

**City of Grand Haven
Board of Light and Power
(an Enterprise Fund of
the City of Grand Haven)**

**Financial Report with
Additional Information**
Years Ended June 30, 2006 and 2005

City of Grand Haven Board of Light and Power

Table of Contents

Independent Auditors' Report	3
Management's Discussion and Analysis	4-6
Financial Statements	
Statements of Net Assets	7
Statements of Revenue, Expenses and Changes in Net Assets	8
Statements of Cash Flows	9-10
Notes to Financial Statements	11-22
Supplemental Material	
Independent Auditors' Report on Supplemental Material	24
Statements of Operations - Detail	25-26
Schedules of Operating Expenses	27-31
Schedule of Property, Plant and Equipment	32-33
Schedule of Long-Term Debt Maturity	34
Schedules of Debt Service Coverage Ratio	35

Independent Auditors' Report

To The Board of Directors
City of Grand Haven Board of Light and Power
Grand Haven, Michigan

We have audited the financial statements of the City of Grand Haven Board of Light and Power, an Enterprise Fund of the City of Grand Haven, Michigan, as of and for the years ended June 30, 2006 and 2005, as listed in the table of contents. These financial statements are the responsibility of the Board of Light and Power's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits 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 basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic 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 audits provide a reasonable basis for our opinion.

As discussed in Note 1, the financial statements present only the Board of Light and Power and are not intended to present the financial position of the City of Grand Haven, Michigan and the results of its operations and cash flows of its proprietary funds 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 City of Grand Haven Board of Light and Power as of June 30, 2006 and 2005, and the results of its operations and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The management discussion and analysis listed in the table of contents is not a required part of the basic financial statements but is 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 this information and express no opinion thereon.

Pridnia LaPres, PLLC

Muskegon, Michigan
August 10, 2006

Management's Discussion and Analysis

This section of the Grand Haven Board of Light & Power's (BLP) annual financial report presents the analysis of the BLP's financial performance during the fiscal year ending June 30, 2006. Please read it in conjunction with the financial statements, which follow this section.

Overview of Business

The BLP owns and operates an electric system, which generates, purchases, and distributes electric energy, and provides electric service to over 13,300 residential, commercial, and industrial customers in the City of Grand Haven and portions of the surrounding communities. The BLP generated 93 percent of its retail sales and 100 percent of its wholesale sales. The BLP purchased the balance of its energy requirements and made all wholesale sales through the Michigan Public Power Agency's Power Pool Project. The Power Pool Project economically dispatches the loads and resources of eight municipal electric utilities in Michigan.

Condensed Financial Information

Net Assets (Dollars in Thousands)

	Years Ended June 30		Increase (Decrease)	
	2006	2005	\$	%
Current and Other Assets	\$ 23,732	\$ 33,380	\$ (9,648)	-29%
Property, Plant and Equipment	43,458	43,240	218	1%
Total Assets	67,190	76,620	(9,430)	-12%
Long-term Liabilities	53,948	57,675	(3,727)	-6%
Other Liabilities	4,148	8,960	(4,812)	-54%
Total Liabilities	58,096	66,635	(8,539)	-13%
Restricted	3,787	3,740	47	1%
Unrestricted	5,307	6,245	(938)	-15%
Total Net Assets	9,094	9,985	(891)	-9%

Current and Other Assets decreased primarily due to results of operations, payment on long-term debt and the ongoing Sims 3 upgrade project.

Property, Plant and Equipment – Nox project completed and capitalized in fiscal 2006 and offset with fiscal 2006 depreciation expense.

Long-term Liabilities decreased due to the current year principal payment of long term debt.

Other Liabilities are down primarily due to the defeasance of the July 1, 2006 maturity of the 1993 bond issue.

Results of Operations
(Dollars in Thousands)

	Years Ended June 30		Increase (Decrease)	
	2006	2005	\$	%
Operating Revenue	\$ 28,343	\$ 25,741	\$ 2,602	10%
Operating Expenses	26,308	21,005	5,303	25%
Non-operating Expense, Net	2,926	3,453	(527)	-15%
Net Income (Loss)	(891)	1,283	(2,174)	-169%

The increase in operating revenue is due primarily to a 6.9% increase in residential kilowatt hours retail sales and a 5.4% increase in large commercial and industrial kilowatt hours retail sales along with a rate increase of 6.75% effective July 1, 2005. Wholesale kilowatt sales in fiscal 2006 were actually down 1.3 megawatts but with a slightly higher rate.

An increase in actual fuel cost of 40% as well as increased sales is the primary factor in the increase in operating expenses. Operating expense for fiscal 2006 does include the costs of a scheduled maintenance outage where a first time chemical cleaning of the boiler was done. Costs of that outage totaled \$360,000. There were no scheduled outages for fiscal year 2005. Repair of the thickener at Sims 3 was the most significant maintenance project for fiscal 2006 with a cost of \$78,000.

The decrease in non-operating expenses is a direct result of an increase in interest income and a decrease in interest expense. Interest income on operational funds increased \$273,000 due primarily to rates over fiscal 2005. Interest expense on the 1993 bond issue decreased \$212,000 from fiscal 2005 as the pay off date in 2008 draws near. Miscellaneous income includes the sale of sulfur dioxide (SO₂) credits for \$158,000.

Budget

The BLP approved a \$24,082,000 operating expense budget for fiscal year 2006. Actual operating expenses were \$26,308,245 or 9% over budget. Increased fuel costs along with the costs related to increased sales are the major portion of this increase. An increase in the cost of purchased power over budget as well as network transmission costs resulted in \$360,000 of the increase in operating expense.

Capital Improvements

Capital improvements are driven by the need to expand or maintain the systems of the BLP to meet growing customer needs and to maintain a satisfactory level of service reliability. The BLP invests essentially all revenues not paid out for operations and maintenance expense, non-operating expenses, or debt principal back into capital improvement for the electric systems. Major capital expenditures during the past year include progress payments on the turbine upgrade project at Sims 3 for additional generating capacity. Another significant project is the replacement of a Diesel fuel tank. Total capital expenditures were \$3,679,389 in fiscal year 2006, which was all paid by internally generated funds.

Next Year's Budget and Rates

The budget approved for the fiscal year 2007 reflects a rate change of 12.5% for customers and follows a 6.75% rate increase in fiscal 2006. Increased fuel and operating expenses dictate the need for the rate increase.

The capital improvement budget for next year includes several improvements to the generation and distribution systems. The purchase of Wolverine Power Supply's 69,000 volt transmission system from Sternberg to Osipoff substation for \$750,000 is also included in the fiscal 2007 budget.

City of Grand Haven Board of Light and Power

Statements of Net Assets

<i>June 30,</i>	2006	2005
Assets		
Current Assets		
Cash and cash equivalents (Note 2)	\$10,695,728	\$17,204,881
Accrued interest receivable	44,216	36,362
Accounts receivable	3,247,368	2,524,574
Inventories	4,043,390	3,506,024
Prepaid expenses and other	24,659	30,927
Total Current Assets	18,055,361	23,302,768
Restricted Assets (Note 4)	5,287,571	9,621,760
Property, Plant and Equipment – Net (Note 3)	43,457,770	43,239,892
Deferred Charges – Unamortized debt issue costs (Note 1)	389,830	455,170
Total Assets	67,190,532	76,619,590
Liabilities		
Current Liabilities		
Accounts payable	1,242,398	1,587,166
Accruals		
Compensation	388,006	341,920
Other	383,675	375,692
Deferred revenue (Note 12)	170,000	164,000
Total Current Liabilities	2,184,079	2,468,778
Current Liabilities Payable from Restricted Assets (Note 4)	1,500,812	5,882,030
Deferred Revenue (Note 12)	463,396	608,984
Long-Term Debt - Revenue Bonds (Note 5)	53,948,114	57,675,099
Total Liabilities	58,096,401	66,634,891
Net Assets		
Unrestricted	5,307,372	6,244,969
Restricted (Note 4)	3,786,759	3,739,730
Total Net Assets	\$ 9,094,131	\$ 9,984,699

See accompanying notes to financial statements.

City of Grand Haven Board of Light and Power

Statements of Revenue, Expenses and Changes in Net Assets

<i>Years ended June 30,</i>	2006	2005
Operating Revenue		
Residential sales	\$ 7,066,982	\$ 6,136,022
Commercial and industrial sales	15,182,022	13,657,770
Public street and highway lighting	351,198	324,956
Other sales to public authorities	566,647	524,765
Sales for resale	5,047,271	4,977,329
Forfeited discounts	86,311	77,673
Rental income	37,810	37,876
Miscellaneous service	4,850	5,250
Total Operating Revenue	28,343,091	25,741,641
Operating Expenses		
Power production	18,309,802	13,283,468
Distribution	1,380,403	1,384,060
Customer accounts	496,568	455,939
Administrative and general	1,509,453	1,465,728
Depreciation	3,453,677	3,383,657
Statutory charge (Note 6)	1,158,342	1,032,176
Total Operating Expenses	26,308,245	21,005,028
Operating Income	2,034,846	4,736,613
Non-Operating Income (Expenses) – Net		
Interest earned on investments		
Operating fund	\$ 741,953	\$ 469,070
Debt service reserve	143,704	82,891
Amortization of debt premium and issue costs	275,244	261,890
Gain on investments	-	1,231
Interest expense		
Bond	(4,246,264)	(4,499,167)
Deposits	(4,203)	(3,914)
Gain (loss) on sale of assets	(7,584)	386
Emission allowances (Note 12)	164,493	227,798
Miscellaneous	7,243	6,248
Total Non-Operating Expenses – Net	(2,925,414)	(3,453,567)
Net Income (Loss)	(890,568)	1,283,046
Net Assets – Beginning of year	9,984,699	8,701,653
Net Assets – End of year	\$ 9,094,131	\$ 9,984,699

See accompanying notes to financial statements.

City of Grand Haven Board of Light and Power

Statements of Cash Flows

<i>Years ended June 30,</i>	2006	2005
Cash Flows from Operating Activities		
Operating income	\$ 2,034,846	\$ 4,736,613
Adjustments to reconcile operating income to net cash from operating activities:		
Depreciation	3,453,677	3,383,657
Bad debt expense	21,402	9,819
Changes in assets and liabilities:		
Accounts receivable	(744,196)	(526,594)
Inventories	(537,366)	361,519
Prepaid expenses and other current assets	6,268	31,275
Accounts payable	(344,768)	(163,458)
Deferred revenue	(139,588)	(136,546)
Accrued compensation	46,086	38,792
Other accrued liabilities:	(228,235)	(157,354)
Net cash provided by operating activities	3,568,126	7,577,723
Cash Flows from Capital and Related Financing Activities		
Principal and interest paid on long-term debt	(11,781,868)	(7,412,973)
Purchase of capital assets	(3,679,389)	(2,109,704)
Proceeds from sale of assets	250	386
Other income	171,736	234,046
Net cash used for capital and related financing activities	(15,289,271)	(9,288,245)
Cash Flows from Investing Activities		
Interest received on investments	712,274	397,972
Purchase of investment securities	(9,529,208)	(25,318,250)
Proceeds from sale and maturities of investment securities:	7,795,000	27,477,000
Net cash provided by (used for) investing activities:	(1,021,934)	2,556,722
Net Increase (Decrease) in Cash and Cash Equivalents	(12,743,079)	846,200
Cash and Cash Equivalents – Beginning of year	24,944,055	24,097,855
Cash and Cash Equivalents – End of year	\$12,200,976	\$24,944,055

City of Grand Haven Board of Light and Power

Statements of Cash Flows

<i>Years ended June 30,</i>	2006	2005
Balance Sheet Classification of Cash and Cash Equivalents		
Cash and cash equivalents	\$10,695,728	\$17,204,881
Restricted assets (Note 4)	1,505,248	7,739,174
Total	\$12,200,976	\$24,944,055

See accompanying notes to financial statements.

City of Grand Haven Board of Light and Power

Notes to Financial Statements

1. Nature of Business and Significant Accounting Policies

The Grand Haven Board of Light and Power (the “Board”) is an Enterprise Fund of the City of Grand Haven (the “City”). It operates under direction of the City Charter. The Board provides electric services to users in the City of Grand Haven and portions of the surrounding area. The accrual basis of accounting is used in preparing the financial statements.

Cash Equivalents

Cash equivalents consist of highly liquid investments, including certificates of deposit and U.S. Treasury bills, with an original maturity of three months or less.

Investments

Investments are recorded at fair value, based on quoted market price.

Inventories

Inventories consist of coal and fuel oil and are stated at the lower of cost, determined principally by the moving average method, or market.

Property, Plant and Equipment

Property, plant and equipment are stated at cost. Depreciation is computed on the straight-line method. No depreciation expense has been recorded for amounts reflected as construction in progress.

Unamortized Debt Issue Costs

Debt issue costs of \$1,566,482 of the Electric System Revenue Bonds are being amortized over the life of the issue by the interest method. Amortization expense aggregated \$65,340 and \$68,278 for the years ended June 30, 2006 and 2005, respectively. Accumulated amortization was \$1,176,652 and \$1,111,312 at June 30, 2006 and 2005, respectively.

City of Grand Haven Board of Light and Power

Notes to Financial Statements

Revenue Recognition

Revenue is recognized at the point when customers are billed for services.

2. Deposits and Investments

The Board of Light and Power's deposits and investments at June 30, 2006 and 2005 are included on the balance sheet under the following classifications:

	2006		2005	
	Cash and Cash Equivalents	Restricted Assets	Cash and Cash Equivalents	Restricted Assets
Deposits	\$ 10,695,728	\$ 1,505,248	\$17,204,881	\$ 7,739,174
Investments	-	3,700,937	-	1,847,756
Total	\$ 10,695,728	\$ 5,206,185	\$17,204,881	\$ 9,586,930

Deposits

State statutes require that certificates of deposit, savings accounts, deposit accounts and depository receipts are made with banks doing and having a place of business in the State of Michigan that are also members of a federal or national insurance corporation.

Custodial Credit Risk Related to Deposits

Custodial credit risk is the risk that, in the event of a bank failure, the Board's deposits might not be recovered. The Board evaluates each financial institution it deposits Board funds with 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. 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 \$12,781,026 and \$24,952,384 in 2006 and 2005, respectively. Of that amount, up to \$300,000 and \$400,000 was covered by federal depository insurance in 2006 and 2005, respectively. This insurance coverage pertains to all deposits of the City; hence, the specific coverage pertaining to the Board's deposits, if any, is not determinable.

City of Grand Haven Board of Light and Power

Notes to Financial Statements

At June 30, 2006, \$12,481,026 of the Board's bank balances of \$12,781,026 were exposed to custodial credit risk as follows:

Uninsured and uncollateralized	\$12,481,026
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Investments

At June 30, 2006, the Board had the following investments:

Investment	Maturity Date	Fair Value
U.S. Treasury Bill	7/6/2006	\$1,848,781
U.S. Treasury Bill	7/27/2006	1,852,156
		<hr/>
		\$3,700,937

Interest Rate Risk

Interest rate risk is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates. The Board does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Custodial Credit Risk Related to Investments

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 that are in the possession of an outside party. All of the Board's investments are held in the name of the Board.

City of Grand Haven Board of Light and Power

Notes to Financial Statements

Credit Risk

State statutes authorize the Board to invest in obligations and certain repurchase agreements of the U.S. Treasury and related governmental agencies, commercial paper rated prime at the time of purchase and maturing no more than 270 days from the date of purchase, bankers acceptances and certificates of deposit issued or created by any state or national bank insured with the applicable federal agency, investment pools authorized by the Surplus funds Investment Pool Act and mutual funds composed entirely of the above investments. The Revenue Bond Resolution provides additional restrictions on the Board's investment choices.

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of the Board's investment in a single user. The Board will minimize concentration of credit risk by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized.

3. Property, Plant and Equipment

A summary of fixed assets is as follows:

<i>June 30,</i>	2006	2005	Depreciable Life - Years
Steam production	\$ 85,533,033	\$81,702,528	10-50
Diesel production	5,581,306	5,577,060	10-33
Transmission and distribution plan	27,771,420	27,034,974	16-40
General plant	1,360,333	1,322,245	5-30
Construction in progress	3,258,516	4,294,111	-
Total Cost	123,504,608	119,930,918	
Less accumulated depreciation	(80,046,838)	(76,691,026)	
Net Carrying Amount	\$ 43,457,770	\$43,239,892	

City of Grand Haven Board of Light and Power

Notes to Financial Statements

4. Restricted Assets

Restricted assets consist of the following:

<i>June 30,</i>	2006	2005
Bond and interest redemption account –		
Cash and cash equivalents	\$ 1,500,812	\$ 5,882,049
Debt service reserve account –		
Cash and cash equivalents	4,436	1,857,125
United States Treasury bills & notes	3,700,937	1,847,756
Interest receivable	81,386	34,830
Total revenue bond restricted assets	5,287,571	9,621,760
Less current liabilities payable from restricted assets		
Debt principal payable	-	4,145,000
Accrued interest payable	1,500,812	1,737,030
Total current liabilities payable from restricted assets	1,500,812	5,882,030
Total Net Restricted Assets	\$ 3,786,759	\$ 3,739,730

These assets are restricted pursuant to the Revenue Resolution for revenue bond debt service. Net assets are reserved for the purpose noted above.

City of Grand Haven Board of Light and Power

Notes to Financial Statements

5. Long-Term Debt Outstanding Debt

Long-term debt outstanding is as follows:

<i>June 30,</i>	2006	2005
1993 Electric System Revenue Refunding Bonds (net of discount and loss on refunding)	\$ 9,290,080	\$ 17,627,079
2003 Electric System Revenue Refunding Bonds (net of premium and loss on refunding)	44,658,034	44,193,020
	53,948,114	61,820,099
Less current portion payable from restricted assets	-	(4,145,000)
Long-Term Portion	\$ 53,948,114	\$ 57,675,099

Changes in Long-Term Debt

The following is a summary of long-term debt transactions for the years ended June 30, 2006 and 2005:

<i>Years ended June 30,</i>	2006	2005
Long-term debt – Beginning of year	\$ 61,820,099	\$ 65,060,159
Debt retired	(8,515,000)	(3,935,000)
Premium amortization	(340,584)	(330,167)
Amortization of loss on refunding	983,599	1,025,107
Long-Term Debt – End of Year	\$ 53,948,114	\$ 61,820,099

City of Grand Haven Board of Light and Power

Notes to Financial Statements

Debt Service Requirements

The approximate amount of annual total principal and interest to service debt outstanding as of June 30, 2006, excluding unamortized discount on bonds payable, is as follows:

<i>Years ended June 30,</i>	Principal	Interest
2007	\$ -	\$ 3,132,145
2008	4,610,000	3,035,426
2009	4,865,000	2,793,402
2010	4,920,000	2,291,988
2011	5,180,000	2,032,988
2012-2016	30,540,000	5,482,388
2017	7,210,000	-
	\$57,325,000	\$18,768,337

Revenue Bonds

Covenants of the Revenue Bond Resolution provide for, among other things, guidance on rate setting (requires anticipation of debt coverage ratio), various restrictions on the transfer of funds, issuance of additional debt, creation of liens and the sale and lease of property.

Interest

Total interest costs of \$3,262,665 and \$3,474,061 were incurred for the years ended June 30, 2006 and 2005, respectively, before considering the amortization of the loss on refunding.

6. Related-Party Transactions

City-owned facilities are users of Board electric services. The Board includes the sale of such services in its revenue charges. The Board is required to pay five percent of gross retail sales to the City under provisions of the City Charter.

City of Grand Haven Board of Light and Power

Notes to Financial Statements

A summary of related-party transactions with the City is as follows:

<i>Years ended June 30,</i>	2006	2005
Operating revenue from City-owned facilities	\$ 765,597	\$ 709,211
Operating expense – Statutory charge	1,158,342	1,032,176
Accounts receivable	87,063	76,693
Accounts payable	201,772	150,956

7. Commitments

During 2006, the Board entered into a coal purchase agreement to purchase 117,500 tons of coal at fixed prices prior to December 31, 2006. At June 30, 2006, approximately 27,000 tons of coal had been purchased under this agreement.

Amounts required to complete various construction projects are not material to the financial statements.

8. Post-Employment Benefits

The City and the Board provide health care benefits to retirees in accordance with the pension ordinance; currently 10 Board retirees are eligible. These benefits are paid annually and totaled approximately \$214,000 and \$184,000 during the years ended June 30, 2006 and 2005, respectively. The amount of health care benefits related to Board retirees is not readily determinable.

9. Joint Venture

The Board has entered into a joint venture, the Michigan Public Power Agency (MPPA), with 13 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. Complete financial statements for the Michigan Public Power Agency can be obtained from the administrative offices at 809 Centennial Way, Lansing, Michigan 48917.

City of Grand Haven Board of Light and Power

Notes to Financial Statements

The MPPA operates various projects. The Board participates in the power pool project and the transmission project. During 2006 and 2005, the Board had the following activity with the MPPA:

<i>Years ended June 30,</i>	2006	2005
Sales	\$ 5,047,271	\$ 4,977,329
Purchases	987,964	346,839
Receivables	979,376	666,380

The Board is unaware of any circumstances that would cause an additional benefit or burden to the participating governments in the near future.

10. Defined Benefit Pension Plan

Plan Description

The Board participates with the City of Grand Haven in the Michigan Municipal Employee Retirement System (MMERS), a defined benefit pension plan (Plan) that covers all employees of the City. The system provides retirement, disability and death benefits to Plan members and their beneficiaries. The MMERS issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to the MMERS at 447 N. Canal Rd., Lansing, MI 48917.

City of Grand Haven Board of Light and Power

Notes to Financial Statements

Funding Policy

The obligation to contribute and maintain the system for these employees was established by negotiation with the Board's collective bargaining unit (union employees) and resolution of the City of Grand Haven (non-union employees). Due to a decrease in the actuarial determined funding level, the Board was required to contribute to the Plan, effective July 1, 2003, .03% of compensation paid to union employees. Beginning October 1, 2003, pursuant to the union contract, union employees were required to contribute 2% of their compensation to the Plan. Effective August 28, 2005, the percentage for union employees increased to 5.5%. Beginning July 1, 2005, non-union employees were also required to contribute 2% of their compensation to the Plan. The Board matches the 2% and 5.5% contributions. The employee and Board contributions to the Plan for the year ended June 30, 2006 was \$132,785.

Three-Year Trend Information

Funding information for the Board of Light and Power's participation in the pension plan is as follows:

<i>Years ended June 30,</i>	2006	2005	2004
Annual Pension Cost (APC)	\$ 134,335	\$ 40,251	\$ 30,130
Percentage of APC contributed	100%	100%	100%
Net pension obligation	\$ 134,335	None	None

City of Grand Haven Board of Light and Power

Notes to Financial Statements

11. Risk Management

The Board is exposed to various risks of loss related to property loss, torts, errors and omissions and employee injuries (workers' compensation), as well as medical benefits provided to employees. As a component unit of the City, the Board is partially uninsured for health claims and has purchased commercial insurance for coverage related to claims in excess of certain stop-loss limits. The Board also participates in the Michigan Municipal League risk pool for workers' compensation and with the Michigan Professional Insurance Authority for other types of insurance including general and property insurance. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

The Michigan Municipal League risk pool program operates as a common risk-sharing management program for local units of government in Michigan. Member premiums are used to purchase commercial excess insurance coverage and to pay member claims in excess of deductible amounts.

The City estimates the liability for health claims that have been incurred through the end of the fiscal year, including both those claims that have been reported as well as those that have not yet been reported. These estimates are recorded in the City's Health Benefits Internal Service Fund.

During fiscal year 2004, the Board entered into the Michigan Professional Insurance Authority (the "Authority") to account for and finance its uninsured risks of loss. Under this program, the Authority provides for coverage for up to a maximum of \$100,000 for each general liability claim and \$250,000 for each property damage claim. The Board purchases commercial insurance for claims in excess of coverage provided by the Authority for all other risks of loss. Settled claims have not exceeded this commercial coverage in the past two fiscal years.

City of Grand Haven Board of Light and Power

Notes to Financial Statements

All participants in the Authority make payments to the Authority based on experience estimates of the amounts needed to pay prior and current year claims.

		Current Year		
	Beginning of Year Liability	Premium Equivalent Costs	Premium Equivalent Payments	Balance at Year End
2006	\$ -	\$ 835,000	\$835,000	\$ -
2005	-	835,000	835,000	-

12. Deferred Revenue

Each year, the Board is allocated 1,484 S02 allowances from the Environmental Protection Agency, which are fully marketable commodities. One allowance authorizes the Board to emit one ton of S02 during a given year or any year thereafter. As the Board did not anticipate utilizing all of the allowances granted to it in future years, in 2003 the Board sold 6,900 future allowances, which is reflected in the financial statements as deferred revenue. As the allowances are granted in future years, approximately \$154,000 of deferred revenue will be recognized in each of the next 4 fiscal years.

13. Debt Defeasance

During the year ended June 30, 2006, the Board defeased a bond issue by creating a separate irrevocable trust fund that purchased U.S. government securities. The investment and fixed earnings from the investment are sufficient to fully service the defeased debt until the debt is called or matures. For financial reporting purposes, the debt has been considered defeased and therefore removed as a liability from the Board's Statements of Net Assets. As of June 30, 2006, the amount of defeased debt outstanding, but removed from the Statements of Net Assets amounted to \$4.37 million.

Supplemental Material



To the Board of Directors
City of Grand Haven Board of Light and Power
Grand Haven, Michigan

We have audited the financial statements of the City of Grand Haven Board of Light and Power for the years ended June 30, 2006 and 2005. Our audits were made for the purpose of forming opinions on the basic financial statements taken as a whole. The supplemental material as listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements of the City of Grand Haven Board of Light and Power. This information has been subjected to the procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Prudnia LaPres, PLLC

Muskegon, Michigan
August 10, 2006

City of Grand Haven Board of Light and Power

Statements of Operations - Detail

<i>Years ended June 30,</i>	2006	2005	Increase (Decrease)	Percent of Operating Revenue	
				2006	2005
Operating Revenue					
Residential sales	\$ 7,066,982	\$ 6,136,022	\$ 930,960	24.93	23.84
Commercial and industrial sales	15,182,022	13,657,770	1,524,252	53.57	53.06
Public street and highway lighting	351,198	324,956	26,242	1.24	1.26
Other sales to public authorities	566,647	524,765	41,882	2.00	2.04
Sales for resale	5,047,271	4,977,329	69,942	17.81	19.33
Forfeited discounts	86,311	77,673	8,638	0.30	0.30
Rental income	37,810	37,876	(66)	0.13	0.15
Miscellaneous services	4,850	5,250	(400)	0.02	0.02
Total Operating Revenue	28,343,091	25,741,641	2,601,450	100.00	100.00
Operating Expenses					
Power production	18,309,802	13,283,468	5,026,334	64.60	51.60
Distribution	1,380,403	1,384,060	(3,657)	4.87	5.38
Customer accounts	496,568	455,939	40,629	1.75	1.77
Administrative and general	1,509,453	1,465,728	43,725	5.33	5.70
Depreciation	3,453,677	3,383,657	70,020	12.19	13.14
Statutory charge	1,158,342	1,032,176	126,166	4.09	4.01
Total Operating Expenses	26,308,245	21,005,028	5,303,217	92.83	81.60
Operating Income	2,034,846	4,736,613	(2,701,767)	7.17	18.40

City of Grand Haven Board of Light and Power

Statements of Operations - Detail

<i>Years ended June 30,</i>	2006	2005	Increase (Decrease)	Percent of Operating Revenue	
				2006	2005
Non-Operating Income					
(Expenses) – Net					
Interest earned on investments					
Operating fund	\$ 741,953	\$ 469,070	\$ 272,883	2.62	1.82
Debt service reserve	143,704	82,891	60,813	0.51	0.32
Amortization of debt discounts and issue costs	275,244	261,890	13,354	0.97	1.02
Gain on investments	-	1,231	(1,231)	-	-
Interest expense					
Bond	(4,246,264)	(4,499,167)	252,903	(14.98)	(17.48)
Deposits	(4,203)	(3,914)	(289)	(0.01)	(0.01)
Gain (loss) on sale of assets	(7,584)	386	(7,970)	(0.03)	-
Emission allowances	164,493	227,798	(63,305)	0.58	0.89
Miscellaneous	7,243	6,248	995	0.03	0.02
Total Non-Operating Expenses – Net	(2,925,414)	(3,453,567)	528,153	(10.31)	(13.42)
Net Income (Loss)	\$ (890,568)	\$ 1,283,046	\$ (2,173,614)	(3.14)	4.98

City of Grand Haven Board of Light and Power

Schedules of Operating Expenses

<i>Years ended June 30,</i>	2006	2005	Increase (Decrease)	Percent of Operating Revenue	
				2006	2005
Power Production Expenses					
Steam expense					
Operation					
Supervision and engineering	\$ 65,248	\$ 62,716	\$ 2,532	0.23	0.24
Vacation, sick and holiday pay	227,213	218,369	8,844	0.80	0.85
Employee fringe benefit	715,843	598,314	117,529	2.53	2.33
Fuel and fuel handling	12,521,177	8,744,595	3,776,582	44.18	33.97
Steam	529,782	486,900	42,882	1.87	1.89
Scrubber	329,160	284,287	44,873	1.16	1.10
Electric plant	282,996	304,450	(21,454)	1.00	1.18
Other	289,157	228,505	60,652	1.02	0.89
Total Operation	14,960,576	10,928,136	4,032,440	52.79	42.45
Maintenance					
Supervision	44,556	38,615	5,941	0.16	0.15
Structures	24,923	74,666	(49,743)	0.09	0.29
Boiler plant	966,832	756,811	210,021	3.41	2.94
Scrubber	490,743	318,233	172,510	1.73	1.23
Electric plant	4,057	17,434	(13,377)	0.01	0.07
Miscellaneous	48,299	43,102	5,197	0.17	0.17
Total Maintenance	1,579,410	1,248,861	330,549	5.57	4.85
Total Steam Expense	16,539,986	12,176,997	4,362,989	58.36	47.30

City of Grand Haven Board of Light and Power

Schedules of Operating Expenses

<i>Years ended June 30,</i>	2006	2005	Increase (Decrease)	Percent of Operating Revenue	
				2006	2005
Power Production Expense					
Diesel expense					
Operation					
Supervision and engineering	\$ 3,434	\$ 3,300	\$ 134	0.01	0.01
Vacation, sick and holiday pay	17,350	18,736	(1,386)	0.06	0.07
Employee fringe benefit:	57,295	48,970	8,325	0.20	0.19
Fuel					
Oil	60,646	95,388	(34,742)	0.21	0.37
Gas	19,616	14,650	4,966	0.07	0.06
Lubricants	-	3,435	(3,435)	-	0.01
Operating labor	47,797	5,688	42,109	0.17	0.02
Supplies and other expenses	81,641	67,634	14,007	0.29	0.27
Total Operation	287,779	257,801	29,978	1.01	1.00
Maintenance					
Structures	7,333	9,178	(1,845)	0.03	0.04
Engines	336,948	249,535	87,413	1.19	0.97
Total Maintenance	344,281	258,713	85,568	1.22	1.01
Total Diesel Expense	632,060	516,514	115,546	2.23	2.01
System control	119,384	76,323	43,061	0.42	0.30
Purchased power	816,176	346,839	469,337	2.88	1.35
Network transmission	202,196	166,795	35,401	0.71	0.64
Total Power Production Expense	18,309,802	13,283,468	5,026,334	64.60	51.60

City of Grand Haven Board of Light and Power

Schedules of Operating Expenses

<i>Years ended June 30,</i>	2006	2005	Increase (Decrease)	Percent of Operating Revenue	
				2006	2005
Distribution Expense					
Operation					
Supervision and engineering	\$ 171,465	\$ 168,633	\$ 2,832	0.61	0.65
Vacation, sick and holiday pay	105,289	101,844	3,445	0.37	0.39
Employee fringe benefit	244,770	210,896	33,874	0.86	0.82
Station expense	51,468	43,962	7,506	0.18	0.17
Overhead line expense					
Labor	196,584	198,209	(1,625)	0.69	0.77
Materials	17,099	2,175	14,924	0.06	-
Transportation expense	49,992	49,469	523	0.18	0.19
Underground line expense	56,031	48,378	7,653	0.20	0.19
Street lighting and signal system	23,715	25,155	(1,440)	0.08	0.10
Meter expense					
Labor	100,540	93,820	6,720	0.35	0.39
Other	20,199	16,858	3,341	0.07	0.06
Heating	5,488	12,764	(7,276)	0.02	0.05
Engineering supplies	20,587	14,204	6,383	0.07	0.06
Customer installation expense	47,991	44,209	3,782	0.17	0.17
Miscellaneous	63,410	91,112	(27,702)	0.22	0.35
Total Operation	1,174,628	1,121,688	52,940	4.13	4.36

City of Grand Haven Board of Light and Power

Schedules of Operating Expenses

<i>Years ended June 30,</i>	2006	2005	Increase (Decrease)	Percent of Operating Revenue	
				2006	2005
Distribution Expense					
Maintenance					
Tree trimming	\$ 186,823	\$ 274,932	\$ (88,109)	0.66	1.07
Building and substations	24,392	32,210	(7,818)	0.09	0.12
Overhead system	44,559	19,546	25,013	0.16	0.08
Underground system	2,013	1,429	584	0.01	-
Storm damage	11,449	(303)	11,752	0.04	-
Miscellaneous equipmen	342	139	203	-	-
Street lighting and signal system	7,976	2,097	5,879	0.03	0.01
Total Maintenance	277,554	330,050	(52,496)	0.99	1.28
Reimbursements	(71,779)	(67,678)	(4,101)	(0.25)	(0.26)
Total Distribution Expense	1,380,403	1,384,060	(3,657)	4.87	5.38
Customer Accounts Expense					
Operation					
Supervision	36,452	34,209	2,243	0.12	0.13
Vacation, sick and holiday pay	30,592	26,708	3,884	0.11	0.10
Employee fringe benefit	100,953	88,100	12,853	0.36	0.34
Meter reading	93,365	89,382	3,983	0.33	0.35
Customer records and collection	213,800	207,777	6,023	0.75	0.81
Uncollectible accounts – ne	21,402	9,819	11,583	0.08	0.04
Miscellaneous	4	(56)	60	-	-
Total Customer Accounts Expense	496,568	455,939	40,629	1.75	1.77

City of Grand Haven Board of Light and Power

Schedules of Operating Expenses

<i>Years ended June 30,</i>	2006	2005	Increase (Decrease)	Percent of Operating Revenue	
				2006	2005
Administrative and General Expense					
Operation					
Administrative and general salaries	\$ 270,591	\$ 258,785	\$ 11,806	0.95	1.00
Vacation, sick and holiday pay	44,052	38,414	5,638	0.15	0.15
Employee fringe benefit	98,396	81,124	17,272	0.35	0.32
Office supplies and expenses	58,813	49,805	9,008	0.21	0.19
Outside service	55,622	56,933	(1,311)	0.20	0.22
Insurance	838,000	835,000	3,000	2.96	3.25
Advertising	14,703	10,675	4,028	0.05	0.04
Franchise requirement	18,258	18,107	151	0.06	0.07
Maintenance	18,426	22,126	(3,700)	0.07	0.09
Sundry	92,592	94,759	(2,167)	0.33	0.37
Total Administrative and General Expense	1,509,453	1,465,728	43,725	5.33	5.70
Depreciation Expense					
Steam production	2,538,064	2,442,938	95,126	8.95	9.49
Diesel production	92,469	94,362	(1,893)	0.33	0.37
Transmission and distribution plant	770,303	747,887	22,416	2.72	2.90
General plant	52,841	98,470	(45,629)	0.19	0.38
Total Depreciation Expense	3,453,677	3,383,657	70,020	12.19	13.14
Statutory Charge	1,158,342	1,032,176	126,166	4.09	4.01
Total Operating Expenses	\$ 26,308,245	\$ 21,005,028	\$ 5,303,217	92.83	81.60

Assets				
	Balance July 1, 2005	Additions and Transfers	Sales, Transfers and Retirements	Balance June 30, 2006
Steam production	\$ 81,702,528	\$3,839,198	\$ 8,693	\$ 85,533,033
Diesel production	5,577,060	4,246	-	5,581,306
Transmission and distribution plant	27,034,974	833,452	97,006	27,771,420
General plant	1,322,245	38,088	-	1,360,333
Subtotal	115,636,807	4,714,984	105,699	120,246,092
Construction in progress	4,294,111	3,679,389	4,714,984	3,258,516
Total Property, Plant and Equipment	\$ 119,930,918	\$8,394,373	\$4,820,683	\$ 123,504,608

City of Grand Haven Board of Light and Power

Schedule of Property, Plant and Equipment



Accumulated Depreciation				
Balance July 1, 2005	Additions and Transfers	Sales, Transfers and Retirements	Balance June 30, 2006	Net Amounts June 30, 2006
\$ 56,978,782	\$2,538,064	\$ 8,693	\$ 59,508,153	\$ 26,024,880
4,896,456	92,469	-	4,988,925	592,381
13,769,741	770,303	89,172	14,450,872	13,320,548
1,046,047	52,841	-	1,098,888	261,445
76,691,026	3,453,677	97,865	80,046,838	40,199,254
-	-	-	-	3,258,516
\$ 76,691,026	\$3,453,677	\$97,865	\$ 80,046,838	\$ 43,457,770

City of Grand Haven Board of Light and Power

Schedule of Long-Term Debt Maturity

	Interest Rate (Percent)	Date of Maturity	Annual Maturity	Principal Outstanding	
				2006	2005
Amount of issue - \$86,160,000					
Date of issue – July 1, 1993	5.10	7/1/2005	4,145,000	\$ -	\$ 4,145,000
	5.20	7/1/2006	4,370,000	-	4,370,000
	5.25	7/1/2007	4,610,000	4,610,000	4,610,000
	5.25	7/1/2008	4,865,000	4,865,000	4,865,000
Total face value				9,475,000	17,990,000
Less unamortized discount				(37,095)	(72,803)
Less unamortized loss on refunding				(147,825)	(290,118)
Total				\$ 9,290,080	\$ 17,627,079
Amount of issue - \$47,850,000					
Date of issue – April 3, 2003	5.00	7/1/2009	4,920,000	\$ 4,920,000	\$ 4,920,000
	5.00	7/1/2010	5,180,000	5,180,000	5,180,000
	5.25	7/1/2011	5,455,000	5,455,000	5,455,000
	5.25	7/1/2012	5,765,000	5,765,000	5,765,000
	5.25	7/1/2013	6,085,000	6,085,000	6,085,000
	5.50	7/1/2014	6,430,000	6,430,000	6,430,000
	5.50	7/1/2015	6,805,000	6,805,000	6,805,000
	5.50	7/1/2016	7,210,000	7,210,000	7,210,000
Total face value				47,850,000	47,850,000
Plus unamortized premium				2,582,950	2,959,242
Less unamortized loss on refunding				(5,774,916)	(6,616,222)
Total				\$ 44,658,034	\$ 44,193,020

City of Grand Haven Board of Light and Power

Schedules of Debt Service Coverage Ratio

<i>Years ended June 30,</i>	2006	2005
Operating Revenue	\$ 28,343,091	\$ 25,741,641
Operating Expenses	26,308,245	21,005,028
Operating Income	2,034,846	4,736,613
Non-Operating Expense – Net	2,925,414	3,453,567
Net Income (Loss)	(890,568)	1,283,046
Reconciliation of Net Income (Loss) to Net Revenue		
Under the Resolution		
Add		
Depreciation	3,453,677	3,383,657
Statutory charge	1,158,342	1,032,176
Bond interest expense	4,246,264	4,499,167
Amortization of debt discounts and issue costs	(275,244)	(261,890)
Gain on investments	-	(1,231)
Total Additions	8,583,039	8,651,879
Deduct – interest income		
Debt service reserve	143,704	82,891
Net Revenue Under the Resolution	\$ 7,548,767	\$ 9,852,034
Aggregate Debt Service		
Debt service	\$ 3,132,145	\$ 7,619,061
Less interest income on debt service	(143,704)	(82,891)
Aggregate Debt Service Under the Resolution	\$ 2,988,441	\$ 7,536,170
Ratio of Aggregate Debt Service to Net Revenue	2.53	1.31