

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



Year Ended  
June 30, 2014

Financial  
Statements and  
Supplementary  
Information

# HOLLAND BOARD OF PUBLIC WORKS

(Enterprise Funds of the City of Holland, Michigan)

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## INDEPENDENT AUDITORS' REPORT

September 24, 2014

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, 2014, 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, 2014, 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.

### *Emphasis of Matter*

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, 2014, 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 Matters*

### *Other Information*

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

The management's discussion and analysis on pages 5-10 and the Schedule of Employer Contributions for the pension and other postemployment benefit plans on page 34 have not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on them.

### Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 24, 2014 on our consideration of the Board's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Board's internal control over financial reporting and compliance.

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, 2014 and 2013. Please read it in conjunction with the financial statements, which follow this section.

### OVERVIEW OF BUSINESS

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

- It operates an electric system, which generates, transmits and distributes electricity to approximately 28,000 residential, commercial and industrial customers in the City of Holland and portions of Holland, Park, Laketown and Fillmore Townships.
- It operates a water filtration plant, with capacity to purify 38.5 million gallons per day and distributes water to approximately 13,400 residential, commercial and industrial customers located in the City of Holland and portions Park, Laketown and Holland Charter Townships. The HBPW receives its water from Lake Michigan.
- It operates a wastewater treatment plant, which the capacity to treat 12.5 million gallons per day and serves approximately 12,300 residential, commercial and industrial customers in the City of Holland and portions of Holland, Park, Laketown and Fillmore Townships. The wastewater is received from the City of Holland and Fillmore, Laketown, Park and Holland Charter Townships.

### FINANCIAL HIGHLIGHTS

Electric, Wastewater and Water all had rate increases in FY2014 ranging from averages of 3.2% to 13.0%. The employee benefit costs are shared by employees who pay for a portion of health and pension costs.

#### Condensed Financial Information

	Net Position (In Thousands)							
	Electric		Wastewater		Water		Total	
	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>
Current assets	\$ 160,482	\$ 136,726	\$ 14,044	\$ 15,361	\$ 8,351	\$ 7,447	\$ 182,877	\$ 159,534
Noncurrent assets	136,665	5,348	3,199	2,555	6,065	6,037	145,929	13,940
Capital assets, net	<u>83,477</u>	<u>63,291</u>	<u>37,521</u>	<u>35,006</u>	<u>39,143</u>	<u>39,171</u>	<u>160,141</u>	<u>137,468</u>
Total assets	380,624	205,365	54,764	52,922	53,559	52,655	488,947	310,942
Deferred outflow	-	-	-	40	467	548	467	588
Current liabilities	8,349	8,213	1,647	1,676	2,220	2,257	12,216	12,146
Noncurrent liabilities	<u>166,879</u>	<u>630</u>	<u>147</u>	<u>118</u>	<u>17,690</u>	<u>19,052</u>	<u>184,716</u>	<u>19,800</u>
Total liabilities	175,228	8,843	1,794	1,794	19,910	21,309	196,932	31,946
Net Investment in capital assets	37,016	63,292	37,521	34,363	20,680	19,500	95,217	117,155
Restricted	16,668	5,347	3,198	1,785	3,198	3,167	23,064	10,299
Unrestricted	<u>151,712</u>	<u>127,883</u>	<u>12,251</u>	<u>15,020</u>	<u>10,238</u>	<u>9,227</u>	<u>174,201</u>	<u>152,130</u>
Total net position	<u>\$ 205,396</u>	<u>\$ 196,522</u>	<u>\$ 52,970</u>	<u>\$ 51,168</u>	<u>\$ 34,116</u>	<u>\$ 31,894</u>	<u>\$ 292,482</u>	<u>\$ 279,584</u>



The assets and deferred outflows of resources of the Holland Board of Public Works exceeded its liabilities at the close of the most recent fiscal year by \$292,482M (net position). Of this amount, \$174,201M was unrestricted net position and may be used to meet the Board's ongoing obligations to citizens and creditors. A substantial portion of the Board's net position, \$95,217M (32.6 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. The Board uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the Board's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources since the capital assets themselves cannot be used to liquidate these liabilities. An additional portion of the Board's net position of \$23,064M (7.9 percent) represents resources that are subject to external restrictions on how they may be used.

	Results of Operations							
	(In Thousands)							
	Electric		Wastewater		Water		Total	
	2014	2013	2014	2013	2014	2013	2014	2013
Operating revenue	\$ 97,540	\$ 93,577	\$ 10,108	\$ 9,446	\$ 8,834	\$ 8,506	\$ 116,482	\$ 111,529
Operating expenses	(82,919)	(79,501)	(8,459)	(8,266)	(5,779)	(5,544)	(97,157)	(93,311)
Nonoperating income (expense), net	(756)	17	10	(132)	(443)	(688)	(1,189)	(803)
Net income before contributions, transfers and extraordinary item	13,865	14,093	1,659	1,048	2,612	2,274	18,136	17,415
Capital contributions	-	-	143	55	130	561	273	616
Contributions to City	(4,991)	(4,651)	-	-	-	-	(4,991)	(4,651)
Extraordinary Item	-	-	-	-	(520)	-	(520)	-
Change in net position	8,874	9,442	1,802	1,103	2,222	2,835	12,898	13,380
Beginning net position, as restated	196,522	187,080	51,168	50,065	31,894	29,059	279,584	266,204
Ending net position	\$ 205,396	\$ 196,522	\$ 52,970	\$ 51,168	\$ 34,116	\$ 31,894	\$ 292,482	\$ 279,584

#### Electric:

- Bonds were issued by the City, in the amount of \$158,840M the proceeds of which are to be used by the Board for the purposes of financing a portion of the cost of acquiring, constructing, improving and installing a gas fired combined cycle power plan, and associated facilities and equipment, bypass discharge infrastructure, and site acquisition and improvements.
- Power production costs were significantly increased due to the extreme harsh winter that drove up the cost of purchased power.
- The Holland Board of Public Works has entered into multiple contracts for renewable energy which are projected to be 16% of sales by 2015.

#### Wastewater:

- The Wastewater Plant continues to experience cost savings and improved efficiency due to the headworks project and improved processes that use less chemicals.

Water:

- The Holland/Wyoming Interconnect Project experienced a water leakage event that caused a complete failure of the valve and metering station. Management plans to rebuild the station and expects to have it operational by end of summer in 2015. The impairment was reflected in the financial statements as an extraordinary item. It is anticipated insurance will be used to rebuild the facility.

**CAPITAL ASSETS**

The Holland Board of Public Works has \$160,141M invested in capital assets net of depreciation. The capital assets of the Electric Utility are \$83,477M, Wastewater Utility has \$37,521M and the Water Utility has \$39,143M. Capital assets include property, plant and equipment and are defined by the Board as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of three years.

Capital asset activity for the current year included:

Electric:

- Property for the new power plant site has been acquired, on the east side of the city, in the amount of approximately \$7,400M.
- The outage management system project was completed for approximately \$165M.

Water:

- Water main replacements and improvements were completed in 2014 costing approximately \$1,400M. Additional replacements and improvements are expected to continue into 2015 with the expected costs of \$1,600M.
- The Holland/Wyoming Interconnect project experienced a leakage that caused the valve and metering station to fail. The asset was classified as impaired causing an extraordinary expense item of approximately \$520M. The valve and metering station is to be re-built in 2015 and the loss is expected to be reimbursed through insurance.

Wastewater:

- The replacement and enhancement of sewer infrastructure was completed by lining over 7.2 miles of sanitary sewer mains in 2014 costing \$2,600M. These replacements and enhancements will continue into 2015 with the expected costs of \$1,500M.
- The Wastewater Treatment Plant made capital investments for improvement in 2014 costing approximately \$150M which includes the replacements and improvements of the odor control chemical feed pumps, raw sewage pump, and upgrades at the east administration building.

**Capital Assets**  
(net of depreciation)  
(In Thousands)

	Electric		Wastewater		Water		Total	
	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>
Land	\$ 4,829	\$ 4,829	\$ 261	\$ 261	\$ 1,940	\$ 1,902	\$ 7,030	\$ 6,992
Construction in progress	24,518	1,574	1,298	1,242	112	619	25,928	3,435
Capital assets, net	<u>54,130</u>	<u>56,888</u>	<u>35,962</u>	<u>33,503</u>	<u>37,091</u>	<u>36,650</u>	<u>127,183</u>	<u>127,041</u>
Total capital assets, net	<u>\$ 83,477</u>	<u>\$ 63,291</u>	<u>\$ 37,521</u>	<u>\$ 35,006</u>	<u>\$ 39,143</u>	<u>\$ 39,171</u>	<u>\$ 160,141</u>	<u>\$ 137,468</u>

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

**SUMMARY OF DEBT**

The Holland Board of Public Works has a total of \$177,055M in debt outstanding as of June 30, 2014. The Electric Utility issued 25 year revenue bonds in the amount of \$158,840M for the new power plant project with a true interest cost of 4.06% that will be paid off in July, 2039. The Wastewater Utility Bond was paid off in June, 2014. The Water Utility has outstanding debt of \$18,215M with interest rates ranging from 2% to 4%. The outstanding Water Supply System Revenue Bonds Series 2005A were refunded and closed on July 10, 2014 which created a cash flow savings of approximately \$272M. All of the Water’s outstanding debt will be paid by April, 2032. Additional information on the Board’s long-term debt can be found in note 4.

**GENERAL ECONOMIC CONDITION**

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

Considerations that helped identify the site included site conditions, available space and access to services such as water supply, gas supply, transmission interconnection and roads. In addition, for services like snowmelt--and possibly district heating--to be cost effective, the site needed to be close enough to downtown to allow for efficient transfer of heat. The provision of those services is an important part of the economic and energy efficiency goals in the Community Energy Plan.

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

The Wastewater Plant has plans to enhance treatment processes with the East Plant Optimization, the improvements to handling Bio-Solids, and the new Chlorine Contact and Plant Effluent projects. This will improve current and future efficiencies of the plant.

## **NEXT YEARS BUDGET AND RATES**

Analysis for 5 year projection of financial position was presented to Board and City Council. The report evaluated the impact of various capital acquisitions and expenditures on the related utilities. In doing so, Board and City Council have approved approximately 3% rate increases for the next two years (FY 2015 and FY 2016) for the Electric Utility in support of the capital project to build the combined cycle gas fired power plant.

## **REQUESTS FOR INFORMATION**

This financial report is designed to provide a general overview of the Holland Board of Public Works for all those with an interest in the Board's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to Ms. Freda W. Velzen, Holland Board of Public Works, 625 Hastings Avenue, Holland, Michigan 49423 or [fvelzen@hollandbpw.com](mailto:fvelzen@hollandbpw.com).

## BASIC FINANCIAL STATEMENTS

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

**Statement of Net Position**

June 30, 2014

(with comparative totals for the year ended June 30, 2013)

	Electric Utility	Wastewater Utility	Water Utility	Business-Type Activities	
				2014	2013
<b>Assets</b>					
Current assets:					
Cash and cash equivalents	\$ 57,674,950	\$ 9,415,536	\$ 4,946,791	\$ 72,037,277	\$ 65,282,488
Investments	74,427,456	3,203,997	1,696,771	79,328,224	66,300,779
Receivables:					
Accounts receivable	6,774,096	868,766	802,942	8,445,804	8,007,411
Unbilled revenue	4,982,560	387,815	514,063	5,884,438	5,550,950
Special assessments and other	-	80,361	131,388	211,749	249,959
Accrued interest	73,040	1,519	1,189	75,748	77,798
Due from other funds of the					
City of Holland	189,156	1,728	28,724	219,608	176,615
Inventories	15,156,713	54,750	206,241	15,417,704	13,577,449
Prepaid expenses and other assets	1,204,416	29,899	22,491	1,256,806	309,039
<b>Total current assets</b>	<b>160,482,387</b>	<b>14,044,371</b>	<b>8,350,600</b>	<b>182,877,358</b>	<b>159,532,488</b>
Noncurrent assets:					
Restricted assets:					
Cash and cash equivalents	131,225,270	3,197,605	3,198,361	137,621,236	4,819,053
Investments	5,439,938	-	-	5,439,938	6,342,382
Accrued interest	-	-	-	-	1,712
<b>Total restricted assets</b>	<b>136,665,208</b>	<b>3,197,605</b>	<b>3,198,361</b>	<b>143,061,174</b>	<b>11,163,147</b>
Capital assets:					
Land	4,829,437	260,673	1,939,744	7,029,854	6,992,557
Construction in progress	24,517,939	1,297,791	112,394	25,928,124	3,434,947
Plant and equipment	236,437,443	79,870,961	61,508,568	377,816,972	368,272,401
Accumulated depreciation	(182,308,029)	(43,907,984)	(24,417,904)	(250,633,917)	(241,231,969)
<b>Total capital assets, net</b>	<b>83,476,790</b>	<b>37,521,441</b>	<b>39,142,802</b>	<b>160,141,033</b>	<b>137,467,936</b>
Other noncurrent assets:					
Due from City of Wyoming	-	-	2,867,070	2,867,070	2,776,931
<b>Total noncurrent assets</b>	<b>220,141,998</b>	<b>40,719,046</b>	<b>45,208,233</b>	<b>306,069,277</b>	<b>151,408,014</b>
<b>Total assets</b>	<b>380,624,385</b>	<b>54,763,417</b>	<b>53,558,833</b>	<b>488,946,635</b>	<b>310,940,502</b>
Deferred outflows of resources					
Deferred loss on refunding	-	-	467,469	467,469	587,925

continued...

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

**Statement of Net Position**

June 30, 2014

(with comparative totals for the year ended June 30, 2013)

	Electric Utility	Wastewater Utility	Water Utility	Business-Type Activities	
				2014	2013
<b>Liabilities</b>					
Current liabilities:					
Accounts payable	\$ 5,514,267	\$ 1,213,775	\$ 249,705	\$ 6,977,747	\$ 7,853,963
Accrued salaries and wages payable	822,248	424,686	363,166	1,610,100	1,524,173
Due to other funds of the City of Holland	23,056	8,612	20,020	51,688	216,086
Deposits	413,539	-	-	413,539	338,599
Accrued interest payable	-	-	-	-	1,138
Current maturities of bonds payable	-	-	-	-	682,500
Current liabilities payable from restricted assets:					
Bonds payable	306,797	-	1,357,570	1,664,367	1,260,074
Accrued interest payable	1,269,103	-	229,205	1,498,308	268,371
<b>Total current liabilities</b>	<b>8,349,010</b>	<b>1,647,073</b>	<b>2,219,666</b>	<b>12,215,749</b>	<b>12,144,904</b>
Noncurrent liabilities:					
Landfill closure and postclosure cost	327,450	-	-	327,450	327,450
Long-term debt, net of current portion	166,151,423	-	17,572,967	183,724,390	18,958,977
Net other postemployment benefit obligation	400,308	146,830	117,252	664,390	513,550
<b>Total noncurrent liabilities</b>	<b>166,879,181</b>	<b>146,830</b>	<b>17,690,219</b>	<b>184,716,230</b>	<b>19,799,977</b>
<b>Total liabilities</b>	<b>175,228,191</b>	<b>1,793,903</b>	<b>19,909,885</b>	<b>196,931,979</b>	<b>31,944,881</b>
<b>Net position</b>					
Net investment in capital assets	37,016,090	37,521,441	20,679,734	95,217,265	117,154,310
Restricted for:					
Debt service	11,227,750	-	2,900,894	14,128,644	2,890,562
Equipment replacement	-	3,197,605	-	3,197,605	1,784,880
Park Township	-	-	297,467	297,467	276,303
Cooperative payments	5,439,938	-	-	5,439,938	5,347,302
Unrestricted	151,712,416	12,250,468	10,238,322	174,201,206	152,130,189
<b>Total net position</b>	<b>\$205,396,194</b>	<b>\$ 52,969,514</b>	<b>\$ 34,116,417</b>	<b>\$292,482,125</b>	<b>\$279,583,546</b>

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, 2014

(with comparative totals for the year ended June 30, 2013)

	Electric Utility	Wastewater Utility	Water Utility	Business-Type Activities	
				2014	2013
<b>Operating revenues</b>					
Residential sales	\$ 19,072,375	\$ 2,598,797	\$ 2,896,181	\$ 24,567,353	\$ 23,898,516
Commercial sales	30,667,895	2,054,958	2,465,505	35,188,358	34,192,393
Industrial sales	42,272,414	728,709	959,246	43,960,369	40,963,173
Wholesale	-	2,638,719	2,042,937	4,681,656	4,710,876
Fees and other	5,526,935	2,086,406	472,020	8,085,361	7,764,081
<b>Total operating revenues</b>	<b>97,539,619</b>	<b>10,107,589</b>	<b>8,835,889</b>	<b>116,483,097</b>	<b>111,529,039</b>
<b>Operating expenses</b>					
Salaries and wages	3,730,420	1,235,602	921,783	5,887,805	5,609,633
Employee benefits	2,594,422	801,568	637,946	4,033,936	3,683,218
Production	60,930,105	2,187,379	607,994	63,725,478	59,431,104
Distribution	2,469,664	755,076	663,480	3,888,220	3,826,278
Administrative and general	6,713,506	1,664,158	1,454,534	9,832,198	11,247,149
Depreciation	6,480,527	1,815,330	1,493,711	9,789,568	9,513,643
<b>Total operating expenses</b>	<b>82,918,644</b>	<b>8,459,113</b>	<b>5,779,448</b>	<b>97,157,205</b>	<b>93,311,025</b>
<b>Operating income</b>	<b>14,620,975</b>	<b>1,648,476</b>	<b>3,056,441</b>	<b>19,325,892</b>	<b>18,218,014</b>
<b>Nonoperating income (expense), net</b>					
Investment income	646,468	46,432	52,480	745,380	26,247
Interest expense	(1,427,884)	(52,961)	(502,557)	(1,983,402)	(613,376)
Insurance refunds	-	17,974	-	17,974	-
Gain (loss) on sale and disposal of capital assets	25,661	(1,577)	7,051	31,135	(215,168)
<b>Total nonoperating income (expense), net</b>	<b>(755,755)</b>	<b>9,868</b>	<b>(443,026)</b>	<b>(1,188,913)</b>	<b>(802,297)</b>
<b>Net income before contributions and transfers</b>	<b>13,865,220</b>	<b>1,658,344</b>	<b>2,613,415</b>	<b>18,136,979</b>	<b>17,415,717</b>
<b>Capital contributions</b>					
Infrastructure	-	41,600	75,180	116,780	-
Trunkage	-	101,551	50,891	152,442	93,965
Federal and state capital grants	-	-	3,593	3,593	521,346
<b>Total capital contributions</b>	<b>-</b>	<b>143,151</b>	<b>129,664</b>	<b>272,815</b>	<b>615,311</b>
<b>Transfers out to other funds of the City of Holland</b>	<b>(4,990,800)</b>	<b>-</b>	<b>-</b>	<b>(4,990,800)</b>	<b>(4,651,200)</b>
<b>Change in net position before extraordinary item</b>	<b>8,874,420</b>	<b>1,801,495</b>	<b>2,743,079</b>	<b>13,418,994</b>	<b>13,379,828</b>
<b>Extraordinary Item (Note 13)</b>	<b>-</b>	<b>-</b>	<b>(520,415)</b>	<b>(520,415)</b>	<b>-</b>
<b>Change in net position</b>	<b>8,874,420</b>	<b>1,801,495</b>	<b>2,222,664</b>	<b>12,898,579</b>	<b>13,379,828</b>
<b>Net position, beginning of year</b>	<b>196,521,774</b>	<b>51,168,019</b>	<b>31,893,753</b>	<b>279,583,546</b>	<b>266,203,718</b>
<b>Net position, end of year</b>	<b>\$205,396,194</b>	<b>\$ 52,969,514</b>	<b>\$ 34,116,417</b>	<b>\$292,482,125</b>	<b>\$279,583,546</b>

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



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

**Statement of Cash Flows**

For the Year Ended June 30, 2014

(with comparative totals for the year ended June 30, 2013)

	Electric Utility	Wastewater Utility	Water Utility	Business-Type Activities	
				2014	2013
<b>Cash flows from operating activities</b>					
Receipts from customers and users	\$ 97,170,198	\$ 10,024,219	\$ 8,586,956	\$115,781,373	\$111,571,524
Payments to suppliers	(73,953,070)	(4,167,858)	(3,002,764)	(81,123,692)	(76,632,834)
Payments to employees	(6,620,208)	(1,822,458)	(1,393,148)	(9,835,814)	(9,232,326)
<b>Net cash provided by operating activities</b>	<b>16,596,920</b>	<b>4,033,903</b>	<b>4,191,044</b>	<b>24,821,867</b>	<b>25,706,364</b>
<b>Cash flows from noncapital financing activities</b>					
Insurance refunds	-	17,974	-	17,974	-
Transfers to other funds of the City of Holland	(4,990,800)	-	-	(4,990,800)	(4,651,200)
Capital Grant - State Drinking Water					
Revolving Fund - Wyoming portion	-	-	945	945	476,254
Purchase/construction of property, plant and equipment owned by the City of Wyoming	-	-	(33,506)	(33,506)	(2,355,323)
<b>Net cash provided by (used in) noncapital financing activities</b>	<b>(4,990,800)</b>	<b>17,974</b>	<b>(32,561)</b>	<b>(5,005,387)</b>	<b>(6,530,269)</b>
<b>Cash flows from capital and related financing activities</b>					
Principal paid on long-term debt	-	(682,500)	(1,175,000)	(1,857,500)	(1,806,500)
Interest paid on long-term debt	(158,781)	(13,650)	(641,712)	(814,143)	(449,246)
Capital contributions received	-	101,551	50,891	152,442	93,965
Proceeds received on refunded bonds	-	-	3,260,000	3,260,000	-
Proceeds on issuance of long-term debt	158,840,000	-	-	158,840,000	-
Proceeds from State Drinking Water					
Revolving Fund Bonds	-	-	38,737	38,737	2,876,413
Capital Grant - State Drinking Water					
Revolving Fund	-	-	3,593	3,593	521,346
Premium in issuance of refunded bonds	-	-	151,423	151,423	-
Premium in issuance of bonds	7,618,220	-	-	7,618,220	-
Cash transferred to escrow for defeased bonds	-	-	(3,441,256)	(3,441,256)	-
Proceeds from sale of capital assets	97,022	32,535	66,853	196,410	28,694
Purchase/construction of property, plant and equipment	(26,737,357)	(4,323,828)	(1,970,390)	(33,031,575)	(11,005,217)
<b>Net cash provided by (used in) capital and related financing activities</b>	<b>139,659,104</b>	<b>(4,885,892)</b>	<b>(3,656,861)</b>	<b>131,116,351</b>	<b>(9,740,545)</b>
<b>Cash flows from investing activities</b>					
Interest received	519,318	42,889	17,410	579,617	372,341
Purchase of investment securities	(79,740,899)	(3,194,848)	(1,662,890)	(84,598,637)	(72,983,944)
Proceeds from sale or maturities of investment securities	66,655,563	4,996,698	990,900	72,643,161	74,737,999
<b>Net cash provided by (used in) investing activities</b>	<b>(12,566,018)</b>	<b>1,844,739</b>	<b>(654,580)</b>	<b>(11,375,859)</b>	<b>2,126,396</b>
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>138,699,206</b>	<b>1,010,724</b>	<b>(152,958)</b>	<b>139,556,972</b>	<b>11,561,946</b>
Cash and cash equivalents, beginning of year	50,201,014	11,602,417	8,298,110	70,101,541	58,539,595
<b>Cash and cash equivalents, end of year</b>	<b>\$188,900,220</b>	<b>\$ 12,613,141</b>	<b>\$ 8,145,152</b>	<b>\$209,658,513</b>	<b>\$ 70,101,541</b>

continued...

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

**Statement of Cash Flows**

For the Year Ended June 30, 2014

(with comparative totals for the year ended June 30, 2013)

	Electric Utility	Wastewater Utility	Water Utility	Business-Type Activities	
				2014	2013
Statement of net position classification of cash and cash equivalents					
Cash and cash equivalents	\$ 57,674,950	\$ 9,415,536	\$ 4,946,791	\$ 72,037,277	\$ 65,282,488
Restricted cash and cash equivalents	131,225,270	3,197,605	3,198,361	137,621,236	4,819,053
<b>Total cash and cash equivalents</b>	<b>\$188,900,220</b>	<b>\$ 12,613,141</b>	<b>\$ 8,145,152</b>	<b>\$209,658,513</b>	<b>\$ 70,101,541</b>
Reconciliation of operating income to net cash provided by operating activities					
Operating income	\$ 14,620,975	\$ 1,648,476	\$ 3,056,441	\$ 19,325,892	\$ 18,218,014
Adjustments to reconcile operating income net cash provided by operating activities:					
Depreciation	6,480,527	1,815,330	1,493,711	9,789,568	9,513,643
Prior year construction in progress costs charged to operating expense due to termination of project	-	-	-	-	833,686
Changes in operating assets and liabilities which provided (used) cash:					
Receivables	(411,107)	(83,783)	(238,781)	(733,671)	32,562
Due from other funds of the City of Holland	(33,254)	413	(10,152)	(42,993)	8,343
Inventories	(1,813,692)	(6,918)	(19,645)	(1,840,255)	(3,009,552)
Prepaid expenses	(905,430)	(23,226)	(19,111)	(947,767)	37,223
Accounts payable	(1,232,516)	498,570	(142,270)	(876,216)	(190,220)
Accrued salaries and wages payable	(295,366)	214,712	166,581	85,927	60,525
Due to other funds of the City of Holland	13,905	(58,178)	(120,125)	(164,398)	21,525
Deposits	74,940	-	-	74,940	1,580
Net other postemployment benefit obligation	97,938	28,507	24,395	150,840	179,035
<b>Net cash provided by operating activities</b>	<b>\$ 16,596,920</b>	<b>\$ 4,033,903</b>	<b>\$ 4,191,044</b>	<b>\$ 24,821,867</b>	<b>\$ 25,706,364</b>

**Non-cash transactions**

In 2013, the Board's Water Utility fund transferred prior year capital asset additions of \$839,645 from capital assets to receivable Due from the City of Wyoming.

concluded

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

## NOTES TO FINANCIAL STATEMENTS

# HOLLAND BOARD OF PUBLIC WORKS

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

### Notes to Financial Statements

#### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

##### Reporting Entity

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

##### *Basis of Presentation*

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

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

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

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

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

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

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

The Board reports the following major enterprise funds:

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

# HOLLAND BOARD OF PUBLIC WORKS

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

### Notes to Financial Statements

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

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

#### Assets, deferred outflows of resources, liabilities and equity

##### *Cash and cash equivalents*

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

##### *Investments*

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

##### *Receivables*

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

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

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

##### *Inventories*

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

##### *Prepaid items*

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

# HOLLAND BOARD OF PUBLIC WORKS

(Enterprise Funds of the City of Holland, Michigan)

## Notes to Financial Statements

### *Restricted assets*

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

### *Capital assets*

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

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

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

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

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

Capital assets of the Water and Wastewater Utility Funds include assets purchased with funds provided by participating townships. Depreciation on these assets were \$22,497 and \$118,182 respectively.

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

## Notes to Financial Statements

### *Due from City of Wyoming*

The Board entered into a cost sharing agreement with the City of Wyoming to finance and construct the Wyoming Interconnect Water Project to be financed by a State Drinking Water Revolving fund bond issue. Upon completion, an estimated 15% of the related debt is scheduled to be forgiven by the grantor agency. Completion of the construction project and repayment of the associated bonds will be the responsibility of the Board. Under the cost sharing agreement, 47.44% of the assets constructed have been transferred to the City for Wyoming, along with an equal proportion of the related debt payments to be paid to the Board by the City of Wyoming, based on the installment payments on the related debt. The balance of this receivable at June 30, 2014 is equal to 47.44% of the assets completed and capitalized at that date, less a ratable share of the estimated debt forgiveness.

### *Deferred outflows of resources*

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/ expenditure) until then. The Board only has one item that qualifies for reporting in this category. It is the deferred loss on refunding reported in the statement of net position. A deferred charge on refunding results from the difference in the carrying value of refunded debt and its reacquisition price.

### *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.

### *Transfers*

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

### *Reclassifications*

Certain items in the 2013 information were reclassified to conform to the 2014 presentation.

### *Use of Estimates*

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

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

**Notes to Financial Statements**

**2. DEPOSITS AND INVESTMENTS**

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

<b>Statement of Net Position</b>	
Cash and cash equivalents	\$ 72,037,277
Investments	79,328,224
Restricted assets:	
Cash and cash equivalents	137,621,236
Investments	<u>5,439,938</u>
<b>Total</b>	<u><u>\$ 294,426,675</u></u>

Deposits and investments consist of the following at June 30, 2014:

<b>Deposits and investments</b>	
Checking and savings accounts	\$ 143,625,609
Certificates of deposit (due within one year)	2,000,000
Certificates of deposit (due within one to five years)	36,861,182
Investments	111,936,984
Cash on hand	<u>2,900</u>
<b>Total</b>	<u><u>\$ 294,426,675</u></u>

*Statutory Authority*

State statutes authorize the Board to invest in:

Bonds, securities, other obligations and repurchase agreements of the United States, or an agency or instrumentality of the United States.

Certificates of deposit, savings accounts, deposit accounts or depository receipts of a qualified financial institution.

Commercial paper rated at the time of purchase within the two highest classifications established by not less than two standard rating services and that matures not more than 270 days after the date of purchase.

Bankers' acceptances of United States banks.

Obligations of the State of Michigan and its political subdivisions, that, at the time of purchase are rated as investment grade by at least one standard rating service.

Mutual funds registered under the Investment Company Act of 1940 with the authority to purchase only investment vehicles that are legal for direct investment by a public corporation.

External investment pools as authorized by Public Act 20 as amended through December 31, 1997.



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

**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.

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

	No maturity	Due < 1 year	Due in 1-5 years	Totals
U.S. government securities	\$ -	\$ 4,510,551	\$ 37,448,651	\$ 41,959,202
Repurchase agreements	64,537,844	-	-	64,537,844
MPPA Investments	5,439,938	-	-	5,439,938
	<u>\$ 69,977,782</u>	<u>\$ 4,510,551</u>	<u>\$ 37,448,651</u>	<u>\$ 111,936,984</u>

*Credit Risk.* State law limits investments to specific government securities, certificates of deposits and bank accounts with qualified financial institutions, commercial paper with specific maximum maturities and ratings when purchased, bankers acceptances of specific financial institutions, qualified mutual funds and qualified external investment pools as identified above. The Board's investment policy does not have specific limits in excess of state law on investment credit risk. The ratings for each investment are identified 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, \$179,422,980 of the Board's bank balance of \$181,672,980 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 \$64,537,844 of the above \$111,936,984 of investments is held in an overnight sweep account which is collateralized by U.S. government securities while the remainder of investments are held in the name of the Board.

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

S&P AA+	\$ 41,454,371
S&P AA-	504,831
Unrated	5,439,938
Not subject to credit risk	64,537,844
	<u>\$ 111,936,984</u>

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

**Notes to Financial Statements**

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

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

	Electric Utility	Wastewater Utility	Water Utility	Total
City trunkage	\$ -	\$ 390,039	\$ 122,408	\$ 512,447
Township trunkage	-	195,817	-	195,817
Insurance/risk retention	3,170,912	682,950	675,877	4,529,739
<b>Total</b>	<b>\$ 3,170,912</b>	<b>\$ 1,268,806</b>	<b>\$ 798,285</b>	<b>\$ 5,238,003</b>

**3. CAPITAL ASSETS**

A summary of capital assets at June 30, 2014 is as follows:

	Beginning Balance	Additions	Deletions	Transfers	Ending Balance
<b>Business-type Activities</b>					
Capital assets, not being depreciated:					
Land	\$ 6,992,557	\$ 37,297	\$ -	\$ -	\$ 7,029,854
Construction in progress	3,434,947	29,728,040	(143,070)	(7,091,793)	25,928,124
	<u>10,427,504</u>	<u>29,765,337</u>	<u>(143,070)</u>	<u>(7,091,793)</u>	<u>32,957,978</u>
Capital assets, being depreciated:					
Production plant	179,892,107	733,627	(45,591)	512,030	181,092,173
Distribution/Collection system	123,229,007	1,918,036	(64,113)	2,832,194	127,915,124
Transmission	45,656,714	219,863	(523,997)	1,835,091	47,187,671
General plant	19,494,573	511,492	(296,539)	1,912,478	21,622,004
	<u>368,272,401</u>	<u>3,383,018</u>	<u>(930,240)</u>	<u>7,091,793</u>	<u>377,816,972</u>
Less accumulated depreciation for:					
Production plant	(132,150,952)	(4,664,564)	41,489	-	(136,774,027)
Distribution/Collection system	(77,712,961)	(3,249,727)	46,010	-	(80,916,678)
Transmission	(19,970,355)	(1,052,594)	3,582	-	(21,019,367)
General plant	(11,397,701)	(822,683)	296,539	-	(11,923,845)
	<u>(241,231,969)</u>	<u>(9,789,568)</u>	<u>387,620</u>	<u>-</u>	<u>(250,633,917)</u>
Total capital assets being depreciated, net	<u>127,040,432</u>	<u>(6,406,550)</u>	<u>(542,620)</u>	<u>7,091,793</u>	<u>127,183,055</u>
Business-type activities capital assets, net	<u>\$ 137,467,936</u>	<u>\$ 23,358,787</u>	<u>\$ (685,690)</u>	<u>\$ -</u>	<u>\$ 160,141,033</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	\$ 20,199,064	\$ 162,138,737	\$ (5,282,500)	\$ 177,055,301	\$ 1,225,000
Unamortized net premium/ discount on revenue bonds	702,487	7,769,643	(138,674)	8,333,456	439,367
	<u>\$ 20,901,551</u>	<u>\$ 169,908,380</u>	<u>\$ (5,421,174)</u>	<u>\$ 185,388,757</u>	<u>\$ 1,664,367</u>

\$5,632,736 2011A Drinking Water Revolving Bonds, due in annual installments of \$236,500 to \$375,000 plus interest at 2.5%, payable semi-annually, through April 1, 2032. \$ 5,215,301

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

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

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

Total revenue bonds \$ 177,055,301

The annual requirements to maturity on debt outstanding as of June 30, 2014, excluding unamortized premium/discounts on bonds payable are as follows:

Year Ended June 30,	Principal	Interest	Total
2015	\$ 1,225,000	\$ 5,094,451	\$ 6,319,451
2016	1,240,000	7,106,226	8,346,226
2017	1,280,000	7,071,676	8,351,676
2018	5,910,000	6,990,101	12,900,101
2019	6,110,000	6,870,976	12,980,976
2020-2024	33,060,000	31,773,460	64,833,460
2025-2029	32,945,000	25,862,080	58,807,080
2030-2034	37,945,301	18,043,403	55,988,704
2035-2039	46,635,000	8,370,335	55,005,335
2040	10,705,000	258,022	10,963,022
	<u>\$ 177,055,301</u>	<u>\$ 117,440,730</u>	<u>\$ 294,496,031</u>

# HOLLAND BOARD OF PUBLIC WORKS

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

### Notes to Financial Statements

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 and Defeased Debt

During fiscal year 2014, the Board advance refunded \$3,425,000 of 2005A Water Supply System Revenue Bonds to provide resources to purchase U.S. government securities that were placed in an escrow fund for the purpose of generating resources for all future debt service payments of \$3,771,200 of refunded debt. As a result, the bonds are considered defeased and the liability has been removed from the statement of net position. The refunding resulted in a savings of \$272,850 and an economic gain of \$266,258.

### 5. BENEFIT PLANS

#### Defined Benefit Pension Plan

The information for the Board's defined benefit pension plan is as of December 31, 2013, which is the most recent information available.

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

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

*Funding Policy.* The Board is required to contribute at an actuarially determined fixed rate; the current rate is \$120,036 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, 2014, the Board's annual pension cost of \$1,430,664 for MERS was equal to the Board's required and actual contributions. The required contribution was determined as part of the December 31, 2011 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 13.0% 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, 2013, the date of the latest actuarial valuation, ranges from 8 to 14 years, depending on the specific employee group. Employee contributions for the year ended June 30, 2014 were \$116,803.

# HOLLAND BOARD OF PUBLIC WORKS

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

### Notes to Financial Statements

*Funded Status and Funding Progress.* A separate actuarial valuation is not prepared for the Board. The schedule of funding progress for the City of Holland is included in the City's financial statements for the year ended June 30, 2014. 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 \$406,905 and employees contributed \$101,435 to the defined contribution plan.

### 6. OTHER POSTEMPLOYMENT BENEFITS

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

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

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

*Funding Policy.* Contribution requirements of Plan members, the Board and the City are established and may be amended by the City Council. The required contribution is based on projected pay-as-you-go financing requirements. For the year ended June 30, 2014, the Board contributed \$117,569.

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

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

**Notes to Financial Statements**

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

Annual required contribution	\$ 279,475
Interest on net OPEB obligation	20,543
Adjustment to annual required contribution	<u>(31,609)</u>
Net OPEB cost (expense)	268,409
Contributions made	<u>(117,569)</u>
Increase in net OPEB obligation	150,840
Net OPEB obligation, beginning of year	<u>513,550</u>
Net OPEB obligation, end of year	<u><u>\$ 664,390</u></u>

*Funded Status and Funding Progress.* A separate actuarial valuation is not prepared for the Board. The schedule of funding progress for the City of Holland is included in the City’s financial statements for the year ended June 30, 2014. 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, 2014.

**8. COMMITMENTS**

The Board has contracts outstanding for remaining project costs of approximately \$50,796,000 for various electric utility projects, \$59,000 for various water projects and \$2,780,000 for various wastewater projects.

**9. LANDFILL CLOSURE AND POST CLOSURE CARE**

The Board owns and maintains a landfill for fly ash and wastewater treatment bio solids. In accordance with Michigan Department of Environmental Quality requirements, funding for closure cost estimates of \$111,000 and post-closure cost estimates of \$216,450 have been assured with a \$100,000 letter of credit and \$10,304 held in trust at June 30, 2014.

# HOLLAND BOARD OF PUBLIC WORKS

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

### Notes to Financial Statements

The Board has recognized a liability for closure and postclosure cost of \$327,450 based on the percentage of landfill capacity used to date. The landfill is expected to have a remaining life of at least 50 years with approximately 68% of the landfill's capacity currently utilized. These estimates are expected to fluctuate based on current usage, inflation, deflation, changes in technology, applicable laws and regulations.

#### 10. JOINT VENTURE

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

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

For the year ended June 30, 2014, the Board recognized expenses totaling \$17,986,690 under the terms of the contracts which represented \$1,131,858 for fixed operating costs, \$5,372,363 for debt service and \$11,482,469 for the purchase of power. Accounts payable to MPPA totaled \$1,748,001 at June 30, 2014. Under the terms of its contracts, the Board must make minimum annual payments equal to its share of debt service and its share of the fixed operating costs of Detroit Edison's Belle River No. 1, Consumers Energy's Campbell Unit No. 3 and American Municipal Power's AMP Fremont Energy Center Project (AFEC). The estimated required payments presented below assume no early calls or refinancing of existing revenue bonds and 3.0% annual inflation of fixed operating costs.

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

**Notes to Financial Statements**

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

Year Ended June 30,	Belle River		Campbell		Fremont (AFEC)		Total
	Debt Service	Fixed Operating	Debt Service	Fixed Operating	Debt Service	Fixed Operating	
2015	\$ 4,305,960	\$ 728,827	\$ 909,075	\$ 435,977	\$ 278,688	\$ 1,009	\$ 6,659,536
2016	4,305,533	750,692	1,011,353	449,056	278,177	1,039	6,795,850
2017	4,305,335	773,213	971,828	462,528	278,317	1,071	6,792,292
2018	4,305,656	796,409	1,111,483	476,404	278,691	1,103	6,969,746
2019	4,305,962	820,302	1,111,242	490,696	278,264	1,136	7,007,602
2020-2024	-	-	4,445,650	2,114,477	1,391,811	6,211	7,958,149
2025-2029	-	-	-	-	1,391,711	7,200	1,398,911
2030-2034	-	-	-	-	1,392,038	8,347	1,400,385
2035-2039	-	-	-	-	1,391,204	9,678	1,400,882
2040-2044	-	-	-	-	1,391,404	11,219	1,402,623
	<u>\$21,528,446</u>	<u>\$ 3,869,443</u>	<u>\$ 9,560,631</u>	<u>\$ 4,429,138</u>	<u>\$ 8,350,305</u>	<u>\$ 48,013</u>	<u>\$47,785,976</u>

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

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



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

**Notes to Financial Statements**

**11. LITIGATION**

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

**12. NET INVESTMENT IN CAPITAL ASSETS**

The composition of net investment in capital assets as of June 30, 2014, was as follows:

Capital assets:	
Capital assets not being depreciated	\$ 32,957,978
Capital assets being depreciated, net	<u>127,183,055</u>
	<u>160,141,033</u>
Related debt:	
Total installment debt	177,055,301
Net bond premium/discount	8,333,456
Deferred loss on advance refunding	(467,469)
Unspent bond proceeds	<u>(119,997,520)</u>
	<u>64,923,768</u>
Net investment in capital assets	<u>\$ 95,217,265</u>

**13. EXTRAORDINARY ITEM**

In September 2013, the Holland/Wyoming Interconnect Project experienced a water leakage event that caused a complete failure of the value and metering station. Consequently, the Board incurred a property loss, along with additional expenses related to the incident. The Board expects that all costs to repair the damage related to this incident will ultimately be reimbursed by a third party; however, no receivable has been recorded as of June 30, 2014.

The damaged building was constructed in the previous fiscal year and was placed in service at June 30, 2013. As of the date of incident, the Board had a building asset value of \$523,997, with accumulated depreciation of \$3,582, resulting in a net book value of \$520,415. An impairment loss has been recorded as an extraordinary item for the net book value of the portion of the building owned by the Board. In addition to this loss, the Board has recorded a receivable in the Water Utility fund of approximately \$200,000 for legal and consulting expenses incurred subsequent to and as a result of this incident as of June 30, 2014. Such costs are also expected to be reimbursed by a third party.



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**UNAUDITED SUPPLEMENTARY INFORMATION**

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

**Unaudited Supplementary Information**

Schedule of Employer Contributions  
 Defined Benefit Pension Plan

Year Ended June 30,	Annual Required Contribution (ARC)	Percentage Contributed
2009	\$ 865,829	100%
2010	881,831	100%
2011	1,135,005	100%
2012	1,148,256	100%
2013	1,224,744	100%
2014	1,430,664	100%

Schedule of Employer Contributions  
 Other Postemployment Benefits Plan

Year Ended June 30,	Annual Required Contribution (ARC)	Percentage Contributed
2009	\$ 175,724	38%
2010	214,175	63%
2011	214,175	27%
2012	285,487	104%
2013	306,304	40%
2014	279,475	44%

## SUPPLEMENTARY INFORMATION

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

**Combining Statement of Net Position**  
 June 30, 2013

	Electric Utility	Wastewater Utility	Water Utility	Total
<b>Assets</b>				
Current assets:				
Cash and cash equivalents	\$ 50,201,014	\$ 10,043,731	\$ 5,037,743	\$ 65,282,488
Investments	61,308,261	4,001,618	990,900	66,300,779
Receivables:				
Accounts receivable	6,522,214	889,530	595,667	8,007,411
Unbilled revenue	4,823,335	264,060	463,555	5,550,950
Special assessments and other	-	99,569	150,390	249,959
Accrued interest	72,385	5,413	-	77,798
Due from other funds of the				
City of Holland	155,902	2,141	18,572	176,615
Inventories	13,343,021	47,832	186,596	13,577,449
Prepaid expenses and other assets	298,986	6,673	3,380	309,039
<b>Total current assets</b>	<b>136,725,118</b>	<b>15,360,567</b>	<b>7,446,803</b>	<b>159,532,488</b>
Noncurrent assets:				
Restricted assets:				
Cash and cash equivalents	-	1,558,686	3,260,367	4,819,053
Investments	5,347,302	995,080	-	6,342,382
Accrued interest	-	1,712	-	1,712
<b>Total restricted assets</b>	<b>5,347,302</b>	<b>2,555,478</b>	<b>3,260,367</b>	<b>11,163,147</b>
Capital assets:				
Land	4,829,437	260,673	1,902,447	6,992,557
Construction in progress	1,573,941	1,242,477	618,529	3,434,947
Plant and equipment	232,944,427	75,686,706	59,641,268	368,272,401
Accumulated depreciation	(176,056,484)	(42,184,401)	(22,991,084)	(241,231,969)
<b>Total capital assets, net</b>	<b>63,291,321</b>	<b>35,005,455</b>	<b>39,171,160</b>	<b>137,467,936</b>
Other noncurrent assets:				
Due from City of Wyoming	-	-	2,776,931	2,776,931
<b>Total noncurrent assets</b>	<b>68,638,623</b>	<b>37,560,933</b>	<b>45,208,458</b>	<b>151,408,014</b>
<b>Total assets</b>	<b>205,363,741</b>	<b>52,921,500</b>	<b>52,655,261</b>	<b>310,940,502</b>
Deferred outflows of resources				
Deferred loss on refunding	-	40,449	547,476	587,925

continued...

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

**Combining Statement of Net Position**  
 June 30, 2013

	Electric Utility	Wastewater Utility	Water Utility	Total
<b>Liabilities</b>				
Current liabilities:				
Accounts payable	\$ 6,746,783	\$ 715,205	\$ 391,975	\$ 7,853,963
Accrued salaries and wages payable	1,117,614	209,974	196,585	1,524,173
Due to other funds of the				
City of Holland	9,151	66,790	140,145	216,086
Deposits	338,599	-	-	338,599
Accrued interest payable	-	1,138	-	1,138
Current maturities of bonds payable	-	682,500	-	682,500
Current liabilities payable from restricted assets:				
Bonds payable	-	-	1,260,074	1,260,074
Accrued interest payable	-	-	268,371	268,371
<b>Total current liabilities</b>	<b>8,212,147</b>	<b>1,675,607</b>	<b>2,257,150</b>	<b>12,144,904</b>
Noncurrent liabilities:				
Landfill closure and postclosure cost	327,450	-	-	327,450
Long-term debt, net of current portion	-	-	18,958,977	18,958,977
Net other postemployment benefit obligation	302,370	118,323	92,857	513,550
<b>Total noncurrent liabilities</b>	<b>629,820</b>	<b>118,323</b>	<b>19,051,834</b>	<b>19,799,977</b>
<b>Total liabilities</b>	<b>8,841,967</b>	<b>1,793,930</b>	<b>21,308,984</b>	<b>31,944,881</b>
<b>Net position</b>				
Net investment in capital assets	63,291,321	34,363,404	19,499,585	117,154,310
Restricted for:				
Debt service	-	-	2,890,562	2,890,562
Equipment replacement	-	1,784,880	-	1,784,880
Park Township	-	-	276,303	276,303
Cooperative payments	5,347,302	-	-	5,347,302
Unrestricted	127,883,151	15,019,735	9,227,303	152,130,189
<b>Total net position</b>	<b>\$ 196,521,774</b>	<b>\$ 51,168,019</b>	<b>\$ 31,893,753</b>	<b>\$ 279,583,546</b>

concluded

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

**Combining Statement of Revenues, Expenses, and Changes in Fund Net Position**  
For the Year Ended June 30, 2013

	Electric Utility	Wastewater Utility	Water Utility	Total
Operating revenues				
Residential sales	\$ 18,852,665	\$ 2,364,838	\$ 2,681,013	\$ 23,898,516
Commercial sales	29,924,251	1,970,934	2,297,208	34,192,393
Industrial sales	39,441,203	667,574	854,396	40,963,173
Wholesale	-	2,560,942	2,149,934	4,710,876
Fees and other	5,358,391	1,881,777	523,913	7,764,081
<b>Total operating revenues</b>	<b>93,576,510</b>	<b>9,446,065</b>	<b>8,506,464</b>	<b>111,529,039</b>
Operating expenses				
Salaries and wages	3,568,291	1,193,946	847,396	5,609,633
Employee benefits	2,370,952	755,182	557,084	3,683,218
Production	56,670,015	2,089,798	671,291	59,431,104
Distribution	2,534,933	693,534	597,811	3,826,278
Administrative and general	8,108,520	1,674,037	1,464,592	11,247,149
Depreciation	6,248,066	1,859,744	1,405,833	9,513,643
<b>Total operating expenses</b>	<b>79,500,777</b>	<b>8,266,241</b>	<b>5,544,007</b>	<b>93,311,025</b>
Operating income	14,075,733	1,179,824	2,962,457	18,218,014
Nonoperating income (expense) - net				
Investment income	21,674	21,478	(16,905)	26,247
Interest expense	(293)	(69,968)	(543,115)	(613,376)
Gain (loss) on sale and disposal of capital assets	(3,765)	(83,009)	(128,394)	(215,168)
<b>Total nonoperating income (expense) - net</b>	<b>17,616</b>	<b>(131,499)</b>	<b>(688,414)</b>	<b>(802,297)</b>
Net income before contributions and transfers	14,093,349	1,048,325	2,274,043	17,415,717
Capital contributions				
Trunkage	-	54,531	39,434	93,965
Federal and state capital grants	-	-	521,346	521,346
<b>Total capital contributions</b>	<b>-</b>	<b>54,531</b>	<b>560,780</b>	<b>615,311</b>
Transfers out to other funds of the City of Holland	(4,651,200)	-	-	(4,651,200)
Change in net position	9,442,149	1,102,856	2,834,823	13,379,828
Net position, beginning of year	187,079,625	50,065,163	29,058,930	266,203,718
Net position, end of year	<u>\$ 196,521,774</u>	<u>\$ 51,168,019</u>	<u>\$ 31,893,753</u>	<u>\$ 279,583,546</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, 2013

	Electric Utility	Wastewater Utility	Water Utility	Total
<b>Cash flows from operating activities</b>				
Receipts from customers and users	\$ 93,602,270	\$ 9,463,411	\$ 8,505,843	\$ 111,571,524
Payments to suppliers	(68,439,564)	(4,225,852)	(3,967,418)	(76,632,834)
Payments to employees	(5,823,795)	(1,977,842)	(1,430,689)	(9,232,326)
<b>Net cash provided by operating activities</b>	<u>19,338,911</u>	<u>3,259,717</u>	<u>3,107,736</u>	<u>25,706,364</u>
<b>Cash flows from noncapital financing activities</b>				
Transfers to other funds of the City of Holland	(4,651,200)	-	-	(4,651,200)
Capital Grant - State Drinking Water Revolving Fund - Wyoming portion	-	-	476,254	476,254
Purchase/construction of property, plant and equipment owned by the City of Wyoming	-	-	(2,355,323)	(2,355,323)
<b>Net cash used in noncapital financing activities</b>	<u>(4,651,200)</u>	<u>-</u>	<u>(1,879,069)</u>	<u>(6,530,269)</u>
<b>Cash flows from capital and related financing activities</b>				
Principal paid on long-term debt	-	(665,000)	(1,141,500)	(1,806,500)
Interest paid on long-term debt	(256)	(26,950)	(422,040)	(449,246)
Capital contributions received	-	54,531	39,434	93,965
Proceeds from State Drinking Water Revolving Fund	-	-	2,876,413	2,876,413
Capital Grant - State Drinking Water Revolving Fund	-	-	521,346	521,346
Proceed from sale of capital assets	22,380	625	5,689	28,694
Purchase/construction of property, plant and equipment	(8,888,916)	(884,386)	(1,231,915)	(11,005,217)
<b>Net cash provided by (used in) capital and related financing activities</b>	<u>(8,866,792)</u>	<u>(1,521,180)</u>	<u>647,427</u>	<u>(9,740,545)</u>
<b>Cash flows from investing activities</b>				
Interest received	308,387	39,875	24,079	372,341
Purchase of investment securities	(66,933,971)	(5,019,843)	(1,030,130)	(72,983,944)
Proceeds from sale or maturities of investment securities	68,217,781	5,019,843	1,500,375	74,737,999
<b>Net cash provided by investing activities</b>	<u>1,592,197</u>	<u>39,875</u>	<u>494,324</u>	<u>2,126,396</u>
<b>Net increase in cash and cash equivalents</b>	<u>7,413,116</u>	<u>1,778,412</u>	<u>2,370,418</u>	<u>11,561,946</u>
<b>Cash and cash equivalents, beginning of year</b>	<u>42,787,898</u>	<u>9,824,005</u>	<u>5,927,692</u>	<u>58,539,595</u>
<b>Cash and cash equivalents, end of year</b>	<u>\$ 50,201,014</u>	<u>\$ 11,602,417</u>	<u>\$ 8,298,110</u>	<u>\$ 70,101,541</u>
<b>Classified on the statement of net position as</b>				
Cash and cash equivalents	\$ 50,201,014	\$ 10,043,731	\$ 5,037,743	\$ 65,282,488
Restricted assets, cash and cash equivalents	-	1,558,686	3,260,367	4,819,053
<b>Total cash and cash equivalents</b>	<u>\$ 50,201,014</u>	<u>\$ 11,602,417</u>	<u>\$ 8,298,110</u>	<u>\$ 70,101,541</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, 2013

	Electric Utility	Wastewater Utility	Water Utility	Total
Reconciliation of operating income to net cash provided by operating activities				
Operating income	\$ 14,075,733	\$ 1,179,824	\$ 2,962,457	\$ 18,218,014
Adjustments to reconcile operating income to net cash provided by operating activities:				
Depreciation	6,248,066	1,859,744	1,405,833	9,513,643
Prior year construction in progress costs charged to operating expense due to termination of project	658,911	62,155	112,620	833,686
Changes in operating assets and liabilities which provided (used) cash:				
Receivables	40,107	17,403	(24,948)	32,562
Due from other funds of the City of Holland	(15,927)	(57)	24,327	8,343
Inventories	(3,038,359)	8,911	19,896	(3,009,552)
Prepaid expenses	33,854	3,905	(536)	37,223
Accounts payable	1,228,221	80,283	(1,498,724)	(190,220)
Accrued salaries and wages payable	115,448	(28,714)	(26,209)	60,525
Due to other funds of the City of Holland	(125,406)	41,279	105,652	21,525
Deposits	1,580	-	-	1,580
Net other postemployment benefit obligation	116,683	34,984	27,368	179,035
<b>Net cash provided by operating activities</b>	<b>\$ 19,338,911</b>	<b>\$ 3,259,717</b>	<b>\$ 3,107,736</b>	<b>\$ 25,706,364</b>

**Non-cash transaction**

The Board's Water Utility fund transferred prior year capital asset additions of \$839,645 from capital assets to receivable Due from the City of Wyoming.

concluded

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

**Holland Area Waste Treatment Plant Reserve for Equipment Replacement**

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

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, 2014

	Electric Utility	Wastewater Utility	Water Utility	Total
Land	\$ 4,829,437	\$ 260,673	\$ 1,939,744	\$ 7,029,854
Construction in progress	24,517,939	1,297,791	112,394	25,928,124
Production plant	121,276,832	43,151,521	16,658,346	181,086,699
Distribution/collection system	89,808,312	6,292,042	33,145,031	129,245,385
Transmission	11,519,946	25,707,465	9,054,217	46,281,628
General plant	13,832,353	4,719,933	2,650,974	21,203,260
Total	265,784,819	81,429,425	63,560,706	410,774,950
Accumulated depreciation	(182,308,029)	(43,907,984)	(24,417,904)	(250,633,917)
Total capital assets, net	<u>\$ 83,476,790</u>	<u>\$ 37,521,441</u>	<u>\$ 39,142,802</u>	<u>\$ 160,141,033</u>

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

**Schedule of Capital Assets**  
 June 30, 2013

	Electric Utility	Wastewater Utility	Water Utility	Total
Land	\$ 4,829,437	\$ 260,673	\$ 1,902,447	\$ 6,992,557
Construction in progress	1,573,941	1,242,477	618,529	3,434,947
Production plant	121,146,320	42,716,493	16,029,107	179,891,920
Distribution/collection system	88,019,308	5,818,276	28,760,868	122,598,452
Transmission	11,356,053	22,795,967	12,249,184	46,401,204
General plant	12,422,746	4,355,970	2,602,109	19,380,825
	<u>239,347,805</u>	<u>77,189,856</u>	<u>62,162,244</u>	<u>378,699,905</u>
Total				
Accumulated depreciation	(176,056,484)	(42,184,401)	(22,991,084)	(241,231,969)
	<u>(176,056,484)</u>	<u>(42,184,401)</u>	<u>(22,991,084)</u>	<u>(241,231,969)</u>
Total capital assets, net	<u>\$ 63,291,321</u>	<u>\$ 35,005,455</u>	<u>\$ 39,171,160</u>	<u>\$ 137,467,936</u>

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## INTERNAL CONTROL AND COMPLIANCE

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

September 24, 2014

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, 2014, and the related notes to the financial statements, which collectively comprise the Board's basic financial statements, and have issued our report thereon dated September 24, 2014.

#### Internal Control Over Financial Reporting

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

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

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

## Compliance and Other Matters

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

## Purpose of this Report

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

*Rehmann Lobson LLC*