

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



Year Ended  
June 30, 2020

Financial  
Statements and  
Supplementary  
Information

# HOLLAND BOARD OF PUBLIC WORKS

(Enterprise Funds of the City of Holland, Michigan)

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**INDEPENDENT AUDITORS' REPORT**

October 22, 2020

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, 2020, 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, 2020, and the respective changes in financial position and cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

### *Reporting Entity*

As discussed in Note 1, the financial statements referred to above present only the Holland Board of Public Works enterprise funds and do not purport to, and do not, present fairly the financial position of the City of Holland, Michigan as of June 30, 2020, and the changes in its financial position for the year then ended, in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

### *Other Information*

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

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

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

In accordance with *Government Auditing Standards*, we have also issued our report dated October 22, 2020 on our consideration of the Board's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Board's internal control over financial reporting and compliance.

A handwritten signature in black ink that reads "Rehmann 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, 2020 and 2019. Please read it in conjunction with the financial statements, which follow this section.

### OVERVIEW OF BUSINESS

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

- An electric system, which generates and distributes electricity to 29,423 residential, commercial and industrial customers in the City of Holland and portions of Holland Charter, Park, Laketown and Fillmore Townships. HBPW's 175 industrial electric customers (0.6% of total customers) account for 55% of the electric load in kilowatt hours. Also within the electric utility, a broadband network that provides dark fiber, active Ethernet, and shared gigabit services to 501 residential, commercial and industrial customers.
- A Water Treatment Plant (WTP), with capacity to treat 38.5 million gallons per day and associated transmission and distribution system. HBPW's distribution system serves 13,819 residential, commercial, and industrial customers located in the City of Holland and portions of Park, Laketown and Holland Charter Townships. Water is also sold on a wholesale basis to Park Township and the City of Zeeland. Wholesale sales represent 58% of the WTP output. The HBPW receives its water from Lake Michigan.
- A Water Reclamation Facility (WRF), with an average daily treatment capacity of 12 million gallons, and associated sanitary sewer collection system. The HBPW's collection system serves 12,591 residential, commercial and industrial customers in the City of Holland, Laketown Township, Fillmore Township, and the portions of Holland Charter and Park Townships south of Lake Macatawa and the Macatawa River. Collectively, this area is known as the Southern Service Area (SSA). The WRF also treats wastewater on a wholesale basis from the Northern Service Area (NSA). The NSA includes the portions of Holland Charter and Park Townships north of Lake Macatawa and the Macatawa River. Wholesale sales represent 42% of the WRF's influent flow.

### FINANCIAL HIGHLIGHTS

The net position of the Holland Board of Public Works has improved by \$28 million (6.8%) over the prior fiscal year.

The combined assets and deferred outflows of resources of HBPW exceeded its liabilities and deferred inflows of resources at the close of the most recent fiscal year by \$448.8M (net position). Of this amount, \$169.6M (37.8 percent) was unrestricted and may be used to meet the HBPW's ongoing obligations to customers and creditors. A substantial portion of the HBPW's net position, \$254.4M (56.7 percent), reflects its investment in capital assets (e.g., land, buildings, vehicles, equipment and infrastructure), less any related outstanding debt used to acquire those assets. HBPW uses these capital assets to provide services to customers; consequently, these assets are not available for future spending.



Although HBPW's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources since the capital assets themselves cannot be used to liquidate these liabilities. An additional portion of HBPW's net position, \$24.8M (5.5 percent), represents resources that are subject to external restrictions on how they may be used: 49% related to debt, 25% related to investment in joint venture, 26% related to equipment replacement fund.

**Condensed Financial Information**

	<b>Net Position</b>							
	<b>(In Millions)</b>							
	Electric		Wastewater		Water		Total	
	<u>2020</u>	<u>2019</u>	<u>2020</u>	<u>2019</u>	<u>2020</u>	<u>2019</u>	<u>2020</u>	<u>2019</u>
Current Assets	\$ 171	\$ 137	\$ 13	\$ 14	\$ 15	\$ 13	\$ 199	\$ 164
Noncurrent assets	17	17	6	7	3	3	26	27
Capital assets, net	<u>304</u>	<u>315</u>	<u>64</u>	<u>61</u>	<u>48</u>	<u>47</u>	<u>416</u>	<u>423</u>
Total Assets	492	469	83	82	66	63	641	614
Total Deferred Outflows of Resources	1	2	0	1	0	1	1	4
Current liabilities	15	14	2	2	3	2	20	18
Noncurrent liabilities	<u>153</u>	<u>156</u>	<u>10</u>	<u>11</u>	<u>10</u>	<u>12</u>	<u>173</u>	<u>179</u>
Total Liabilities	168	170	12	13	13	14	193	197
Total Deferred Inflows of Resources	1	1	0	0	0	0	1	1
Net investment in capital assets	159	170	56	53	39	36	254	259
Restricted	17	17	6	7	2	1	25	25
Unrestricted	<u>147</u>	<u>113</u>	<u>9</u>	<u>10</u>	<u>13</u>	<u>13</u>	<u>169</u>	<u>136</u>
Total Net Position	\$ 323	\$ 300	\$ 71	\$ 70	\$ 54	\$ 50	\$ 448	\$ 420

HBPW offers a defined benefit pension plan as part of its compensation package. The plan is administered by Municipal Employees' Retirement System (MERS). Each year, MERS arranges for the completion of an annual actuarial valuation report of the combined City/HBPW plan. The percent funded for the HBPW plan was 88.9% as of December 31, 2019. While healthy, these levels are a significantly less than the 2018 funding level of 97.7%. Two of the primary reasons for the deterioration of funding levels are 1) beginning in 2019, MERS has reduced its long term investment rate of return assumption from 7.75% to 7.35% and 2) the *smoothed* actuarial rate of return for 2019 was 4.77%, about 38% below the 7.75% target. The actual market rate of return for 2019 was 13.41%; however, MERS *smooths* each year's investment gains and losses over a five year period in an effort to minimize year to year pension funding requirements.

During FY2020 HBPW was impacted by the COVID-19 pandemic in a manner similar to other utilities. There was a significant decrease in Electric demand, approximately 25%, when the state lockdown was implemented in March. As businesses gradually reopened over the next three months, demand recovered quickly, ending the year 4.7% less than budget and 4.2% less than the prior year. The Water Utility experienced less of an impact as usage merely shifted from businesses to residential (due to working from home and employee layoffs) and early season hot weather increased sprinkling. The Wastewater Utility was minimally impacted as well. Wastewater volumes typically follow the same usage pattern as Water. Also, many high strength business customers continued to operate at current levels because they were deemed essential.

**Condensed Financial Information**

**Results of Operations**

(In Millions)

	Electric		Wastewater		Water		Total	
	<u>2020</u>	<u>2019</u>	<u>2020</u>	<u>2019</u>	<u>2020</u>	<u>2019</u>	<u>2020</u>	<u>2019</u>
Operating revenues	\$ 105	\$ 107	\$ 12	\$ 12	\$ 11	\$ 11	\$ 128	\$ 130
Operating expenses	(71)	(71)	(11)	(11)	(7)	(7)	(89)	(89)
Nonoperating income (expenses), net	<u>(3)</u>	<u>(3)</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>(3)</u>	<u>(3)</u>
Net Income Before Contributions and Transfer	31	33	1	1	4	4	36	38
Contributions to city	<u>(8)</u>	<u>(7)</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>(8)</u>	<u>(7)</u>
Change In Net Position	23	26	1	1	4	4	28	31
Beginning net position	<u>300</u>	<u>274</u>	<u>70</u>	<u>69</u>	<u>50</u>	<u>46</u>	<u>420</u>	<u>389</u>
Ending Net Position	\$ 323	\$ 300	\$ 71	\$ 70	\$ 54	\$ 50	\$ 448	\$ 420

Cash reserves for each of the utilities are funded as planned. The Electric Utility is on track to redeem additional bonds totaling about \$91 million early in FY2022. These bonds have coupon rates of 4.1% and 5.0% and a call date of July 1, 2021.

The Wastewater and Water utilities had rate increases in FY2020 of 3.6% and 1.9% respectively. There was no rate change for the Electric Utility.

**Electric:**

- A Notice of significant event at the Holland Energy Park (HEP) was published December 13, 2019. On December 6, 2019, Unit 11 at HEP tripped on high Heat Recovery Steam Generator (HRSG) duct exhaust pressure. An inspection following the trip revealed damage inside the HRSG due to the rupture of a 6" steam pipe. Unit 11 was unavailable for approximately one month while the equipment manufacturer performed warranty repairs. Capacity of HEP was reduced by 50% during that period due to the unavailability of Unit 11 and loss of associated steam from that unit to produce power from the steam turbine generator (Unit 12). The repair costs were covered by the HRSG manufacturer under a latent defect provision in the contract. The lost power was made up for through a combination of market purchases and usage of HBPW's combustion turbine peaking units (48<sup>th</sup> Street Units 7, 8, and 9).
- A planned major outage was performed on the combustion turbines at HEP throughout the month of February and first half of March. The outage was required due to equivalent operating hours and was performed by the Original Equipment Manufacturer (OEM), Siemens, in accordance with the long-term service agreement between HBPW and Siemens. Lost power was again made up for through a combination of market purchases and usage of HBPW's combustion turbine peaking units. This outage, in addition to the unplanned outage previously noted on Unit 11, were the major factors resulting in the additional \$1.1M spent on Purchased Power in FY2020 versus FY2019.
- The Electric Utility ended the year with an Operating Income \$2M lower than FY2019 results. Total Revenue was \$2M lower mainly due to less demand because of COVID-19. Lower revenue was more than offset by favorable production costs mainly due to low natural gas prices and less fuel purchases due to a decrease in demand because of COVID-19 and the outages previously noted. As with FY2019, these lower fuel costs provided an opportunity to increase internal generation at the HEP plant, thus allowing energy from HBPW's external generating sources, such as Belle River and Campbell, to be sold into the market.

- The Electric Utility completed an Integrated Resource Plan (IRP) in FY2020. HBPW typically conducts IRPs every 5-7 years to assist in the future planning of HBPW's power resources portfolio. Traditionally IRPs have been used to propose the lowest-cost approach to meet future resource needs. However, the IRP completed in FY2020 also included alternate evaluations that focused on future resource needs to help meet the decarbonization goals of Holland's Community Energy Plan. The IRP showed that HBPW is well positioned to meet its load obligations through the year 2050 with only limited resource additions. As such, any changes to the portfolio in the interim period will instead likely be driven by other factors such as a desire to increase diversification of the portfolio and/or meeting community decarbonization goals.
- Michigan Public Power Agency (MPPA) entered into a Power Purchase Agreement with Pegasus Wind, LLC in August of 2017. Through MPPA's Energy Services Project (ESP), HBPW authorized participation in the project at approximately 3.5 MW of additional wind power at a levelized cost of less than \$50/MWh over the 20-year term. The project was originally expected to commence commercial operation late in calendar year 2018 but was postponed for an extended period due to siting issues with the wind turbines. HBPW began receiving power from the project in December of 2019 and Pegasus ultimately achieved commercial operation in compliance with the PPA on June 27, 2020.
- The Zeeland Township Landfill Closure project was completed in FY2020. This project constructed a final cover system over the 5 acre Cell 1 at the Zeeland Township Landfill. The cell was constructed in the early 1990's on property leased by the HBPW and was primarily used for disposal of inert waste from the James De Young plant. HBPW is responsible for ensuring the integrity of the cover system and monitoring stormwater and groundwater quality for a 30-year post-closure period. The project came in 14% below budget at a cost of \$0.9M.
- The Electric Utility spent \$2.1M on distribution improvements and extensions. One of the projects, labeled Kollen Park Rebuild, was designed to improve reliability and aesthetics around the Kollen Park area. The overhead construction was at its end of life and had construction standards from the 1960's that needed to be upgraded to increase reliability. The project moved the overhead construction underground to improve aesthetics and reliability. Given the number of accidents the poles encountered in this area over the years, the new underground equipment was strategically placed to reduce the vulnerability of the equipment to vehicle accidents. The project also increased reliability to the Kollen Park Fire Station, which is valuable to the City of Holland Department of Public Safety.

#### Wastewater:

- The WRF was recognized by the Michigan Department of Environment, Great Lakes & Energy (EGLE) and the Michigan Water Environment Association (MWEA) with a Premier Utility Management Performance Award (PUMP). This is a state recognition for being a forward thinking and sustainable utility.
- Sludge disposal is a major operating expense for the wastewater utility. Sewage sludge, a byproduct of municipal wastewater treatment, requires regular disposal. The WRF disposes of sludge via a combination of land application of liquid biosolids and landfill disposal of dewatered

sludge. Due to escalating costs of land application and landfill rates as well as landfill disposal volume limits being phased in, solids disposal is a high risk area for WRF operations. A study undertaken by HBPW in FY2018 identified anaerobic digestion as the best option to mitigate risk associated with future disposal price increases and/or decreased disposal options. During FY2019, a pilot test affirmed anaerobic digestion was the best option; thus, the HBPW Board approved to proceed with the project. An agreement for engineering and design phase services was awarded for \$1.1M during FY2020. HBPW was approved for a low interest loan through the Clean Water State Revolving Fund (SRF) and for principal forgiveness through the Green Project Reserve (GPR), offered through SRF. HBPW anticipates receiving 20% principal forgiveness on the estimated \$30M financing of the digester through the SRF program. This amounts to an anticipated principal forgiveness of \$6 million. Remaining capital costs for the digester are to be shared equally by the Northern and Southern Service Areas discussed in the Business Overview section in accordance with the Holland Area Wastewater Treatment Facilities 2017 Restated Contract. Construction is planned to begin in FY2021 and be completed during FY2024

- A major project to replace the four aging primary clarifiers at the WRF was completed three months ahead of schedule. This project involved replacing the aging internal components of the four primary clarifiers and raw mix deck, concrete tank restoration, modifications to the existing tank covers, and upgrades to the electrical equipment and programmable logic controllers (PLCs) associated with the process. The final project costs of \$2.3M are 8.7% under the approved project budget amount of \$2.6M.
- The HBPW used funds budgeted in FY2018 through FY2020 to line 5.4 miles of sanitary sewer mains. The projects, capitalized in FY2020, lined 23,492 feet of 8 inch through 20 inch and nearly one mile of 36 inch diameter sewer mains. Lining sanitary sewers reduces infiltration and inflow (I&I). I&I increases the cost to transmit and treat the wastewater while also increasing risk of sewer overflows. Also, improvements were completed on the largest lift station (LS) in the sewer collection system. The 16<sup>th</sup> Street LS project replaced the original pumps and upgraded and moved the controls up to the surface in a new controls building. The improvement increased the pumping capacity from 2,300 gpm to 4,200 gpm at a cost of \$0.9M. Total collection system improvements cost \$5.7M.

#### Water:

- High lake levels experienced in recent years have led to a high groundwater table which contributes to a greater number of main breaks. It also increases turbidity which requires higher usage of chemicals to treat the water. In 2018, Michigan adopted a revised Lead and Copper Rule, with the goal of reducing lead exposure through drinking water. The rule requires the replacement of all lead service lines (LSL) within twenty years. HBPW spent \$0.6M to replace 163 LSL. These issues, along with other variances, caused the Water Utility to spend \$0.9M more than in FY2019. The Water Utility expenses were favorable to budget by \$66,085.
- Water usage increased over 7% compared to FY2019. Usage by retail customers decreased 2% while wholesale units increased 15%. Water units were unfavorable to budget by 2.3%. The average volume increase over the past five years for retail customers has been nearly 2%. The

explanation for this small change over time is that any increase in usage by new customers added to the system is being negated by conservation efforts. By contrast, wholesale units grew at an average rate of 8% per year.

- Each year, the Water Utility replaces aging water mains as part of on-going maintenance to the distribution system. In FY2020, 3,200 feet of water mains were replaced and a 24 inch transmission main was extended 740 feet. Also, a large diameter valve replacement project and air release improvements were completed. The project replaced two critical inoperable valves and added two more to create additional operational flexibility and create redundancy. Total distribution improvements cost \$2.6M.

## CAPITAL ASSETS

HBPW has \$704.6M invested in capital assets (\$415.6M net of depreciation). The capital assets, net of depreciation, by utility are: Electric Utility \$303.5M, Wastewater Utility \$63.6M; and Water Utility \$48.5M. Capital assets include property, plant and equipment and are defined by HBPW as assets with an initial individual cost of more than \$10,000 and an estimated useful life in excess of three years.

### Condensed Financial Information

	Capital Assets (In Millions)							
	Electric		Wastewater		Water		Total	
	<u>2020</u>	<u>2019</u>	<u>2020</u>	<u>2019</u>	<u>2020</u>	<u>2019</u>	<u>2020</u>	<u>2019</u>
Land	\$ 22	\$ 22	\$ 0	\$ 0	\$ 2	\$ 2	\$ 24	\$ 24
Construction in progress	2	4	2	5	2	2	6	11
Capital assets, net	<u>280</u>	<u>289</u>	<u>62</u>	<u>56</u>	<u>44</u>	<u>43</u>	<u>386</u>	<u>388</u>
Total Capital Assets	\$ 304	\$ 315	\$ 64	\$ 61	\$ 48	\$ 47	\$ 416	\$ 423

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

Capital asset activity for the current year included:

Electric:

- Peaking Unit repair expenditures were \$2.7M.
- Distribution improvements and extensions; \$2.1M.
- Streetlight replacements and upgrading fixtures to LED; \$140,462.
- Total spending on various fiber projects was \$274,236. In FY2020, 22,242 feet of fiber network were added to the fiber network.

Wastewater:

- Water Reclamation Facility improvements; \$2.5M.
- Sewer main improvements; \$4.7M.
- Lift station improvements and replacements; \$1M.

Water:

- Water mains replacements; \$2.6M.
- Water Treatment Plant improvements; \$833,461.

## **SUMMARY OF DEBT**

HBPW has a total of \$165.9M in installment debt outstanding as of June 30, 2020.

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

The Wastewater Utility has a total of \$7.9M in debt outstanding to Ottawa County for the cost of acquiring and constructing additional improvements (biosolids handling and secondary treatment processes) at the Holland Area Water Reclamation Facility.

The Water Utility has outstanding debt of \$9.3M. All of the Water Utility's outstanding debt will be paid by April 1, 2032. The bonds were issued for the purpose of constructing an emergency interconnection with the City of Wyoming's water system and for refunding bonds issued in 2005 in order to reduce the interest rate.

In 2016, Pension Bonds were issued by the City of Holland for \$25M with interest rates ranging from 0.76% to 3.42%. These bonds were issued for the purpose of funding a portion of the costs of the unfunded pension liability of the City's defined benefit pension plan for general employees and to pay costs of issuance incurred with respect to the Bonds. HBPW's portion of the bond is \$8.9M as of June 30, 2020.

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

## **GENERAL ECONOMIC CONDITION**

In 2007, the HBPW undertook a significant organizational restructuring. That restructuring helped during the next 12 years to successfully plan and complete the largest public works project this community has ever undertaken which was to build the Holland Energy Park™ (HEP) combined cycle power plant. HEP was dedicated in October 2017 and is the first power plant project to receive the Institute for Sustainable Infrastructure's Envision® Platinum award, which recognizes sustainable public infrastructure. It is a state-of-the-art combined-cycle natural gas-fired power plant that operates at nearly twice the efficiency of the coal plant it replaced. At the beginning of FY2020, the management team again took a broad look at the organizational structure. At the heart of this work was answering the question "Are we structured in a manner that best allows us to address the critical issues facing our utility?". Through this evaluation, the team reached the conclusion that it was an appropriate time to realign some departments, work groups, and staff which would better equip the organization to serve its customers and employees. On December 13, 2019, the structure changes were shared with employees. The overall result netted no change in headcount as a director position and a professional staff position were eliminated, while a manager and senior manager position were created. The budget impact on payroll for the next fiscal year will actually be lower as a result of the changes. The new Customer Solutions Senior Manager coordinates the work of the Customer Service, Key Accounts, Community Energy Services, Metering and Billing, and Educations and Visitors Center Specialist staff. This manager is focused on effectively and proactively addressing

HBPW customers' needs by providing added value services to customers and the service area. The new Safety and Regulatory Compliance Manager works with safety, environmental, and regulatory staff to help the HBPW maintain compliance with the many regulatory issues that affect the organization.

In its short-term energy outlook released May 2020, the Energy Information Administration (EIA) projected a 6.5% decline in retail sales of electricity to commercial and industrial customers and an expected 5% decline in generation in 2020 due to COVID-19. In June, EIA further forecast that social distancing measures to limit the spread of COVID-19 would lead to the lowest summer demand since 2009. More stats on load and demand for HBPW's region come from Midcontinent Independent System Operator (MISO) as of May and June 2020. MISO observed 10.6% lower energy and load in May and 7% lower the first week of June. The greatest decline in load was between 8-9 am. There was 12% average load reduction March 14-June 8. As noted above in the Financial Highlights section the HBPW was impacted by the COVID-19 pandemic in a manner similar to other utilities. The Electric Utility ended the year 4.7% less than budget and 4.2% less than the prior year.

HBPW is forecasting an increase in demand for electricity in its service area of 1.9% for FY2021 and is forecasting growth averaging 1.7% for FY2022-FY2025. There is a 1.8% increase in volume forecasted for FY2021 in the Wastewater Utility but no growth forecasted for FY2022-FY2025. The Water Utility forecast includes a decrease of 6.8% for FY2021. For future years FY2022-FY2025, the forecast is for 2% growth of wholesale units only.

A large industrial customer planned to complete a pretreatment facility by January 2020; however, one of the process tanks did not pass the hydrostatic testing. A wastewater pretreatment facility is intended to reduce the strength of the facility's wastewater; thus reducing its burden on the entire treatment system. Due to the pandemic, the contractor cannot come onto the site. Until the contractor resolves the issue, the pretreatment facility is only partially operational and the Wastewater Utility will continue to be over budget in Other Revenues. Other Revenues includes Surcharges and Pollution Control Fees which are assessed on all nondomestic users of the Holland Reclamation Facility for the discharge of sewage or waste containing more of the pollutant than limits specified in the wastewater terms and conditions. Another large industrial customer began an expansion in 2020 with completion expected in mid-2021. It is expected that they will also construct a pretreatment facility over the next couple of years to handle the increase in production. The expansion will also increase electric demand. A large industrial customer constructed a large warehouse last year. Due to the expansion, their electric usage and demand has slowly increased over the last 12 months. From FY2019 to FY2020, the amount increased approximately 35%.

HBPW promotes waste reduction and conservation through its Energy Waste Reduction & Renewable Energy plan. The plan reports on a calendar year basis. Results reported in the 2019 Annual Summary Report, filed with the Michigan Public Service Commission, include:

- 637 HBPW residential customers received rebates for purchasing more than 1,000 ENERGY STAR and other high-efficiency electric products for their homes. Customers received rebates totaling more than \$83,000, saving more than 277,000 kilowatt hours of energy.

- Promoted the dramatic energy-saving benefits of light-emitting diode (LED) technology by distributing 11,467 free light bulbs and exchanging LED string lights for 1,429 pounds of old incandescent holiday lights.
- Commercial and Industrial customers received incentives for upgrading lighting to LED and installing high-efficiency equipment; 143 businesses benefitted from the cost-saving incentives.
- Six large industrial companies and Hope College completed cohort Strategic Energy Management training and averaged 3.2 percent savings in kWh.
- An Educational workshop was held for businesses to learn about managing kilowatt demand; however, other planned workshops were cancelled due to the pandemic.

Michigan Public Act 295 (amended by PA 341 and 342), known as the Clean, Renewable and Efficient Energy Act, calls on all utilities in Michigan to implement a Renewable Energy Plan and an Energy Waste Reduction program for their customers. The Act requires utilities to source at least 12.5 percent (increases to 15% January 2021) of their energy from renewable technologies and to implement programs that help customers improve energy efficiency. HBPW acquired 43,887 megawatt hours (MWh) of electricity generated from landfill gas and 84,297 MWh from wind power for a total of 128,184 MWh of renewable energy during the 2019 calendar year. This resulted in 11.79% of HBPW's total sales being supplied by renewable energy (RE). RE generation was lower than expected in 2019 due to an unanticipated delay in the commissioning of Pegasus Wind Farm (a new resource in HBPW's portfolio) and an extended derating of the Wildcat Wind Farm as a result of lightning damage. The difference between HBPW's RE generation in 2019 and the associated state RPS requirement was made up with RE credits (RECs) banked in prior years.

By implementing Holland's bold, 40-year Community Energy Plan (CEP), the Holland area continues to make measurable progress. Holland's CEP seeks to balance the goals of protecting the environment while being competitive in energy supply and attractive to business development by proposing and implementing multiple residential, commercial, industrial, and transportation initiatives. The plan measures success based on the amount of greenhouse gas emitted per person per year in Holland. Holland started this journey at 24 metric tons per person. Without a comprehensive CEP that number was expected to grow to 37 metric tons by 2050. The current plan seeks to reduce greenhouse gas emissions to 10 by 2050. An evaluation of the 2018 carbon numbers for Holland showed that we have reduced the footprint to 19 metric tons per capita. Making smart energy choices leads to a cleaner and more efficient use of energy. One result of these efforts is the HBPW's new Smart Energy Provider (SEP) designation. HBPW earned national recognition from the American Public Power Association (APPA) for demonstrating commitment to and proficiency in energy efficiency, distributed generation, and environmental initiatives that support a goal of providing low-cost, quality, safe, and reliable electric service.

Results of the Broadband Utility is accounted for within the Electric Utility. During the year, Broadband continued to grow and added 23 new customers and 22,242 feet of fiber network. To determine what the future growth strategy should be, the HBPW General Manager and City of Holland City Manager



initiated a Broadband Advisory Task Force. In FY2021 HBPW will conduct Listening Tour sessions where a list of questions are proposed to each group of community participants. The results of the tours will be compiled and presented to the Task Force. The purpose of the Task Force is to use the Listening Tour results to map out the direction for how and whether the HBPW should pursue a ubiquitous community owned broadband infrastructure model.

The HBPW radio communications infrastructure is a legacy system which does not offer modern features that are crucial to efficient, timely and safe operations. A study was completed in FY2020 to evaluate all communication systems and centralization of communication services. The team determined the communication needs for daily work management, efficiency, safety, and emergency response of the various employees and uses. A budget of \$361,000 was included in the FY2021 plan.

Gasoline powered vehicles and hand-held maintenance equipment are significant contributors to greenhouse gas (GHG) emissions. A team was formed to develop an electric vehicle/alternate fuel draft purchasing policy for all gas-powered vehicles and equipment. The draft policy, which sets guidelines and encourages replacement with alternative fueled equipment, was submitted for approval and goes into effect in FY2021. Fleet electrification supports both the Community Energy Plan and Sustainable Stewardship.

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

- In 2018, Michigan adopted a revised Lead and Copper Rule, with the goal of reducing lead exposure through drinking water. The rule requires the replacement of all lead service lines (LSL) within twenty years. LSL's are the lines connecting the water main in the street to houses and businesses. No "lead action levels" have been detected in the HBPW water system, but the Rule requires LSL replacements nonetheless. HBPW estimates expenditures of about \$615,000 annually will be required to meet the requirements of the Rule. During FY2020 HBPW replaced 163 LSL at a cost of \$590,979.
- In FY2019, HBPW introduced the concept of regionalization to City and Township leaders of the two wholesale water supply contracts. In FY2020, discussions continued on promoting regionalization and the benefits to all parties, improving the water contracts, and improving relationships. A new contract was achieved with Park Township to convert wholesale to retail service starting July 1, 2020. Approximately 3,800 residential and commercial customers were successfully added to the HBPW billing system and the first invoices issued in August 2020. Since Park Township was part of the water supply service territory, there is no change in consumption. The additional retail sales provides an improved margin. As a result, there was no rate increase proposed for the Water Utility for both FY2021 and FY2022.

## **NEXT YEARS BUDGET AND RATES**

A 5-year operating and capital forecast is presented annually to HBPW's Board and City Council. The report evaluates the impact of various capital acquisitions and operating expenditures on the related utilities. Due to the operating efficiency at the new power plant (HEP), and favorable natural gas prices, the rates remain unchanged for the Electric Utility in FY2021. HBPW had a wholesale contract with the nearby neighborhood of Park Township to supply water to their distribution system. In FY2020 a retail agreement was negotiated with the township for HBPW to take over responsibility for their distribution system to include new services, metering, and billing. Due to the conversion of the wholesale contract to retail and greater cost recovery, the rates remain unchanged for the Water Utility in FY2021. The Board and City Council approved a rate increase of 3.6% for the Wastewater Utility for FY2021. The increase in rates is to support capital acquisitions and expenditures, maintain debt ratios required by bond covenants, and maintain appropriate cash levels.

## **REQUESTS FOR INFORMATION**

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

## BASIC FINANCIAL STATEMENTS

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

**Statement of Net Position**

June 30, 2020

(with comparative totals for the year ended June 30, 2019)

	Electric Utility	Wastewater Utility	Water Utility	Business-Type Activities	
				2020	2019
<b>Assets</b>					
Current assets:					
Cash and cash equivalents	\$ 33,532,809	\$ 3,456,570	\$ 5,828,918	\$ 42,818,297	\$ 30,265,286
Investments	114,165,067	8,082,747	6,260,641	128,508,455	107,050,222
Receivables:					
Accounts receivable	6,912,496	1,088,583	1,058,140	9,059,219	8,518,646
Unbilled revenue	7,430,735	615,714	930,002	8,976,451	8,544,043
Special assessments and other	-	26,957	52,323	79,280	95,957
Accrued interest	66,090	8,405	7,436	81,931	507,803
Due from other funds of the					
City of Holland	1,248,964	3,472	502,600	1,755,036	1,645,102
Inventories	4,349,482	9,999	267,273	4,626,754	3,958,622
Prepaid items and other assets	3,004,975	49,038	26,184	3,080,197	3,919,553
<b>Total current assets</b>	<b>170,710,618</b>	<b>13,341,485</b>	<b>14,933,517</b>	<b>198,985,620</b>	<b>164,505,234</b>
Noncurrent assets:					
Restricted assets:					
Cash and cash equivalents	-	4,852,819	1,384,647	6,237,466	7,380,981
Investments	17,241,216	1,288,197	-	18,529,413	18,052,268
Accrued interest	-	2,721	-	2,721	6,648
<b>Total restricted assets</b>	<b>17,241,216</b>	<b>6,143,737</b>	<b>1,384,647</b>	<b>24,769,600</b>	<b>25,439,897</b>
Capital assets:					
Land	21,047,820	260,673	2,178,242	23,486,735	23,445,695
Construction in progress	2,146,299	1,857,072	1,967,821	5,971,192	10,576,716
Plant and equipment	487,938,992	109,911,446	77,252,794	675,103,232	658,489,328
Accumulated depreciation	(207,600,688)	(48,389,002)	(32,942,358)	(288,932,048)	(269,808,684)
<b>Total capital assets, net</b>	<b>303,532,423</b>	<b>63,640,189</b>	<b>48,456,499</b>	<b>415,629,111</b>	<b>422,703,055</b>
Other noncurrent assets:					
Due from City of Wyoming	-	-	1,824,529	1,824,529	1,956,675
<b>Total noncurrent assets</b>	<b>320,773,639</b>	<b>69,783,926</b>	<b>51,665,675</b>	<b>442,223,240</b>	<b>450,099,627</b>
<b>Total assets</b>	<b>491,484,257</b>	<b>83,125,411</b>	<b>66,599,192</b>	<b>641,208,860</b>	<b>614,604,861</b>
Deferred outflows of resources					
Deferred charge on refunding	-	-	100,052	100,052	144,515
Deferred pension amounts	961,809	276,883	218,592	1,457,284	3,851,745
<b>Total deferred outflows of resources</b>	<b>961,809</b>	<b>276,883</b>	<b>318,644</b>	<b>1,557,336</b>	<b>3,996,260</b>

continued...

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

**Statement of Net Position**

June 30, 2020

(with comparative totals for the year ended June 30, 2019)

	Electric Utility	Wastewater Utility	Water Utility	Business-Type Activities	
				2020	2019
<b>Liabilities</b>					
Current liabilities:					
Accounts payable	\$ 7,578,951	\$ 812,091	\$ 1,083,015	\$ 9,474,057	\$ 11,800,465
Accrued salaries and wages payable	376,871	113,104	87,893	577,868	436,880
Due to other funds of the City of Holland	282,316	185	3,610	286,111	221,705
Deposits	961,935	-	1,215	963,150	924,066
Accrued interest payable	3,131,809	22,016	3,301	3,157,126	42,749
Current portion of long-term debt	1,943,792	837,815	341,808	3,123,415	2,938,349
Current liabilities payable from restricted assets:					
Current portion of long-term debt	423,213	-	1,614,105	2,037,318	1,997,849
Accrued interest payable	-	-	24,273	24,273	25,991
<b>Total current liabilities</b>	<b>14,698,887</b>	<b>1,785,211</b>	<b>3,159,220</b>	<b>19,643,318</b>	<b>18,388,054</b>
Noncurrent liabilities:					
Long-term debt, net of current portion	5,634,281	8,889,040	1,122,269	15,645,590	18,122,660
Long-term debt payable from restricted assets, net of current portion	143,613,766	-	7,824,947	151,438,713	153,476,035
Net pension liability	3,943,390	1,135,217	896,225	5,974,832	6,834,357
Total other postemployment benefit liability	526,379	118,206	95,127	739,712	724,908
<b>Total noncurrent liabilities</b>	<b>153,717,816</b>	<b>10,142,463</b>	<b>9,938,568</b>	<b>173,798,847</b>	<b>179,157,960</b>
<b>Total liabilities</b>	<b>168,416,703</b>	<b>11,927,674</b>	<b>13,097,788</b>	<b>193,442,165</b>	<b>197,546,014</b>
Deferred inflows of resources					
Deferred pension amounts	83,774	24,117	19,039	126,930	296,641
Deferred other postemployment benefit amounts	305,847	68,682	55,273	429,802	429,899
<b>Total deferred inflows of resources</b>	<b>389,621</b>	<b>92,799</b>	<b>74,312</b>	<b>556,732</b>	<b>726,540</b>
Net position					
Net investment in capital assets	159,495,444	55,745,189	39,117,499	254,358,132	259,061,186
Restricted for:					
Debt service	11,136,031	-	964,254	12,100,285	12,110,031
Equipment replacement	-	6,143,737	-	6,143,737	7,273,675
Park Township	-	-	420,393	420,393	397,502
Cooperative payments	6,105,185	-	-	6,105,185	5,658,689
Unrestricted	146,903,082	9,492,895	13,243,590	169,639,567	135,827,484
<b>Total net position</b>	<b>\$ 323,639,742</b>	<b>\$ 71,381,821</b>	<b>\$ 53,745,736</b>	<b>\$ 448,767,299</b>	<b>\$ 420,328,567</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, 2020

(with comparative totals for the year ended June 30, 2019)

	Electric Utility	Wastewater Utility	Water Utility	Business-Type Activities	
				2020	2019
<b>Operating revenues</b>					
Residential sales	\$ 21,964,532	\$ 3,539,789	\$ 3,538,500	\$ 29,042,821	\$ 28,103,078
Commercial sales	33,729,935	2,757,074	3,088,543	39,575,552	39,576,226
Industrial sales	45,774,813	935,927	1,112,425	47,823,165	50,583,990
Wholesale	2,091,836	2,500,450	2,531,433	7,123,719	5,591,836
Fees and other	1,113,716	2,703,682	560,888	4,378,286	6,188,025
<b>Total operating revenues</b>	<b>104,674,832</b>	<b>12,436,922</b>	<b>10,831,789</b>	<b>127,943,543</b>	<b>130,043,155</b>
<b>Operating expenses</b>					
Salaries and wages	5,038,434	1,497,631	1,228,202	7,764,267	7,332,842
Employee benefits	3,739,575	1,062,747	932,770	5,735,092	4,501,480
Production	31,719,858	2,795,174	735,376	35,250,408	37,808,330
Distribution	5,706,112	700,456	763,363	7,169,931	6,579,900
Administrative and general	9,413,447	2,033,661	1,644,349	13,091,457	13,017,219
Depreciation	15,111,318	3,302,604	1,970,194	20,384,116	20,096,838
<b>Total operating expenses</b>	<b>70,728,744</b>	<b>11,392,273</b>	<b>7,274,254</b>	<b>89,395,271</b>	<b>89,336,609</b>
<b>Operating income</b>	<b>33,946,088</b>	<b>1,044,649</b>	<b>3,557,535</b>	<b>38,548,272</b>	<b>40,706,546</b>
<b>Nonoperating income (expense), net</b>					
Investment income	3,373,131	251,631	198,929	3,823,691	3,317,164
Interest expense	(5,986,584)	(272,031)	(302,443)	(6,561,058)	(6,595,259)
Insurance refunds	-	-	-	-	563,484
Gain (loss) on sale and disposal of capital assets	42,076	-	4,019	46,095	(758,643)
<b>Total nonoperating income (expense), net</b>	<b>(2,571,377)</b>	<b>(20,400)</b>	<b>(99,495)</b>	<b>(2,691,272)</b>	<b>(3,473,254)</b>
<b>Net income before contributions and transfers</b>	<b>31,374,711</b>	<b>1,024,249</b>	<b>3,458,040</b>	<b>35,857,000</b>	<b>37,233,292</b>
<b>Capital contributions</b>					
Trunkage	-	169,220	66,528	235,748	331,196
Federal and state capital grants	-	2,260	-	2,260	-
<b>Total capital contributions</b>	<b>-</b>	<b>171,480</b>	<b>66,528</b>	<b>238,008</b>	<b>331,196</b>
<b>Transfers out to other funds of the City of Holland</b>	<b>(7,656,276)</b>	<b>-</b>	<b>-</b>	<b>(7,656,276)</b>	<b>(6,606,000)</b>
<b>Change in net position</b>	<b>23,718,435</b>	<b>1,195,729</b>	<b>3,524,568</b>	<b>28,438,732</b>	<b>30,958,488</b>
<b>Net position, beginning of year</b>	<b>299,921,307</b>	<b>70,186,092</b>	<b>50,221,168</b>	<b>420,328,567</b>	<b>389,370,079</b>
<b>Net position, end of year</b>	<b>\$323,639,742</b>	<b>\$ 71,381,821</b>	<b>\$ 53,745,736</b>	<b>\$448,767,299</b>	<b>\$420,328,567</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, 2020

(with comparative totals for the year ended June 30, 2019)

	Electric Utility	Wastewater Utility	Water Utility	Business-Type Activities	
				2020	2019
<b>Cash flows from operating activities</b>					
Receipts from customers and users	\$ 104,267,711	\$ 12,394,475	\$ 10,394,212	\$127,056,398	\$130,490,119
Payments to suppliers	(49,839,611)	(5,995,622)	(2,444,544)	(58,279,777)	(55,935,634)
Payments to/for employees	(7,657,294)	(2,244,502)	(1,932,576)	(11,834,372)	(11,311,528)
<b>Net cash provided by operating activities</b>	<b>46,770,806</b>	<b>4,154,351</b>	<b>6,017,092</b>	<b>56,942,249</b>	<b>63,242,957</b>
<b>Cash flows from noncapital financing activities</b>					
Insurance refunds	-	-	-	-	563,484
Transfers to other funds of the City of Holland	(7,656,276)	-	-	(7,656,276)	(6,606,000)
Principal paid on pension bonds	(885,303)	(254,860)	(201,205)	(1,341,368)	(1,316,006)
Interest paid on pension bonds	(200,971)	(57,855)	(45,675)	(304,501)	(304,501)
<b>Net cash used in noncapital financing activities</b>	<b>(8,742,550)</b>	<b>(312,715)</b>	<b>(246,880)</b>	<b>(9,302,145)</b>	<b>(7,663,023)</b>
<b>Cash flows from capital and related financing activities</b>					
Principal paid on capital related debt	-	(417,500)	(1,510,000)	(1,927,500)	(16,210,000)
Interest paid on capital related debt	(3,100,988)	(214,334)	(279,829)	(3,595,151)	(10,006,268)
Capital contributions received	-	169,220	66,528	235,748	331,196
Federal and state capital grants	-	2,260	-	2,260	-
Proceeds from sale of capital assets	109,392	-	7,002	116,394	207,575
Purchase/construction of property, plant and equipment	(4,705,578)	(5,345,663)	(3,329,230)	(13,380,471)	(14,671,074)
<b>Net cash used in capital and related financing activities</b>	<b>(7,697,174)</b>	<b>(5,806,017)</b>	<b>(5,045,529)</b>	<b>(18,548,720)</b>	<b>(40,348,571)</b>
<b>Cash flows from investing activities</b>					
Interest received	4,551,866	335,802	266,703	5,154,371	4,055,160
Purchase of investment securities	(132,202,865)	(9,426,556)	(6,309,328)	(147,938,749)	(126,084,628)
Proceeds from sale or maturities of investment securities	109,842,737	9,148,067	6,111,686	125,102,490	53,516,914
<b>Net cash provided by (used in) investing activities</b>	<b>(17,808,262)</b>	<b>57,313</b>	<b>69,061</b>	<b>(17,681,888)</b>	<b>(68,512,554)</b>
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>12,522,820</b>	<b>(1,907,068)</b>	<b>793,744</b>	<b>11,409,496</b>	<b>(53,281,191)</b>
Cash and cash equivalents, beginning of year	21,009,989	10,216,457	6,419,821	37,646,267	90,927,458
<b>Cash and cash equivalents, end of year</b>	<b>\$ 33,532,809</b>	<b>\$ 8,309,389</b>	<b>\$ 7,213,565</b>	<b>\$ 49,055,763</b>	<b>\$ 37,646,267</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, 2020

(with comparative totals for the year ended June 30, 2019)

	Electric Utility	Wastewater Utility	Water Utility	Business-Type Activities	
				2020	2019
Classified on the statement of net position as					
Cash and cash equivalents	\$ 33,532,809	\$ 3,456,570	\$ 5,828,918	\$ 42,818,297	\$ 30,265,286
Restricted cash and cash equivalents	-	4,852,819	1,384,647	6,237,466	7,380,981
<b>Total cash and cash equivalents</b>	<b>\$ 33,532,809</b>	<b>\$ 8,309,389</b>	<b>\$ 7,213,565</b>	<b>\$ 49,055,763</b>	<b>\$ 37,646,267</b>
Reconciliation of operating income to net cash provided by operating activities					
Operating income	\$ 33,946,088	\$ 1,044,649	\$ 3,557,535	\$ 38,548,272	\$ 40,706,546
Adjustments to reconcile operating income net cash provided by operating activities:					
Depreciation	15,111,318	3,302,604	1,970,194	20,384,116	20,096,838
Changes in operating assets and liabilities which provided (used) cash:					
Receivables	(335,897)	(44,020)	(576,387)	(956,304)	1,160,877
Due from other funds of the					
City of Holland	(109,093)	1,573	4,646	(102,874)	(922,364)
Inventories	(851,548)	(755)	184,171	(668,132)	(187,117)
Prepaid items and other assets	878,571	(25,132)	(14,083)	839,356	(353,593)
Due from the City of Wyoming	-	-	132,949	132,949	128,893
Accounts payable	(2,417,430)	(436,051)	527,073	(2,326,408)	1,871,945
Accrued salaries and wages payable	93,884	27,651	19,453	140,988	48,865
Due to other funds of the					
City of Holland	67,416	(4,393)	1,383	64,406	139,059
Deposits	37,869	-	1,215	39,084	79,558
Landfill postclosure liability	(677,203)	-	-	(677,203)	(480)
Compensated absences	115,317	26,482	2,268	144,067	(26,489)
Net pension liability	(567,286)	(163,310)	(128,929)	(859,525)	5,584,857
Deferred outflows of resources related to the net pension liability	1,580,344	454,948	359,169	2,394,461	(3,623,901)
Deferred inflows of resources related to the net pension liability	(112,009)	(32,245)	(25,457)	(169,711)	(1,474,912)
Total other postemployment benefit liability	10,534	2,366	1,904	14,804	8,654
Deferred inflows of resources related to the total other postemployment benefit liability	(69)	(16)	(12)	(97)	5,721
<b>Net cash provided by operating activities</b>	<b>\$ 46,770,806</b>	<b>\$ 4,154,351</b>	<b>\$ 6,017,092</b>	<b>\$ 56,942,249</b>	<b>\$ 63,242,957</b>

concluded

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



## NOTES TO FINANCIAL STATEMENTS

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

## Notes to Financial Statements

### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### Reporting Entity

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

#### *Basis of Presentation*

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

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

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

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

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

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

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

The Board reports the following major enterprise funds:

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

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

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.

# HOLLAND BOARD OF PUBLIC WORKS

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

### Notes to Financial Statements

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

#### *Cash and Cash Equivalents*

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

#### *Investments*

Investments consist primarily of U.S. government securities, commercial paper, money market securities, and treasury bills, all of which are carried at fair value or amortized cost, as described in Note 2.

#### *Receivables*

All receivables are reported at their gross value and, where appropriate, are reduced by the estimated portion that is expected to be uncollectible. At June 30, 2020, the allowance for uncollectible amounts in the electric, wastewater and water utility funds was \$76,867, \$962 and \$3,065, respectively.

#### *Due To/From Other Funds*

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

#### *Inventories*

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

#### *Prepaid Items*

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

#### *Restricted Assets*

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

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

**Notes to Financial Statements**

*Capital Assets*

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

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

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

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

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

Capital assets of the Water and Wastewater Utility Funds include assets purchased with funds provided by participating townships. Depreciation on these assets were \$72,682 and \$911,540, respectively.

*Due From City of Wyoming*

The Board entered into a cost sharing agreement with the City of Wyoming to finance and construct the Wyoming Interconnect Water Project to be financed by a State Drinking Water Revolving fund bond issue. Upon completion, an estimated 15% of the related debt is scheduled to be forgiven by the grantor agency. Completion of the construction project and repayment of the associated bonds will be the responsibility of the Board. Under the cost sharing agreement, 47.54% of the assets constructed have been transferred to the City of Wyoming, along with an equal proportion of the related debt payments to be paid to the Board by the City of Wyoming, based on the installment payments on the related debt. The balance of this receivable at June 30, 2020 is equal to 47.54% of the assets completed and capitalized at that date, less a ratable share of the estimated debt forgiveness and principal payments made by the City of Wyoming.

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

## Notes to Financial Statements

### *Deferred Outflows of Resources*

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

### *Compensated Absences*

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

### *Bond Discounts/Premiums and Deferred Refunding Costs*

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

### *Deferred Inflows of Resources*

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

### *Pensions and Other Postemployment Benefits*

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

### *Transfers*

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

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

**Notes to Financial Statements**

*Use of Estimates*

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

*Reclassifications*

Certain amounts in the June 30, 2019 financial statements have been reclassified to conform with the June 30, 2020 presentation.

**2. DEPOSITS AND INVESTMENTS**

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

Statement of net position	
Cash and cash equivalents	\$ 42,818,297
Investments	128,508,455
Restricted assets:	
Cash and cash equivalents	6,237,466
Investments	18,529,413
<b>Total</b>	<b><u>\$ 196,093,631</u></b>

Deposits and investments consist of the following at June 30, 2020:

Deposits and investments	
Checking and savings accounts	\$ 50,619,172
Certificates of deposit (due within one year)	3,011,538
Certificates of deposit (due within one to five years)	831,198
Investments	141,626,112
Cash on hand	5,611
<b>Total</b>	<b><u>\$ 196,093,631</u></b>

*Statutory Authority*

State statutes authorize the Board to invest in:

- Bonds, securities, other obligations and repurchase agreements of the United States, or an agency or instrumentality of the United States.
- Certificates of deposit, savings accounts, deposit accounts or depository receipts of a qualified financial institution.
- Commercial paper rated at the time of purchase within the two highest classifications established by not less than two standard rating services and that matures not more than 270 days after the date of purchase.

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

**Notes to Financial Statements**

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

*Investment and Deposit Risk*

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

	No maturity	Due < 1 year	Due in 1-5 years	Totals
U.S. government securities	\$ -	\$ 1,217,284	\$ 36,069,854	\$ 37,287,138
Commercial paper	-	23,074,617	-	23,074,617
Money market securities	65,761,441	-	-	65,761,441
Treasury bills	-	9,525,977	1,497,578	11,023,555
Michigan Public Power Agency (MPPA) investments	4,479,361	-	-	4,479,361
	<u>\$ 70,240,802</u>	<u>\$ 33,817,878</u>	<u>\$ 37,567,432</u>	<u>\$ 141,626,112</u>

*Custodial Credit Risk - Deposits.* Custodial credit risk is the risk that in the event of a bank failure, the Board’s deposits may not be returned. State law does not require and the Board’s investment policy does not have specific limits in excess of state law on custodial credit risk. As of year end, \$52,538,729 of the Board’s bank balance of \$53,788,729 was exposed to custodial credit risk because it was uninsured and uncollateralized.

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

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

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

**Notes to Financial Statements**

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

S&P AAA	\$ 65,761,441
S&P AA+	52,790,054
S&P A1	<u>23,074,617</u>
	<u>\$ 141,626,112</u>

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

*Fair Value Measurement*

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

The Board has the following recurring fair value measurements as of June 30, 2020:

- U.S. government securities and treasury bills with a balance of \$48,310,693 (level 2 inputs).
- Commercial paper with a balance of \$23,074,617 (level 2 inputs).
- Assets held with Michigan Public Power Agency, with a balance of \$4,479,361 (level 3 inputs).

The Board's money market securities, with a balance of \$65,761,441, are recorded at amortized cost.

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

	Electric Utility	Wastewater Utility	Water Utility	Total
City trunkage	\$ -	\$ 1,547,810	\$ 684,135	\$ 2,231,945
Future debt payments	104,083,796	-	3,057,088	107,140,884
Insurance/risk retention	<u>5,000,000</u>	<u>1,100,000</u>	<u>1,000,980</u>	<u>7,100,980</u>
<b>Total</b>	<u>\$ 109,083,796</u>	<u>\$ 2,647,810</u>	<u>\$ 4,742,203</u>	<u>\$ 116,473,809</u>



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

**Notes to Financial Statements**

**3. CAPITAL ASSETS**

A summary of capital assets at June 30, 2020 is as follows:

	Beginning Balance	Additions	Deletions	Transfers	Ending Balance
<b>Business-type activities</b>					
Capital assets, not being depreciated:					
Land	\$ 23,445,695	\$ -	\$ -	\$ 41,040	\$ 23,486,735
Construction in progress	10,576,716	13,380,471	(59,283)	(17,926,712)	5,971,192
	<u>34,022,411</u>	<u>13,380,471</u>	<u>(59,283)</u>	<u>(17,885,672)</u>	<u>29,457,927</u>
Capital assets, being depreciated:					
Production plant	390,758,325	-	(77,987)	6,010,947	396,691,285
Distribution/collection system	93,962,158	-	(514,795)	8,566,923	102,014,286
Transmission	120,353,226	-	(414,632)	2,286,713	122,225,307
General plant	53,415,619	-	(264,354)	1,021,089	54,172,354
	<u>658,489,328</u>	<u>-</u>	<u>(1,271,768)</u>	<u>17,885,672</u>	<u>675,103,232</u>
Less accumulated depreciation for:					
Production plant	(126,935,068)	(12,092,678)	77,987	-	(138,949,759)
Distribution/collection system	(34,121,160)	(2,541,515)	511,818	-	(36,150,857)
Transmission	(84,472,499)	(3,302,295)	406,593	-	(87,368,201)
General plant	(24,279,957)	(2,447,628)	264,354	-	(26,463,231)
	<u>(269,808,684)</u>	<u>(20,384,116)</u>	<u>1,260,752</u>	<u>-</u>	<u>(288,932,048)</u>
Total capital assets being depreciated, net	<u>388,680,644</u>	<u>(20,384,116)</u>	<u>(11,016)</u>	<u>17,885,672</u>	<u>386,171,184</u>
Business-type activities capital assets, net	<u>\$ 422,703,055</u>	<u>\$ (7,003,645)</u>	<u>\$ (70,299)</u>	<u>\$ -</u>	<u>\$ 415,629,111</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	\$ 150,693,610	\$ -	\$ (1,510,000)	\$ 149,183,610	\$ 1,560,000
Pension bonds	10,195,525	-	(1,341,368)	8,854,157	1,372,367
Capital lease	8,312,500	-	(417,500)	7,895,000	427,500
Total installment debt	169,201,635	-	(3,268,868)	165,932,767	3,359,867
Unamortized net premium/ discount on revenue bonds	4,780,274	-	(487,853)	4,292,421	477,318
Compensated absences	1,179,481	1,323,548	(1,179,481)	1,323,548	1,323,548
Landfill postclosure	1,373,503	-	(677,203)	696,300	-
	<u>\$ 176,534,893</u>	<u>\$ 1,323,548</u>	<u>\$ (5,613,405)</u>	<u>\$ 172,245,036</u>	<u>\$ 5,160,733</u>

Revenue bonds

\$5,395,110 2011A Drinking Water Revolving Bonds, due in annual installments of \$236,500 to \$368,610 plus interest at 2.5%, payable semi-annually, through April 1, 2032. \$ 3,883,610

\$9,740,000 2012A Water Supply Systems Revenue Refunding Bonds, due in annual installments of \$190,000 to \$1,430,000 plus interest ranging from 2.0 to 4.0%, payable semi-annually, through July 1, 2024. 5,410,000

\$158,840,000 2014A Electric Utility System Revenue Bonds, due in annual installments of \$4,600,000 to \$10,705,000 plus interest ranging from 1.659 to 4.919%, payable semi-annually, through July 1, 2039. 139,890,000

Total revenue bonds 149,183,610

Pension bonds

\$14,090,000 2016 Pension Bonds (Board portion), due in annual installments of \$1,282,190 to \$1,592,170 plus interest ranging from 0.76 to 3.42%, payable semi-annually, through December 1, 2025. 8,854,157

Capital lease

\$9,500,000 2015 Capital lease payable to the County of Ottawa, due in annual installments of \$387,500 to \$657,500 plus interest ranging from 0.75 to 3.4%, payable semi-annually, through June 1, 2035. 7,895,000

Total installment debt \$ 165,932,767

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

**Notes to Financial Statements**

The annual requirements to maturity on bonds outstanding as of June 30, 2020 are as follows:

Year Ended June 30,	Principal	Interest	Total
2021	\$ 2,932,367	\$ 6,769,688	\$ 9,702,055
2022	8,009,000	6,589,308	14,598,308
2023	8,303,452	6,317,476	14,620,928
2024	8,580,722	6,022,910	14,603,632
2025	7,411,446	5,723,526	13,134,972
2026-2030	34,307,171	24,623,062	58,930,233
2031-2035	39,678,610	16,281,970	55,960,580
2036-2039	48,814,999	6,104,607	54,919,606
	<u>\$ 158,037,767</u>	<u>\$ 78,432,547</u>	<u>\$ 236,470,314</u>

The annual requirements to maturity on capital leases outstanding as of June 30, 2020 are as follows:

Year Ended June 30,	Principal	Interest	Total
2021	\$ 427,500	\$ 214,012	\$ 641,512
2022	437,500	206,959	644,459
2023	450,000	198,865	648,865
2024	462,500	189,640	652,140
2025	472,500	179,465	651,965
2026-2030	2,580,000	716,105	3,296,105
2031-2035	3,065,000	310,743	3,375,743
	<u>\$ 7,895,000</u>	<u>\$ 2,015,789</u>	<u>\$ 9,910,789</u>

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

*Landfill Closure and Postclosure Care*

State and federal laws and regulations require the Board to place a final cover on its fly ash and wastewater treatment bio solids landfill when it stops accepting waste and to perform certain maintenance and monitoring functions at the site for thirty years after closure. Although closure and postclosure care costs will be paid only near or after the date that the landfill stops accepting waste, the Board reports a portion of these closure and postclosure care costs as an operating expense in each period based on landfill capacity used as of each statement of net position date. The \$696,300 reported as landfill closure and postclosure liability at June 30, 2020, represents the cumulative amount reported to date based on the use of 87 percent of the estimated capacity of the landfill. The Board recognized closure cost during the current fiscal year and received a letter from the Department of Environment, Great Lakes and Energy (EGLE) acknowledging the landfill has been closed effective July 10, 2020. The remaining liability is for the estimated cost for postclosure care for the next 30 years.

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

**Notes to Financial Statements**

The Board is required by state and federal laws and regulations to make annual contributions to a trust to finance closure and postclosure care. The Board is in compliance with these requirements. At June 30, 2020, the closure and postclosure costs have been assured by a \$100,000 letter of credit and \$18,913 held in trust.

**5. PENSION PLANS**

Defined Benefit Pension Plan

*General Information About the Plan*

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

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

*Employees Covered by Benefit Terms.* At the December 31, 2019 valuation date, plan membership consisted of the following:

Inactive employees or beneficiaries currently receiving benefits	133
Inactive employees entitled to but not yet receiving benefits	30
Active employees	57
 Total membership	 220

*Contributions.* The employer is required to contribute amounts at least equal to the actuarially determined rate, as established by the MERS Retirement Board. The actuarially determined rate is the estimated amount necessary to finance the cost of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. In addition, the employer may establish contribution rates to be paid by its covered employees.

Employer and employee contribution amounts or rates, by division/bargaining unit, were as follows for the year ended June 30, 2020:

Division/Bargaining Unit	Employer Contribution	Employee Contribution	Status
11 - PubWks Local 586	\$30,056/month	3.0%	Closed
13 - PubWks-NonUnion	\$25,997/month	3.0%	Closed
14 - Clerical	\$3,543/month	3.0%	Closed

# HOLLAND BOARD OF PUBLIC WORKS

(Enterprise Funds of the City of Holland, Michigan)

## Notes to Financial Statements

*Net Pension Liability.* The Board's net pension liability was measured as of December 31, 2019, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date.

*Actuarial Assumptions.* The total pension liability in the December 31, 2019 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.50%
Salary increases	3.00% in the long-term
Investment rate of return	7.35%, net of investment and administrative expense including inflation

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

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

The mortality table used to project the mortality experience of disabled plan members is 50% Male, 50% Female blend of RP-2014 Disabled Retiree Mortality Tables.

The actuarial assumptions used in the December 31, 2019 valuation were based on the results of the most recent actuarial experience study of 2009-2013.

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

**Notes to Financial Statements**

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

Asset Class	Target Allocation	Long-term Expected Real Rate of Return	Expected Money-Weighted Rate of Return
Global equity	60.0%	5.25%	3.15%
Global fixed income	20.0%	1.25%	0.25%
Private investments	20.0%	7.25%	1.45%
	100.0%		
Inflation			2.50%
Administrative expenses netted above			0.25%
Investment rate of return			7.60%

*Discount Rate.* The discount rate used to measure the total pension liability as of December 31, 2019 was 7.6% (down from 8.0% at December 31, 2018). The projection of cash flows used to determine the discount rate assumes that employer and employee contributions will be made at the rates agreed upon for employees and the actuarially determined rates for employers. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to pay all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

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

**Notes to Financial Statements**

*Changes in Net Pension Liability*

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

	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) - (b)
Balances at December 31, 2018	\$ 55,744,318	\$ 48,909,961	\$ 6,834,357
Changes for the year:			
Service cost	465,098	-	465,098
Interest	4,340,973	-	4,340,973
Differences between expected and actual experience	(253,861)	-	(253,861)
Changes in assumptions	1,843,738	-	1,843,738
Employer contributions	-	687,360	(687,360)
Employee contributions	-	140,820	(140,820)
Net investment income	-	6,539,901	(6,539,901)
Benefit payments, including refunds of employee contributions	(3,421,864)	(3,421,864)	-
Administrative expense	-	(112,608)	112,608
Net changes	<u>2,974,084</u>	<u>3,833,609</u>	<u>(859,525)</u>
Balances at December 31, 2019	<u>\$ 58,718,402</u>	<u>\$ 52,743,570</u>	<u>\$ 5,974,832</u>

Amounts reported as changes in assumptions resulted primarily from a decrease in the assumed rate of return from 7.75% to 7.35%, and a decrease in the assumed rate of wage inflation from 3.75% to 3.00%.

*Sensitivity of the Net Pension Liability to Changes in the Discount Rate.* The following presents the net pension liability of the Board, calculated using the discount rate of 7.6%, as well as what the Board's net pension liability would be if it were calculated using a discount rate that is 1% lower (6.6%) or 1% higher (8.6%) than the current rate:

1% Decrease (6.6%)	Current Discount Rate (7.6%)	1% Increase (8.6%)
\$ 11,868,127	\$ 5,974,832	\$ 905,832

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

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

**Notes to Financial Statements**

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

For the year ended June 30, 2020, the Board recognized pension expense of \$2,080,377. The Board reported deferred outflows/inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources	Net Deferred Outflows (Inflows) of Resources
Difference between expected and actual experience	\$ -	\$ 126,930	\$ (126,930)
Changes in assumptions	921,869	-	921,869
Net difference between projected and actual earnings on pension plan investments	177,839	-	177,839
	<u>1,099,708</u>	<u>126,930</u>	<u>972,778</u>
Contributions subsequent to the measurement date	357,576	-	357,576
Total	<u>\$ 1,457,284</u>	<u>\$ 126,930</u>	<u>\$ 1,330,354</u>

The amount reported as deferred outflows of resources resulting from contributions subsequent to the measurement date will be recognized as a reduction in the net pension liability for the year ending June 30, 2021. Other amounts reported as deferred outflows/inflows of resources related to the pension will be recognized in pension expense as follows:

Year Ended June 30,	Amount
2021	\$ 647,937
2022	175,317
2023	696,654
2024	<u>(547,130)</u>
Total	<u>\$ 972,778</u>

*Payable to the Pension Plan.* At June 30, 2020, the Board reported a payable of \$59,596 for the outstanding amount of contributions to the pension plan.

**Defined Contribution Pension Plan**

The Board participates in a defined contribution retirement plan which is administered by the ICMA in participation with MERS for both nonbargaining and union employees. The defined contribution provisions of the plan require the Board to contribute 6% of covered employee payroll and to match employee contributions up to 2% for nonbargaining employees and up to 2% for union employees. The participants direct their investments under defined contribution provisions. During the year ended June 30, 2020, the Board contributed \$725,162 and employees contributed \$196,724 to the defined contribution plan.



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

**Notes to Financial Statements**

**6. OTHER POSTEMPLOYMENT BENEFITS (OPEB) PLAN**

*General Information About the OPEB Plan*

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

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

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

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

*Plan Membership.* At June 30, 2020, the date of the most recent actuarial valuation, OPEB Plan membership consisted of the following:

Inactive plan members or beneficiaries currently receiving benefit payments	11
Active plan members	168
	<hr/>
Total membership	179
	<hr/> <hr/>

*Total OPEB Liability*

The total OPEB liability was measured as of June 30, 2020, and was determined by an actuarial valuation as of that date.

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

**Notes to Financial Statements**

*Actuarial Assumptions.* The total OPEB liability in the June 30, 2020 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

Inflation	Implicit in expected payroll increases
Salary increases	2.0%
Investment rate of return	N/A - plan is not pre-funded
20-year Aa municipal bond rate	2.66%
Healthcare cost trend rate	5.0%
Utilization	85% of eligible employees will elect coverage at early retirement; actual coverage used for non-active
Mortality	General and public safety public employer, headcount weighted, sex-distinct mortality with improvement scale MP-2019

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

*Discount Rate.* The discount rate used to measure the total OPEB liability was 2.66%. Because the OPEB Plan does not have a dedicated OPEB trust, there are no assets projected to be sufficient to make projected future benefit payments of current plan members. Projected benefits were discounted at a discount rate reflecting a 20-year AA/Aa tax-exempt municipal bond yield. A single equivalent discount rate that yields the same present value of benefits is calculated. This discount rate is used to determine the total OPEB liability.

*Changes in the Total OPEB Liability*

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

	Total OPEB Liability
Balances at June 30, 2019	\$ 724,908
Changes for the year:	
Service cost	31,613
Interest	22,780
Differences between expected and actual experience	(55,080)
Changes of assumptions	9,834
Benefit payments, including refunds of employee contributions	5,657
Net changes	14,804
Balances at June 30, 2020	\$ 739,712

Amounts reported as changes of assumptions include mortality updated to Public employer tables, discount rate lowered from 3.0% to 2.66% to reflect current municipal bond rates, and medical trend rates were changed to 5.0%.

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

**Notes to Financial Statements**

*Sensitivity of the Total OPEB Liability to Changes in the Discount Rate.* The following presents the total OPEB liability of the Board, calculated using the discount rate of 2.66%, as well as what the Board's total OPEB liability would be if it were calculated using a discount rate that is 1% lower (1.66%) or 1% higher (3.66%) than the current rate:

1% Decrease (1.66%)	Current Discount Rate (2.66%)	1% Increase (3.66%)
\$ 807,744	\$ 739,712	\$ 677,234

*Sensitivity of the Total OPEB Liability to Changes in the Healthcare Cost Trend Rates.* The following presents the total OPEB liability of the Board, calculated using the healthcare cost trend rate 5.0%, as well as what the Board's total OPEB liability would be if it were calculated using a healthcare cost trend rate that is 1% lower (4.0%) or 1% higher (6.0%) than the current rate:

1% Decrease (4.0%)	Current Healthcare Trent Rate (5.0%)	1% Increase (6.0%)
\$ 690,941	\$ 739,712	\$ 797,619

*OPEB Expense and Deferred Inflows of Resources Related to OPEB*

For the year ended June 30, 2020, the Board recognized OPEB expense of \$9,052. The Board reported deferred inflows of resources related to OPEB from the following sources:

	Deferred Inflows of Resources
Difference between expected and actual experience	\$ 313,520
Changes of assumptions	116,282
	<u>\$ 429,802</u>

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

**Notes to Financial Statements**

Amounts reported as deferred inflows of resources related to the OPEB will be recognized in OPEB expense as follows:

Year Ended June 30,	Amount
2021	\$ 45,343
2022	45,343
2023	45,343
2024	45,343
2025	45,343
Thereafter	<u>203,087</u>
<b>Total</b>	<b><u>\$ 429,802</u></b>

*Payable to the OPEB Plan.* At June 30, 2020, the Board had no amounts payable for contributions to the OPEB plan.

**7. RISK MANAGEMENT**

The Board is exposed to various risks of loss related to property loss, torts, errors and omissions, employee injuries (workers’ compensation), as well as medical benefits provided to employees. The Board is self-insured for these risks through the City of Holland’s self-insurance program except for workers’ compensation risks which are covered through commercial insurance. The City purchases excess reinsurance and allocates risk management costs among the various funds of the City, including the Board of Public Works. The schedule of changes in the self-insured liability balances is included in the City of Holland’s financial statements for the year ended June 30, 2020.

**8. COMMITMENTS**

The Board has contracts outstanding for remaining project costs of approximately \$3,170,000 for various electric utility projects, \$13,773,000 for electric equipment maintenance, \$478,000 for various water projects, and \$2,531,000 for various wastewater projects.

**9. JOINT VENTURE**

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

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

### Notes to Financial Statements

Under the joint venture, the Board has entered into Power Sales Contracts and Project Support Contracts. These contracts provide for the Board to purchase from MPPA 15.66% of the energy generated by MPPA's 37.22% ownership in Detroit Edison's Belle River Unit No. 1, which became operational in August 1984, 6.35% of MPPA's 4.8% ownership in Consumers Energy's Campbell Unit No. 3, which became operational in September 1980, and 13.35% of the energy generated by MPPA's 5.16% ownership in the AMP Fremont Energy Center (AFEC), which became operational in June 2012. The contracts required the Board to purchase approximately 38 and 10 megawatts of power, respectively, in 1995 and thereafter for the Belle River and Campbell projects. The contracts relating to the Fremont project requires the Board to purchase approximately 8 megawatts of power in 2013 and thereafter.

For the year ended June 30, 2020, the Board recognized expenses totaling \$11,328,304 under the terms of the contracts which represented \$1,138,541 for fixed operating costs, \$1,391,465 for debt service and \$8,798,298 for the purchase of power. Accounts payable to MPPA totaled net \$232,638 at June 30, 2020. 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 Consumers Energy's Campbell Unit No. 3 and American Municipal Power's AMP Fremont Energy Center Project (AFEC). The estimated required payments presented below consider the dynamics of the PJM and MISO markets. Debt service payments assume no early calls or refinancing of existing revenue bonds.

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

Year Ended June 30,	Campbell		Fremont (AFEC)		Total
	Debt Service	Fixed Operating	Debt Service	Fixed Operating	
2021	\$ 1,111,411	\$ 225,581	\$ 280,255	\$ 293,830	\$ 1,911,077
2022	555,487	114,458	280,674	222,881	1,173,500
2023	-	-	280,657	223,678	504,335
2024	-	-	281,074	217,849	498,923
2025	-	-	280,437	195,814	476,251
2026-2030	-	-	1,407,257	1,040,451	2,447,708
2031-2035	-	-	1,411,029	1,148,741	2,559,770
2036-2040	-	-	1,416,018	1,268,304	2,684,322
2041-2043	-	-	852,646	823,497	1,676,143
	<u>\$ 1,666,898</u>	<u>\$ 340,039</u>	<u>\$ 6,490,047</u>	<u>\$ 5,435,045</u>	<u>\$ 13,932,029</u>

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

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

**Notes to Financial Statements**

**10. LITIGATION**

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

**11. NET INVESTMENT IN CAPITAL ASSETS**

The composition of net investment in capital assets as of June 30, 2020, was as follows:

Capital assets:	
Capital assets not being depreciated	\$ 29,457,927
Capital assets being depreciated, net	<u>386,171,184</u>
	<u>415,629,111</u>
Related debt:	
Total installment debt	165,932,767
Less pension bonds	(8,854,157)
Net bond premium/discount	4,292,421
Deferred charge on refunding	<u>(100,052)</u>
	<u>161,270,979</u>
Net investment in capital assets	<u>\$ 254,358,132</u>

**12. CORONAVIRUS (COVID-19)**

In March 2020, the World Health Organization declared the novel coronavirus outbreak (COVID-19) to be a global pandemic. The extent of the ultimate impact of the pandemic on the Board’s operational and financial performance will depend on various developments, including the duration and spread of the outbreak and its impact on employees, vendors, and customers, all of which cannot be reasonably predicted at this time. In addition, it may place additional demands on the Board for providing emergency services to its citizens. While management reasonably expects the COVID-19 outbreak to negatively impact the Board’s financial position, changes in financial position, and, where applicable, the timing and amounts of cash flows, the related financial consequences and duration are highly uncertain.

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

**Notes to Financial Statements**

**13. SUBSEQUENT EVENT**

In September 2020, the Board was approved for low interest bonds through the Clean Water State Revolving Fund ("SRF") for the construction of an anaerobic digester and associated components including anoxic thermophilic pretreatment reactors, sludge equalization tank, post-aerobic digester, biogas utilization facility inclusive of gas cleaning systems and combined heat and power systems with gas storage facilities, and expansion of existing odor control system. The project cost is estimated at \$33.325 million. The SRF funding amount of \$30.0 million is via 20 year revenue bonds (secured by the revenues of the Board's Water Reclamation Facility) with 2 percent coupon. The additional \$3.325 million in costs will be funded by cash reserves on hand. The bonds were purchased at issuance by the Michigan Finance Authority. The project qualified for principal forgiveness through the Green Project Reserve (GPR), offered through SRF. The Board anticipates receiving \$6.0 million principal forgiveness on the \$30M financing.

Subsequent to the closing of the SRF financing, a construction contract for the digester project, in an amount of approximately \$29.3 million, was issued to Grand Rapids based Davis Construction, Inc.



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**UNAUDITED SUPPLEMENTARY INFORMATION**

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

**Unaudited Supplementary Information**

MERS Agent Multiple-Employer Defined Benefit Pension Plan  
Schedule of Changes in the Board's Net Pension Liability and Related Ratios

	Year Ended June 30,		
	2020	2019	2018
<b>Total pension liability</b>			
Service cost	\$ 465,098	\$ 459,607	\$ 468,117
Interest	4,340,973	4,281,669	4,227,124
Changes in benefits	-	-	-
Differences between expected and actual experience	(253,861)	(593,283)	(705,307)
Changes of assumptions	1,843,738	-	-
Benefit payments, including refunds of employee contributions	(3,421,864)	(3,389,456)	(3,218,276)
<b>Net change in total pension liability</b>	<u>2,974,084</u>	<u>758,537</u>	<u>771,658</u>
<b>Total pension liability, beginning of year</b>	<u>55,744,318</u>	<u>54,985,781</u>	<u>54,214,123</u>
<b>Total pension liability, end of year</b>	<u>58,718,402</u>	<u>55,744,318</u>	<u>54,985,781</u>
<b>Plan fiduciary net position</b>			
Employer contributions	687,360	557,523	404,799
Employee contributions	140,820	139,999	145,954
Net investment income (loss)	6,539,901	(2,031,816)	6,496,694
Benefit payments, including refunds of employee contributions	(3,421,864)	(3,389,456)	(3,218,276)
Administrative expense	(112,608)	(102,570)	(103,062)
<b>Net change in plan fiduciary net position</b>	<u>3,833,609</u>	<u>(4,826,320)</u>	<u>3,726,109</u>
<b>Plan fiduciary net position, beginning of year</b>	<u>48,909,961</u>	<u>53,736,281</u>	<u>50,010,172</u>
<b>Plan fiduciary net position, end of year</b>	<u>52,743,570</u>	<u>48,909,961</u>	<u>53,736,281</u>
<b>Board's net pension liability</b>	<u>\$ 5,974,832</u>	<u>\$ 6,834,357</u>	<u>\$ 1,249,500</u>
Plan fiduciary net position as a percentage of total pension liability	89.8%	87.7%	97.7%
<b>Covered payroll</b>	<u>\$ 4,646,185</u>	<u>\$ 4,561,399</u>	<u>\$ 4,647,824</u>
Board's net pension liability as a percentage of covered payroll	128.6%	149.8%	26.9%



Year Ended June 30,

2017	2016	2015
------	------	------

\$ 494,584	\$ 508,116	\$ 534,319
4,131,826	3,988,984	3,877,167
-	(6,591)	-
(266,556)	(581,928)	-
-	2,486,206	-
<u>(3,092,525)</u>	<u>(3,090,521)</u>	<u>(2,995,515)</u>
1,267,329	3,304,266	1,415,971
<u>52,946,794</u>	<u>49,642,528</u>	<u>48,226,557</u>
<u>54,214,123</u>	<u>52,946,794</u>	<u>49,642,528</u>
1,623,277	15,566,146	1,500,624
158,497	140,340	128,691
5,249,048	(448,173)	2,086,857
(3,092,525)	(3,090,521)	(2,995,515)
(103,380)	(76,287)	(76,418)
<u>3,834,917</u>	<u>12,091,505</u>	<u>644,239</u>
<u>46,175,255</u>	<u>34,083,750</u>	<u>33,439,511</u>
<u>50,010,172</u>	<u>46,175,255</u>	<u>34,083,750</u>
<u>\$ 4,203,951</u>	<u>\$ 6,771,539</u>	<u>\$ 15,558,778</u>
92.2%	87.2%	68.7%
\$ 4,899,166	\$ 5,317,097	\$ 5,581,027
85.8%	127.4%	278.8%

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

### Unaudited Supplementary Information

#### MERS Agent Multiple-Employer Defined Benefit Pension Plan Schedule of Changes in the Board's Net Pension Liability and Related Ratios

##### Notes to the Schedule of Changes in the City's Net Pension Liability and Related Ratios

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

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

*Changes in assumptions.* In 2016, amounts reported as changes of assumptions resulted primarily from adjustments to the mortality table to reflect longer lifetimes, decreases in the assumed rate of return, and changes in asset smoothing.

In 2020, amounts reported as changes of assumptions resulted primarily from a decrease in the assumed rate of return from 7.75% to 7.35%, and a decrease in the assumed rate of wage inflation from 3.75% to 3.00%.

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

**Unaudited Supplementary Information**  
 MERS Agent Multiple-Employer Defined Benefit Pension Plan  
 Schedule of Contributions

Fiscal Year Ending June 30,	Actuarially Determined Contribution	Contributions in Relation to the Actuarially Determined Contribution	Contribution Deficiency (Excess)	Covered Payroll	Contributions as Percentage of Covered Payroll
2020	\$ 715,152	\$ 715,152	\$ -	\$ 4,690,883	15.2%
2019	659,463	659,463	-	4,664,822	14.1%
2018	455,133	455,133	-	4,715,326	9.7%
2017	355,020	355,020	-	5,106,936	7.0%
2016	957,317	16,226,621	15,269,304	5,543,402	292.7%
2015	1,570,584	1,570,584	-	5,483,611	28.6%

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

Notes to Schedule of Contributions

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

Methods and assumptions used to determine contribution rates (2020, based on the 12/31/2017 actuarial valuation):

Actuarial cost method	Entry-age normal
Amortization method	Level percent of payroll, closed
Remaining amortization period	3-10 years, depending on division
Asset valuation method	5-year smooth market
Inflation	2.50%
Salary increases	3.75% in the long-term
Investment rate of return	7.75%, net of investment and administrative expense including inflation
Normal retirement age	Age 60
Mortality	50% Female/50% Male blend of the RP-2014 Healthy Annuitant Mortality Tables with rates multiplied by 105%, the RP-2014 Employee Mortality Tables, and the RP-2014 Juvenile Mortality Tables

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

**Unaudited Supplementary Information**

Other Postemployment Benefits Plan

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

	Year Ended June 30		
	2020	2019	2018
Total OPEB liability			
Service cost	\$ 31,613	\$ 33,434	\$ 47,727
Interest	22,780	22,489	34,642
Differences between expected and actual experience	(55,080)	(47,109)	(296,134)
Changes of assumptions	9,834	-	(165,318)
Benefit payments, including refunds of employee contributions	5,657	(160)	(23,281)
Net change in total OPEB liability	<u>14,804</u>	<u>8,654</u>	<u>(402,364)</u>
Total OPEB liability, beginning of year	<u>724,908</u>	<u>716,254</u>	<u>1,118,618</u>
Total OPEB liability, end of year	<u>\$ 739,712</u>	<u>\$ 724,908</u>	<u>\$ 716,254</u>
Covered payroll	\$ 4,842,001	\$ 4,804,537	\$ 4,715,326
Board's total OPEB liability as a percentage of covered payroll	15.3%	15.1%	15.2%

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

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

Changes of assumptions for the June 30, 2020 actuarial valuation include mortality updated to Public employer tables, discount rate lowered from 3.0% to 2.66% to reflect current municipal bond rates, and medical trend rates were changed to 5.0%. Because premiums are set and fully phased in such that pre-65 costs for those groups are expected to be fully covered by the amount charged, no subsidy beyond the stipend was valued for these groups.

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

## SUPPLEMENTARY INFORMATION

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

**Combining Statement of Net Position**  
June 30, 2019

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

continued...



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

**Combining Statement of Net Position**  
 June 30, 2019

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

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

	Electric Utility	Wastewater Utility	Water Utility	Total
<b>Cash flows from operating activities</b>				
Receipts from customers and users	\$ 108,043,748	\$ 11,878,273	\$ 10,568,098	\$ 130,490,119
Payments to suppliers	(48,028,390)	(4,764,394)	(3,142,850)	(55,935,634)
Payments to/for employees	(7,405,641)	(2,200,136)	(1,705,751)	(11,311,528)
<b>Net cash provided by operating activities</b>	<u>52,609,717</u>	<u>4,913,743</u>	<u>5,719,497</u>	<u>63,242,957</u>
<b>Cash flows from noncapital financing activities</b>				
Insurance refunds	563,484	-	-	563,484
Transfers to other funds of the City of Holland	(6,606,000)	-	-	(6,606,000)
Principal paid on pension bonds	(868,564)	(250,041)	(197,401)	(1,316,006)
Interest paid on pension bonds	(200,971)	(57,855)	(45,675)	(304,501)
<b>Net cash used in noncapital financing activities</b>	<u>(7,112,051)</u>	<u>(307,896)</u>	<u>(243,076)</u>	<u>(7,663,023)</u>
<b>Cash flows from capital and related financing activities</b>				
Principal paid on capital related debt	(14,350,000)	(405,000)	(1,455,000)	(16,210,000)
Interest paid on capital related debt	(9,466,115)	(225,509)	(314,644)	(10,006,268)
Capital contributions received	-	234,144	97,052	331,196
Proceed from sale of capital assets	207,575	-	-	207,575
Purchase/construction of property, plant and equipment	(7,540,076)	(4,314,642)	(2,816,356)	(14,671,074)
<b>Net cash used in capital and related financing activities</b>	<u>(31,148,616)</u>	<u>(4,711,007)</u>	<u>(4,488,948)</u>	<u>(40,348,571)</u>
<b>Cash flows from investing activities</b>				
Interest received	3,446,100	359,078	249,982	4,055,160
Purchase of investment securities	(110,650,645)	(9,241,539)	(6,192,444)	(126,084,628)
Proceeds from sale or maturities of investment securities	44,799,630	5,105,341	3,611,943	53,516,914
<b>Net cash used in investing activities</b>	<u>(62,404,915)</u>	<u>(3,777,120)</u>	<u>(2,330,519)</u>	<u>(68,512,554)</u>
<b>Net increase in cash and cash equivalents</b>	<u>(48,055,865)</u>	<u>(3,882,280)</u>	<u>(1,343,046)</u>	<u>(53,281,191)</u>
<b>Cash and cash equivalents, beginning of year</b>	<u>69,065,854</u>	<u>14,098,737</u>	<u>7,762,867</u>	<u>90,927,458</u>
<b>Cash and cash equivalents, end of year</b>	<u>\$ 21,009,989</u>	<u>\$ 10,216,457</u>	<u>\$ 6,419,821</u>	<u>\$ 37,646,267</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, 2019

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

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	163,918	986,329
1999	250,903	77,335	6.00%	62,497	501,228	875,836
2000	272,594	804,159	5.59%	44,448	619,685	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	123,853	1,751,871
2004	403,722	-	-1.14%	(20,012)	116,985	2,018,596
2005	448,249	-	2.81%	74,659	1,404,334	1,137,170
2006	518,220	-	1.90%	25,608	117,955	1,563,043
2007	575,848	-	4.20%	78,629	37,557	2,179,963
2008	609,002	-	4.79%	113,392	345,695	2,556,662
2009	611,793	-	1.31%	74,514	91,189	3,151,780
2010	659,495	-	0.81%	51,516	639,343	3,223,448
2011	1,260,575	-	0.23%	17,304	144,684	4,356,643
2012	1,261,837	929,543	0.11%	11,247	747,485	5,811,785
2013	1,083,730	565,569	0.07%	4,948	5,681,152	1,784,880
2014	1,113,274	621,602	0.15%	7,467	329,618	3,197,605
2015	1,145,758	656,077	0.17%	14,261	-	5,013,701
2016	1,208,638	334,673	0.05%	5,776	898,836	5,663,952
2017	1,156,529	18,838,482	0.08%	8,685	20,456,372	5,211,276
2018	1,296,320	-	0.31%	35,435	409,348	6,133,683
2019	1,315,714	-	0.36%	47,906	223,628	7,273,675
2020	1,357,619	-	0.08%	5,081	2,492,638	6,143,737

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, 2020

	Electric Utility	Wastewater Utility	Water Utility	Total
Land	\$ 21,047,820	\$ 260,673	\$ 2,178,242	\$ 23,486,735
Construction in progress	2,146,299	1,857,072	1,967,821	5,971,192
Production plant	311,148,398	60,840,731	24,702,156	396,691,285
Distribution/collection system	6,885,126	45,559,329	49,569,831	102,014,286
Transmission	122,225,307	-	-	122,225,307
General plant	47,680,161	3,511,386	2,980,807	54,172,354
<b>Total</b>	<b>511,133,111</b>	<b>112,029,191</b>	<b>81,398,857</b>	<b>704,561,159</b>
Accumulated depreciation	(207,600,688)	(48,389,002)	(32,942,358)	(288,932,048)
<b>Total capital assets, net</b>	<b>\$ 303,532,423</b>	<b>\$ 63,640,189</b>	<b>\$ 48,456,499</b>	<b>\$ 415,629,111</b>

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

**Schedule of Capital Assets**  
 June 30, 2019

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

Note: Certain reclassification adjustments were made in 2020; this schedule was not restated accordingly

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## INTERNAL CONTROL AND COMPLIANCE

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

October 22, 2020

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, 2020, and the related notes to the financial statements, which collectively comprise the Board's basic financial statements, and have issued our report thereon dated October 22, 2020.

#### 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) as a basis for designing 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 financial statements. 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*