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CITY OF HOLLAND BOARD OF PUBLIC WORKS

70-7520

HOLLAND, MICHIGAN

FINANCIAL STATEMENTS
AND
SUPPLEMENTAL INFORMATION

FOR THE YEAR ENDED JUNE 30, 2004

REHMANN ROBSON

Certified Public Accountants

496 (3-98), Formerly L-3147

AUDITING PROCEDURES REPORT

Issued under P.A. 2 of 1968, as amended. Filing is mandatory.

Local Government Type	Local Government Name	County
☐ City ☐ Township ☐ Village ☒ Other	HOLLAND BOARD OF PUBLIC WORKS	OTTAWA

Audit Date	Opinion Date	Date Accountant Report Submitted to State:
AUGUST 17, 2004	JUNE 30, 2004	SEPTEMBER 10, 2004

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

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We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

☒ yes ☐ no 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.

☐ yes ☒ no 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).

☐ yes ☒ no 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).

☐ yes ☒ no 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.

☐ yes ☒ no 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).

☐ yes ☒ no 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.

☐ yes ☒ no 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).

☐ yes ☒ no 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).

☐ yes ☒ no 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	x		
Reports on individual federal financial assistance programs (program audits).			x
Single Audit Reports (ASLGU).			x

Certified Public Accountant (Firm Name)			
REHMANN ROBSON			
Street Address	City	State	ZIP
PO BOX 6547	GRAND RAPIDS	MI	49516-6547
Accountant Signature			

CITY OF HOLLAND BOARD OF PUBLIC WORKS

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REHMANN ROBSON
Certified Public Accountants
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An Independent Member of Baker Tilly International

INDEPENDENT AUDITORS' REPORT

August 17, 2004

Board of Directors
City of Holland Board of Public Works
Holland, Michigan

We have audited the accompanying financial statements of the business-type activities and each major fund of the City of Holland Board of Public Works, (enterprise funds of the City of Holland, Michigan) as of and for the year ended June 30, 2004, as listed in the table of contents. These financial statements are the responsibility of the Board of Public Works' management. Our responsibility is to express opinions on these financial statements based on our audit.

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

As discussed in Note 1, the financial statements present only the City of Holland Board of Public Works Enterprise Funds and are not intended to present fairly the financial position of the City of Holland, Michigan, and the results of its operations and cash flows of its proprietary fund types in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities and each major fund of the City of Holland Board of Public Works, as of June 30, 2004, and the respective changes in financial position and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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

Rehmann Robson

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CITY OF HOLLAND BOARD OF PUBLIC WORKS

STATEMENT OF NET ASSETS

JUNE 30, 2004
(with comparative totals as of June 30, 2003)

	Electric Utility	Wastewater Utility	Water Utility	Business-Type Activities 2004	Business-Type Activities 2003
ASSETS					
Current assets					
Cash and cash equivalents	$ 7,034,297	$ 1,634,289	$ 1,573,184	$ 10,241,770	$ 8,521,010
Investments	34,439,610	16,109,895	-	50,549,505	50,736,948
Receivables					
Accounts receivable	3,751,128	649,650	314,679	4,715,457	4,660,967
Unbilled revenue	3,250,218	189,404	255,030	3,694,652	3,519,260
Special assessments and other	-	27,616	125,446	153,062	128,131
Accrued interest	149,648	84,903	-	234,551	227,227
Due from other funds of the City of Holland	207,714	114,074	108,356	430,144	351,405
Inventories	4,578,916	26,934	515,804	5,121,654	5,850,230
Prepaid expenses	107,784	-	-	107,784	117,248
Total current assets	53,519,315	18,836,765	2,892,499	75,248,579	74,112,426
Restricted assets					
Cash and cash equivalents	2,736,923	564,563	694,486	3,995,972	3,737,960
Investments	5,409,500	1,447,155	1,204,336	8,060,991	8,060,080
Accrued interest	-	6,879	-	6,879	12,803
Total restricted assets	8,146,423	2,018,597	1,898,822	12,063,842	11,810,843
Capital assets					
Land	4,800,453	260,673	1,611,879	6,673,005	5,581,494
Construction in progress	684,363	320,035	39,480	1,043,878	4,251,227
Plant and equipment	195,699,860	58,769,333	38,894,680	293,363,873	280,341,674
Accumulated depreciation	(107,901,329)	(27,611,573)	(13,386,909)	(148,899,811)	(137,982,717)
Total capital assets - net	93,283,347	31,738,468	27,159,130	152,180,945	152,191,678
Total assets	154,949,085	52,593,830	31,950,451	239,493,366	238,114,947

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

	Electric Utility	Wastewater Utility	Water Utility	Business-Type Activities 2004	Business-Type Activities 2003
LIABILITIES					
Current liabilities					
Accounts payable	$ 5,635,302	$ 280,179	$ 519,611	$ 6,435,092	$ 5,369,422
Accrued salaries and wages payable	606,528	224,107	166,978	997,613	888,834
Due to other funds of the City of Holland	24,055	201,010	55,629	280,694	335,685
Deposits	163,176	-	-	163,176	144,181
Accrued interest payable	-	20,229	-	20,229	21,487
Current maturities of bonds payable	-	455,000	-	455,000	437,500
Total current liabilities	6,429,061	1,180,525	742,218	8,351,804	7,197,109
Current liabilities payable from restricted assets					
Principal	2,415,000	-	425,000	2,840,000	2,830,000
Accrued interest payable	113,448	-	229,864	343,312	434,872
Total current liabilities payable from restricted assets	2,528,448	-	654,864	3,183,312	3,264,872
Long-term debt - net of current portion	7,443,095	4,888,692	8,412,488	20,744,275	23,822,648
Total liabilities	16,400,604	6,069,217	9,809,570	32,279,391	34,284,629
NET ASSETS					
Investment in capital assets net of related debt	83,425,252	26,394,776	18,321,642	128,141,670	125,101,530
Restricted					
Equipment replacement	200,000	2,018,597	-	2,218,597	1,951,871
Cooperative payments	4,134,651	-	-	4,134,651	4,086,428
Unrestricted	50,788,578	18,111,240	3,819,239	72,719,057	72,690,489
Total net assets	$ 138,548,481	$ 46,524,613	$ 22,140,881	$ 207,213,975	$ 203,830,318

CITY OF HOLLAND BOARD OF PUBLIC WORKS

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS

YEAR ENDED JUNE 30, 2004
(with comparative totals for the year ended June 30, 2003)

	Electric Utility	Wastewater Utility	Water Utility	Business-Type activities 2004	Business-Type activities 2003
Operating revenue					
Residential sales	$ 11,550,184	$ 1,461,129	$ 1,394,498	$ 14,405,811	$ 14,020,276
Commercial sales	26,811,040	1,287,534	1,088,400	29,186,974	28,454,638
Industrial sales	24,399,894	684,573	714,768	25,799,235	25,948,945
Wholesale	9,750	1,266,811	1,229,587	2,506,148	2,551,137
Fees and other	2,049,105	2,212,790	823,988	5,085,883	5,512,838
Total operating revenue	64,819,973	6,912,837	5,251,241	76,984,051	76,487,834
Operating expenses					
Salaries and wages	3,007,514	986,270	684,156	4,677,940	4,413,612
Employee benefits	2,025,001	578,833	380,199	2,984,033	2,639,233
Production	39,057,088	1,608,096	378,744	41,043,928	39,844,959
Distribution	2,578,689	654,562	506,356	3,739,607	2,984,805
Administrative and general	3,452,977	1,365,060	1,365,387	6,183,424	5,829,116
Depreciation	8,941,381	1,619,049	1,084,355	11,644,785	11,228,327
Total operating expenses	59,062,650	6,811,870	4,399,197	70,273,717	66,940,052
Operating income	5,757,323	100,967	852,044	6,710,334	9,547,782
Nonoperating income (expense) - net					
Interest income	186,317	(19,162)	46,774	213,929	1,996,339
Interest expense	(405,568)	(285,156)	(469,918)	(1,160,642)	(1,618,787)
Gain (loss) on sale and disposal of capital assets	(51,695)	28,569	(58,838)	(81,964)	26,332
Total nonoperating income (expense) - net	(270,946)	(275,749)	(481,982)	(1,028,677)	403,884
Net income (loss) before transfers	5,486,377	(174,782)	370,062	5,681,657	9,951,666
Transfers out	(2,298,000)	-	-	(2,298,000)	(2,136,000)
Increase (decrease) in net assets	3,188,377	(174,782)	370,062	3,383,657	7,815,666
Net assets, beginning of year	135,360,104	46,699,395	21,770,819	203,830,318	196,014,652
Net assets, end of year	$ 138,548,481	$ 46,524,613	$ 22,140,881	$ 207,213,975	$ 203,830,318

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

CITY OF HOLLAND BOARD OF PUBLIC WORKS

STATEMENT OF CASH FLOWS

YEAR ENDED JUNE 30, 2004
(with comparative totals for the year ended June 30, 2003)

	Electric Utility	Wastewater Utility	Water Utility	Business Type activities 2004	Business Type activities 2003
Cash flows from operating activities					
Receipts from customers and users	$ 64,620,769	$ 6,823,532	$ 5,225,193	$ 76,669,494	$ 77,790,143
Payments to suppliers	(43,391,887)	(3,470,792)	(2,355,561)	(49,218,240)	(49,552,257)
Payments to employees	(4,951,359)	(1,551,540)	(1,050,295)	(7,553,194)	(6,951,879)
Net cash provided by (used in) operating activities	16,277,523	1,801,200	1,819,337	19,898,060	21,286,007
Cash flows from noncapital financing activities					
Transfers to other funds	(2,298,000)	-	-	(2,298,000)	(2,136,000)
Net cash (used in) provided by noncapital financing activities	(2,298,000)	-	-	(2,298,000)	(2,136,000)
Cash flows from capital and related financing activities					
Principal and interest paid on long-term debt	(2,742,822)	(692,684)	(868,828)	(4,304,334)	(8,876,965)
Purchase of property, plant and equipment	(8,154,158)	(1,851,041)	(1,710,817)	(11,716,016)	(9,584,370)
Net cash (used in) provided by capital and related financing activities	(10,896,980)	(2,543,725)	(2,579,645)	(16,020,350)	(18,461,335)
Cash flows from investing activities					
Interest income	180,973	(20,869)	52,426	212,530	2,079,900
Purchase of investment securities	(19,002,547)	(7,289)	(8,995,400)	(28,005,236)	(71,839,706)
Proceeds from sale or maturities of investment securities	16,676,599	1,028,183	10,486,986	28,191,768	75,484,244
Net cash provided by (used in) investing activities	(2,144,975)	1,000,025	1,544,012	399,062	5,724,438
Net increase (decrease) in cash and cash equivalents	937,568	257,500	783,704	1,978,772	6,413,110
Cash and cash equivalents, beginning of year	8,833,652	1,941,352	1,483,966	12,258,970	5,845,860
Cash and cash equivalents, end of year	$ 9,771,220	$ 2,198,852	$ 2,267,670	$ 14,237,742	$ 12,258,970
Balance sheet classification of cash and cash equivalents					
Cash and cash equivalents	$ 7,034,297	$ 1,634,289	$ 1,573,184	$ 10,241,770	$ 8,521,010
Restricted assets, cash and cash equivalents	2,736,923	564,563	694,486	3,995,972	3,737,960
Total cash and cash equivalents	$ 9,771,220	$ 2,198,852	$ 2,267,670	$ 14,237,742	$ 12,258,970
Reconciliation of operating income to net cash provided by operating activities:					
Operating income	$ 5,757,323	$ 100,967	$ 852,044	$ 6,710,334	$ 9,547,782
Adjustments to reconcile operating income to net cash provided by operating activities					
Depreciation	8,941,381	1,619,049	1,084,355	11,644,785	11,228,327
Changes in operating assets and liabilities which provided (used) cash					
Receivables	(152,921)	(26,422)	(75,470)	(254,813)	1,344,972
Due from other funds of the City of Holland	(65,278)	(62,883)	49,422	(78,739)	(62,994)
Inventories	1,111,552	(19,975)	(363,001)	728,576	(554,277)
Prepaid expenses	9,464	-	-	9,464	(64,149)
Accounts payable	557,258	106,666	401,746	1,065,670	(288,703)
Accrued salaries and wages payable	81,156	13,563	14,060	108,779	100,966
Due to other funds of the City of Holland	18,593	70,235	(143,819)	(54,991)	16,878
Deposits	18,995	-	-	18,995	17,205
Net cash provided by operating activities	$ 16,277,523	$ 1,801,200	$ 1,819,337	$ 19,898,060	$ 21,286,007

Electric revenue bonds of $12,580,000 were issued during the year ended June 30, 2003 which along with cash of $5,189,500 was utilized to refund $17,230,000 of bonds outstanding. The issuance of revenue bonds and the utilization of the proceeds to refund outstanding bonds is not displayed in the statement of cash flows as cash balances from the bond issue were not received or dispursed.

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

1. NATURE OF BUSINESS AND SIGNIFICANT ACCOUNTING POLICIES

Nature of Business

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

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 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.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the *option* of following subsequent private-sector guidance for their enterprise funds, subject to this same limitation. The Board has elected not to follow subsequent private-sector guidance.

Government-wide and Fund Financial Statements

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

Major individual enterprise funds are reported as separate columns in the statements.

The Board reports the following major enterprise funds:

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

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

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

Cash and Cash Equivalents

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

1. NATURE OF BUSINESS AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investments

Investments are recorded at fair value, which approximates cost at the balance sheet date.

Receivables

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

Inventories

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

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 balance sheet because they are maintained in separate accounts and their use is limited by applicable bond covenants. The maintenance account is used to report resources set aside to subsidize potential deficiencies from the Board's operation that could adversely affect debt service payments. The bond and interest redemption fund account is used to segregate resources accumulated for debt service payments over the next twelve months. The bond and interest reserve account is used to report resources set aside to make up potential future deficiencies in the revenue bond current debt service account. The equipment replacement account is used to report resources set aside to meet unexpected contingencies or to fund asset renewals and replacements.

Capital Assets

Capital assets, which include property, plant and equipment, are reported in the financial statements. Capital assets are defined by the Board as assets with an initial, individual cost of more than $5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

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

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

Capital assets of the Wastewater Utility include assets purchased with funds provided by participating townships. Depreciation on these assets was approximately $600,000 in 2003 and 2004.

1. NATURE OF BUSINESS AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Refunding Costs

Refunding costs are amortized over the term of the related bonds using the interest method. Amortization is charged to interest expense.

Transfers

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

2. DEPOSITS AND INVESTMENTS

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

	June 30, 2004			
	Cash and Cash Equivalents	Investments	Restricted Assets	Total
Deposits	$ 869,731	$ 4,000,000	$ 1,664,164	$ 6,533,895
Investments	9,372,039	46,549,505	10,392,799	66,314,343
Total	**$10,241,770**	**$50,549,505**	**$12,056,963**	**$72,848,238**

Deposits

The above deposits were reflected in the accounts of the bank (without recognition of checks written but not yet cleared or of deposits in transit) at $6,835,282 and $15,363,066 in 2004 and 2003, respectively. Of that amount, up to $407,391 and $500,000 in 2004 and 2003, respectively, was covered by federal depository insurance. This insurance coverage pertains to all the deposits in the City of Holland; hence, the specific coverage pertaining to the Board's deposits, if any, is not determinable. Of the preceding deposit amounts, therefore, the uninsured and uncollateralized portion totaled at least $18,110,251 and $14,863,066 for June 30, 2004 and 2003, respectively.

The Board believes that due to the dollar amounts of cash deposits and limits of FDIC insurance, it is impractical to insure all bank deposits. As a result, the Board evaluates each financial institution with which it deposits Board funds in accordance with the parameters of the Revenue Bond Resolution and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

Investments

The Board is authorized by Michigan Act 20 of 1943 (as amended) to invest surplus monies in U.S. bonds and notes, certain commercial paper, U.S. government repurchase agreements, bankers acceptances and mutual funds and investment pools that are composed of authorized investment vehicles.

2. DEPOSITS AND INVESTMENTS (CONTINUED)

Investments (Continued)

The Board's investments are categorized to give an indication of the level of risk assumed by the entity at June 30, 2004 and 2003. Investments that are insured, registered or held by the Board or its agents fall within Risk Category 1. Investments that are uninsured and unregistered, with securities held by the counterparties, or by its trust department or agent but not in the Board's name fall within Risk Category 3. Board investments in 2004 consist of uncategorized mutual funds of $6,613,836. Category 1 U.S. Treasury and U.S. Government Agency securities of $47,996,660 and Category 3 repurchase agreements of $11,703,847. Board investments in 2003 consisted of uncategorized mutual funds of $8,060,080 and Category 1 U.S. Government securities of $48,247,612. All investments are recorded at fair value. Management believes that the deposits and investments comply with the Revenue Bond Resolution, board policy and state law noted above.

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

	Electric Utility	Wastewater Utility	Water Utility	Combined
City Trunkage	$ -	$204,223	$180,776	$ 384,999
Township Trunkage	-	-	87,561	87,561
Insurance/risk retention	2,652,799	584,304	583,593	3,820,696
	$2,652,799	**$788,527**	**$851,930**	**$4,293,256**

3. CAPITAL ASSETS

A summary of capital assets is as follows:

	July 1, 2003	Additions	Deletions	June 30, 2004	Depreciable Life-Years
Capital assets, not being depreciated					
Land	$ 5,581,494	$ 1,091,511	$ -	$ 6,673,005	-
Construction in progress	4,251,227	765,298	3,972,647	1,043,878	-
Capital assets, being depreciated					
Production plant	161,295,631	1,004,056	64,590	162,235,097	5-50
Distribution system	77,829,628	10,683,938	412,617	88,100,949	20-50
Transmission	29,095,989	415,476	-	29,511,465	20-50
General plant	12,120,426	1,795,826	399,890	13,516,362	5-50
Total	290,174,395	15,756,105	4,849,744	301,080,756	
Less accumulated depreciation	137,982,717	11,684,785	767,691	148,899,811	
Net capital assets	**$152,191,678**	**$ 4,071,320**	**$3,722,053**	**$152,180,945**	

4. LONG-TERM DEBT

Long-term debt outstanding is as follows:

	Balance July 1, 2003	Additions	Deletions	Balance June 30, 2004	Due Within One Year
1997 Water Supply System Revenue Bonds, net of unamortized discount of $77,512 and $87,702 in 2004 and 2003, respectively; interest rates range from 3.85% to 5.375%.	$ 9,227,298	$ -	$ 389,810	$8,837,488	$ 425,000
2002A Electric Revenue Refunding Bonds, net of unamortized discount and deferred refunding cost of $291,905 and $467,111 in 2004 and 2003, Respectively, interest rates of 2.0% to 2.6%.	12,112,889	-	2,254,794	9,858,095	2,415,000
2001 Ottawa County Refunded Sewage Bonds (City assumed 70% of total 2001 Ottawa County Disposal Bond issue); net of unamortized discount of $312,308 and $343,539 in 2004 and 2003, respectively; interest rates range from 2.80 to 4.75%.	5,749,961	-	406,269	5,343,692	455,000
Total long-term debt	**27,090,148**	-	**3,050,873**	**24,039,275**	**$3,295,000**
Less amounts reported in					
Current liabilities – current maturities of bonds payable	437,500	-	17,500	455,000	
Current liabilities payable from restricted assets	2,830,000	-	10,000	2,840,000	
Long-term debt – net of current portion	**$23,822,648**	**$ -**	**$3,078,373**	**$20,744,275**	

The Board has created a statutory first lien on the net revenue of the Electric and Water funds to secure the payment of principal and interest on the revenue bonds. Certain bond ordinances require that reserve funds be maintained with a minimum balance during the period each issue is outstanding.

4. LONG-TERM DEBT (CONTINUED)

Debt Service Requirements

The annual requirements to maturity on debt outstanding as of June 30, 2004, excluding unamortized discount and deferred refunding costs on bonds payable are as follows:

Years Ending June 30	Principal	Interest	Total
2005	$ 3,295,000	$ 895,341	$ 4,190,341
2006	3,404,500	809,492	4,213,992
2007	3,530,500	715,172	4,245,672
2008	3,731,500	606,713	4,338,213
2009	1,081,000	524,553	1,605,553
2010-2014	6,353,500	1,780,895	8,134,395
2015-2019	3,325,000	370,075	3,695,075
Total	**$24,721,000**	**$5,702,241**	**$30,423,241**

Revenue Bonds

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

5. PENSION PLANS

Defined Benefit Pension Plan

The information for the Board's defined benefit pension plan is as of December 31, 2003, which is the most recent information available.

Plan Description

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

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

5. DEFINED-BENEFIT PENSION PLAN (CONTINUED)

Funding Policy

The City is required to contribute at an actuarially determined rate; the current rate is from 5.49% to 8.42% (depending on bargaining unit) of annual covered payroll. Employees are currently not required to contribute to the Plan. The contribution requirements of the City are established and may be amended by the Retirement Board of MERS. The contribution requirements of plan members, if any, are established and may be amended by the City, depending on the MERS contribution program adopted by the Board of Public Works.

Annual Pension Cost

For the year ended June 30, 2004, the Board's annual pension cost of $591,794 for MERS was equal to the Board's required and actual contributions. The required contribution was determined as part of the December 31, 2001 actuarial valuation using the entry age actuarial cost method. The actuarial assumptions included (a) a rate of return on the investment of present and future assets of 8.0%, (b) projected salary increases of 4.5% per year compounded annually, attributable to inflation, and (c) additional projected salary increases of 0.0% to 4.2% per year, depending on age, attributable to seniority/merit. The actuarial value of MERS assets was determined on the basis of a valuation method that assumes the fund earns the expected rate of return, and includes an adjustment to reflect fair value. The City's unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at December 31, 2003, the date of the latest actuarial valuation, was 30 years.

Three-Year Trend Information

Year Ended	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
June 30, 2002	$464,686	100%	$ -
June 30, 2003	583,777	100%	-
June 30, 2004	591,794	100%	-

The schedule of funding progress for the City of Holland is included in the City of Holland's financial statements for the year ended June 30, 2004.

Defined Contribution Pension Plan

The Board participates in a defined contribution retirement plan which is administered by the ICMA for nonbargaining 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%. The participants direct their investments under defined contribution provisions. The Board contributed $80,587 and employees contributed $20,167 to the defined contribution plan.

6. 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. 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, 2004.

7. COMMITMENTS

The Board has remaining project costs of approximately $3,964,305 for various electric utility projects, $502,282 for various water projects, and $224,340 for various wastewater projects.

8. LANDFILL CLOSURE AND POSTCLOSURE CARE

The Board owns and maintains a landfill for flyash and wastewater treatment bio solids. In accordance with Michigan Department of Environmental Quality requirements, funding for closure cost estimates of $327,450 and postclosure cost estimates of $0 have been assured with a $100,000 letter of credit and $10,149 held in trust at June 30, 2004.

The Board has recognized a liability for closure and postclosure cost of $327,450 based on the percentage of landfill capacity used to date. The landfill is expected to have a remaining life of 3 years with approximately 83% of the landfill's capacity currently utilized. These estimates are expected to fluctuate based on inflation, deflation, changes in technology, applicable laws and regulations.

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.

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

9. JOINT VENTURE (CONTINUED)

For the year ended June 30, 2003, the Board recognized expenses totaling $14,662,120 under the terms of the contract which represented $1,773,292 for fixed operating costs, $5,685,256 for debt service and $7,203,572 for the purchase of power. Accounts payable to MPPA totaled $1,251,010 at June 30, 2003. For the year ended June 30, 2004, the Board recognized expenses totaling $14,007,988 under the terms of the contract which represented $2,194,941 for fixed operating costs, $5,281,046, for debt service and $6,532,001 for the purchase of power. Accounts payable to MPPA totaled $1,177,031 at June 30, 2004. Under the terms of its contracts, the Board must make minimum annual payments equal to its share of debt service and its share of the fixed operating costs of Detroit Edison's Belle River No. 1 and Consumers Energy's Campbell Unit No. 3. The estimated required payments presented below assume no early calls or refinancing of existing revenue bonds and 3.0% annual inflation of fixed operating costs.

A summary of transactions with the MPPA is as follows:

	Belle River		Campbell		
Year	Debt Service	Fixed Operating	Debt Service	Fixed Operating	Total
2005	$ 4,306,000	$ 1,929,699	$ 975,345	$ 331,090	$ 7,542,134
2006	4,306,049	1,987,590	974,904	341,022	7,609,565
2007	4,305,244	2,047,218	976,459	351,253	7,680,174
2008	4,305,839	2,108,634	977,157	361,791	7,753,421
2009	4,305,297	2,171,893	976,926	372,645	7,826,761
2010-2014	21,528,814	11,876,804	571,033	779,163	34,755,814
2015-2018	17,222,487	13,768,470	-	-	30,990,957
	$60,279,730	$35,890,308	$5,451,824	$2,536,964	$104,158,826

Debt Service requirements expire in the years 2010 and 2018 for the Campbell and Belle River projects, respectively. The above amounts include estimated fixed operating costs for the same period as the Debt Service. The contracts for the Board's commitment for fixed operating costs to extend beyond these dates is dependent upon the use of the facilities.

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

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.

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SUPPLEMENTARY INFORMATION

CITY OF HOLLAND BOARD OF PUBLIC WORKS

COMBINING STATEMENT OF NET ASSETS

JUNE 30, 2003

	Electric Utility	Wastewater Utility	Water Utility	Total
ASSETS				
Current assets				
Cash and cash equivalents	$ 6,005,869	$ 1,708,252	$ 806,889	$ 8,521,010
Investments	32,170,794	17,067,279	1,498,875	50,736,948
Receivables				
Accounts receivable	3,807,015	646,534	207,418	4,660,967
Unbilled revenue	3,041,410	193,714	284,136	3,519,260
Special assessments and other	-	-	128,131	128,131
Accrued interest	144,304	81,968	955	227,227
Due from other funds of the City of Holland	142,436	51,191	157,778	351,405
Inventories	5,690,468	6,959	152,803	5,850,230
Prepaid expenses	117,248	-	-	117,248
Total current assets	**51,119,544**	**19,755,897**	**3,236,985**	**74,112,426**
Restricted assets				
Cash and cash equivalents	2,827,783	233,100	677,077	3,737,960
Investments	5,352,368	1,510,665	1,197,047	8,060,080
Accrued interest	-	8,106	4,697	12,803
Total restricted assets	**8,180,151**	**1,751,871**	**1,878,821**	**11,810,843**
Capital assets				
Land	3,736,986	260,673	1,583,835	5,581,494
Construction in progress	4,085,855	148,027	17,345	4,251,227
Plant and equipment	185,635,068	57,239,377	37,467,229	280,341,674
Accumulated depreciation	(99,335,644)	(26,170,170)	(12,476,903)	(137,982,717)
Total capital assets - net	**94,122,265**	**31,477,907**	**26,591,506**	**152,191,678**
Total assets	**153,421,960**	**52,985,675**	**31,707,312**	**238,114,947**

	Electric Utility	Wastewater Utility	Water Utility	Total
LIABILITIES				
Current liabilities				
Accounts payable	$ 5,078,044	$ 173,513	$ 117,865	$ 5,369,422
Accrued salaries and wages payable	525,372	210,544	152,918	888,834
Due to other funds of the City of Holland	5,462	130,775	199,448	335,685
Deposits	144,181	-	-	144,181
Accrued interest payable	-	21,487	-	21,487
Current maturities of bonds payable	-	437,500	-	437,500
Total current liabilities	**5,753,059**	**973,819**	**470,231**	**7,197,109**
Current liabilities payable from restricted assets				
Principal	2,430,000	-	400,000	2,830,000
Accrued interest payable	195,908	-	238,964	434,872
Total current liabilities payable from restricted assets	**2,625,908**	**-**	**638,964**	**3,264,872**
Long-term debt - net of current portion	9,682,889	5,312,461	8,827,298	23,822,648
Total liabilities	**18,061,856**	**6,286,280**	**9,936,493**	**34,284,629**
NET ASSETS				
Investment in capital assets net of related debt	82,009,376	25,727,946	17,364,208	125,101,530
Restricted				
Equipment replacement	200,000	1,751,871	-	1,951,871
Cooperative payments	4,086,428	-	-	4,086,428
Unrestricted	49,064,300	19,219,578	4,406,611	72,690,489
Total net assets	**$ 135,360,104**	**$ 46,699,395**	**$ 21,770,819**	**$ 203,830,318**

CITY OF HOLLAND BOARD OF PUBLIC WORKS

COMBINING STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS

YEAR ENDED JUNE 30, 2003

	Electric Utility	Wastewater Utility	Water Utility	Total
Operating revenue				
Residential sales	$ 11,198,475	$ 1,490,842	$ 1,330,959	$ 14,020,276
Commercial sales	26,082,833	1,334,076	1,037,729	28,454,638
Industrial sales	24,540,907	743,382	664,656	25,948,945
Wholesale	-	1,291,999	1,259,138	2,551,137
Fees and other	2,641,668	2,239,011	632,159	5,512,838
Total operating revenue	64,463,883	7,099,310	4,924,641	76,487,834
Operating expenses				
Salaries and wages	2,828,950	942,530	642,132	4,413,612
Employee benefits	1,768,609	536,284	334,340	2,639,233
Production	37,851,757	1,613,687	379,515	39,844,959
Distribution	1,892,056	602,083	490,666	2,984,805
Administrative and general	3,279,785	1,348,573	1,200,758	5,829,116
Depreciation	8,513,830	1,675,454	1,039,043	11,228,327
Total operating expenses	56,134,987	6,718,611	4,086,454	66,940,052
Operating income (loss)	8,328,896	380,699	838,187	9,547,782
Nonoperating income (expense) - net				
Interest income	1,352,076	577,322	66,941	1,996,339
Interest expense	(829,166)	(301,100)	(488,521)	(1,618,787)
Gain (loss) on sale and disposal of capital assets	29,096	(18)	(2,746)	26,332
Total nonoperating income (expense) - net	552,006	276,204	(424,326)	403,884
Net income before transfers	8,880,902	656,903	413,861	9,951,666
Transfers in	-	-	-	-
Transfers out	(2,136,000)	-	-	(2,136,000)
Total transfers	(2,136,000)	-	-	(2,136,000)
Increase in net assets	6,744,902	656,903	413,861	7,815,666
Net assets, beginning of year	128,615,202	46,042,492	21,356,958	196,014,652
Net assets, end of year	$ 135,360,104	$ 46,699,395	$ 21,770,819	$ 203,830,318

CITY OF HOLLAND BOARD OF PUBLIC WORKS

COMBINING STATEMENT OF CASH FLOWS

YEAR ENDED JUNE 30, 2003

	Electric Utility	Wastewater Utility	Water Utility	Total
Cash flows from operating activities				
Receipts from customers and users	$ 65,823,748	$ 7,095,577	$ 4,870,818	$ 77,790,143
Payments to suppliers	(43,848,777)	(3,675,767)	(2,027,713)	(49,552,257)
Payments to employees	(4,598,386)	(1,425,663)	(927,830)	(6,951,879)
Net cash provided by (used in) operating activities	17,376,585	1,994,147	1,915,275	21,286,007
Cash flows from noncapital financing activities				
Transfers to other funds	(2,136,000)	-	-	(2,136,000)
Net cash (used in) provided by noncapital financing activities	(2,136,000)	-	-	(2,136,000)
Cash flows from capital and related financing activities				
Principal and interest paid on long-term debt	(7,323,121)	(687,462)	(866,382)	(8,876,965)
Purchase of property, plant and equipment	(7,156,042)	(1,197,941)	(1,230,387)	(9,584,370)
Net cash (used in) provided by capital and related financing activities	(14,479,163)	(1,885,403)	(2,096,769)	(18,461,335)
Cash flows from investing activities				
Interest income	1,391,448	624,163	64,289	2,079,900
Purchase of investment securities	(42,030,566)	(26,499,063)	(3,310,077)	(71,839,706)
Proceeds from sale or maturities of investment securities	45,849,281	27,037,407	2,597,556	75,484,244
Net cash provided by (used in) investing activities	5,210,163	1,162,507	(648,232)	5,724,438
Net increase (decrease) in cash and cash equivalents	5,971,585	1,271,251	(829,726)	6,413,110
Cash and cash equivalents, beginning of year	2,862,067	670,101	2,313,692	5,845,860
Cash and cash equivalents, end of year	$ 8,833,652	$ 1,941,352	$ 1,483,966	$ 12,258,970
Balance sheet classification of cash and cash equivalents				
Cash and cash equivalents	$ 6,005,869	$ 1,708,252	$ 806,889	$ 8,521,010
Restricted assets, cash and cash equivalents	2,827,783	233,100	677,077	3,737,960
Total cash and cash equivalents	$ 8,833,652	$ 1,941,352	$ 1,483,966	$ 12,258,970
Reconciliation of operating income (loss) to net cash provided by operating activities:				
Operating income (loss)	$ 8,328,896	$ 380,699	$ 838,187	$ 9,547,782
Adjustments to reconcile operating income to net cash provided by operating activities				
Depreciation	8,513,830	1,675,454	1,039,043	11,228,327
Changes in operating assets and liabilities which provided (used) cash				
Receivables	1,325,694	(32,950)	52,228	1,344,972
Due from other funds of the City of Holland	16,966	26,091	(106,051)	(62,994)
Inventories	(519,237)	2,368	(37,408)	(554,277)
Prepaid expenses	(64,149)	-	-	(64,149)
Accounts payable	71,552	(241,441)	(118,814)	(288,703)
Accrued salaries and wages payable	(827)	53,151	48,642	100,966
Due to other funds of the City of Holland	(313,345)	130,775	199,448	16,878
Deposits	17,205	-	-	17,205
Net cash provided by operating activities	$ 17,376,585	$ 1,994,147	$ 1,915,275	$ 21,286,007

Electric revenue bonds of $12,580,000 were issued during the year ended June 30, 2003 which along with cash of $5,189,500 was utilized to refund $17,230,000 of bonds outstanding. The issuance of revenue bonds and the utilization of the proceeds to refund outstanding bonds is not displayed in the statement of cash flows as cash balances from the bond issue were not received or dispursed.

CITY OF HOLLAND BOARD OF PUBLIC WORKS

HOLLAND AREA WASTE TREATMENT PLANT RESERVE FOR EQUIPMENT REPLACEMENT

JUNE 30, 2004

Year Ended June 30	Contributions From Billings	Other	Interest Rate	Interest Amount	Improvements	Reserve Balance
1989	$ 124,116	$ 292,722	8.02 %	$ 85,061	$ 446,514	$ 1,130,832
1990	124,116	14,045	8.21	95,519	72,939	1,291,573
1991	124,116	-	7.06	91,161	124,794	1,382,056
1992	124,116	-	5.49	64,501	538,427	1,032,246
1993	188,364	12,555	4.21	27,927	1,161,092	100,000
1994	195,180	-	3.46	6,640	18,347	283,473
1995	208,680	-	5.41	21,139	14,662	498,630
1996	224,508	2,190	6.24	36,008	45,287	716,049
1997	229,350	-	6.14	47,244	145,361	847,282
1998	244,651	-	6.33	58,314	163,917	986,329
1999	250,903	77,335	6.00	62,497	501,228	875,836
2000	272,594	804,159	5.59	44,448	619,684	1,377,352
2001	278,479	-	6.26	84,190	427,542	1,312,479
2002	298,340	-	3.64	34,041	173,806	1,471,054
2003	361,244	-	2.95	43,426	123,852	1,751,871
2004	403,722	-	(1.14)	(20,011)	116,985	2,038,608

NOTE: The ending reserve balance does not reflect any open purchase commitments at June 30, 2004, 2003 or 2002.

CITY OF HOLLAND BOARD OF PUBLIC WORKS

SCHEDULE OF CAPITAL ASSETS

JUNE 30, 2004

	Electric Utility	Wastewater Utility	Water Utility	Combined
Land	$ 4,800,453	$ 260,673	$ 1,611,879	$ 6,673,005
Production plant	112,720,384	33,904,441	15,610,272	162,235,097
Distribution system	64,235,086	4,879,093	18,986,770	88,100,949
Transmission	10,507,898	16,624,394	2,379,173	29,511,465
General plant	8,236,492	3,361,405	1,918,465	13,516,362
Construction in progress	684,363	320,035	39,480	1,043,878
Total	201,184,676	59,350,041	40,546,039	301,080,756
Less accumulated depreciation	(107,901,329)	(27,611,573)	(13,386,909)	(148,899,811)
Net capital assets	**$ 93,283,347**	**$ 31,738,468**	**$27,159,130**	**$ 152,180,945**

CITY OF HOLLAND BOARD OF PUBLIC WORKS

SCHEDULE OF CAPITAL ASSETS

JUNE 30, 2003

	Electric Utility	Wastewater Utility	Water Utility	Combined
Land	$ 3,736,986	$ 260,673	$ 1,583,835	$ 5,581,494
Production plant	112,042,489	33,688,009	15,565,133	161,295,631
Distribution system	58,264,060	4,653,604	14,911,964	77,829,628
Transmission	7,915,545	15,921,906	5,258,538	29,095,989
General plant	7,412,974	2,975,858	1,731,594	12,120,426
Construction in progress	4,085,855	148,027	17,345	4,251,227
Total	193,457,909	57,648,077	39,068,409	290,174,395
Less accumulated depreciation	(99,335,644)	(26,170,170)	(12,476,903)	(137,982,717)
Net capital assets	**$ 94,122,265**	**$ 31,477,907**	**$ 26,591,506**	**$ 152,191,678**