Grand Haven Board of Light and Power

Years Ended June 30, 2012 and 2011

Financial Statements and Supplementary Information

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Business wisdom delivered.

Grand Haven Board of Light and Power

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INDEPENDENT AUDITORS' REPORT

October 26, 2012

Board of Directors
Grand Haven Board of Light and Power
Grand Haven, Michigan

We have audited the accompanying financial statements of the ***Grand Haven Board of Light and Power*** (the "Board", an enterprise fund of the City of Grand Haven, Michigan), as of and for the years ended June 30, 2012 and 2011, as listed in the table of contents. These financial statements are the responsibility of the Grand Haven 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 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 audits provide a reasonable basis for our opinion.

As discussed in Note 1, the financial statements present only the Grand Haven Board of Light and Power and are not intended to present the financial position of the City of Grand Haven, Michigan, as of June 30, 2012 and 2011, and the changes in its financial position and cash flows where applicable, for the years 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 Grand Haven Board of Light and Power as of June 30, 2012 and 2011, and the respective changes in financial position and cash flows thereof for the years 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 October 26, 2012 on our consideration of the Grand Haven Board of Light and Power's 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.

Accounting principles generally accepted in the United States of America require that the Schedules of Funding Progress and Employer Contributions for the pension and other postemployment benefit plans as noted in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide assurance.

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

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Grand Haven Board of Light and Power's basic financial statements. The Management's Discussion and Analysis as noted in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

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MANAGEMENT'S DISCUSSION AND ANALYSIS

Grand Haven Board of Light and Power

Management's Discussion and Analysis (Unaudited)

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 years ending June 30, 2012 and 2011. 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 13,500 residential, commercial, and industrial customers in the City of Grand Haven and portions of the surrounding communities. The BLP generated 87 percent of its retail sales and 100 percent of its wholesale sales. The BLP purchased the balance of their energy requirements and made all wholesale sales through the Michigan Public Power Agency's Energy Services Project.

Condensed Financial Information

Net Assets

	June 30,		
	2012	**2011**	**2010**
Current and other assets	$ 28,984,786	$ 29,133,743	$ 29,388,226
Capital assets, net	36,416,791	39,388,703	42,042,055
Total assets	65,401,577	68,522,446	71,430,281
Long-term liabilities	33,133,288	38,541,346	43,608,163
Other liabilities	6,134,787	6,137,616	6,344,997
Total liabilities	39,268,075	44,678,962	49,953,160
Invested in capital assets, net	3,283,503	847,357	(1,566,108)
Restricted	8,716,847	8,546,157	8,438,552
Unrestricted	14,133,152	14,449,970	14,584,677
Total net assets	$ 26,133,502	$ 23,843,484	$ 21,457,121

Current & Other Assets decrease primarily due to decrease in Coal inventory due to timing of shipments and Accounts Receivable based on operations, partially offset by an increase in Cash also related to timing of shipments.

Property, Plant and Equipment decrease is a result of the depreciation expense exceeding new capital investment.

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

Other Liabilities decreased primarily due to a reduction in accounts payable payroll related to the timing of processing at fiscal year end, partially offset by the addition of recording a liability for sick accrual.

Results of Operations

	June 30, 2012	June 30, 2011	June 30, 2010
Operating revenue	$ 34,500,041	$ 35,750,670	$ 31,130,711
Operating expenses	(30,064,681)	(30,870,688)	(26,875,726)
Nonoperating expense, net	(2,145,342)	(2,493,619)	(2,571,269)
Net income	2,290,018	2,386,363	1,683,716
Beginning net assets	23,843,484	21,457,121	19,773,405
Ending net assets	$ 26,133,502	$ 23,843,484	$ 21,457,121

The decrease in operating revenue is primarily the result of a decrease in wholesale sales partially offset by a slight increase in retail sales. Retail kWh sales increased in Residential as well as Commercial and Industrial categories. An average rate increase of 2.4% in retail sales was effective July 1, 2011. Revenue from thermal energy related to snowmelt system operations was $25,520. A decrease in wholesale sales was the result of an unseasonably warm winter and low natural gas prices.

Fiscal 2012 did not include a scheduled outage. There was an unscheduled outage related to a boiler leak repair in July 2011.

The Energy Optimization Program and the Renewable Portfolio Standard Program both began in fiscal 2010. Revenue from surcharges billed to customers for Energy Optimization was $350,000 for fiscal 2012 while expenses incurred for the program were $245,000. Revenue from surcharges billed to customers for Renewable Portfolio Standard Program was $183,000. The BLP began purchasing power produced from landfill gas through the Granger Project at the Michigan Public Power Agency in July 2010.

Capital contributions - transfers in are funds received from the City of Grand Haven and are included in Operating Revenues.

Budget

The BLP approved a $30,154,300 operating expense budget for fiscal year 2012. Actual operating expenses were $30,064,680 or 0.3% under budget.

Management's Discussion and Analysis (Unaudited)

Capital Asset and Debt Administration

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. Total capital expenditures were $1,086,208 in fiscal year 2012, which was paid by internally generated funds and $144,795 by the 2007 bond issue.

Capital Assets
(net of depreciation)

	June 30,		
	2012	2011	2010
Land	$ 222,281	$ 222,281	$ 222,281
Construction in progress	304,184	396,722	853,943
Steam production	19,699,357	22,116,732	23,812,632
Diesel production	767,999	825,684	884,864
Transmission and distribution plant	15,200,395	15,680,494	16,126,403
General plant	222,575	146,790	141,932
Total	$ 36,416,791	$ 39,388,703	$ 42,042,055

Additional information on the BLP's capital assets can be found in note 4 of this report.

Long-term Debt

	June 30,		
	2012	2011	2010
2003 electric system refunding bonds	$ 32,295,000	$ 37,750,000	$ 42,930,000
2007 electric system bonds	1,505,000	1,770,000	2,020,000
Unamortized bond premium	571,647	838,678	1,149,401
Unamortized deferred loss on refunding	(1,238,359)	(1,817,332)	(2,491,238)
Total	$ 33,133,288	$ 38,541,346	$ 43,608,163

Additional information on the BLP's long-term debt can be found in note 6 of this report.

Next Year's Budget and Rates

The budget approved for the fiscal year 2013 reflects an average rate change of 4.8% for customers. Increased operating expenses dictate the need for the rate increase. There is a scheduled maintenance outage for fiscal 2013.

The capital improvement budget for next year includes several improvements to the generation and distribution systems.

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BASIC FINANCIAL STATEMENTS

Grand Haven Board of Light and Power

Statements of Net Assets

	June 30	
	2012	2011
Assets		
Current assets:		
Cash and cash equivalents	$ 11,289,983	$ 9,755,655
Receivables:		
Accounts	2,841,314	2,964,309
Interest	199	1,382
Inventories	5,058,722	6,593,216
Prepaid expenses and other current assets	75,688	78,121
Total current assets	19,265,906	19,392,683
Noncurrent assets:		
Restricted assets:		
Cash and cash equivalents	6,948,369	6,922,228
Investments	2,676,037	2,672,936
Interest receivable	529	7,574
Capital assets not being depreciated	526,465	619,003
Capital assets being depreciated, net	35,890,326	38,769,700
Unamortized bond issuance costs	93,945	138,322
Total noncurrent assets	46,135,671	49,129,763
Total assets	65,401,577	68,522,446
Liabilities		
Current liabilities:		
Accounts payable	3,745,967	3,759,767
Due to other funds of the City of Grand Haven	139,017	139,463
Due to component units of the City of Grand Haven	-	20,979
Accrued payroll and related benefits	716,093	587,643
Customer deposits	438,482	406,317
Unearned revenue	6,397	2,752
Current portion of bonds payable	5,782,237	5,408,060
Accrued interest payable from restricted assets	908,088	1,056,581
Total current liabilities	11,736,281	11,381,562
Noncurrent liabilities:		
Unearned revenue	14,643	21,040
Net other postemployment benefit obligation	166,100	143,074
Bonds payable - net of current portion	27,351,051	33,133,286
Total noncurrent liabilities	27,531,794	33,297,400
Total liabilities	39,268,075	44,678,962
Net assets		
Invested in capital assets, net of related debt	3,283,503	847,357
Restricted:		
Debt Service	8,716,847	8,401,362
Construction	-	144,795
Unrestricted	14,133,152	14,449,970
Total net assets	$ 26,133,502	$ 23,843,484

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

Grand Haven Board of Light and Power

Statements of Revenues, Expenses and Changes in Net Assets

	For the Year Ended June 30	
	2012	2011
Operating revenues		
Residential sales	$ 9,886,366	$ 10,085,490
Commercial and industrial sales	21,947,343	21,173,910
Public street and highway lighting	511,149	500,680
Other sales to public authorities	705,423	640,753
Sales for resale	1,273,652	3,019,281
Thermal energy	25,520	39,374
Forfeited discounts	99,891	105,127
Rental income	43,745	39,928
Capital contributions	4,702	144,752
Other services	2,250	1,375
Total operating revenues	34,500,041	35,750,670
Operating expenses		
Power production	19,501,223	20,796,850
Distribution	2,068,439	1,909,683
Customer accounts	937,843	880,021
Administrative and general	1,846,542	1,625,924
Depreciation	4,058,120	4,038,168
Statutory charge	1,652,514	1,620,042
Total operating expenses	30,064,681	30,870,688
Operating income	4,435,360	4,879,982
Nonoperating income (expense)		
Interest income	3,911	15,615
Interest expense	(2,173,701)	(2,528,377)
Gain on sale of capital assets	-	1,750
Emission allowances	2,770	1,858
Other revenue	21,678	15,535
Total nonoperating expense, net	(2,145,342)	(2,493,619)
Change in net assets	2,290,018	2,386,363
Net assets, beginning of year	23,843,484	21,457,121
Net assets, end of year	$ 26,133,502	$ 23,843,484

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

Grand Haven Board of Light and Power

Statements of Cash Flows

	For the Year Ended June 30	
	2012	2011
Cash flows from operating activities		
Receipts from customers and users	$ 34,607,316	$ 35,813,456
Payments to suppliers	(20,375,733)	(26,550,642)
Payments to employees	(3,910,839)	(3,595,098)
Net cash provided by operating activities	10,320,744	5,667,716
Cash flows from noncapital financing activities		
Emission allowances	2,770	1,858
Cash flows from capital and related financing activities		
Principal paid on long-term debt	(5,720,000)	(5,430,000)
Interest paid on long-term debt	(1,965,875)	(2,248,827)
Proceeds from sale of capital assets	-	215,261
Purchase of capital assets	(1,086,208)	(1,598,327)
Net cash used in capital and related financing activities	(8,772,083)	(9,061,893)
Cash flows from investing activities		
Cash received for interest	8,602	4,622
Purchases of investment securities	(9,647,564)	(10,778,485)
Proceeds from sale or maturities of investment securities	9,648,000	10,784,000
Net cash provided by investing activities	9,038	10,137
Net increase (decrease) in cash and cash equivalents	1,560,469	(3,382,182)
Cash and cash equivalents, beginning of year	16,677,883	20,060,065
Cash and cash equivalents, end of year	$ 18,238,352	$ 16,677,883
Statement of net assets classification of cash and cash equivalents		
Cash and cash equivalents	$ 11,289,983	$ 9,755,655
Restricted assets, cash and cash equivalents	6,948,369	6,922,228
Total cash and cash equivalents	$ 18,238,352	$ 16,677,883

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

Grand Haven Board of Light and Power

Statements of Cash Flows

	For the Year Ended June 30	
	2012	2011
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	$ 4,435,360	$ 4,879,982
Adjustments to reconcile operating income to net cash provided by operating activities		
Depreciation	4,058,120	4,038,168
Other revenue	21,678	15,535
Bad debt expense	34,646	10,316
Changes in operating assets and liabilities which provided (used) cash:		
Accounts receivable	88,349	49,109
Inventories	1,534,494	(3,248,761)
Prepaid expenses and other current assets	2,433	(3,752)
Accounts payable	(13,800)	(195,802)
Due to other funds of the City of Grand Haven	(446)	10,118
Due to component units of the City of Grand Haven	(20,979)	20,979
Accrued payroll and related	128,450	94,426
Customer deposits	32,165	(3,818)
Unearned revenue	(2,752)	(1,858)
Net other postemployment benefit obligation	23,026	3,074
Net cash provided by operating activities	$ 10,320,744	$ 5,667,716

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NOTES TO FINANCIAL STATEMENTS

Notes To Financial Statements

1. NATURE OF BUSINESS AND SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

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 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.

Basis of Presentation

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Board are charges to customers for sales and services. Operating expenses 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.

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

Assets, Liabilities and Equity

Cash and Cash Equivalents

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

Investments

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

Receivables

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

Inventories

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

Notes To Financial Statements

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 revenue bonds, as well as certain resources set aside for their repayment, are classified as restricted assets on the statements of net assets because they are maintained in separate accounts and their use is limited by applicable bond covenants. The Board has separate accounts used to: 1) report resources set aside to subsidize potential deficiencies from the Board's operation that could adversely affect debt service payments, (2) segregate resources accumulated for debt service payments over the next twelve months, (3) report resources set aside to make up potential future deficiencies in the revenue bond current debt service account and (4) report resources set aside to meet unexpected contingencies or to fund asset renewals and replacements.

Capital Assets

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

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

	Years
Steam production	5-50
Diesel production	5-33
Transmission and distribution plant	5-33
General plant	5-30

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

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

Compensated absences

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

Premiums and Unamortized Bond Issuance Costs

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

Bond issuance costs of $610,458 for the Electric System Revenue Bonds are being amortized over the life of the issue by the interest method. Amortization charged to interest expense amounted to $44,377 and $50,867 for the years ended June 30, 2012 and 2011, respectively. Accumulated amortization was $516,513 and $472,136 at June 30, 2012 and 2011, respectively.

Revenue Recognition

Revenue is recognized when customers are billed for services.

Electric System Revenue Bond Resolution

The Board is required to adhere to the terms of the Electric System Revenue Bond Resolution (the "Resolution") adopted August 23, 1979. Pursuant to the Resolution, the City, acting through the Board, has covenanted to at all times fix, establish, maintain and collect rates, fees and charges for the sale of the output, capacity, use or service of the Electric System which, together with other income, are reasonably expected to yield Net Revenues for the forthcoming twelve month period and, promptly upon any material change in the circumstances which were contemplated at the time such rates, fees and charges were most recently reviewed, but not less frequently than once in each fiscal year, shall review the rates, fees and charges for such sale of the output, capacity, use or service of the Electric System and shall promptly revise the same as necessary to comply with the foregoing requirement; provided, however, that, such rates, fees and charges shall in any event produce revenues sufficient to enable compliance with all covenants in the Resolution and to pay all charges or liens whatsoever payable out of revenues in such twelve month period.

2. DEPOSITS AND INVESTMENTS

Following is a reconciliation of deposit and investment balances as of June 30:

	2012	2011
Cash and cash equivalents	$ 11,289,983	$ 9,755,655
Restricted cash and cash equivalents	6,948,369	6,922,228
Restricted investments	2,676,037	2,672,936
Total	$ 20,914,389	$ 19,350,819

	2012	2011
Deposits and investments		
Checking and savings accounts	$ 14,071,552	$ 13,012,083
Investments	6,842,037	6,337,936
Petty cash	800	800
	$ 20,914,389	$ 19,350,819

Statutory Authority

State statutes authorize the Board to invest in:

Bonds, securities, other obligations and repurchase agreements of the United States, or an agency or instrumentality of the United States.

Certificates of deposit, savings accounts, deposit accounts or depository receipts of a qualified financial institution.

Commercial paper rated at the time of purchase within the two highest classifications established by not less than two standard rating services and that matures not more than 270 days after the date of purchase.

Bankers acceptances of United States banks.

Obligations of the State of Michigan and its political subdivisions that, at the time of purchase are rated as investment grade by at least one standard rating service.

Mutual funds registered under the Investment Company Act of 1940 with the authority to purchase only investment vehicles that are legal for direct investment by a public corporation.

External investment pools as authorized by Public Act 20 as amended through 12/31/97.

However, the Board's investment policy is further restricted by Bond Resolution.

At June 30, 2012, the Board had the following investments:

Investment	Maturity Date	Fair Market Value	Rating
Money market investment	N/A	$ 4,166,000	N/A
U.S. Treasury Bill	8/2/2012	1,339,713	N/A
U.S. Treasury Bill	8/23/2012	1,336,324	N/A
		$ 6,842,037	

At June 30, 2011, the Board had the following investments:

Investment	Maturity Date	Fair Market Value	Rating
Money market investment	N/A	$ 3,665,000	N/A
U.S. Treasury Bill	7/14/2011	1,336,856	N/A
U.S. Treasury Bill	9/15/2011	1,336,080	N/A
		$ 6,337,936	

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 Revenue Bond Resolution provides additional resources on the Board's investment choices.

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. Insurance coverage pertains to all deposits of the City; hence, the specific coverage pertaining to the Board's deposits, if any, is not readily determinable.

Notes To Financial Statements

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 all investments are held in the name of the Board.

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 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. RESTRICTED NET ASSETS

Restricted net assets consist of the following at June 30:

	2012	2011
Bond and interest redemption account –		
Cash and cash equivalents	$ 6,948,196	$ 6,776,582
Debt service reserve account –		
Cash and cash equivalents	173	851
United States Treasury bills & notes	2,676,037	2,672,936
Construction account –		
Cash and cash equivalents	-	144,795
Interest receivable	529	7,574
Total revenue bond restricted assets	9,624,935	9,602,738
Less current liabilities payable from restricted assets		
Accrued interest	908,088	1,056,581
Total restricted net assets	$ 8,716,847	$ 8,546,157

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

4. CAPITAL ASSETS

A summary of capital assets as of and for the year ended June 30, 2012 is as follows:

	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
Capital assets, not being depreciated:					
Land	$ 222,281	$ -	$ -	$ -	$ 222,281
Construction in progress	396,722	1,086,208	-	(1,178,746)	304,184
	619,003	1,086,208	-	(1,178,746)	526,465
Capital assets, being depreciated:					
Steam production	96,025,730	-	-	610,112	96,635,842
Diesel production	6,183,435	-	-	-	6,183,435
Transmission and distribution plant	33,868,072	-	-	455,572	34,323,644
General plant	1,448,141	-	-	113,062	1,561,203
	137,525,378	-	-	1,178,746	138,704,124
Less accumulated depreciation for:					
Steam production	73,908,998	3,027,487	-	-	76,936,485
Diesel production	5,357,751	57,685	-	-	5,415,436
Transmission and distribution plant	18,187,578	935,671	-	-	19,123,249
General plant	1,301,351	37,277	-	-	1,338,628
	98,755,678	4,058,120	-	-	102,813,798
Total capital assets being depreciated, net	38,769,700	(4,058,120)	-	1,178,746	35,890,326
Total capital assets, net	$ 39,388,703	$ (2,971,912)	$ -	$ -	$ 36,416,791

Grand Haven Board of Light and Power

Notes To Financial Statements

A summary of capital assets as of and for the year ended June 30, 2011 is as follows:

	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
Capital assets, not being depreciated:					
Land	$ 222,281	$ -	$ -	$ -	$ 222,281
Construction in progress	853,943	1,598,327	-	(2,055,548)	396,722
	1,076,224	1,598,327	-	(2,055,548)	619,003
Capital assets, being depreciated:					
Steam production	94,739,545	-	(10,000)	1,296,185	96,025,730
Diesel production	6,183,435	-	-	-	6,183,435
Transmission and distribution plant	34,001,283	-	(857,161)	723,950	33,868,072
General plant	1,412,728	-	-	35,413	1,448,141
	136,336,991	-	(867,161)	2,055,548	137,525,378
Less accumulated depreciation for:					
Steam production	70,926,913	2,992,085	(10,000)	-	73,908,998
Diesel production	5,298,571	59,180	-	-	5,357,751
Transmission and distribution plant	17,874,880	956,348	(643,650)	-	18,187,578
General plant	1,270,796	30,555	-	-	1,301,351
	95,371,160	4,038,168	(653,650)	-	98,755,678
Total capital assets being depreciated, net	40,965,831	(4,038,168)	(213,511)	2,055,548	38,769,700
Total capital assets, net	$ 42,042,055	$ (2,439,841)	$ (213,511)	$ -	$ 39,388,703

5. UNEARNED REVENUE

The Board receives revenue from allowances that are withheld by the EPA and are being sold at auction. The Board recognized $2,770 and $1,858 in emission allowances revenue for the years ended June 30, 2012 and 2011, respectively.

Notes To Financial Statements

6. LONG-TERM DEBT

Long-term debt activity as of and for the year ended June 30, 2012 is as follows:

	Beginning Balance	Additions	Deductions	Ending Balance	Due Within One Year
2003 Electric System Revenue Refunding Bonds, due in annual installments of $5,765,000 to $7,210,000 through 2017; interest paid semi-annually at 5.0% to 5.5%.	$ 37,750,000	$ -	$ (5,455,000)	$ 32,295,000	$ 5,765,000
2007 Electric System Revenue Bonds, due in annual installments of $275,000 to $330,000 through 2017; interest paid semi-annually at 4.0% to 5.0%.	1,770,000	-	(265,000)	1,505,000	275,000
Total installment debt	39,520,000	-	(5,720,000)	33,800,000	6,040,000
Unamortized bond premium	838,678	-	(267,031)	571,647	220,881
Unamortized deferred loss on refunding	(1,817,332)	-	578,973	(1,238,359)	(478,644)
Total long-term debt	$ 38,541,346	$ -	$ (5,408,058)	$ 33,133,288	$ 5,782,237

Long-term debt activity as of and for the year ended June 30, 2011 is as follows:

	Beginning Balance	Additions	Deductions	Ending Balance	Due Within One Year
2003 Electric System Revenue Refunding Bonds, due in annual installments of $5,455,000 to $7,210,000 through 2017; interest paid semi-annually at 5.25% to 5.5%.	$ 42,930,000	$ -	$ (5,180,000)	$ 37,750,000	$ 5,455,000
2007 Electric System Revenue Bonds, due in annual installments of $265,000 to $330,000 through 2017; interest paid semi-annually at 4.0% to 5.0%.	2,020,000	-	(250,000)	1,770,000	265,000
Installment debt	44,950,000	-	(5,430,000)	39,520,000	5,720,000
Unamortized bond premium	1,149,401	-	(310,723)	838,678	267,032
Unamortized deferred loss on refunding	(2,491,238)	-	673,906	(1,817,332)	(578,972)
Total long-term debt	$ 43,608,163	$ -	$ (5,066,817)	$ 38,541,346	$ 5,408,060

Debt Service Requirements

The annual requirements to maturity on debt outstanding as of June 30, 2012, excluding the unamortized premium and deferred refunding costs on bonds payable, are as follows:

Year Ended June 30,	Principal	Interest
2013	$ 6,040,000	$ 1,810,676
2014	6,370,000	1,496,100
2015	6,730,000	1,163,475
2016	7,120,000	795,200
2017	7,540,000	404,800
Total	$ 33,800,000	$ 5,670,251

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.

7. PENSION PLANS

Defined Benefit Pension Plan

The information for the Board's defined benefit pension plan is as of December 31, 2010, 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.

Funding Policy

The Board is required to contribute at an actuarially determined rate; the current rate is 12.6% and 6.8% of annual covered payroll for union and non-union employees, respectively. The required employee contribution rates are 4.0% and 6.8% for union and non-union employees, respectively. Total employee contributions were $223,280 and $196,185 for the years ended June 30, 2012 and 2011, respectively. 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.

Annual Pension Cost

For the year ended June 30, 2012, the Board's annual pension cost of $467,070 for MERS was equal to the Board's required and actual contributions. The required contribution was determined as part of the December 31, 2009 actuarial valuation using the entry age actuarial cost method. The actuarial assumptions included (a) a rate of return on the investment of present and future assets of 8.0%, (b) projected salary increases of 4.5% per year compounded annually, attributable to inflation, and (c) additional projected salary increases of 0.0% to 4.5% 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, 2010, the date of the latest actuarial valuation, ranges from 10 to 28 years, depending on the specific employee group.

Three-Year Trend Information			
Years Ended June 30,	**Annual Pension Cost**	**Percentage Contributed**	**Net Pension Obligation**
2010	$ 290,184	100%	$ -
2011	422,568	100%	-
2012	467,070	100%	-

Funded Status and Funding Progress

As of December 31, 2010, the most recent actuarial valuation, the actuarial accrued liability for benefits was $12,628,061, of which $1,632,379 was unfunded. The covered payroll (annual payroll of the active employees covered by the Plan) was $2,522,851 and the ratio of the UAAL to the covered payroll was 65 percent.

The schedule of funding progress, presented as required supplementary information (RSI) following the notes to the financial statements, presents multiyear trend information about whether the actuarial values of plan assets are increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

8. OTHER POSTEMPLOYMENT BENEFITS

Plan Description. The Board participates with the City in a single-employer defined benefit healthcare plan (the "Plan"). The Plan provides health insurance benefits to certain retirees and their beneficiaries, which are advance-funded on a discretionary basis. In accordance with the City's policy, the City provides health care benefits to retirees in accordance with the pension ordinance. For retirees below age 65, the City pays 75 percent to 80 percent of the annual premium (depending on the bargaining unit) and the retiree pays the balance. Retirees are required to purchase and pay for Medicare supplemental insurance when they become eligible.

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, with an additional amount to prefund benefits as determined annually by the City Council. For the year ended June 30, 2012, the Board contributed $136,576 to the Plan.

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 fifteen 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 as of and for the years ended June 30:

	2012	2011
Annual required contribution	$ 164,444	$ 163,170
Interest on net OPEB obligation	9,785	10,500
Adjustment to annual required contribution	(14,627)	(14,774)
Net OPEB cost (expense)	159,602	158,896
Contributions made	136,576	155,822
Increase in net OPEB obligation	23,026	3,074
Net OPEB obligation, beginning of year	143,074	140,000
Net OPEB obligation, end of year	$ 166,100	$ 143,074

The Board's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation were as follows:

Three-Year Trend Information			
Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2010	$ 389,328	64.04%	$ 140,000
2011	158,896	98.07%	143,074
2012	159,602	85.57%	166,100

Funded status and funding progress. As of June 30, 2012, the most recent actuarial valuation, the actuarial accrued liability for benefits was $1,566,016, of which $1,249,736 was unfunded. The covered payroll (annual payroll of the active employees covered by the Plan) was $3,039,960 and the ratio of the UAAL to the covered payroll was 41 percent.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumption about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the Plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as RSI following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits calculations.

The accompanying schedules of employer contributions presented as RSI present trend information about the amounts contributed to the plan by employers in comparison with the parameters of GASB Statement 43. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost for each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years.

Actuarial methods and assumptions. Projections of benefits for financial reporting purposes are based on the substantive Plan (the Plan as understood by the employer and the Plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and Plan members to the point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term prospective of the calculations.

In the June 30, 2012 actuarial valuation, the entry age normal (level percent) cost method was used. The actuarial assumptions included a 7.5% discount rate. Life expectancies were based on rates from the IRS 2012 mortality table for healthy and the IRS 2012 mortality table set forward 10 years for disabled. The unfunded actuarial accrued liability is being amortized as a level percent on a closed basis. The remaining amortization period at June 30, 2012 was 13 years.

9. 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's self-insurance program except as detailed below. As an enterprise fund 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 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. 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.

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 Board is exposed to various risks related to liability, damage or loss of fiscal assets for which it has participated in the creation of a self-insurance program known as the Michigan Professional Insurance Authority (MPIA). MPIA was established pursuant to the State of Michigan Act 35 of 1951; Intergovernmental Contracts between Municipal Corporations.

MPIA administers an actuarially based risk management fund and utilizes such funds contributed by the Board to defend and protect stated liability and property. MPIA has purchased commercial insurance for coverage in excess of self-insured reserve limits and for all other risks of loss. Settled claims have not exceeded this commercial coverage in the past five fiscal years. There is no open or pending claim litigation.

Notes To Financial Statements

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

Years Ended June 30,	Beginning of Year Liability	Current Year Premium Equivalent Costs	Premium Equivalent Payments	Balance at Year End
2012	$ -	$ 802,500	$ 802,500	$ -
2011	-	802,800	802,800	-

10. COMMITMENTS

The Board has entered into a coal purchase agreement to purchase a minimum of 1,296,800 tons of coal at fixed prices ending on various dates through December 31, 2017. At June 30, 2012, approximately 470,000 tons of coal had been purchased under this agreement.

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

11. JOINT VENTURE

The Board entered into a joint venture, the Michigan Public Power Agency (MPPA), with 16 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. The Board did not have an initial equity interest and does not participate in net income or losses. Complete financial statements for the Michigan Public Power Agency can be obtained from the administrative offices at 809 Centennial Way, Lansing MI 48917.

The MPPA operates various projects. The Board participated in the Power Pool Project, which ended December 31, 2010. The Board currently participates in the Transmission Project, Granger Project, North American Natural Resources Project, and the Energy Services Project. The Board had the following activity with the MPPA during the years ended June 30:

	2012	2011
Sales	$ 1,102,105	$ 2,831,459
Purchases	1,773,325	1,951,365
Receivables	157,877	252,626

Notes To Financial Statements

12. 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.

13. RELATED PARTY TRANSACTIONS

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

A summary of related-party transactions with the City is as follows as of and for the years ended June 30:

	2012	2011
Operating revenue from City-owned facilities	$ 993,147	$ 973,886
Operating expenses - statutory charge	1,652,514	1,620,042
Accounts receivable	120,576	107,556
Accounts payable	15,758	573
Due to other funds of the City	139,017	139,463

Notes To Financial Statements

14. INVESTED IN CAPITAL ASSETS, NET OF RELATED DEBT

The composition of net assets invested in capital assets, net of related debt was as follows as of June 30:

	2012	2011
Capital assets:		
Capital assets not being depreciated	$ 526,465	$ 619,003
Capital assets being depreciated, net	35,890,326	38,769,700
	36,416,791	39,388,703
Related debt:		
Total installment debt	33,800,000	39,520,000
Bond premium	571,647	838,678
Deferred loss on refunding	(1,238,359)	(1,817,332)
	33,133,288	38,541,346
Invested in capital assets, net of capital related debt	$ 3,283,503	$ 847,357

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REQUIRED SUPPLEMENTARY INFORMATION

Grand Haven Board of Light and Power

Required Supplementary Information

Municipal Employees Retirement System

Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a) / c)
12/31/05	$ 7,726,996	$ 7,861,331	$ 134,335	98.29%	$ 2,102,814	6.39%
12/31/06	8,438,691	9,310,403	871,712	90.64%	2,289,194	38.08%
12/31/07	9,294,218	9,988,669	694,451	93.05%	2,416,428	28.74%
12/31/08	9,856,695	11,443,610	1,586,915	86.13%	2,473,434	64.16%
12/31/09	10,381,674	12,053,072	1,671,398	86.13%	2,604,817	64.17%
12/31/10	10,995,682	12,628,061	1,632,379	87.07%	2,522,851	64.70%

Schedule of Employer Contributions

Year Ended	Annual Required Contributions	Percentage Contributed
06/30/07	$ 184,965	100%
06/30/08	247,413	100%
06/30/09	291,800	100%
06/30/10	290,184	100%
06/30/11	422,568	100%
06/30/12	467,070	100%

Grand Haven Board of Light and Power

Required Supplementary Information

Other Postemployment Benefit Plan

Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a) / c)
06/30/08	$ -	$ 1,506,491	$ 1,506,491	0.00%	$ 3,645,317	41.33%
06/30/10	158,626	1,373,246	1,214,620	11.55%	3,561,740	34.10%
06/30/12	316,280	1,566,016	1,249,736	20.20%	3,039,960	41.11%

Schedule of Employer Contributions

Year Ended	Annual Required Contributions	Percentage Contributed
06/30/09	$ 188,579	86.5%
06/30/10	393,099	63.4%
06/30/11	163,170	95.5%
06/30/12	164,444	83.1%

Grand Haven Board of Light and Power

Schedules of Revenues, Expenses and Changes in Net Assets

	For the Year Ended June 30		Increase (Decrease)	Percentage of Operating Revenue	
	2012	2011		2012	2011
Operating revenues					
Residential sales	$ 9,886,366	$ 10,085,490	$ (199,124)	28.66%	28.22%
Commercial and industrial sales	21,947,343	21,173,910	773,433	63.62%	59.23%
Public street and highway lighting	511,149	500,680	10,469	1.48%	1.40%
Other sales to public authorities	705,423	640,753	64,670	2.04%	1.79%
Sales for resale	1,273,652	3,019,281	(1,745,629)	3.69%	8.45%
Thermal energy	25,520	39,374	(13,854)	0.07%	0.11%
Forfeited discounts	99,891	105,127	(5,236)	0.29%	0.29%
Rental income	43,745	39,928	3,817	0.13%	0.11%
Capital contributions	4,702	144,752	(140,050)	0.01%	0.40%
Other services	2,250	1,375	875	0.01%	0.00%
Total operating revenues	34,500,041	35,750,670	(1,250,629)	100.00%	100.00%
Operating expenses					
Power production	19,501,223	20,796,850	(1,295,627)	56.53%	58.17%
Distribution	2,068,439	1,909,683	158,756	6.00%	5.34%
Customer accounts	937,843	880,021	57,822	2.72%	2.46%
Administrative and general	1,846,542	1,625,924	220,618	5.35%	4.55%
Depreciation	4,058,120	4,038,168	19,952	11.76%	11.30%
Statutory charge	1,652,514	1,620,042	32,472	4.79%	4.53%
Total operating expenses	30,064,681	30,870,688	(806,007)	87.15%	86.35%
Operating income	4,435,360	4,879,982	(444,622)	12.85%	13.65%
Nonoperating income (expense)					
Interest income	3,911	15,615	(11,704)	0.01%	0.04%
Interest expense	(2,173,701)	(2,528,377)	354,676	-6.30%	-7.07%
Gain on sale of capital assets	-	1,750	(1,750)	0.00%	0.00%
Emission allowances	2,770	1,858	912	0.01%	0.01%
Other revenue	21,678	15,535	6,143	0.06%	0.04%
Total nonoperating expense, net	(2,145,342)	(2,493,619)	348,277	-6.22%	-6.98%
Change in net assets	$ 2,290,018	$ 2,386,363	$ (96,345)	6.63%	6.67%

Grand Haven Board of Light and Power

Schedules of Operating Expenses

	For the Year Ended June 30		Increase (Decrease)	Percentage of Operating Revenue	
	2012	2011		2012	2011
Power production					
Steam expense:					
Operation:					
Supervision and engineering	$ 78,173	$ 125,300	$ (47,127)	0.23%	0.35%
Vacation, sick and holiday pay	454,205	316,062	138,143	1.32%	0.88%
Fringe benefits	1,113,574	1,088,690	24,884	3.23%	3.05%
Fuel and fuel handling	12,521,996	12,165,390	356,606	36.31%	34.04%
Steam	560,345	506,683	53,662	1.62%	1.42%
Scrubber	383,244	394,399	(11,155)	1.11%	1.10%
Electric plant	309,089	314,306	(5,217)	0.90%	0.88%
Other	376,039	430,570	(54,531)	1.09%	1.20%
Total operation	15,796,665	15,341,400	455,265	45.81%	42.92%
Maintenance:					
Supervision	49,340	47,875	1,465	0.14%	0.13%
Structures	89,778	77,064	12,714	0.26%	0.22%
Boiler plant	808,411	1,674,983	(866,572)	2.34%	4.69%
Scrubber	295,458	471,072	(175,614)	0.86%	1.32%
Electric plant	27,065	272,028	(244,963)	0.08%	0.76%
Other	(4,706)	38,868	(43,574)	-0.01%	0.11%
Total maintenance	1,265,346	2,581,890	(1,316,544)	3.67%	7.23%
Total steam expense	17,062,011	17,923,290	(861,279)	49.48%	50.15%
Diesel expense:					
Operation:					
Supervision and engineering	159	3,839	(3,680)	0.00%	0.01%
Vacation, sick and holiday pay	40,462	23,025	17,437	0.12%	0.06%
Fringe benefits	96,666	82,548	14,118	0.28%	0.23%
Fuel:					
Oil	67,378	72,172	(4,794)	0.20%	0.20%
Gas	18,845	1,223	17,622	0.05%	0.00%
Operating labor	47,367	45,820	1,547	0.14%	0.13%
Other	36,863	124,735	(87,872)	0.11%	0.35%
Total operation	307,740	353,362	(45,622)	0.90%	0.98%
Maintenance:					
Structures	6,150	4,909	1,241	0.02%	0.01%
Engines	120,404	121,820	(1,416)	0.35%	0.34%
Other	6,430	18,776	(12,346)	0.02%	0.05%
Total maintenance	132,984	145,505	(12,521)	0.39%	0.40%
Total diesel expense	440,724	498,867	(58,143)	1.29%	1.38%
System control	(14,852)	69,113	(83,965)	-0.04%	0.19%
Purchased power	1,894,965	2,037,612	(142,647)	5.49%	5.70%
Network	118,375	267,968	(149,593)	0.31%	0.75%
Total power production	19,501,223	20,796,850	(1,295,627)	56.53%	58.17%

continued…

Grand Haven Board of Light and Power

Schedules of Operating Expenses

	For the Year Ended June 30		Increase (Decrease)	Percentage of Operating Revenue	
	2012	2011		2012	2011
Distribution					
Operation:					
Supervision and engineering	$ 191,577	$ 203,053	$ (11,476)	0.56%	0.57%
Vacation, sick and holiday pay	217,572	183,080	34,492	0.63%	0.51%
Fringe benefits	549,831	507,250	42,581	1.59%	1.42%
Station expense	78,201	64,186	14,015	0.23%	0.18%
Overhead lines:					
Labor	334,109	240,958	93,151	0.97%	0.67%
Materials	5,423	7,249	(1,826)	0.02%	0.02%
Transportation	89,006	88,761	245	0.26%	0.25%
Underground lines	58,961	63,885	(4,924)	0.17%	0.18%
Street lighting and signal system	27,469	18,650	8,819	0.08%	0.05%
Meters:					
Labor	122,140	114,939	7,201	0.35%	0.33%
Other	13,661	10,248	3,413	0.04%	0.03%
Heating	37,487	32,740	4,747	0.11%	0.09%
Engineering supplies	36,178	29,497	6,681	0.10%	0.08%
Customer installation	69,704	67,709	1,995	0.20%	0.19%
Other	93,018	114,851	(21,833)	0.27%	0.32%
Total operation	1,924,337	1,747,056	177,281	5.58%	4.89%
Maintenance:					
Tree trimming	129,317	115,128	14,189	0.39%	0.33%
Buildings and substations	16,565	41,018	(24,453)	0.05%	0.11%
Overhead system	32,518	31,997	521	0.09%	0.09%
Underground system	1,577	457	1,120	0.00%	0.00%
Storm damage	26,484	8,432	18,052	0.08%	0.02%
Street lighting and signal system	8,344	25,506	(17,162)	0.02%	0.07%
Other	548	166	382	0.00%	0.00%
Total maintenance	215,353	222,704	(7,351)	0.63%	0.62%
Reimbursements	(71,251)	(60,077)	(11,174)	-0.21%	-0.17%
Total distribution	2,068,439	1,909,683	158,756	6.00%	5.34%
Customer accounts					
Operation:					
Supervision and engineering	76,022	70,732	5,290	0.23%	0.20%
Vacation, sick and holiday pay	48,601	38,632	9,969	0.14%	0.11%
Fringe benefits	167,280	157,871	9,409	0.48%	0.44%
Meter reading	116,795	111,014	5,781	0.34%	0.31%
Customer records and collection	248,825	237,586	11,239	0.72%	0.66%
EO expense	244,634	252,912	(8,278)	0.71%	0.71%
Uncollectible accounts, net	34,646	10,316	24,330	0.10%	0.03%
Other	1,040	958	82	0.00%	0.00%
Total customer accounts	937,843	880,021	57,822	2.72%	2.46%

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Grand Haven Board of Light and Power

Schedules of Operating Expenses

	For the Year Ended June 30		Increase (Decrease)	Percentage of Operating Revenue	
	2012	2011		2012	2011
Administrative and general					
Operation:					
Salaries	$ 290,548	$ 276,511	$ 14,037	0.82%	0.78%
Vacation, sick and holiday pay	64,237	43,059	21,178	0.19%	0.12%
Fringe benefits	120,452	123,354	(2,902)	0.35%	0.35%
Office supplies and expense	95,796	72,445	23,351	0.28%	0.20%
Outside services	221,513	78,285	143,228	0.64%	0.22%
Transfers to component units	84,788	87,540	(2,752)	0.25%	0.24%
Insurance	802,500	802,800	(300)	2.33%	2.25%
Advertising	21,343	9,917	11,426	0.06%	0.03%
Franchise requirement	16,966	15,325	1,641	0.05%	0.04%
Maintenance	19,318	22,924	(3,606)	0.06%	0.06%
Other	109,081	93,764	15,317	0.32%	0.26%
Total administrative and general	1,846,542	1,625,924	220,618	5.35%	4.55%
Depreciation					
Steam production	3,027,487	3,011,937	15,550	8.77%	8.42%
Diesel production	57,685	59,179	(1,494)	0.17%	0.17%
Transmission and distribution plant	935,671	936,497	(826)	2.71%	2.62%
General plant	37,277	30,555	6,722	0.11%	0.09%
Total depreciation	4,058,120	4,038,168	19,952	11.76%	11.30%
Statutory charge	1,652,514	1,620,042	32,472	4.79%	4.53%
Total operating expenses	$ 30,064,681	$ 30,870,688	$ (806,007)	87.15%	86.35%

concluded

Grand Haven Board of Light and Power

Schedule of Long-Term Debt Maturity

Bond Issue	Interest Rate (Percent)	Date of Maturity	Annual Maturity	Principal Outstanding June 30, 2012
Amount of issue – $47,850,000				
Date of issue – April 3, 2003	5.25	7/1/2012	$ 5,765,000	$ 5,765,000
	5.25	7/1/2013	6,085,000	6,085,000
	5.50	7/1/2014	6,430,000	6,430,000
	5.50	7/1/2015	6,805,000	6,805,000
	5.50	7/1/2016	7,210,000	7,210,000
Total face value				32,295,000
Plus unamortized premium				553,882
Less unamortized loss on refunding				(1,238,359)
				31,610,523
Amount of issue – $2,400,000				
Date of issue – March 9, 2007	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				1,505,000
Plus unamortized premium				17,765
				1,522,765
Total				$ 33,133,288

Grand Haven Board of Light and Power

Schedules of Debt Service Coverage Ratio

	For the Year Ended June 30	
	2012	2011
Operating revenue	$ 34,500,041	$ 35,750,670
Operating expenses	30,064,681	30,870,688
Operating income	4,435,360	4,879,982
Non-operating expenses - net	(2,145,342)	(2,493,619)
Change in net assets	2,290,018	2,386,363
Reconciliation of change in net assets to net revenue under the Electric System Revenue Bond Resolution		
Additions:		
Depreciation	4,058,120	4,038,168
Statutory charge	1,652,514	1,620,042
Bond interest expense	2,395,148	2,787,068
Amortization of debt premiums and issue costs	(222,655)	(259,856)
Transfers to component units of the City of Grand Haven	84,788	87,540
Total additions	7,967,915	8,272,962
Deductions:		
Interest income - debt service reserve	(3,345)	(4,887)
Capital contributions	(4,702)	(144,752)
Total deductions	(8,047)	(149,639)
Net revenue under the resolution	$ 10,249,886	$ 10,509,686
Aggregate debt service		
Debt service	$ 7,856,175	$ 7,833,162
Less interest income on debt service	(3,345)	(4,887)
Aggregate debt service under the resolution	$ 7,852,830	$ 7,828,275
Ratio of aggregate debt service to net revenue	1.31	1.34

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INTERNAL CONTROL AND COMPLIANCE

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

October 26, 2012

Board of Directors
Grand Haven Board of Light and Power
Grand Haven, Michigan

We have audited the financial statements of the ***Grand Haven Board of Light and Power*** (the "Board", an enterprise fund of the City of Grand Haven Michigan), as of and for the year ended June 30, 2012, and have issued our report thereon dated October 26, 2012. 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

Management of the Grand Haven Board of Light and Power is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Board's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Board's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Board's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies or material weaknesses have been identified. However, as discussed below, we identified certain deficiencies in internal control that we consider to be material weaknesses and other deficiencies we consider to be significant deficiencies.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described below as item 2012-1 to be a material weakness in internal control over financial reporting.

Finding 2012-1 - Preparation of Governmental Financial Statements / Material Audit Adjustments

Criteria: All Michigan governments are required to prepare financial statements in accordance with generally accepted accounting principles (GAAP). This is a responsibility of the Board's management. The preparation of financial statements in accordance with GAAP requires internal controls over both (1) recording, processing, and summarizing accounting data (i.e., maintaining internal books and records), and (2) reporting the Board's financial statements, including the related footnotes (i.e., external financial reporting.)

Condition: During our audit, we identified and proposed material audit adjustments related to the Grand Haven Board of Light and Power's accruals for sick and vacation which were reviewed, approved, and posted by management. In our opinion, these adjustments had a material effect on the Board's financial statements. In addition, the Board relied on its independent external auditors to assist in the preparation of the financial statements and footnotes as part of its external financial reporting process, rather than obtaining the training and experience necessary to complete that task internally. Accordingly, the Board's ability to prepare financial statements in accordance with GAAP is based, at least in part, on its reliance on its external auditors, who cannot by definition be considered a part of the Board's internal controls.

Cause: This condition was caused by a misunderstanding of the requirement to record a liability for potential cash payouts and related payroll taxes for sick time upon employee retirement. In addition, this condition was caused by the Board's decision that it is more cost effective to outsource the preparation of its annual financial statements to the auditors than to incur the time and expense of obtaining the necessary training and expertise required for the Board to perform this task internally.

Effect: As a result of this condition, the Board's accounting records were initially misstated by amounts material to the financial statements. Further, the Board lacks complete internal controls over the preparation of financial statements in accordance with GAAP, and instead relies, at least in part, on its external auditors for assistance with this task.

Recommendation: The Board has already reviewed and approved the necessary adjustments identified during the audit, and their effect has been included in the Board's financial statements. The Board's decision to rely, in part, on its auditors, for the preparation of external financial statements is allowable provided that it is disclosed as part of the report on internal control and compliance in accordance with *Government Auditing Standards*. Therefore, no specific corrective action is required at this time.

View of responsible officials: The Board has evaluated the benefit of establishing internal controls over the preparation of financial statements in accordance with GAAP, and determined that it is in the best interests of the Board to outsource this task to its external auditors, and to carefully review the proposed journal entries, draft financial statements and notes prior to approving them and accepting responsibility for their content and presentation.

A *significant deficiency* is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described below as items 2012-2 & 2012-3 to be significant deficiencies.

Finding 2012-2 - Account Reconciliations, Reporting and Independent Review

Criteria: As part of the month and year-end closing process, all balance sheet accounts (along with their corresponding subledgers) should be reconciled to the general ledger and reviewed by an independent individual in order to ensure accurate financial information is presented.

Condition: Several account subsidiary ledgers were not reconciled to the general ledger at year end and lacked evidence of review by an independent individual. This included the customer deposits detail aging, for which a full detail was not available.

In addition, we noted several variances in the bank reconciliations. These variances were due to service charges, interest earned and other items not being recorded on a timely basis.

Cause: This condition was caused by various oversights in maintaining and reconciling the general ledger to supporting detail.

Effect: As a result of this condition, the general ledger balance for customer deposits could not be reconciled to a detail listing of customers making up the balance.

Also as a result of this condition, the Board's bank accounts were not fully reconciled within six weeks of the month end, which is required by the State of Michigan. These conditions expose the Board to an increased risk that errors could exist and not be detected and corrected by management on a timely basis.

Recommendation: We recommend that supporting reports for all balance sheet items be produced, reconciled to the general ledger, reviewed and retained on a monthly basis. In addition, we recommend that the Board review its bank reconciliations and record items that have cleared the bank within the general ledger on a monthly basis.

View of responsible officials: Management recognizes the importance of reconciling these items at least monthly throughout the year.

Finding 2012-3 – Independent Approval for Journal Entries

Criteria: Management is responsible for establishing effective internal controls to safeguard the Board's assets, and to prevent or detect misstatements to the financial statements. Journal entries, while an essential part of any accounting system, represent an opportunity to enter information into the Board's records in a way that bypasses normal internal controls. Accordingly, the Board should have a system in place to ensure that all journal entries and similar adjustments made to the Board's accounting records are reviewed and approved by an appropriate member of management, independent of the preparer.

Condition: Our testing of journal entries identified certain entries that did not bear evidence of independent review and approval.

Cause: This condition is the result of a change in the Board's policy for review of journal entries that did not occur until August 2011. In addition, certain entries were inadvertently not reviewed subsequent to this time frame.

Effect: While we are not aware of any actual misstatements caused by this condition, the Board was nevertheless exposed to an increased risk that misstatements, whether caused by error or fraud, could occur and not be detected by management in a timely manner.

Recommendation: We recommend that the Board establish a procedure requiring written, independent review and approval for all journal entries, even if the journal entries are recurring in nature.

View of responsible officials: In August 2011, subsequent to the prior year audit, the General Manager began reviewing all journal entries prepared by the Controller. In addition, we will begin a process of having a preparer and reviewer signature on the Daily Receipts Report, which is utilized to support certain cash receipt journal entries.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Grand Haven Board of Light and Power's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the 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.*

The Board of Light and Power's responses to the findings identified in our audit are described above. We did not audit the Board of Light and Power's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of the Board of Directors, 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.

Rehmann Robson