

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

**Financial Report with
Additional Information**
Years Ended June 30, 2007 and 2006

City of Grand Haven Board of Light and Power

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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, 2007 and 2006, 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, 2007 and 2006, 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.



Muskegon, Michigan
October 10, 2007

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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, 2007. 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.

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City of Grand Haven Board of Light and Power

Statements of Net Assets

<i>June 30,</i>	2007	2006
Assets		
Current Assets		
Cash and cash equivalents (Note 2)	\$ 8,831,517	\$10,695,728
Accrued interest receivable	29,043	44,216
Accounts receivable	4,130,873	3,247,368
Inventories	5,044,288	4,043,390
Prepaid expenses and other	57,573	24,659
Total Current Assets	18,093,294	18,055,361
Restricted Assets (Note 4)	12,321,757	5,287,571
Property, Plant and Equipment – Net (Note 3)	46,501,263	43,457,770
Deferred Charges – Unamortized debt issue costs (Note 1)	376,733	389,830
Total Assets	77,293,047	67,190,532
Liabilities		
Current Liabilities		
Accounts payable	2,881,139	1,242,398
Accruals		
Compensation	442,123	388,006
Other	467,042	383,675
Deferred revenue (Note 12)	158,000	170,000
Total Current Liabilities	3,948,304	2,184,079
Current Liabilities Payable from Restricted Assets (Note 4)	6,160,495	1,500,812
Deferred Revenue (Note 12)	319,254	463,396
Long-Term Debt - Revenue Bonds (Note 5)	52,394,544	53,948,114
Total Liabilities	62,822,597	58,096,401
Net Assets		
Unrestricted	8,309,188	5,307,372
Restricted (Note 4)	6,161,262	3,786,759
Total Net Assets	\$14,470,450	\$ 9,094,131

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>	2007	2006
Operating Revenue		
Residential sales	\$ 7,918,689	\$ 7,066,982
Commercial and industrial sales	16,758,796	15,182,022
Public street and highway lighting	394,224	351,198
Other sales to public authorities	626,739	566,647
Sales for resale	8,175,020	5,047,271
Forfeited discounts	82,645	86,311
Rental income	38,398	37,810
Miscellaneous service	4,500	4,850
Total Operating Revenue	33,999,011	28,343,091
Operating Expenses		
Power production	19,452,075	18,309,802
Distribution	1,428,004	1,380,403
Customer accounts	491,378	496,568
Administrative and general	1,586,968	1,509,453
Depreciation	3,669,499	3,453,677
Statutory charge (Note 6)	1,284,922	1,158,342
Total Operating Expenses	27,912,846	26,308,245
Operating Income	6,086,165	2,034,846
Non-Operating Income (Expenses) – Net		
Interest earned on investments		
Operating fund	643,916	741,953
Debt service reserve	182,649	143,704
Amortization of debt premium and issue costs	290,707	275,244
Interest expense		
Bond	(4,007,188)	(4,246,264)
Deposits	(4,502)	(4,203)
Loss on sale of assets	(4,144)	(7,584)
Emission allowances (Note 12)	169,855	164,493
Miscellaneous	8,864	7,243
Total Non-Operating Expenses – Net	(2,719,843)	(2,925,414)
Net Income (Loss) Before Transfers	3,366,322	(890,568)
Transfers in	2,009,997	-
Net Income	5,376,319	(890,568)
Net Assets – Beginning of year	9,094,131	9,984,699
Net Assets – End of year	\$ 14,470,450	\$ 9,094,131

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>	2007	2006
Cash Flows from Operating Activities		
Operating income	\$ 6,086,165	\$ 2,034,846
Adjustments to reconcile operating income to net cash from operating activities		
Depreciation	3,669,499	3,453,677
Bad debt expense	10,557	21,402
Changes in assets and liabilities		
Accounts receivable	(894,062)	(744,196)
Inventories	(1,000,898)	(537,366)
Prepaid expenses and other current assets	(32,914)	6,268
Accounts payable	1,638,741	(344,768)
Deferred revenue	(156,142)	(139,588)
Accrued compensation	54,117	46,086
Other accrued liabilities	133,050	(228,235)
Net cash provided by operating activities	9,508,113	3,568,126
Cash Flows from Capital and Related Financing Activities		
Principal and interest paid on long-term debt	(3,124,493)	(11,781,868)
Proceeds from borrowings on long-term debt	2,473,037	-
Purchase of capital assets	(6,717,646)	(3,679,389)
Transfers in	2,009,997	-
Proceeds from sale of assets	510	250
Other income	178,719	171,736
Net cash used for capital and related financing activities	(5,179,876)	(15,289,271)
Cash Flows from Investing Activities		
Interest received on investments	631,301	712,274
Purchase of investment securities	(11,370,534)	(9,529,208)
Proceeds from sale and maturities of investment securities	11,500,000	7,795,000
Net cash provided by (used for) investing activities	760,767	(1,021,934)
Net Increase (Decrease) in Cash and Cash Equivalents	5,089,004	(12,743,079)
Cash and Cash Equivalents – Beginning of year	12,200,976	24,944,055
Cash and Cash Equivalents – End of year	\$17,289,980	\$12,200,976

City of Grand Haven Board of Light and Power

Statements of Cash Flows

<i>Years ended June 30,</i>	2007	2006
Balance Sheet Classification of Cash and Cash Equivalents		
Cash and cash equivalents	\$ 8,831,517	\$10,695,728
Restricted assets (Note 4)	8,458,463	1,505,248
Total	\$17,289,980	\$12,200,976

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, Michigan (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 \$1,618,263 of the Electric System Revenue Bonds are being amortized over the life of the issue by the interest method. Amortization expense aggregated \$64,878 and \$65,340 for the years ended June 30, 2007 and 2006, respectively. Accumulated amortization was \$1,241,530 and \$1,176,652 at June 30, 2007 and 2006, 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, 2007 and 2006 are included on the balance sheet under the following classifications:

	2007		2006	
	Cash and Cash Equivalents	Restricted Assets	Cash and Cash Equivalents	Restricted Assets
Deposits	\$ 8,831,517	\$ 8,458,463	\$10,695,728	\$ 1,505,248
Investments	-	3,800,022	-	3,700,937
Total	\$ 8,831,517	\$ 12,258,485	\$10,695,728	\$ 5,206,185

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 \$17,265,187 and \$12,781,026 in 2007 and 2006, respectively. Of that amount, up to \$400,000 and \$300,000 was covered by federal depository insurance in 2007 and 2006, 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, 2007, \$16,865,187 of the Board's bank balances of \$17,265,187 were exposed to custodial credit risk as follows:

Uninsured and uncollateralized	\$16,865,187
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Investments

At June 30, 2007, the Board had the following investments:

Investment	Maturity Date	Fair Value
U.S. Treasury Bill	7/5/2007	\$1,898,303
U.S. Treasury Bill	10/25/2007	1,901,719
		<hr/>
		\$3,800,022

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>	2007	2006	Depreciable Life - Years
Steam production	\$ 91,541,950	\$ 85,533,033	10-50
Diesel production	6,187,831	5,581,306	10-33
Transmission and distribution plant	28,627,799	27,771,420	16-40
General plant	1,380,219	1,360,333	5-30
Construction in progress	2,461,062	3,258,516	-
Total Cost	130,198,861	123,504,608	
Less accumulated depreciation	(83,697,598)	(80,046,838)	
Net Carrying Amount	\$ 46,501,263	\$ 43,457,770	

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>	2007	2006
<hr/>		
Bond and interest redemption account –		
Cash and cash equivalents	\$ 6,218,853	\$ 1,500,812
Debt service reserve account –		
Cash and cash equivalents	418	4,436
United States Treasury bills & notes	3,800,022	3,700,937
Construction account –		
Cash and cash equivalents	2,239,192	-
Interest receivable	63,272	81,386
<hr/>		
Total revenue bond restricted assets	12,321,757	5,287,571
Less current liabilities payable from restricted assets		
Debt principal payable	4,610,000	-
Accrued interest payable	1,550,495	1,500,812
<hr/>		
Total current liabilities payable from restricted assets	6,160,495	1,500,812
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Total Net Restricted Assets	\$ 6,161,262	\$ 3,786,759
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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>	2007	2006
1993 Electric System Revenue Refunding Bonds (net of discount and loss on refunding)	\$ 9,412,264	\$ 9,290,080
2003 Electric System Revenue Refunding Bonds (net of premium and loss on refunding)	45,123,048	44,658,034
2007 Electric System Revenue Refunding Bonds (net of premium)	2,469,232	-
	57,004,544	53,948,114
Less current portion payable from restricted assets	(4,610,000)	-
Long-Term Portion	\$ 52,394,544	\$ 53,948,114

Changes in Long-Term Debt

The following is a summary of long-term debt transactions for the years ended June 30, 2007 and 2006:

<i>Years ended June 30,</i>	2007	2006
Long-term debt – Beginning of year	\$ 53,948,114	\$ 61,820,099
Debt retired	-	(8,515,000)
Debt issued	2,400,000	-
Premium on debt issued	73,037	-
Premium amortization	(355,586)	(340,584)
Amortization of loss on refunding	938,979	983,599
Long-Term Debt – End of Year	\$ 57,004,544	\$ 53,948,114

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, 2007, excluding unamortized discount on bonds payable, is as follows:

<i>Years ended June 30,</i>	Principal	Interest
2008	\$ 4,610,000	\$ 3,120,896
2009	5,045,000	2,895,175
2010	5,120,000	2,386,163
2011	5,430,000	2,118,163
2012	5,720,000	1,821,475
2013-2017	33,800,000	3,923,651
	<u>\$59,725,000</u>	<u>\$ 16,265,523</u>

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 \$3,068,209 and \$3,262,665 were incurred for the years ended June 30, 2007 and 2006, 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>	2007	2006
Operating revenue from City-owned facilities	\$ 849,984	\$ 765,597
Operating expense – Statutory charge	1,284,922	1,158,342
Accounts receivable	317,058	87,063
Accounts payable	198,729	201,772

7. Commitments

During 2007, the Board entered into various coal purchase agreements to purchase 324,500 tons of coal at fixed prices ending on various dates through December 31, 2008. The Board has the unilateral right to reduce or increase deliveries by approximately 15,000 tons of coal during both the 2007 and 2008 term, but only if the Board provides written notice to the seller, not later than August 1, 2007 or August 1, 2008 as the case may be, as to its decision to reduce or increase said deliveries. At June 30, 2007, approximately 43,500 tons of coal had been purchased under these agreements.

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 \$18,000 and \$26,000 during the years ended June 30, 2007 and 2006, respectively.

City of Grand Haven Board of Light and Power

Notes to Financial Statements

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.

The MPPA operates various projects. The Board participates in the power pool project and the transmission project. During 2007 and 2006, the Board had the following activity with the MPPA:

<i>Years ended June 30,</i>	2007	2006
Sales	\$ 8,044,926	\$ 5,047,271
Purchases	1,074,652	987,964
Receivables	1,163,428	979,376

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%. Effective July 1, 2006, the percentage for union employees decreased to 4%. Beginning July 1, 2005, non-union employees were also required to contribute 2% of their compensation to the Plan. The Board contributes 8.07% for union employees and 2.77% for non-union employees. The employee and Board contributions to the Plan for the year ended June 30, 2007 were \$122,515 and \$184,965, respectively.

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>	2007	2006	2005
Annual Pension Cost (APC)	\$ 871,712	\$ 134,335	\$ 40,251
Percentage of APC contributed	100%	100%	100%
Net pension obligation	\$ 871,712	\$ 134,335	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 four 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 three 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.

	Beginning of Year Liability	Current Year Premium Equivalent Costs	Premium Equivalent Payments	Balance at Year End
2007	\$ -	\$ 902,500	\$ 902,500	\$ -
2006	-	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 \$152,000 of deferred revenue will be recognized in each of the next 3 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. There were no amounts defeased as of June 30, 2007.

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, 2007 and 2006. 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.

A handwritten signature in black ink that reads "Rudnia Katus, PLLC". The signature is written in a cursive, flowing style.

Muskegon, Michigan
October 10, 2007

City of Grand Haven Board of Light and Power

Statements of Operations - Detail

<i>Years ended June 30,</i>	2007	2006	Increase (Decrease)	Percent of Operating Revenue	
				2007	2006
Operating Revenue					
Residential sales	\$ 7,918,689	\$ 7,066,982	\$ 851,707	23.29	24.93
Commercial and industrial sales	16,758,796	15,182,022	1,576,774	49.29	53.57
Public street and highway lighting	394,224	351,198	43,026	1.16	1.24
Other sales to public authorities	626,739	566,647	60,092	1.85	2.00
Sales for resale	8,175,020	5,047,271	3,127,749	24.05	17.81
Forfeited discounts	82,645	86,311	(3,666)	0.24	0.30
Rental income	38,398	37,810	588	0.11	0.13
Miscellaneous service	4,500	4,850	(350)	0.01	0.02
Total Operating Revenue	33,999,011	28,343,091	5,655,920	100.00	100.00
Operating Expenses					
Power production	19,452,075	18,309,802	1,142,273	57.21	64.60
Distribution	1,428,004	1,380,403	47,601	4.20	4.87
Customer accounts	491,378	496,568	(5,190)	1.45	1.75
Administrative and general	1,586,968	1,509,453	77,515	4.67	5.33
Depreciation	3,669,499	3,453,677	215,822	10.79	12.19
Statutory charge	1,284,922	1,158,342	126,580	3.78	4.09
Total Operating Expenses	27,912,846	26,308,245	1,604,601	82.10	92.83
Operating Income	6,086,165	2,034,846	4,051,319	17.90	7.17

City of Grand Haven Board of Light and Power

Statements of Operations - Detail

<i>Years ended June 30,</i>	2007	2006	Increase (Decrease)	Percent of Operating Revenue	
				2007	2006
Non-Operating Income					
(Expenses) – Net					
Interest earned on investments					
Operating fund	\$ 643,916	\$ 741,953	\$ (98,037)	1.89	2.62
Debt service reserve	182,649	143,704	38,945	0.54	0.51
Amortization of debt discounts and issue costs	290,707	275,244	15,463	0.86	0.97
Interest expense					
Bond	(4,007,188)	(4,246,264)	239,076	(11.79)	(14.98)
Deposits	(4,502)	(4,203)	(299)	(0.02)	(0.01)
Loss on sale of assets	(4,144)	(7,584)	3,440	(0.01)	(0.03)
Emission allowances	169,855	164,493	5,362	0.50	0.58
Miscellaneous	8,864	7,243	1,621	0.03	0.03
Total Non-Operating Expenses – Net	(2,719,843)	(2,925,414)	205,571	(8.00)	(10.31)
Net Income (Loss)					
Before Transfers	3,366,322	(890,568)	4,256,890	9.90	(3.14)
Transfers in	2,009,997	-	2,009,997	5.91	-
Net Income (Loss)	\$ 5,376,319	\$ (890,568)	\$ 6,266,887	15.81	(3.14)

City of Grand Haven Board of Light and Power

Schedules of Operating Expenses

<i>Years ended June 30,</i>	2007	2006	Increase (Decrease)	Percent of Operating Revenue	
				2007	2006
Power Production Expense					
Steam expense					
Operation					
Supervision and engineering	\$ 72,749	\$ 65,248	\$ 7,501	0.21	0.23
Vacation, sick and holiday pay	263,718	227,213	36,505	0.78	0.80
Employee fringe benefits	775,974	715,843	60,131	2.28	2.53
Fuel and fuel handling	12,069,794	12,521,177	(451,383)	35.50	44.18
Steam	473,498	529,782	(56,284)	1.39	1.87
Scrubber	390,661	329,160	61,501	1.15	1.16
Electric plant	297,234	282,996	14,238	0.87	1.00
Other	370,391	289,157	81,234	1.09	1.02
Total Operation	14,714,019	14,960,576	(246,557)	43.27	52.79
Maintenance					
Supervision	44,620	44,556	64	0.13	0.16
Structures	46,938	24,923	22,015	0.14	0.09
Boiler plant	1,968,994	966,832	1,002,162	5.79	3.41
Scrubber	571,837	490,743	81,094	1.68	1.73
Electric plant	180,071	4,057	176,014	0.53	0.01
Miscellaneous	64,089	48,299	15,790	0.19	0.17
Total Maintenance	2,876,549	1,579,410	1,297,139	8.46	5.57
Total Steam Expense	17,590,568	16,539,986	1,050,582	51.73	58.36

City of Grand Haven Board of Light and Power

Schedules of Operating Expenses

<i>Years ended June 30,</i>	2007	2006	Increase (Decrease)	Percent of Operating Revenue	
				2007	2006
Power Production Expense					
Diesel expense					
Operation					
Supervision and engineering	\$ 3,829	\$ 3,434	\$ 395	0.01	0.01
Vacation, sick and holiday pay	27,114	17,350	9,764	0.08	0.06
Employee fringe benefits	71,533	57,295	14,238	0.21	0.20
Fuel					
Oil	96,391	60,646	35,745	0.28	0.21
Gas	19,863	19,616	247	0.06	0.07
Operating labor	53,519	47,797	5,722	0.16	0.17
Supplies and other expenses	136,003	81,641	54,362	0.40	0.29
Total Operation	408,252	287,779	120,473	1.20	1.01
Maintenance					
Structures	12,737	7,333	5,404	0.04	0.03
Engines	192,642	336,948	(144,306)	0.57	1.19
Total Maintenance	205,379	344,281	(138,902)	0.61	1.22
Total Diesel Expense	613,631	632,060	(18,429)	1.81	2.23
System control	112,409	119,384	(6,975)	0.33	0.42
Purchased power	1,008,576	816,176	192,400	2.97	2.88
Network transmission	126,891	202,196	(75,305)	0.37	0.71
Total Power Production Expense	19,452,075	18,309,802	1,142,273	57.21	64.60

City of Grand Haven Board of Light and Power

Schedules of Operating Expenses

<i>Years ended June 30,</i>	2007	2006	Increase (Decrease)	Percent of Operating Revenue	
				2007	2006
Distribution Expense					
Operation					
Supervision and engineering	\$ 175,859	\$ 171,465	\$ 4,394	0.52	0.61
Vacation, sick and holiday pay	113,714	105,289	8,425	0.33	0.37
Employee fringe benefits	258,026	244,770	13,256	0.76	0.86
Station expense	36,037	51,468	(15,431)	0.11	0.18
Overhead line expense					
Labor	193,011	196,584	(3,573)	0.57	0.69
Materials	9,681	17,099	(7,418)	0.03	0.06
Transportation expense	61,696	49,992	11,704	0.18	0.18
Underground line expense	45,986	56,031	(10,045)	0.14	0.20
Street lighting and signal system	31,612	23,715	7,897	0.09	0.08
Meter expense					
Labor	102,662	100,540	2,122	0.30	0.35
Other	13,799	20,199	(6,400)	0.04	0.07
Heating	14,745	5,488	9,257	0.04	0.02
Engineering supplies	19,716	20,587	(871)	0.06	0.07
Customer installation expense	50,618	47,991	2,627	0.15	0.17
Miscellaneous	94,943	63,410	31,533	0.28	0.22
Total Operation	1,222,105	1,174,628	47,477	3.60	4.13

City of Grand Haven Board of Light and Power

Schedules of Operating Expenses

<i>Years ended June 30,</i>	2007	2006	Increase (Decrease)	Percent of Operating Revenue	
				2007	2006
Distribution Expense					
Maintenance					
Tree trimming	\$ 198,901	\$ 186,823	\$ 12,078	0.59	0.66
Building and substations	26,182	24,392	1,790	0.08	0.09
Overhead system	32,443	44,559	(12,116)	0.09	0.16
Underground system	970	2,013	(1,043)	-	0.01
Storm damage	657	11,449	(10,792)	-	0.04
Miscellaneous equipment	671	342	329	-	-
Street lighting and signal system	4,892	7,976	(3,084)	0.01	0.03
Total Maintenance	264,716	277,554	(12,838)	0.77	0.99
Reimbursements	(58,817)	(71,779)	12,962	(0.17)	(0.25)
Total Distribution Expense	1,428,004	1,380,403	47,601	4.20	4.87
Customer Accounts Expense					
Operation					
Supervision	37,579	36,452	1,127	0.11	0.12
Vacation, sick and holiday pay	31,488	30,592	896	0.09	0.11
Employee fringe benefits	97,505	100,953	(3,448)	0.29	0.36
Meter reading	102,279	93,365	8,914	0.30	0.33
Customer records and collection	211,912	213,800	(1,888)	0.63	0.75
Uncollectible accounts – net	10,557	21,402	(10,845)	0.03	0.08
Miscellaneous	58	4	54	-	-
Total Customer Accounts Expense	491,378	496,568	(5,190)	1.45	1.75

City of Grand Haven Board of Light and Power

Schedules of Operating Expenses

<i>Years ended June 30,</i>	2007	2006	Increase (Decrease)	Percent of Operating Revenue	
				2007	2006
Administrative and General Expense					
Operation					
Administrative and general salaries	\$ 283,318	\$ 270,591	\$ 12,727	0.83	0.95
Vacation, sick and holiday pay	44,514	44,052	462	0.13	0.15
Employee fringe benefits	89,466	98,396	(8,930)	0.26	0.35
Office supplies and expenses	50,780	58,813	(8,033)	0.15	0.21
Outside service	53,954	55,622	(1,668)	0.16	0.20
Insurance	902,500	838,000	64,500	2.66	2.96
Advertising	20,193	14,703	5,490	0.06	0.05
Franchise requirement	18,201	18,258	(57)	0.05	0.06
Maintenance	27,200	18,426	8,774	0.08	0.07
Sundry	96,842	92,592	4,250	0.29	0.33
Total Administrative and General Expense	1,586,968	1,509,453	77,515	4.67	5.33
Depreciation Expense					
Steam production	2,732,754	2,538,064	194,690	8.04	8.95
Diesel production	99,636	92,469	7,167	0.29	0.33
Transmission and distribution plant	787,061	770,303	16,758	2.31	2.72
General plant	50,048	52,841	(2,793)	0.15	0.19
Total Depreciation Expense	3,669,499	3,453,677	215,822	10.79	12.19
Statutory Charge	1,284,922	1,158,342	126,580	3.78	4.09
Total Operating Expenses	\$ 27,912,846	\$ 26,308,245	\$ 1,604,601	82.10	92.83

	Assets			
	Balance July 1, 2006	Additions and Transfers	Sales, Transfers and Retirements	Balance June 30, 2007
Steam production	\$ 85,533,033	\$ 6,019,340	\$ 10,423	\$ 91,541,950
Diesel production	5,581,306	606,525	-	6,187,831
Transmission and distribution plant	27,771,420	869,349	12,970	28,627,799
General plant	1,360,333	19,886	-	1,380,219
Subtotal	120,246,092	7,515,100	23,393	127,737,799
Construction in progress	3,258,516	6,717,646	7,515,100	2,461,062
Total Property, Plant and Equipment	\$ 123,504,608	\$14,232,746	\$7,538,493	\$ 130,198,861

City of Grand Haven Board of Light and Power

Schedule of Property, Plant and Equipment



Accumulated Depreciation				
Balance July 1, 2006	Additions and Transfers	Sales, Transfers and Retirements	Balance June 30, 2007	Net Amounts June 30, 2007
\$ 59,508,153	\$2,732,754	\$ 5,769	\$ 62,235,138	\$ 29,306,812
4,988,925	99,636	-	5,088,561	1,099,270
14,450,872	787,061	12,970	15,224,963	-
1,098,888	50,048	-	1,148,936	13,402,836
80,046,838	3,669,499	18,739	83,697,598	231,283
-	-	-	-	44,040,201
-	-	-	-	2,461,062
\$ 80,046,838	\$3,669,499	\$ 18,739	\$ 83,697,598	\$ 46,501,263

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	
				2007	2006
Amount of issue - \$86,160,000					
Date of issue – July 1, 1993	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	9,475,000
Less unamortized discount				(12,585)	(37,095)
Less unamortized loss on refunding				(50,151)	(147,825)
Total				\$ 9,412,264	\$ 9,290,080
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				2,206,658	2,582,950
Less unamortized loss on refunding				(4,933,610)	(5,774,916)
Total				\$ 45,123,048	\$ 44,658,034

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	
				2007	2006
Amount of issue - \$2,400,000					
Date of issue – March 9, 2007	4.00	7/1/2008	180,000	\$ 180,000	\$ -
	4.00	7/1/2009	200,000	200,000	-
	4.00	7/1/2010	250,000	250,000	-
	4.00	7/1/2011	265,000	265,000	-
	4.00	7/1/2012	275,000	275,000	-
	4.50	7/1/2013	285,000	285,000	-
	4.50	7/1/2014	300,000	300,000	-
	5.00	7/1/2015	315,000	315,000	-
	5.00	7/1/2016	330,000	330,000	-
Total face value				2,400,000	-
Plus unamortized premium				69,232	-
Total				\$ 2,469,232	\$ -

City of Grand Haven Board of Light and Power

Schedules of Debt Service Coverage Ratio

<i>Years ended June 30,</i>	2007	2006
Operating Revenue	\$ 33,999,011	\$ 28,343,091
Operating Expenses	27,912,846	26,308,245
Operating Income	6,086,165	2,034,846
Non-Operating Expense – Net	(2,719,843)	(2,925,414)
Transfers-In	2,009,997	-
Net Income (Loss)	5,376,319	(890,568)
Reconciliation of Net Income (Loss) to Net Revenue Under the Resolution		
Add		
Depreciation	3,669,499	3,453,677
Statutory charge	1,284,922	1,158,342
Bond interest expense	4,007,188	4,246,264
Amortization of debt discounts and issue costs	(290,707)	(275,244)
Total Additions	8,670,902	8,583,039
Deduct – interest income		
Debt service reserve	182,649	143,704
Transfers-in	2,009,997	-
Total Deductions	2,192,646	143,704
Net Revenue Under the Resolution	\$ 11,854,575	\$ 7,548,767
Aggregate Debt Service		
Debt service	\$ 7,678,208	\$ 3,132,145
Less interest income on debt service	(182,649)	(143,704)
Aggregate Debt Service Under the Resolution	\$ 7,495,559	\$ 2,988,441
Ratio of Aggregate Debt Service to Net Revenue	1.59	2.53