit Risk

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

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

Custodial Credit Risk – Deposits. Custodial credit risk is the risk that in the event of a bank failure, the Board’s deposits may not be returned. State law does not require and the Board’s investment policy does not have specific limits in excess of state law on custodial credit risk. As of year end, \$6,180,265 of the Board’s bank balance of \$6,680,265 was exposed to custodial credit risk because it was uninsured and uncollateralized.

Custodial Credit Risk – Investments. For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Board will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. State law does not require and the Board does not have a policy for investment custodial credit risk which is more restrictive than state law. The Board is not exposed to custodial credit risk because \$62,350,144 of the above \$118,033,489 of investments is held in an overnight sweep account which is collateralized by U.S. government securities while the remainder of investments are held in the name of the Board.

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

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

	Electric Utility	Wastewater Utility	Water Utility	Total
City Trunkage	\$ -	\$ 171,437	\$ 292,659	\$ 464,096
Township Trunkage	-	-	153,708	153,708
Insurance/risk retention	3,159,386	674,139	680,740	4,514,265
	\$ 3,159,386	\$ 845,576	\$ 1,127,107	\$ 5,132,069

HOLLAND BOARD OF PUBLIC WORKS

NOTES TO FINANCIAL STATEMENTS

3. CAPITAL ASSETS

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

	<u>2010</u>	<u>Additions</u>	<u>Deletions</u>	<u>2011</u>	<u>Life-Years</u>
Capital assets, not being depreciated					
Land	\$ 6,869,529	\$ 33,685	\$ 185	\$ 6,903,029	
Construction in progress	<u>1,716,320</u>	<u>8,766,900</u>	<u>3,563,998</u>	<u>6,919,222</u>	
	<u>8,585,849</u>	<u>8,800,585</u>	<u>3,564,183</u>	<u>13,822,251</u>	
Capital assets, being depreciated					
Production plant	167,979,256	3,464,095	9,072	171,434,279	5-50
Distribution/collection system	106,359,136	5,225,101	882,515	110,701,722	20-50
Transmission	41,676,952	276,182	-	41,953,134	20-50
General plant	<u>18,237,037</u>	<u>580,365</u>	<u>462,204</u>	<u>18,355,198</u>	5-50
	<u>334,252,381</u>	<u>9,545,743</u>	<u>1,353,791</u>	<u>342,444,333</u>	
Accumulated depreciation					
Production plant	116,915,014	5,578,537	756	122,492,795	
Distribution / collection system	68,605,436	3,547,806	805,542	71,347,700	
Transmission	17,220,986	957,190	-	18,178,176	
General plant	<u>10,120,180</u>	<u>740,689</u>	<u>462,182</u>	<u>10,398,687</u>	
	<u>212,861,616</u>	<u>10,824,222</u>	<u>1,268,480</u>	<u>222,417,358</u>	
Net capital assets being depreciated	<u>121,390,765</u>	<u>(1,278,479)</u>	<u>85,311</u>	<u>120,026,975</u>	
Total capital assets, net	<u>\$ 129,976,614</u>	<u>\$ 7,522,106</u>	<u>\$ 3,649,494</u>	<u>\$ 133,849,226</u>	

HOLLAND BOARD OF PUBLIC WORKS

NOTES TO FINANCIAL STATEMENTS

4. LONG-TERM DEBT

Long-term debt outstanding is as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
2001 Ottawa County Refunding Sewage Bonds (City assumed 70% of total 2001 Ottawa County Disposal) refunded in 2011	\$ 2,579,500	\$ -	\$ 2,579,500	\$ -	\$ -
2005A Water Supply System Revenue Refunding Bonds due in annual installments of \$635,000 to \$915,000 through 2018, interest rates from 3.0% to 4.0%.	6,335,000	-	685,000	6,335,000	715,000
2005B Water Supply System Revenue Bonds due in annual installments of \$155,000 to \$1,525,000 through 2025, interest rates from 3.0% to 5.0%.	10,640,000	-	160,000	10,480,000	160,000
2011 Ottawa County Refunding Sewage Bonds (City assumed 70% of total 2011 Ottawa County Disposal) due in annual installments of \$52,500 to \$682,500 through 2014, interest rate of 2%.	<u>-</u>	<u>2,054,500</u>	<u>52,500</u>	<u>2,002,000</u>	<u>654,500</u>
Total installment debt	19,554,500	2,054,500	3,477,000	18,132,000	1,529,500
Unamortized discounts:					
2005A Water Supply System Revenue	(9,044)	-	(2,087)	(6,957)	(1,860)
2005B Water Supply System Revenue	(103,671)	-	(9,737)	(93,934)	(9,623)
Unamortized deferred refunding loss:					
2001 Ottawa County Refunding Sewage	(124,924)	-	(124,924)	-	-
2005 A Water Supply System Revenue	(160,435)	-	(37,023)	(123,412)	(33,000)
2011 Ottawa County Refunding Sewage	<u>-</u>	<u>(147,087)</u>	<u>(18,386)</u>	<u>(128,701)</u>	<u>(44,126)</u>
Total long-term debt	<u>\$ 19,156,426</u>	<u>\$ 1,907,413</u>	<u>\$ 3,284,843</u>	<u>\$ 17,778,996</u>	<u>\$ 1,440,891</u>

HOLLAND BOARD OF PUBLIC WORKS

NOTES TO FINANCIAL STATEMENTS

Debt Service Requirements

The annual requirements to maturity on debt outstanding as of June 30, 2011, excluding unamortized discount and deferred refunding costs on bonds payable are as follows:

<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2012	\$ 1,529,500	\$ 689,529	\$ 2,219,029
2013	1,570,000	647,195	2,217,195
2014	1,617,500	602,250	2,219,750
2015	975,000	554,738	1,529,738
2016	1,010,000	517,038	1,527,038
2017-2021	5,745,000	1,927,652	7,672,652
2022-2025	5,685,000	565,093	6,250,093
Total	\$ 18,132,000	\$ 5,503,495	\$ 23,635,495

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.

Refunded Debt

During fiscal year 2011, the Board advance refunded \$1,981,000 of 2001 Ottawa County Sewage Bonds to provide resources to purchase U.S. government securities that were placed in an escrow fund for the purpose of generating resources for all future debt service payments of \$1,981,000 of refunded debt. As a result, the certificates are considered defeased and the liability has been removed from the statement of net assets. The refunding resulted in a savings of \$72,115 and an economic gain of \$69,552.

5. PENSION PLANS

Defined Benefit Pension Plan

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

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

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

HOLLAND BOARD OF PUBLIC WORKS

NOTES TO FINANCIAL STATEMENTS

Funding Policy. The Board is required to contribute at an actuarially determined fixed rate; the current rate is \$92,874 per month. Employees are required to contribute 2.0% to the Plan. The contribution requirements of the Board are established and may be amended by the Retirement Board of MERS. The contribution requirements of plan members, if any, are established and may be amended by the City, depending on the MERS contribution program adopted by the Board of Public Works.

Annual Pension Cost. For the year ended June 30, 2011, the Board's annual pension cost of \$1,135,005 for MERS was equal to the Board's required and actual contributions. The required contribution was determined as part of the December 31, 2008 actuarial valuation using the entry age actuarial cost method. The actuarial assumptions included (a) a rate of return on the investment of present and future assets of 8.0%, (b) projected salary increases of 4.5% per year compounded annually, attributable to inflation, and (c) additional projected salary increases of 0.0% to 8.4% per year, depending on age, attributable to seniority/merit. The actuarial value of MERS assets was determined on the basis of a valuation method that assumes the fund earns the expected rate of return, and includes an adjustment to reflect fair value. The Board's unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at December 31, 2010, the date of the latest actuarial valuation, ranges from 14 to 30 years, depending on the specific employee group. Employee contributions for the year ended June 30, 2011 were \$40,042.

Funded status and funding progress. A separate actuarial valuation is not prepared for the Board. The schedule of funding progress for the City of Holland is included in the City's financial statements for the year ended June 30, 2011. The schedule of employer contributions, presented as required supplementary information (RSI) following the notes to the financial statements, presents multiyear trend information about how the Board is funding its annual pension costs.

Defined Contribution Pension Plan

The Board participates in a defined contribution retirement plan which is administered by the ICMA in participation with MERS for both nonbargaining and union employees. The defined contribution provisions of the plan require the Board to contribute 6% of covered employee payroll and to match employee contributions up to 2% for nonbargaining employees and up to 4% for union employees. The participants direct their investments under defined contribution provisions. The Board contributed \$294,970 and employees contributed \$88,350 to the defined contribution plan.

6. OTHER POSTEMPLOYMENT BENEFITS

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

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

HOLLAND BOARD OF PUBLIC WORKS

NOTES TO FINANCIAL STATEMENTS

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. The contribution requirements of Plan members, the Board and the City are established and may be amended by the City Council. The required contribution is based on projected pay-as-you-go financing requirements. For the year ended June 30, 2011, the Board contributed \$57,982.

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

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

Annual required contribution	\$ 215,782
Interest on net OPEB obligation	3,869
Adjustment to annual required contribution	<u>(5,476)</u>
Net OPEB cost (expense)	214,175
Contributions made	<u>(57,982)</u>
Increase in net OPEB obligation	156,193
Net OPEB obligation, beginning of year	<u>188,330</u>
Net OPEB obligation, end of year	<u>\$ 344,523</u>

Funded status and funding progress. A separate actuarial valuation is not prepared for the Board. The schedule of funding progress for the City of Holland is included in the City's financial statements for the year ended June 30, 2011. The schedule of employer contributions, presented as required supplementary information (RSI) following the notes to the financial statements, presents multiyear trend information about how the Board is funding its annual OPEB costs.

7. RISK MANAGEMENT

The Board is exposed to various risks of loss related to property loss, torts, errors and omissions, employee injuries (workers' compensation), as well as medical benefits provided to employees. The Board is self-insured for these risks through the City of Holland's self-insurance program except for workers' compensation risks which are covered through commercial insurance. The City purchases excess reinsurance and allocates risk management costs among the various funds of the City, including the Board of Public Works. The schedule of changes in the self-insured liability balances is included in the City of Holland's financial statements for the year ended June 30, 2011.

HOLLAND BOARD OF PUBLIC WORKS

NOTES TO FINANCIAL STATEMENTS

8. COMMITMENTS

The Board has contracts outstanding for remaining project costs of approximately \$1,623,836 for various electric utility projects, \$235,980 for various water projects, \$3,561,163 for various wastewater projects and \$216,097 for administration.

9. LANDFILL CLOSURE AND POSTCLOSURE CARE

The Board owns and maintains a landfill for flyash and wastewater treatment bio solids. In accordance with Michigan Department of Environmental Quality requirements, funding for closure cost estimates of \$111,000 and post-closure cost estimates of \$216,450 have been assured with a \$100,000 letter of credit and \$10,219 held in trust at June 30, 2011.

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

10. JOINT VENTURE

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

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

For the year ended June 30, 2011, the Board recognized expenses totaling \$13,937,763 under the terms of the contract which represented \$3,238,743 for fixed operating costs, \$5,225,641 for debt service and \$5,473,380 for the purchase of power. Accounts payable to MPPA totaled \$2,139,308 at June 30, 2011. For the year ended June 30, 2010, the Board recognized expenses totaling \$12,429,560 under the terms of the contract which represented \$3,187,955 for fixed operating costs, \$5,220,463 for debt service and \$4,021,143 for the purchase of power. Accounts payable to MPPA totaled \$755,487 at June 30, 2010. Under the terms of its contracts, the Board must make minimum annual payments equal to its share of debt service and its share of the fixed operating costs of Detroit Edison's Belle River No. 1 and Consumers Energy's Campbell Unit No. 3. The estimated required payments presented below assume no early calls or refinancing of existing revenue bonds and 3.0% annual inflation of fixed operating costs.

HOLLAND BOARD OF PUBLIC WORKS

NOTES TO FINANCIAL STATEMENTS

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

Year	Belle River		Campbell		Total
	Debt Service	Fixed Operating	Debt Service	Fixed Operating	
2012	\$ 4,306,001	\$ 2,702,069	\$ 922,180	\$ 733,913	\$ 8,664,163
2013	4,305,460	2,783,131	923,442	755,931	8,767,965
2014	4,305,960	2,866,625	909,075	778,609	8,860,269
2015	4,305,533	2,952,623	869,550	801,967	8,929,673
2016	12,916,953	3,041,202	830,025	826,026	17,614,206
2017-2018	-	6,358,849	-	-	6,358,849
	\$ 30,139,908	\$ 20,704,499	\$ 4,454,273	\$ 3,896,446	\$ 59,195,125

Debt Service requirements expire in the years 2018 and 2016 for the Belle River and Campbell projects, respectively. The above amounts include estimated fixed operating costs for the same period as the Debt Service. The contracts for the Board's commitment for fixed operating costs to extend beyond these dates is dependent upon the use of the facilities.

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

11. LITIGATION

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

12. INVESTED IN CAPITAL ASSETS, NET OF RELATED DEBT

The composition of net assets invested in capital assets, net of related debt as of June 30, 2011, was as follows:

Capital assets:	
Capital assets not being depreciated	\$ 13,822,251
Capital assets being depreciated, net	120,026,975
	<u>133,849,226</u>
Related debt:	
Total bonds and notes payable	18,132,000
Net bond premium/discount	(100,891)
Deferred loss on advance refunding	(252,113)
	<u>17,778,996</u>
Invested in capital assets, net of capital-related debt	<u>\$ 116,070,230</u>

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SUPPLEMENTARY INFORMATION

HOLLAND BOARD OF PUBLIC WORKS

SCHEDULE OF EMPLOYER CONTRIBUTIONS DEFINED BENEFIT PENSION PLAN

<u>Year Ended</u>	<u>Annual Pension Costs (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
6/30/2006	\$ 685.402	100%	\$ -
6/30/2007	840.908	100%	-
6/30/2008	895.157	100%	-
6/30/2009	865.829	100%	-
6/30/2010	881.831	100%	-
6/30/2011	1,135.005	100%	-

SCHEDULE OF EMPLOYER CONTRIBUTIONS OTHER POSTEMPLOYMENT BENEFITS PLAN

<u>Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Percentage of OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
6/30/2009 *	\$ 175.724	38%	\$ 109.560
6/30/2010	214.175	63%	188.330
6/30/2011	214.175	27%	344.523

* Only three years of data is available

HOLLAND BOARD OF PUBLIC WORKS

Combining Statement of Net Assets

June 30, 2010

	<u>Electric Utility</u>	<u>Wastewater Utility</u>	<u>Water Utility</u>	<u>Total</u>
Assets				
Current assets				
Cash and cash equivalents	\$ 46,424,444	\$ 8,192,286	\$ 3,041,283	\$ 57,658,013
Investments	41,618,659	6,071,505	1,005,000	48,695,164
Receivables:				
Accounts receivable	5,494,690	955,340	537,743	6,987,773
Unbilled revenue	4,149,277	283,578	355,865	4,788,720
Special assessments and other	-	115,417	92,849	208,266
Accrued interest	140,388	28,730	2,528	171,646
Due from other funds of the				
City of Holland	185,077	36,680	148,530	370,287
Inventories	6,924,425	45,908	182,329	7,152,662
Prepaid expenses	851,817	-	4,415	856,232
Total current assets	<u>105,788,777</u>	<u>15,729,444</u>	<u>5,370,542</u>	<u>126,888,763</u>
Noncurrent assets				
Restricted assets:				
Cash and cash equivalents	-	3,361,977	3,358,344	6,720,321
Investments	5,023,761	2,007,655	-	7,031,416
Accrued interest	-	10,697	-	10,697
Total restricted assets	<u>5,023,761</u>	<u>5,380,329</u>	<u>3,358,344</u>	<u>13,762,434</u>
Capital assets:				
Land	4,810,124	260,673	1,798,732	6,869,529
Construction in progress	921,319	366,666	428,335	1,716,320
Plant and equipment	213,626,532	67,808,341	52,817,508	334,252,381
Accumulated depreciation	(156,149,693)	(37,376,453)	(19,335,470)	(212,861,616)
Total capital assets, net	<u>63,208,282</u>	<u>31,059,227</u>	<u>35,709,105</u>	<u>129,976,614</u>
Total noncurrent assets	<u>68,232,043</u>	<u>36,439,556</u>	<u>39,067,449</u>	<u>143,739,048</u>
Total assets	<u>174,020,820</u>	<u>52,169,000</u>	<u>44,437,991</u>	<u>270,627,811</u>

	<u>Electric Utility</u>	<u>Wastewater Utility</u>	<u>Water Utility</u>	<u>Total</u>
Liabilities				
Current liabilities				
Accounts payable	\$ 3,542,535	\$ 368,019	\$ 222,500	\$ 4,133,054
Accrued salaries and wages payable	544,618	258,681	212,903	1,016,202
Due to other funds of the City of Holland	31,283	245,856	175,661	452,800
Deposits	203,553	-	-	203,553
Accrued interest payable	-	9,901	-	9,901
Current maturities of bonds payable	-	567,269	-	567,269
Current liabilities payable from restricted assets:				
Bonds payable	-	-	796,152	796,152
Accrued interest payable	-	-	344,600	344,600
Total current liabilities	<u>4,321,989</u>	<u>1,449,726</u>	<u>1,751,816</u>	<u>7,523,531</u>
Noncurrent liabilities				
Landfill closure and postclosure cost	327,450	-	-	327,450
Long-term debt - net of current portion	-	1,887,307	15,905,698	17,793,005
Net other postemployment benefit obligation	<u>109,231</u>	<u>43,316</u>	<u>35,783</u>	<u>188,330</u>
Total noncurrent liabilities	<u>436,681</u>	<u>1,930,623</u>	<u>15,941,481</u>	<u>18,308,785</u>
Total liabilities	<u>4,758,670</u>	<u>3,380,349</u>	<u>17,693,297</u>	<u>25,832,316</u>
Net assets				
Invested in capital assets, net of related debt	63,208,282	28,604,651	19,007,255	110,820,188
Restricted for:				
Debt service	-	-	3,059,398	3,059,398
Equipment replacement	-	3,223,448	-	3,223,448
Park Township	-	-	214,051	214,051
Cooperative payments	5,023,761	-	-	5,023,761
Construction	-	-	84,895	84,895
Unrestricted	<u>101,030,107</u>	<u>16,960,552</u>	<u>4,379,095</u>	<u>122,369,754</u>
Total net assets	<u>\$ 169,262,150</u>	<u>\$ 48,788,651</u>	<u>\$ 26,744,694</u>	<u>\$ 244,795,495</u>

HOLLAND BOARD OF PUBLIC WORKS

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

For the Year Ended June 30, 2010

	Electric Utility	Wastewater Utility	Water Utility	Total
Operating revenue				
Residential sales	\$ 16,174,028	\$ 1,938,303	\$ 1,922,972	\$ 20,035,303
Commercial sales	27,216,356	1,525,923	1,547,446	30,289,725
Industrial sales	30,754,077	466,377	615,476	31,835,930
Wholesale	-	2,201,589	1,820,866	4,022,455
Fees and other	4,391,969	1,742,664	424,637	6,559,270
Total operating revenue	<u>78,536,430</u>	<u>7,874,856</u>	<u>6,331,397</u>	<u>92,742,683</u>
Operating expenses				
Salaries and wages	3,416,090	998,646	770,828	5,185,564
Employee benefits	2,277,450	637,816	516,656	3,431,922
Production	45,015,527	1,917,553	524,679	47,457,759
Distribution	2,718,573	586,378	512,586	3,817,537
Administrative and general	7,068,310	1,896,972	1,627,653	10,592,935
Depreciation	8,028,247	1,624,317	1,325,696	10,978,260
Total operating expenses	<u>68,524,197</u>	<u>7,661,682</u>	<u>5,278,098</u>	<u>81,463,977</u>
Operating income	<u>10,012,233</u>	<u>213,174</u>	<u>1,053,299</u>	<u>11,278,706</u>
Nonoperating income (expense) - net				
Interest income	1,239,100	290,506	68,655	1,598,261
Interest expense	-	(172,932)	(742,037)	(914,969)
Gain (loss) on sale and disposal of capital assets	14,036	(56,983)	130	(42,817)
Total nonoperating income (expense) - net	<u>1,253,136</u>	<u>60,591</u>	<u>(673,252)</u>	<u>640,475</u>
Net income before contributions and transfers	<u>11,265,369</u>	<u>273,765</u>	<u>380,047</u>	<u>11,919,181</u>
Capital contributions				
Infrastructure	-	52,764	396,251	449,015
Trunkage	-	41,770	19,252	61,022
Total capital contributions	<u>-</u>	<u>94,534</u>	<u>415,503</u>	<u>510,037</u>
Transfers out to other funds of the City of Holland	<u>(3,799,200)</u>	<u>-</u>	<u>-</u>	<u>(3,799,200)</u>
Change in net assets	7,466,169	368,299	795,550	8,630,018
Net assets, beginning of year	<u>161,795,981</u>	<u>48,420,352</u>	<u>25,949,144</u>	<u>236,165,477</u>
Net assets, end of year	<u>\$ 169,262,150</u>	<u>\$ 48,788,651</u>	<u>\$ 26,744,694</u>	<u>\$ 244,795,495</u>

HOLLAND BOARD OF PUBLIC WORKS

Combining Statement of Cash Flows

For the Year Ended June 30, 2010

	Electric Utility	Wastewater Utility	Water Utility	Total
Cash flows from operating activities				
Receipts from customers and users	\$ 76,929,297	\$ 7,722,158	\$ 6,239,524	\$ 90,890,979
Payments to suppliers	(53,822,533)	(4,099,240)	(2,584,497)	(60,506,270)
Payments to employees	(5,659,836)	(1,613,235)	(1,259,500)	(8,532,571)
Net cash provided by operating activities	17,446,928	2,009,683	2,395,527	21,852,138
Cash flows from noncapital financing activities				
Transfers to other funds of the City of Holland	(3,799,200)	-	-	(3,799,200)
Cash flows from capital and related financing activities				
Principal paid on long-term debt	-	(574,000)	(820,000)	(1,394,000)
Interest paid on long-term debt	(23)	(143,783)	(701,501)	(845,307)
Capital contributions received	-	41,770	19,252	61,022
Proceed from sale of capital assets	558,568	237	378	559,183
Purchase/construction of property, plant and equipment	(3,431,113)	(1,910,078)	(1,700,249)	(7,041,440)
Net cash used in capital and related financing activities	(2,872,568)	(2,585,854)	(3,202,120)	(8,660,542)
Cash flows from investing activities				
Interest income	1,326,490	342,445	77,164	1,746,099
Purchase of investment securities	(46,642,420)	(8,079,160)	(1,005,000)	(55,726,580)
Proceeds from sale or maturities of investment securities	43,811,641	15,052,888	1,503,480	60,368,009
Net cash provided by (used in) investing activities	(1,504,289)	7,316,173	575,644	6,387,528
Net increase (decrease) in cash and cash equivalents	9,270,871	6,740,002	(230,949)	15,779,924
Cash and cash equivalents, beginning of year	37,153,573	4,814,261	6,630,576	48,598,410
Cash and cash equivalents, end of year	\$ 46,424,444	\$ 11,554,263	\$ 6,399,627	\$ 64,378,334
Statement of net assets classification of cash and cash equivalents				
Cash and cash equivalents	\$ 46,424,444	\$ 8,192,286	\$ 3,041,283	\$ 57,658,013
Restricted assets, cash and cash equivalents	-	3,361,977	3,358,344	6,720,321
Total cash and cash equivalents	\$ 46,424,444	\$ 11,554,263	\$ 6,399,627	\$ 64,378,334

Continued...

HOLLAND BOARD OF PUBLIC WORKS

Combining Statement of Cash Flows (Concluded)

For the Year Ended June 30, 2010

	<u>Electric Utility</u>	<u>Wastewater Utility</u>	<u>Water Utility</u>	<u>Total</u>
Reconciliation of operating income to net cash provided by operating activities:				
Operating income	\$ 10,012,233	\$ 213,174	\$ 1,053,299	\$ 11,278,706
Adjustments to reconcile operating income to net cash provided by operating activities				
Depreciation	8,028,247	1,624,317	1,325,696	10,978,260
Changes in operating assets and liabilities which provided (used) cash				
Receivables	(1,655,340)	(187,367)	(56,344)	(1,899,051)
Due from other funds of the				
City of Holland	35,496	34,669	(35,529)	34,636
Inventories	3,771,067	(1,712)	3,440	3,772,795
Prepaid expenses	(739,502)	45	(949)	(740,406)
Accounts payable	(1,913,518)	84,844	60,008	(1,768,666)
Accrued salaries and wages payable	33,704	23,227	27,984	84,915
Due to other funds of the City of Holland	(179,367)	196,925	1,910	19,468
Deposits	12,711	-	-	12,711
Net other postemployment benefit obligation	41,197	21,561	16,012	78,770
Net cash provided by operating activities	<u>\$ 17,446,928</u>	<u>\$ 2,009,683</u>	<u>\$ 2,395,527</u>	<u>\$ 21,852,138</u>

Non-cash transaction

The Board received noncash capital contributions of \$52,764 and \$396,251 in the wastewater and water utilities, respectively.

HOLLAND BOARD OF PUBLIC WORKS

Holland Area Waste Treatment Plant Reserve for Equipment Replacement

June 30, 2011

Year Ended June 30	Contributions From		Interest		Improvements	Reserve Balance
	Billings	Other	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	-	6.33	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	-	1.60	51,516	639,343	3,223,448
2011	1,260,575	-	0.23	17,304	144,684	4,356,643

NOTE: The ending reserve balance does not reflect any open purchase commitments at June 30.

HOLLAND BOARD OF PUBLIC WORKS

Schedule of Capital Assets

June 30, 2011

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

HOLLAND BOARD OF PUBLIC WORKS

Schedule of Capital Assets

June 30, 2010

	<u>Electric Utility</u>	<u>Wastewater Utility</u>	<u>Water Utility</u>	<u>Combined</u>
Land	\$ 4,810,124	\$ 260,673	\$ 1,798,732	\$ 6,869,529
Construction in progress	921,319	366,666	428,335	1,716,320
Production plant	115,924,546	36,448,473	15,605,840	167,978,859
Distribution system	74,758,303	5,593,757	26,007,475	106,359,535
Transmission	11,350,403	21,643,406	8,683,142	41,676,951
General plant	11,593,280	4,122,705	2,521,051	18,237,036
Total	219,357,975	68,435,680	55,044,575	342,838,230
Accumulated depreciation	<u>(156,149,693)</u>	<u>(37,376,453)</u>	<u>(19,335,470)</u>	<u>(212,861,616)</u>
Total capital assets, net	<u>\$ 63,208,282</u>	<u>\$ 31,059,227</u>	<u>\$ 35,709,105</u>	<u>\$ 129,976,614</u>

**INTERNAL CONTROL
AND
COMPLIANCE**

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

September 12, 2011

Board of Directors
Holland Board of Public Works
Holland, Michigan

We have audited the financial statements of the business-type activities and each major fund of the *Holland Board of Public Works* (enterprise funds of the City of Holland, Michigan), as of and for the year ended June 30, 2011, which collectively comprise the Holland Board of Public Works' basic financial statements, and have issued our report thereon dated September 12, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Holland Board of Public Works' internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Holland Board of Public Works' internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Holland Board of Public Works' internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as identified above.

Compliance and Other Matters

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

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

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