



HOLLAND BOARD OF PUBLIC WORKS

HOLLAND, MICHIGAN

**FINANCIAL STATEMENTS
AND
SUPPLEMENTARY INFORMATION**

FOR THE YEAR ENDED JUNE 30, 2010

HOLLAND BOARD OF PUBLIC WORKS

TABLE OF CONTENTS

	<u>PAGE</u>
Independent Auditors' Report	1-2
Financial Statements for the Year Ended June 30, 2010	
Statement of Net Assets	3-4
Statement of Revenue, Expenses and Changes in Fund Net Assets	5
Statement of Cash Flows	6-7
Notes to Financial Statements	8-19
Required Supplementary Information	
Schedule of Employer Contributions – Defined Benefit Pension Plan	20
Schedule of Employer Contributions – Other Postemployment Benefits Plan	20
Supplementary Information	
Combining Statement of Net Assets (2009)	21-22
Combining Statements of Revenue, Expenses, and Changes in Fund Net Assets (2009)	23
Schedule of Combining Statements of Cash Flows (2009)	24-25
Schedule of Holland Area Waste Treatment Plant Reserve for Equipment Replacement	26
Schedules of Capital Assets	27-28
Internal Control and Compliance	
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 <i>Government Auditing Standards</i>	29-30

INDEPENDENT AUDITORS' REPORT

September 8, 2010

Board of Directors
Holland Board of Public Works
Holland, Michigan

We have audited the accompanying financial statements of the business-type activities and each major fund of the **Holland Board of Public Works**, (enterprise funds of the City of Holland, Michigan) as of and for the year ended June 30, 2010, as listed in the table of contents. These financial statements are the responsibility of the Holland Board of Public Works' management. Our responsibility is to express opinions on these financial statements based on our audit.

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

As discussed in Note 1, the financial statements present only the Holland Board of Public Works enterprise funds and do not purport to, and do not present fairly the financial position of the City of Holland, Michigan, as of June 30, 2010 and the changes in its financial position and cash flows where applicable, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities and each major fund of the Holland Board of Public Works, as of June 30, 2010, and the respective changes in financial position and cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 8, 2010 on our consideration of the Holland Board of Public Works' internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Schedules of Employer Contributions for the pension and other postemployment benefit plans on page 20 is not required parts of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it. The Holland Board of Public Works has not presented Management's Discussion and Analysis as required supplementary information. The GASB has determined that such information is necessary to supplement, although not required to be part of, the basic financial statements.

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

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

HOLLAND BOARD OF PUBLIC WORKS

Statement of Net Assets

June 30, 2010

(with comparative totals for the year ended June 30, 2009)

	Electric Utility	Wastewater Utility	Water Utility	Business-Type Activities	
				2010	2009
Assets					
Current assets					
Cash and cash equivalents	\$ 46,424,444	\$ 8,192,286	\$ 3,041,283	\$ 57,658,013	\$ 42,723,316
Investments	41,618,659	6,071,505	1,005,000	48,695,164	53,651,738
Receivables:					
Accounts receivable	5,494,690	955,340	537,743	6,987,773	6,140,262
Unbilled revenue	4,149,277	283,578	355,865	4,788,720	3,700,189
Special assessments and other	-	115,417	92,849	208,266	245,257
Accrued interest	140,388	28,730	2,528	171,646	304,149
Due from other funds of the					
City of Holland	185,077	36,680	148,530	370,287	404,923
Inventories	6,924,425	45,908	182,329	7,152,662	10,925,457
Prepaid expenses	851,817	-	4,415	856,232	115,826
Total current assets	105,788,777	15,729,444	5,370,542	126,888,763	118,211,117
Noncurrent assets					
Restricted assets:					
Cash and cash equivalents	-	3,361,977	3,358,344	6,720,321	5,875,094
Investments	5,023,761	2,007,655	-	7,031,416	6,716,271
Accrued interest	-	10,697	-	10,697	26,009
Total restricted assets	5,023,761	5,380,329	3,358,344	13,762,434	12,617,374
Capital assets:					
Land	4,810,124	260,673	1,798,732	6,869,529	6,835,764
Construction in progress	921,319	366,666	428,335	1,716,320	3,859,978
Plant and equipment	213,626,532	67,808,341	52,817,508	334,252,381	328,201,550
Accumulated depreciation	(156,149,693)	(37,376,453)	(19,335,470)	(212,861,616)	(204,830,874)
Total capital assets, net	63,208,282	31,059,227	35,709,105	129,976,614	134,066,418
Total noncurrent assets	68,232,043	36,439,556	39,067,449	143,739,048	146,683,792
Total assets	174,020,820	52,169,000	44,437,991	270,627,811	264,894,909

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

	<u>Electric Utility</u>	<u>Wastewater Utility</u>	<u>Water Utility</u>	<u>Business-Type Activities</u>	
				<u>2010</u>	<u>2009</u>
Liabilities					
Current liabilities					
Accounts payable	\$ 3,542,535	\$ 368,019	\$ 222,500	\$ 4,133,054	\$ 5,901,720
Accrued salaries and wages payable	544,618	258,681	212,903	1,016,202	931,287
Due to other funds of the					
City of Holland	31,283	245,856	175,661	452,800	433,332
Deposits	203,553	-	-	203,553	190,842
Accrued interest payable	-	9,901	-	9,901	11,982
Current maturities of bonds payable	-	567,269	-	567,269	542,769
Current liabilities payable from restricted assets:					
Bonds payable	-	-	796,152	796,152	767,164
Accrued interest payable	-	-	344,600	344,600	356,900
Total current liabilities	<u>4,321,989</u>	<u>1,449,726</u>	<u>1,751,816</u>	<u>7,523,531</u>	<u>9,135,996</u>
Noncurrent liabilities					
Landfill closure and postclosure cost	327,450	-	-	327,450	327,450
Long-term debt - net of current portion	-	1,887,307	15,905,698	17,793,005	19,156,426
Net other postemployment benefit obligation	109,231	43,316	35,783	188,330	109,560
Total noncurrent liabilities	<u>436,681</u>	<u>1,930,623</u>	<u>15,941,481</u>	<u>18,308,785</u>	<u>19,593,436</u>
Total liabilities	<u>4,758,670</u>	<u>3,380,349</u>	<u>17,693,297</u>	<u>25,832,316</u>	<u>28,729,432</u>
Net assets					
Invested in capital assets, net of related debt	63,208,282	28,604,651	19,007,255	110,820,188	113,600,059
Restricted for:					
Debt service	-	-	3,059,398	3,059,398	3,018,150
Equipment replacement	-	3,223,448	-	3,223,448	3,151,780
Park Township	-	-	214,051	214,051	198,194
Cooperative payments	5,023,761	-	-	5,023,761	5,087,657
Construction	-	-	84,895	84,895	135,430
Unrestricted	<u>101,030,107</u>	<u>16,960,552</u>	<u>4,379,095</u>	<u>122,369,754</u>	<u>110,974,207</u>
Total net assets	<u>\$ 169,262,150</u>	<u>\$ 48,788,651</u>	<u>\$ 26,744,694</u>	<u>\$ 244,795,495</u>	<u>\$ 236,165,477</u>

HOLLAND BOARD OF PUBLIC WORKS

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

**For the Year Ended June 30, 2010
(with comparative totals for the year ended June 30, 2009)**

	<u>Electric Utility</u>	<u>Wastewater Utility</u>	<u>Water Utility</u>	<u>Business-Type Activities</u>	
				<u>2010</u>	<u>2009</u>
Operating revenue					
Residential sales	\$ 16,174,028	\$ 1,938,303	\$ 1,922,972	\$ 20,035,303	\$ 18,595,526
Commercial sales	27,216,356	1,525,923	1,547,446	30,289,725	31,029,968
Industrial sales	30,754,077	466,377	615,476	31,835,930	28,862,378
Wholesale	-	2,201,589	1,820,866	4,022,455	3,698,221
Fees and other	4,391,969	1,742,664	424,637	6,559,270	6,041,293
Total operating revenue	<u>78,536,430</u>	<u>7,874,856</u>	<u>6,331,397</u>	<u>92,742,683</u>	<u>88,227,386</u>
Operating expenses					
Salaries and wages	3,416,090	998,646	770,828	5,185,564	5,043,230
Employee benefits	2,277,450	637,816	516,656	3,431,922	3,194,771
Production	45,015,527	1,917,553	524,679	47,457,759	48,632,790
Distribution	2,908,375	590,374	512,586	4,011,335	4,741,011
Administrative and general	6,878,508	1,892,976	1,627,653	10,399,137	8,088,911
Depreciation	8,028,247	1,624,317	1,325,696	10,978,260	11,390,580
Total operating expenses	<u>68,524,197</u>	<u>7,661,682</u>	<u>5,278,098</u>	<u>81,463,977</u>	<u>81,091,293</u>
Operating income	<u>10,012,233</u>	<u>213,174</u>	<u>1,053,299</u>	<u>11,278,706</u>	<u>7,136,093</u>
Nonoperating income (expense) - net					
Interest income	1,239,123	290,506	68,655	1,598,284	2,275,924
Interest expense	(23)	(172,932)	(742,037)	(914,992)	(966,787)
Gain (loss) on sale and disposal of capital assets	14,036	(56,983)	130	(42,817)	(131,803)
Total nonoperating income (expense) - net	<u>1,253,136</u>	<u>60,591</u>	<u>(673,252)</u>	<u>640,475</u>	<u>1,177,334</u>
Net income before contributions and transfers	<u>11,265,369</u>	<u>273,765</u>	<u>380,047</u>	<u>11,919,181</u>	<u>8,313,427</u>
Capital contributions					
Infrastructure	-	52,764	396,251	449,015	170,205
Trunkage	-	41,770	19,252	61,022	93,949
Total capital contributions	<u>-</u>	<u>94,534</u>	<u>415,503</u>	<u>510,037</u>	<u>264,154</u>
Transfers out to other funds of the City of Holland	<u>(3,799,200)</u>	<u>-</u>	<u>-</u>	<u>(3,799,200)</u>	<u>(3,984,000)</u>
Change in net assets	7,466,169	368,299	795,550	8,630,018	4,593,581
Net assets, beginning of year	<u>161,795,981</u>	<u>48,420,352</u>	<u>25,949,144</u>	<u>236,165,477</u>	<u>231,571,896</u>
Net assets, end of year	<u>\$ 169,262,150</u>	<u>\$ 48,788,651</u>	<u>\$ 26,744,694</u>	<u>\$ 244,795,495</u>	<u>\$ 236,165,477</u>

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

HOLLAND BOARD OF PUBLIC WORKS

Statement of Cash Flows

**For the Year Ended June 30, 2010
(with comparative totals for the year ended June 30, 2009)**

	<u>Electric</u>	<u>Wastewater</u>	<u>Water</u>	<u>Business-Type Activities</u>	
	<u>Utility</u>	<u>Utility</u>	<u>Utility</u>	<u>2010</u>	<u>2009</u>
Cash flows from operating activities					
Receipts from customers and users	\$ 76,929,297	\$ 7,722,158	\$ 6,239,524	\$ 90,890,979	\$ 89,177,860
Payments to suppliers	(53,822,533)	(4,099,240)	(2,584,497)	(60,506,270)	(67,448,279)
Payments to employees	(5,659,836)	(1,613,235)	(1,259,500)	(8,532,571)	(8,123,517)
Net cash provided by operating activities	<u>17,446,928</u>	<u>2,009,683</u>	<u>2,395,527</u>	<u>21,852,138</u>	<u>13,606,064</u>
Cash flows from noncapital financing activities					
Transfers to other funds of the City of Holland	(3,799,200)	-	-	(3,799,200)	(3,984,000)
Cash flows from capital and related financing activities					
Principal paid on long-term debt	-	(574,000)	(820,000)	(1,394,000)	(1,336,000)
Interest paid on long-term debt	(23)	(143,783)	(701,501)	(845,307)	(892,640)
Capital contributions received	-	41,770	19,252	61,022	93,949
Proceeds from sale of capital assets	558,568	237	378	559,183	41,311
Purchase/construction of property, plant and equipment	(3,431,113)	(1,910,078)	(1,700,249)	(7,041,440)	(5,927,707)
Net cash used in capital and related financing activities	<u>(2,872,568)</u>	<u>(2,585,854)</u>	<u>(3,202,120)</u>	<u>(8,660,542)</u>	<u>(8,021,087)</u>
Cash flows from investing activities					
Interest income	1,326,490	342,445	77,164	1,746,099	2,930,866
Purchase of investment securities	(46,642,420)	(8,079,160)	(1,005,000)	(55,726,580)	(60,368,009)
Proceeds from sale or maturities of investment securities	43,811,641	15,052,888	1,503,480	60,368,009	64,471,562
Net cash provided by (used in) investing activities	<u>(1,504,289)</u>	<u>7,316,173</u>	<u>575,644</u>	<u>6,387,528</u>	<u>7,034,419</u>
Net increase (decrease) in cash and cash equivalents	9,270,871	6,740,002	(230,949)	15,779,924	8,635,396
Cash and cash equivalents, beginning of year	<u>37,153,573</u>	<u>4,814,261</u>	<u>6,630,576</u>	<u>48,598,410</u>	<u>39,963,014</u>
Cash and cash equivalents, end of year	<u>\$ 46,424,444</u>	<u>\$ 11,554,263</u>	<u>\$ 6,399,627</u>	<u>\$ 64,378,334</u>	<u>\$ 48,598,410</u>
Statement of net assets classification of cash and cash equivalents					
Cash and cash equivalents	\$ 46,424,444	\$ 8,192,286	\$ 3,041,283	\$ 57,658,013	\$ 42,723,316
Restricted cash and cash equivalents	-	3,361,977	3,358,344	6,720,321	5,875,094
Total cash and cash equivalents	<u>\$ 46,424,444</u>	<u>\$ 11,554,263</u>	<u>\$ 6,399,627</u>	<u>\$ 64,378,334</u>	<u>\$ 48,598,410</u>

Continued...

HOLLAND BOARD OF PUBLIC WORKS

Statement of Cash Flows (Concluded)

**For the Year Ended June 30, 2010
(with comparative totals for the year ended June 30, 2009)**

	<u>Electric Utility</u>	<u>Wastewater Utility</u>	<u>Water Utility</u>	<u>Business-Type Activities</u>	
				<u>2010</u>	<u>2009</u>
Reconciliation of operating income to net cash provided by operating activities:					
Operating income	\$ 10,012,233	\$ 213,174	\$ 1,053,299	\$ 11,278,706	\$ 7,136,093
Adjustments to reconcile operating income net cash provided by operating activities:					
Depreciation	8,028,247	1,624,317	1,325,696	10,978,260	11,390,580
Changes in operating assets and liabilities which provided (used) cash					
Receivables	(1,655,340)	(187,367)	(56,344)	(1,899,051)	835,121
Due from other funds of the					
City of Holland	35,496	34,669	(35,529)	34,636	79,547
Inventories	3,771,067	(1,712)	3,440	3,772,795	(3,345,997)
Prepaid expenses	(739,502)	45	(949)	(740,406)	24,266
Accounts payable	(1,913,518)	84,844	60,008	(1,768,666)	(2,698,050)
Accrued salaries and wages payable	33,704	23,227	27,984	84,915	114,484
Due to other funds of the					
City of Holland	(179,367)	196,925	1,910	19,468	(75,346)
Deposits	12,711	-	-	12,711	35,806
Net other postemployment benefit obligation	41,197	21,561	16,012	78,770	109,560
Net cash provided by operating activities	<u>\$ 17,446,928</u>	<u>\$ 2,009,683</u>	<u>\$ 2,395,527</u>	<u>\$ 21,852,138</u>	<u>\$ 13,606,064</u>

Non-cash transaction

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

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

HOLLAND BOARD OF PUBLIC WORKS

NOTES TO FINANCIAL STATEMENTS

1. NATURE OF BUSINESS AND SIGNIFICANT ACCOUNTING POLICIES

Nature of Business

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

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.

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 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.

HOLLAND BOARD OF PUBLIC WORKS

NOTES TO FINANCIAL STATEMENTS

Cash and Cash Equivalents

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

Investments

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

Receivables

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

Inventories

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

Prepaid Items

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

Restricted Assets

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

Capital Assets

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

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.

HOLLAND BOARD OF PUBLIC WORKS

NOTES TO FINANCIAL STATEMENTS

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 \$113,250.

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:

	<u>Total</u>
Cash and cash equivalents	\$ 57,658,013
Investments	48,695,164
Restricted assets:	
Cash and cash equivalents	6,720,321
Investments	7,031,416
Total	<u><u>\$ 120,104,914</u></u>

Deposits and investments consist of the following at June 30, 2010:

Checking and savings accounts	\$ 1,245,078
Certificates of deposit (due within one year)	4,000,000
Certificates of deposit (due within two years)	2,000,000
Investments	112,857,586
Cash on hand	2,250
Total	<u><u>\$ 120,104,914</u></u>

HOLLAND BOARD OF PUBLIC WORKS

NOTES TO FINANCIAL STATEMENTS

Statutory Authority

State statutes authorize the Board to invest in:

- a. Bonds, securities, other obligations and repurchase agreements of the United States, or an agency or instrumentality of the United States.
- b. Certificates of deposit, savings accounts, deposit accounts or depository receipts of a qualified financial institution.
- c. Commercial paper rated at the time of purchase within the two highest classifications established by not less than two standard rating services and that matures not more than 270 days after the date of purchase.
- d. Bankers acceptances of United States banks.
- e. Obligations of the State of Michigan and its political subdivisions that, at the time of purchase are rated as investment grade by at least one standard rating service.
- f. Mutual funds registered under the Investment Company Act of 1940 with the authority to purchase only investment vehicles that are legal for direct investment by a public corporation.
- g. External investment pools as authorized by Public Act 20 as amended through 12/31/97.

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

Investment	Maturity Date	Fair Market Value	Rating
Federal Farm Credit Bank	12/17/2012	\$ 1,999,000	S&P AAA
Federal Home Loan Bank	09/17/2010	1,005,968	S&P AAA
Federal Home Loan Bank	09/24/2010	1,006,563	S&P AAA
Federal Home Loan Bank	10/07/2010	1,002,610	S&P AAA
Federal Home Loan Bank	07/27/2012	2,002,048	S&P AAA
Federal Home Loan Bank	02/10/2012	2,002,500	S&P AAA
Federal Home Loan Bank	12/19/2012	1,004,676	S&P AAA
Federal Home Loan Bank	08/16/2012	1,001,396	S&P AAA
Federal Home Loan Bank	08/10/2012	2,002,148	S&P AAA
Federal Home Loan Bank	11/26/2012	2,002,982	S&P AAA
Federal Home Loan Bank	12/24/2012	2,012,352	S&P AAA
Federal Home Loan Bank	01/15/2013	2,018,338	S&P AAA
Federal Home Loan Bank	10/19/2012	2,015,938	S&P AAA
Federal Home Loan Bank	02/20/2013	2,014,218	S&P AAA
Michigan Municipal Bond Authority	11/01/2011	545,821	S&P AAA
Federal Home Loan Bank	06/08/2012	2,004,380	S&P AAA
Federal Home Loan Bank	08/24/2012	2,003,120	S&P AAA
Federal Farm Credit Bank	07/14/2014	250,235	S&P AAA
Federal Home Loan Bank	07/29/2016	506,720	S&P AAA
Federal Home Loan Bank	11/12/2015	252,110	S&P AAA
Federal Farm Credit Bank	01/22/2013	2,001,260	S&P AAA
Federal Farm Credit Bank	12/17/2012	2,003,120	S&P AAA

HOLLAND BOARD OF PUBLIC WORKS

NOTES TO FINANCIAL STATEMENTS

<u>Investment</u>	<u>Maturity Date</u>	<u>Fair Market Value</u>	<u>Rating</u>
Federal Home Loan Bank	11/23/2012	\$ 2,013,760	S&P AAA
Federal Home Loan Bank	11/26/2012	2,009,380	S&P AAA
Federal Home Loan Bank	01/07/2013	2,010,620	S&P AAA
Federal Home Loan Bank	01/15/2013	2,015,620	S&P AAA
Federal Home Loan Bank	10/29/2012	2,001,880	S&P AAA
Federal Home Loan Bank	12/10/2012	2,003,120	S&P AAA
Federal Home Loan Bank	06/25/2012	1,000,000	S&P AAA
MPPA Investments	Various	5,023,761	S&P AAA
Repurchase agreements*	N/A	62,121,942	Not rated
Total Investments		<u>\$112,857,586</u>	

*Denotes investments are collateralized by US government securities

Investment and Deposit Risk

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

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

Custodial Credit Risk – Deposits. Custodial credit risk is the risk that in the event of a bank failure, the Board's deposits may not be returned. State law does not require and the Board's investment policy does not have specific limits in excess of state law on custodial credit risk. As of year end, \$7,160,994 of the Board's bank balance of \$8,437,370 was exposed to custodial credit risk because it was uninsured and uncollateralized.

Custodial Credit Risk – Investments. For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Board will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. State law does not require and the Board does not have a policy for investment custodial credit risk which is more restrictive than state law. The Board is not exposed to custodial credit risk because \$62,121,942 of the above \$112,857,586 of investments is held in an overnight sweep account which is collateralized by U.S. government securities while the remainder of investments are held in the name of the Board.

HOLLAND BOARD OF PUBLIC WORKS

NOTES TO FINANCIAL STATEMENTS

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

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

	<u>Electric Utility</u>	<u>Wastewater Utility</u>	<u>Water Utility</u>	<u>Total</u>
City Trunkage	\$ -	\$ 171,218	\$ 292,283	\$ 463,501
Township Trunkage	-	-	151,552	151,552
Insurance/risk retention	<u>3,135,133</u>	<u>671,855</u>	<u>678,448</u>	<u>4,485,436</u>
	<u>\$ 3,135,133</u>	<u>\$ 843,073</u>	<u>\$ 1,122,283</u>	<u>\$ 5,100,489</u>

3. CAPITAL ASSETS

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

	<u>2009</u>	<u>Additions</u>	<u>Deletions</u>	<u>2010</u>	<u>Life-Years</u>
Capital assets, not being depreciated					
Land	\$ 6,835,764	\$ 33,765	\$ -	\$ 6,869,529	
Construction in progress	<u>3,859,978</u>	<u>4,450,636</u>	<u>6,594,294</u>	<u>1,716,320</u>	
	<u>10,695,742</u>	<u>4,484,401</u>	<u>6,594,294</u>	<u>8,585,849</u>	
Capital assets, being depreciated					
Production plant	168,568,768	2,096,202	2,685,714	167,979,256	5-50
Distribution/collection system	102,070,952	4,418,651	130,467	106,359,136	20-50
Transmission	39,638,153	2,038,799	-	41,676,952	20-50
General plant	<u>17,923,677</u>	<u>515,106</u>	<u>201,746</u>	<u>18,237,037</u>	5-50
	<u>328,201,550</u>	<u>9,068,758</u>	<u>3,017,927</u>	<u>334,252,381</u>	
Accumulated depreciation					
Production plant	114,124,720	5,414,747	2,624,453	116,915,014	
Distribution system	64,933,742	3,799,793	128,099	68,605,436	
Transmission	16,139,104	1,081,882	-	17,220,986	
General plant	<u>9,633,308</u>	<u>681,838</u>	<u>194,966</u>	<u>10,120,180</u>	
	<u>204,830,874</u>	<u>10,978,260</u>	<u>2,947,518</u>	<u>212,861,616</u>	
Net capital assets being depreciated	<u>123,370,676</u>	<u>(1,909,502)</u>	<u>70,409</u>	<u>121,390,765</u>	
Total capital assets, net	<u>\$ 134,066,418</u>	<u>\$ 2,574,899</u>	<u>\$ 6,664,703</u>	<u>\$ 129,976,614</u>	

HOLLAND BOARD OF PUBLIC WORKS

NOTES TO FINANCIAL STATEMENTS

4. LONG-TERM DEBT

Long-term debt outstanding is as follows:

	Beginning Balance	Additions	Deletions	Ending Balance	Due Within One Year
2001 Ottawa County Refunding Sewage Bonds (City assumed 70% of total 2001 Ottawa County Disposal Bond issue) due in annual installments of \$598,500 to \$693,000 through 2014, net of unamortized deferred refunding costs of \$124,924 and \$156,154 at June 30, 2010 and 2009, respectively, interest rates from 4.35% to 4.75%.	\$ 3,153,500	\$ -	\$ 574,000	\$ 2,579,500	\$ 598,500
2005A Water Supply System Revenue Refunding Bonds due in annual installments of \$685,000 to \$915,000 through 2018, net of unamortized discount and deferred refunding costs of \$169,479 and \$212,466 at June 30, 2010 and 2009, respectively, interest rates from 3.0% to 4.0%.	7,000,000	-	665,000	6,335,000	685,000
2005B Water Supply System Revenue Bonds due in annual installments of \$155,000 to \$1,525,000 through 2025, net of unamortized discount of \$103,671 and \$113,521 at June 30, 2010 and 2009, respectively, interest rates from 3.0% to 5.0%.	10,795,000	-	155,000	10,640,000	160,000
Total installment debt	20,948,500	-	1,394,000	19,554,500	1,443,500
Unamortized discounts:					
2005A Water Supply System Revenue	(11,338)	-	(2,294)	(9,044)	(2,087)
2005B Water Supply System Revenue	(113,521)	-	(9,850)	(103,671)	(9,738)
Unamortized deferred refunding loss:					
2001 Ottawa County Refunding Sewage	(156,154)	-	(31,230)	(124,924)	(31,231)
2005 A Water Supply System Revenue	(201,128)	-	(40,693)	(160,435)	(37,023)
Total long-term debt	<u>\$ 20,466,359</u>	<u>\$ -</u>	<u>\$ 1,309,933</u>	<u>\$ 19,156,426</u>	<u>\$ 1,363,421</u>

HOLLAND BOARD OF PUBLIC WORKS

NOTES TO FINANCIAL STATEMENTS

Debt Service Requirements

The annual requirements to maturity on debt outstanding as of June 30, 2010, excluding unamortized discount and deferred refunding costs on bonds payable are as follows:

<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2011	\$ 1,443,500	\$ 795,137	\$ 2,238,637
2012	1,505,000	741,669	2,246,669
2013	1,563,000	683,760	2,246,760
2014	1,628,000	621,518	2,249,518
2015	975,000	554,738	1,529,738
2016-2020	5,495,000	2,154,740	7,649,740
2021-2025	6,945,000	855,043	7,800,043
Total	\$ 19,554,500	\$ 6,406,605	\$ 25,961,105

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, 2009, which is the most recent information available.

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

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

HOLLAND BOARD OF PUBLIC WORKS

NOTES TO FINANCIAL STATEMENTS

Funding Policy. The City is required to contribute at an actuarially determined rate; the current rate is from 17.09% to 17.41% (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, 2010, the Board's annual pension cost of \$881,831 for MERS was equal to the Board's required and actual contributions. The required contribution was determined as part of the December 31, 2007 actuarial valuation using the entry age actuarial cost method. The actuarial assumptions included (a) a rate of return on the investment of present and future assets of 8.0%, (b) projected salary increases of 4.5% per year compounded annually, attributable to inflation, and (c) additional projected salary increases of 0.0% to 8.4% per year, depending on age, attributable to seniority/merit. The actuarial value of MERS assets was determined on the basis of a valuation method that assumes the fund earns the expected rate of return, and includes an adjustment to reflect fair value. The 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, 2009, the date of the latest actuarial valuation, ranges from 16 to 30 years, depending on the specific employee group.

Funded status and funding progress. A separate actuarial valuation is not prepared for the Board. The schedule of funding progress for the City of Holland is included in the City's financial statements for the year ended June 30, 2010. The schedule of employer contributions, presented as required supplementary information (RSI) following the notes to the financial statements, presents multiyear trend information about how the Board is funding its annual pension costs.

Defined Contribution Pension Plan

The Board participates in a defined contribution retirement plan which is administered by the ICMA in participation with MERS for both nonbargaining and union employees. The defined contribution provisions of the plan require the Board to contribute 6% of covered employee payroll and to match employee contributions up to 2% for nonbargaining employees and up to 4% for union employees. The participants direct their investments under defined contribution provisions. The Board contributed \$267,213 and employees contributed \$79,700 to the defined contribution plan.

6. OTHER POSTEMPLOYMENT BENEFITS

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

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

HOLLAND BOARD OF PUBLIC WORKS

NOTES TO FINANCIAL STATEMENTS

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

Contributions. The contribution requirements of Plan members, the Board and the City are established and may be amended by the City Council. The required contribution is based on projected pay-as-you-go financing requirements. For the year ended June 30, 2010, the Board contributed \$135,405.

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

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

Annual required contribution	\$ 215,782
Interest on net OPEB obligation	3,869
Adjustment to annual required contribution	<u>5,476</u>
Net OPEB cost (expense)	214,175
Contributions made	<u>135,405</u>
Increase in net OPEB obligation	78,770
Net OPEB obligation, beginning of year	<u>109,560</u>
Net OPEB obligation, end of year	<u>\$ 188,330</u>

Funded status and funding progress. A separate actuarial valuation is not prepared for the Board. The schedule of funding progress for the City of Holland is included in the City's financial statements for the year ended June 30, 2010. The schedule of employer contributions, presented as required supplementary information (RSI) following the notes to the financial statements, presents multiyear trend information about how the Board is funding its annual OPEB costs.

7. RISK MANAGEMENT

The Board is exposed to various risks of loss related to property loss, torts, errors and omissions, employee injuries (workers' compensation), as well as medical benefits provided to employees. The Board is self-insured for these risks through the City of Holland's self-insurance program except for workers' compensation risks which are covered through commercial insurance. The City purchases excess reinsurance and allocates risk management costs among the various funds of the City, including the Board of Public Works. The schedule of changes in the self-insured liability balances is included in the City of Holland's financial statements for the year ended June 30, 2010.

HOLLAND BOARD OF PUBLIC WORKS

NOTES TO FINANCIAL STATEMENTS

8. COMMITMENTS

The Board has contracts outstanding for remaining project costs of approximately \$1,007,160 for various electric utility projects, \$1,238,725 for various water projects, \$929,439 for various wastewater projects and \$82,276 for information systems.

9. LANDFILL CLOSURE AND POSTCLOSURE CARE

The Board owns and maintains a landfill for flyash and wastewater treatment bio solids. In accordance with Michigan Department of Environmental Quality requirements, funding for closure cost estimates of \$111,000 and post-closure cost estimates of \$216,450 have been assured with a \$100,000 letter of credit and \$10,206 held in trust at June 30, 2010.

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

10. JOINT VENTURE

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

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

For the year ended June 30, 2010, the Board recognized expenses totaling \$12,429,560 under the terms of the contract which represented \$3,187,955 for fixed operating costs, \$5,220,463, for debt service and \$4,021,143 for the purchase of power. Accounts payable to MPPA totaled \$755,487 at June 30, 2010. For the year ended June 30, 2009, the Board recognized expenses totaling \$13,135,901 under the terms of the contract which represented \$3,004,633 for fixed operating costs, \$5,400,798 for debt service and \$4,730,470 for the purchase of power. Accounts payable to MPPA totaled \$1,257,090 at June 30, 2009. Under the terms of its contracts, the Board must make minimum annual payments equal to its share of debt service and its share of the fixed operating costs of Detroit Edison's Belle River No. 1 and Consumers Energy's Campbell Unit No. 3. The estimated required payments presented below assume no early calls or refinancing of existing revenue bonds and 3.0% annual inflation of fixed operating costs.

HOLLAND BOARD OF PUBLIC WORKS

NOTES TO FINANCIAL STATEMENTS

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

Year	Belle River		Campbell		Total
	Debt Service	Fixed Operating	Debt Service	Fixed Operating	
2011	\$ 4,306,019	\$ 2,613,881	\$ 919,622	\$ 669,712	\$ 8,509,234
2012	4,306,001	2,692,298	922,180	689,803	8,610,282
2013	4,305,460	2,773,067	923,442	710,498	8,712,467
2014	4,305,960	2,856,259	909,075	731,813	8,803,107
2015	4,305,533	2,941,946	869,550	753,767	8,870,796
2016-2018	12,916,953	9,366,060	830,025	776,380	23,889,418
	<u>\$ 34,445,926</u>	<u>\$ 23,243,511</u>	<u>\$ 5,373,894</u>	<u>\$ 4,331,973</u>	<u>\$ 67,395,304</u>

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

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

11. LITIGATION

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

* * * * *

SUPPLEMENTARY INFORMATION

HOLLAND BOARD OF PUBLIC WORKS

**SCHEDULE OF EMPLOYER CONTRIBUTIONS
DEFINED BENEFIT PENSION PLAN**

<u>Year Ended</u>	<u>Annual Pension Costs (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
6/30/2005	\$ 679,737	100%	\$ -
6/30/2006	685,402	100%	-
6/30/2007	840,908	100%	-
6/30/2008	895,157	100%	-
6/30/2009	865,829	100%	-
6/30/2010	881,831	100%	-

**SCHEDULE OF EMPLOYER CONTRIBUTIONS
OTHER POSTEMPLOYMENT BENEFITS PLAN**

<u>Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Percentage of OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
6/30/2008	* \$ 175,724	38%	\$ 109,560
6/30/2009	214,175	63%	188,330

* Only two years of data is available

HOLLAND BOARD OF PUBLIC WORKS

Combining Statement of Net Assets

June 30, 2009

	<u>Electric Utility</u>	<u>Wastewater Utility</u>	<u>Water Utility</u>	<u>Total</u>
Assets				
Current assets				
Cash and cash equivalents	\$ 37,153,573	\$ 2,291,434	\$ 3,278,309	\$ 42,723,316
Investments	39,102,330	13,045,928	1,503,480	53,651,738
Receivables:				
Accounts receivable	4,764,897	865,810	509,555	6,140,262
Unbilled revenue	3,223,730	167,024	309,435	3,700,189
Special assessments and other	-	134,134	111,123	245,257
Accrued interest	227,755	65,357	11,037	304,149
Due from other funds of the				
City of Holland	220,573	71,349	113,001	404,923
Inventories	10,695,492	44,196	185,769	10,925,457
Prepaid expenses	112,315	45	3,466	115,826
Total current assets	<u>95,500,665</u>	<u>16,685,277</u>	<u>6,025,175</u>	<u>118,211,117</u>
Noncurrent assets				
Restricted assets:				
Cash and cash equivalents	-	2,522,827	3,352,267	5,875,094
Investments	4,709,311	2,006,960	-	6,716,271
Accrued interest	-	26,009	-	26,009
Total restricted assets	<u>4,709,311</u>	<u>4,555,796</u>	<u>3,352,267</u>	<u>12,617,374</u>
Capital assets:				
Land	4,810,124	260,673	1,764,967	6,835,764
Construction in progress	1,538,521	1,115,887	1,205,570	3,859,978
Plant and equipment	212,968,636	65,253,942	49,978,972	328,201,550
Accumulated depreciation	<u>(150,967,333)</u>	<u>(35,852,580)</u>	<u>(18,010,961)</u>	<u>(204,830,874)</u>
Total capital assets, net	<u>68,349,948</u>	<u>30,777,922</u>	<u>34,938,548</u>	<u>134,066,418</u>
Total noncurrent assets	<u>73,059,259</u>	<u>35,333,718</u>	<u>38,290,815</u>	<u>146,683,792</u>
Total assets	<u>168,559,924</u>	<u>52,018,995</u>	<u>44,315,990</u>	<u>264,894,909</u>

	<u>Electric Utility</u>	<u>Wastewater Utility</u>	<u>Water Utility</u>	<u>Total</u>
Liabilities				
Current liabilities				
Accounts payable	\$ 5,456,053	\$ 283,175	\$ 162,492	\$ 5,901,720
Accrued salaries and wages payable	510,914	235,454	184,919	931,287
Due to other funds of the City of Holland	210,650	48,931	173,751	433,332
Deposits	190,842	-	-	190,842
Accrued interest payable	-	11,982	-	11,982
Current maturities of bonds payable	-	542,769	-	542,769
Current liabilities payable from restricted assets:				
Bonds payable	-	-	767,164	767,164
Accrued interest payable	-	-	356,900	356,900
Total current liabilities	<u>6,368,459</u>	<u>1,122,311</u>	<u>1,645,226</u>	<u>9,135,996</u>
Noncurrent liabilities				
Landfill closure and postclosure cost	327,450	-	-	327,450
Long-term debt - net of current portion	-	2,454,577	16,701,849	19,156,426
Net other postemployment benefit obligation	68,034	21,755	19,771	109,560
Total noncurrent liabilities	<u>395,484</u>	<u>2,476,332</u>	<u>16,721,620</u>	<u>19,593,436</u>
Total liabilities	<u>6,763,943</u>	<u>3,598,643</u>	<u>18,366,846</u>	<u>28,729,432</u>
Net assets				
Invested in capital assets, net of related debt	68,349,948	27,780,576	17,469,535	113,600,059
Restricted for:				
Debt service	-	-	3,018,150	3,018,150
Equipment replacement	-	3,151,780	-	3,151,780
Park Township	-	-	198,194	198,194
Cooperative payments	5,087,657	-	-	5,087,657
Construction	-	-	135,430	135,430
Unrestricted	<u>88,358,376</u>	<u>17,487,996</u>	<u>5,127,835</u>	<u>110,974,207</u>
Total net assets	<u>\$ 161,795,981</u>	<u>\$ 48,420,352</u>	<u>\$ 25,949,144</u>	<u>\$ 236,165,477</u>

HOLLAND BOARD OF PUBLIC WORKS

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

For the Year Ended June 30, 2009

	Electric Utility	Wastewater Utility	Water Utility	Total
Operating revenue				
Residential sales	\$ 15,284,356	\$ 1,603,798	\$ 1,707,372	\$ 18,595,526
Commercial sales	28,373,263	1,382,984	1,273,721	31,029,968
Industrial sales	27,875,527	384,467	602,384	28,862,378
Wholesale	-	1,908,453	1,789,768	3,698,221
Fees and other	3,933,576	1,599,752	507,965	6,041,293
Total operating revenue	<u>75,466,722</u>	<u>6,879,454</u>	<u>5,881,210</u>	<u>88,227,386</u>
Operating expenses				
Salaries and wages	3,206,266	1,038,256	798,708	5,043,230
Employee benefits	2,055,407	649,751	489,613	3,194,771
Production	46,062,093	2,018,394	552,303	48,632,790
Distribution	3,494,302	681,132	565,577	4,741,011
Administrative and general	4,627,496	1,860,020	1,601,395	8,088,911
Depreciation	8,381,476	1,701,017	1,308,087	11,390,580
Total operating expenses	<u>67,827,040</u>	<u>7,948,570</u>	<u>5,315,683</u>	<u>81,091,293</u>
Operating income (loss)	<u>7,639,682</u>	<u>(1,069,116)</u>	<u>565,527</u>	<u>7,136,093</u>
Nonoperating income (expense) - net				
Interest income	1,663,977	508,652	103,295	2,275,924
Interest expense	(3)	(196,284)	(770,500)	(966,787)
Insurance refunds	-	-	-	-
Gain (loss) on sale and disposal of capital assets	3,211	(40,190)	(94,824)	(131,803)
Total nonoperating income (expense) - net	<u>1,667,185</u>	<u>272,178</u>	<u>(762,029)</u>	<u>1,177,334</u>
Net income (loss) before contributions and transfers	<u>9,306,867</u>	<u>(796,938)</u>	<u>(196,502)</u>	<u>8,313,427</u>
Capital contributions				
Infrastructure	-	53,025	117,180	170,205
Trunkage	-	43,716	50,233	93,949
Total capital contributions	<u>-</u>	<u>96,741</u>	<u>167,413</u>	<u>264,154</u>
Transfers out to other funds of the City of Holland	<u>(3,984,000)</u>	<u>-</u>	<u>-</u>	<u>(3,984,000)</u>
Change in net assets	5,322,867	(700,197)	(29,089)	4,593,581
Net assets, beginning of year	<u>156,473,114</u>	<u>49,120,549</u>	<u>25,978,233</u>	<u>231,571,896</u>
Net assets, end of year	<u>\$ 161,795,981</u>	<u>\$ 48,420,352</u>	<u>\$ 25,949,144</u>	<u>\$ 236,165,477</u>

HOLLAND BOARD OF PUBLIC WORKS

Combining Statement of Cash Flows

For the Year Ended June 30, 2009

	Electric Utility	Wastewater Utility	Water Utility	Total
Cash flows from operating activities				
Receipts from customers and users	\$ 76,504,154	\$ 6,870,232	\$ 5,803,474	\$ 89,177,860
Payments to suppliers	(57,464,466)	(4,556,668)	(5,427,145)	(67,448,279)
Payments to employees	(5,210,797)	(1,649,499)	(1,263,221)	(8,123,517)
Net cash provided by (used in) operating activities	13,828,891	664,065	(886,892)	13,606,064
Cash flows from noncapital financing activities				
Transfers to other funds of the City of Holland	(3,984,000)	-	-	(3,984,000)
Cash flows from capital and related financing activities				
Principal paid on long-term debt	-	(546,000)	(790,000)	(1,336,000)
Interest paid on long-term debt	(3)	(166,987)	(725,650)	(892,640)
Capital contributions received	-	43,716	50,233	93,949
Proceed from sale of capital assets	16,738	22,277	2,296	41,311
Purchase of property, plant and equipment	(3,529,665)	(1,083,266)	(1,314,776)	(5,927,707)
Net cash used in capital and related financing activities	(3,512,930)	(1,730,260)	(2,777,897)	(8,021,087)
Cash flows from investing activities				
Interest income	2,071,155	710,217	149,494	2,930,866
Purchase of investment securities	(43,811,641)	(15,052,888)	(1,503,480)	(60,368,009)
Proceeds from sale or maturities of investment securities	45,966,292	17,005,270	1,500,000	64,471,562
Net cash provided by investing activities	4,225,806	2,662,599	146,014	7,034,419
Net increase (decrease) in cash and cash equivalents	10,557,767	1,596,404	(3,518,775)	8,635,396
Cash and cash equivalents, beginning of year	26,595,806	3,217,857	10,149,351	39,963,014
Cash and cash equivalents, end of year	\$ 37,153,573	\$ 4,814,261	\$ 6,630,576	\$ 48,598,410
Statement of net assets classification of cash and cash equivalents				
Cash and cash equivalents	\$ 37,153,573	\$ 2,291,434	\$ 3,278,309	\$ 42,723,316
Restricted assets, cash and cash equivalents	-	2,522,827	3,352,267	5,875,094
Total cash and cash equivalents	\$ 37,153,573	\$ 4,814,261	\$ 6,630,576	\$ 48,598,410

Continued...

HOLLAND BOARD OF PUBLIC WORKS

Combining Statement of Cash Flows (Concluded)

For the Year Ended June 30, 2009

	Electric Utility	Wastewater Utility	Water Utility	Total
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:				
Operating income (loss)	\$ 7,639,682	\$ (1,069,116)	\$ 565,527	\$ 7,136,093
Adjustments to reconcile operating income (loss) to net cash provided by operating activities				
Depreciation	8,381,476	1,701,017	1,308,087	11,390,580
Changes in operating assets and liabilities which provided (used) cash				
Receivables	966,775	(35,461)	(96,193)	835,121
Due from other funds of the City of Holland	34,851	26,239	18,457	79,547
Inventories	(3,321,957)	(6,798)	(17,242)	(3,345,997)
Prepaid expenses	24,218	-	48	24,266
Accounts payable	17,622	(31,641)	(2,684,031)	(2,698,050)
Accrued salaries and wages payable	50,876	38,508	25,100	114,484
Due to other funds of the City of Holland	(68,492)	19,562	(26,416)	(75,346)
Deposits	35,806	-	-	35,806
Net other postemployment benefit obligation	68,034	21,755	19,771	109,560
Net cash provided by (used in) operating activities	\$ 13,828,891	\$ 664,065	\$ (886,892)	\$ 13,606,064

Non-cash transaction

The Board received noncash capital contributions of \$53,025 and \$117,180 in the wastewater and water utilities, respectively.

HOLLAND BOARD OF PUBLIC WORKS

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

June 30, 2010

Year Ended June 30	Contributions		Interest		Improvements	Reserve Balance
	From Billings	Other	Rate	Amount		
1989	\$ 124,116	\$ 292,722	8.02 %	\$ 85,061	\$ 446,514	\$ 1,130,832
1990	124,116	14,045	8.21	95,519	72,939	1,291,573
1991	124,116	-	7.06	91,161	124,794	1,382,056
1992	124,116	-	5.49	64,501	538,427	1,032,246
1993	188,364	12,555	4.21	27,927	1,161,092	100,000
1994	195,180	-	3.46	6,640	18,347	283,473
1995	208,680	-	5.41	21,139	14,662	498,630
1996	224,508	2,190	6.24	36,008	45,287	716,049
1997	229,350	-	6.14	47,244	145,361	847,282
1998	244,651	-	6.33	58,314	163,917	986,329
1999	250,903	77,335	6.00	62,497	501,228	875,836
2000	272,594	804,159	5.59	44,448	619,684	1,377,352
2001	278,479	-	6.26	84,190	427,542	1,312,479
2002	298,340	-	3.64	34,041	173,806	1,471,054
2003	361,244	-	2.95	43,426	123,852	1,751,871
2004	403,722	-	(1.14)	(20,012)	116,985	2,018,596
2005	448,249	-	2.81	74,659	1,404,334	1,137,170
2006	518,220	-	1.90	25,608	117,955	1,563,043
2007	575,848	-	4.20	78,629	37,557	2,179,963
2008	609,002	-	4.79	113,392	345,695	2,556,662
2009	611,793	-	1.31	74,514	91,189	3,151,780
2010	659,495	-	1.60	51,516	639,343	3,223,448

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

HOLLAND BOARD OF PUBLIC WORKS

Schedule of Capital Assets

June 30, 2010

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

HOLLAND BOARD OF PUBLIC WORKS

Schedule of Capital Assets

June 30, 2009

	<u>Electric Utility</u>	<u>Wastewater Utility</u>	<u>Water Utility</u>	<u>Combined</u>
Land	\$ 4,810,124	\$ 260,673	\$ 1,764,967	\$ 6,835,764
Construction in progress	1,538,521	1,115,887	1,205,570	3,859,978
Production plant	117,143,651	35,840,277	15,584,840	168,568,768
Distribution system	73,109,348	5,467,334	23,494,270	102,070,952
Transmission	11,350,403	19,860,676	8,427,074	39,638,153
General plant	<u>11,365,234</u>	<u>4,085,655</u>	<u>2,472,788</u>	<u>17,923,677</u>
Total	219,317,281	66,630,502	52,949,509	338,897,292
Accumulated depreciation	<u>(150,967,333)</u>	<u>(35,852,580)</u>	<u>(18,010,961)</u>	<u>(204,830,874)</u>
Total capital assets, net	<u><u>\$ 68,349,948</u></u>	<u><u>\$ 30,777,922</u></u>	<u><u>\$ 34,938,548</u></u>	<u><u>\$ 134,066,418</u></u>

**INTERNAL CONTROL
AND
COMPLIANCE**

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

September 8, 2010

Board of Directors
Holland Board of Public Works
Holland, Michigan

We have audited the financial statements of the business-type activities and each major fund of the **Holland Board of Public Works** (enterprise funds of the City of Holland, Michigan), as of and for the year ended June 30, 2010, which collectively comprise the Holland Board of Public Works' basic financial statements, and have issued our report thereon dated September 8, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

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

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

September 8, 2010

Board of Directors
Holland Board of Public Works
Holland, Michigan

We have audited the financial statements of the business-type activities and each major fund of the *Holland Board of Public Works* (enterprise funds of the City of Holland, Michigan) for the year ended June 30, 2010, and have issued our report thereon dated September 8, 2010. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility Under Auditing Standards Generally Accepted in the United States of America and Government Auditing Standards

As stated in our engagement letter dated June 28, 2010, our responsibility, as described by professional standards, is to express opinions about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with accounting principles generally accepted in the United States of America. Our audit of the financial statements does not relieve you or management of your responsibilities.

As part of our audit, we considered the internal control of the Holland Board of Public Works. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of Holland Board of Public Works' compliance with certain provisions of laws, regulations, contracts and grants. However, the objective of our tests was not to provide an opinion on compliance with such provisions.

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you in our engagement letter and our meeting about planning matters on August 10, 2010.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the Holland Board of Public Works are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year. We noted no transactions entered into by the government unit during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were:

- The allowance for doubtful accounts is estimated based on prior experience with collections.
- Depreciation expense has been calculated based on estimated lives of the respective assets.
- Landfill closure and post-closure costs have been calculated based on state guidelines and landfill utilization to date.
- Future fixed operating costs paid to Michigan Public Power Agency have been calculated based on future debt service requirements and inflation of other costs at 3%.
- Contributed water and sewer infrastructure values have been estimated at current bid cost which is discounted to the date of acquisition utilizing historical construction inflation data.
- The allocation of shared costs between the funds has been determined based on studies of related time expended, services performed or other applicable activities and data.
- Unbilled receivable is estimated based on prior experience with billings.

We evaluated the key factors and assumptions used to develop these estimates in determining that they are reasonable in relation to the financial statements taken as a whole.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. We noted no misstatements during our audit.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the attached management representation letter dated September 8, 2010.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the entity's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the governmental unit's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

This information is intended solely for the use of the governing body and management of the Holland Board of Public Works and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

A handwritten signature in cursive script that reads "Lehmann Johnson". The signature is written in black ink and is centered on the page.