GRAND HAVEN BOARD OF LIGHT AND POWER

FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2014

Vredeveld Haefner LLC

GRAND HAVEN BOARD OF LIGHT AND POWER

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INDEPENDENT AUDITORS' REPORT

December 10, 2014

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

Report on the Financial Statements

We have audited the accompanying financial statements of the Grand Haven Board of Light and Power, Grand Haven, Michigan (an enterprise fund of the City of Grand Haven, Michigan) as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Grand Haven Board of Light and Power as of June 30, 2014, and the respective changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

As discussed in note 1, the financial statements present only the Grand Haven Board of Light and Power and do not purport to, and do not present fairly the financial position of the City of Grand Haven, Michigan, or the changes in its financial position or cash flows in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 6 and the trend information on pages 23 and 24 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 any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Grand Haven Board of Light and Power's basic financial statements. The supplementary schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The schedules included in the supplementary information section of this report are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedules are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 10, 2014, on our consideration of the Grand Haven Board of Light and Power internal control over financial reporting and on 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Grand Haven Board of Light and Power internal control over financial reporting and compliance.

Vredeveld Haefner LLC

MANAGEMENT'S DISCUSSION AND ANALYSIS

Management's Discussion and Analysis

As management of the Grand Haven Board of Light and Power (the Board), we offer readers of the Board's financial statements this narrative overview and analysis of the financial activities of the Board for the fiscal year ended June 30, 2014. We encourage readers to consider the information presented here in conjunction with additional information that is furnished in the financial statements and notes to the financial statements.

Financial Highlights

- The Board 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 surrounding communities.
- The Board generated 65 percent of its retail sales and 100 percent of its wholesale sales. The Board purchased the balance of their energy requirements and made all wholesale sales through the Michigan Public Power Agency's Energy Services Project.
- Current and other assets and current liabilities increased primarily due to the timing of inventory purchases and shipments near year end.
- Net capital assets decreased as a result of depreciation expense exceeding new capital investment.
- Long-term liabilities decreased due to the current year principle payment of long-term debt.
- Retail sales were up slightly for the year while wholesale sales saw a significant increase due to increased market opportunity and high gas prices. There was no retail rate increase in fiscal 2014.
- Fiscal 2014 did not include a scheduled outage. There were unscheduled outages related to leaks in the economizer and boiler tube leaks. One outage included a chemical cleaning of the boiler tubes.
- Revenue from surcharges billed to customers for Energy Optimization was $409,000 for fiscal 2014 while expenses incurred for the program were $419,000. Revenue from surcharges billed to customers for the Renewable Portfolio Standard program was $300,000.
- Purchased power costs were up due to higher market prices and increased landfill gas purchased from Granger and North American Natural Resources Projects.
- Miscellaneous Income includes return of funds earned on capital contribution for MPPA Power Pool.
- Revenue from thermal energy related to snowmelt system operations was up due to an exceptionally cold and snowy winter and high gas prices.
- Transfers to component units includes payment of a portion of electric revenue generated at the Grand Landing location to the City of Grand Haven to help fund payment of debt. This agreement ended in December 2013.
- The BLP approved a $35,105,000 operating expense budget for fiscal year 2014. Actual operating expenses were $32,612,534 and nonoperation expenses were $1,370,944.
- 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 electrical systems. Total capital asset additions were $1,785,766 in fiscal year 2014, which was paid for with internally generated funds.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Board's financial statements. The Board's basic financial statements comprise two components: 1) financial statements, and 2) notes to the financial statements.

The S*tatement of Net Position* presents information on all of the Board's assets and liabilities, with the difference between the two reported as *net position.* Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the Board is improving or deteriorating.

The S*tatement of Revenues, Expenses and Changes in Net Position* presents information showing how the Board's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash* flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., earned but unused compensated absences, accrued interest, etc.).

Notes to the financial statements. The notes provide additional information that is essential for a full understanding of the data provided in financial statements.

Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a Board's financial position. In the case of the Board, assets exceeded liabilities by $36,484,638 at the close of the most recent fiscal year.

A portion of the Board's net position reflects unrestricted net position which is available for future operation while a more significant portion of net position is invested in capital assets (e.g., land, buildings, vehicles and equipment), less any related debt used to acquire those assets that is still outstanding. The Board uses these capital assets to provide services to customers; consequently, these assets are *not* available for future spending. Although the Board's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

Net Position

	2014	2013
Current and other assets	$32,171,508	$28,134,128
Capital assets	30,980,701	33,543,083
Total assets	63,152,209	61,677,211
Deferred outflows of resources	386,968	759,715
Other liabilities	4,818,940	2,821,549
Long-term liabilities	22,235,599	28,702,752
Total liabilities	27,054,539	31,524,301
Net position		
Net Investment in capital assets	9,798,932	6,192,033
Restricted	9,411,149	9,049,150
Unrestricted	17,274,557	15,671,442
Total net position	$36,484,638	$30,912,625

The total net position of the Board at June 30, 2014 is $36,484,638 however, $9,798,932 represents net investment in capital assets and $9,411,149 is restricted for revenue bond retirement. Total net position increased by $4,328,050 for the year ended June 30, 2014. This increase in net position occurred while retail rates remained unchanged from 2013, revenues increased $3.6 million and operating expenses increase by $1.1 million.

Changes in Net Position

	2014	2013
Operating revenue	$39,738,529	$36,142,804
Operating expenses	32,612,534	29,770,253
Operating income (loss)	7,125,995	6,372,551
Nonoperating revenues (expense)	(983,823)	(1,726,235)
Change in net position before transfers	6,142,172	4,646,316
Transfers to the City of Grand Haven	1,814,122	1,775,312
Change in net position	4,328,050	2,871,004
Net position-beginning of year	32,156,588	28,041,621
Net position-end of year	$36,484,638	$30,912,625

Beginning net position at July 1, 2013 was increased from the balance reported in the 2013 audited financial statements by $1,243,963. This increase is primarily the result of a deposit with the Michigan Professional Insurance Association (MPIA) which was excluded from Board assets in prior audit reports.

During the year ended June 30, 2014, the Board had an increase in net position of $4,328,050 primarily as a result of revenue increases exceeding expense increases. The operating revenues increased by $3.6 million while retail rates remained unchanged.

Capital Asset and Debt Administration

Capital assets. The Board's investment in capital assets as of June 30, 2014, amounted to $30,980,701 (net of accumulated depreciation).

Significant capital purchases during the year consisted primarily of distribution system improvements.

The Board's capital assets are summarized as follows:

Land	$ 222,281
Construction in progress	754,743
Steam production	96,323,752
Diesel production	6,258,675
Transmission and distribution	36,592,646
General plant	1,783,992
Accumulated depreciation	(110,955,388)
Total	**$ 30,980,701**

Additional information on the Board's capital assets can be found in Note 4 of these financial statements.

Debt. At the end of the current fiscal year, the Board had total debt outstanding as follows:

Compensated absences	$ 662,292
Bond premiums	178,737
Bonds payable	21,390,000
Total	**$22,231,029**

The Board repaid $6,370,000 of bond principal during the year.

Additional information on the Board's long-term debt can be found in Note 5 of these financial statements.

Economic Factors and Next Year's Budgets and Rates

The following factors were considered in preparing the Board's budget for the 2014-15 fiscal year:

- The budget approved for fiscal year 2015 reflects a 4% base rate increase for our customers and a scheduled maintenance outage.
- The capital improvement budget for fiscal 2015 includes several improvements to the generation and distribution systems.

Requests for Information

This financial report is designed to provide interested individuals including citizens, property owners, customers, investors and creditors with a general overview of the Board's finances and to show the Board's accountability for the money it receives. If you have questions or need additional financial information, please contact Kristin Kratt, Controller, 616-846-6250

BASIC FINANCIAL STATEMENTS

GRAND HAVEN BOARD OF LIGHT AND POWER

STATEMENT OF NET POSITION

JUNE 30, 2014

Assets	
Current assets	
Cash and cash equivalents	$ 11,312,799
Accounts receivable	5,423,601
Prepaid items	32,722
Inventory	3,599,286
Total current assets	20,368,408
Non-current assets	
Restricted cash and cash equivalents	8,655,298
Restricted investments	1,340,739
Deposit with MPIA and MPPA	1,772,509
Interest receivable	225
Net OPEB asset	34,393
Capital assets	
Land	222,281
Construction in progress	754,743
Depreciable capital assets, net	30,003,677
Total non-current assets	42,783,865
Total assets	63,152,273
Deferred outflows of resources	
Deferred charge on refunding	386,968
Liabilities	
Current liabilities	
Accounts payable	3,341,733
Accrued liabilities	167,172
Customer deposits	465,686
Interest payable from restricted assets	585,113
Due to City of Grand Haven	259,236
Current portion of long-term debt	6,730,000
Total current liabilities	11,548,940
Long-term liabilities	
Accrued compensated absences	662,292
Unearned revenue	4,570
Bond premium	178,737
Bonds payable, net of current portion	14,660,000
Total long-term liabilities	15,505,599
Total liabilities	27,054,539
Net position	
Net investment in capital assets	9,798,932
Restricted for revenue bond retirement	9,411,149
Unrestricted	17,274,621
Total net position	$ 36,484,702

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

GRAND HAVEN BOARD OF LIGHT AND POWER

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

FOR THE YEAR ENDED JUNE 30, 2014

Operating revenue	
Residential sales	$ 10,617,760
Commercial and industrial sales	25,298,689
Public street and highway lighting	545,461
Other sales to public authorities	800,377
Wholesale sales	2,231,586
Thermal energy	95,793
Forfeited discounts	101,880
Rental income	44,108
Other	2,875
Total operating revenue	39,738,529
Operating expense	
Power production	23,549,592
Distribution	1,960,315
Customer accounts	1,063,610
Administrative	1,956,296
Depreciation	4,082,657
Total operating expense	32,612,470
Operating income (loss)	7,126,059
Non-operating revenue (expense)	
Interest income	10,940
Interest income MPIA insurance reserve	171,324
Interest expense	(1,370,944)
Emission allowances	10,084
Other	194,773
Total non-operating revenue (expense)	(983,823)
Changes before transfers	6,142,236
Transfers to City of Grand Haven	(1,814,122)
Changes in net position	4,328,114
Net position, beginning of year, as restated	32,156,588
Net position, end of year	$ 36,484,702

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

GRAND HAVEN BOARD OF LIGHT AND POWER

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED JUNE 30, 2014

Cash flows from operating activities	
Receipts from customers and users	$ 39,163,047
Payments to employees	(4,511,279)
Payments to suppliers	(20,422,717)
Net cash provided by (used in) operating activities	14,229,051
Cash flows from non-capital financing activities	
Transfers to City of Grand Haven	(1,691,251)
Cash flows from capital and related financing activities	
Interest paid on long-term debt	(1,336,366)
Principal paid on bonds	(6,370,000)
Acquisitions of capital assets	(1,785,766)
Net cash provided by (used in) capital and related financing activities	(9,492,132)
Cash flows from investing activities	
Purchases of investments	(12,815,044)
Sales of investments	14,152,418
Interest received	182,867
Net cash provided by (used in) investing activities	1,520,241
Net increase (decrease) in cash and cash equivalents	4,565,909
Cash and cash equivalents, beginning of year	15,402,188
Cash and cash equivalents, end of year	$ 19,968,097
Cash flows from operating activities	
Operating income (loss)	$ 7,126,059
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities	
Depreciation	4,082,657
Other revenue	204,857
Change in operating assets and liabilities which provided (used) cash	
Receivables	(791,430)
Prepaid and other assets	38,538
Inventory	1,750,282
Deposits with others	(263,058)
Net OPEB assets	(127,310)
Accounts payable	2,100,498
Accrued liabilities	26,562
Customer deposits	21,164
Unearned revenue	(10,073)
Compensated absences	70,305
Net cash provided by (used in) operating activities	$ 14,229,051
Statement of net position classification of cash and cash equivalents	
Cash and cash equivalents	$ 11,312,799
Restricted cash and cash equivalents	8,655,298
Total cash and cash equivalents	$ 19,968,097

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

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1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Grand Haven Board of Light and Power (the Board) conform to generally accepted accounting principles as applicable to governments. The following is a summary of the significant policies.

Reporting Entity

The Board is an Enterprise fund of the City of Grand Haven, Michigan (the City). It operates under the direction of the City Charter and City Council resolution. The Board provides electric services to users in the City of Grand Haven and portions of the surrounding area.

As provided by generally accepted accounting principles, the financial statements of the Grand Haven Board of Light and Power enterprise fund exclude the funds of the City of Grand Haven and applicable component units of the City of Grand Haven. There are no component units to be included. The criteria for including a component unit include significant operational or financial relationships with the Board.

Measurement Focus and Basis of Accounting

The financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

The Board distinguishes operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the Board's principal ongoing operations. The principal operating revenues of the Board are charges for services. Operating expenses of the Board include the cost of electricity generation and purchases, transmission and distribution, 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.

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 when purchased to be cash equivalents.

Investments

Investments are recorded at fair value.

State statutes authorize the Board to invest in:

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

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

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

d. Banker's acceptances of United States banks.

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

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

g. External investment pools as authorized by Public Act 20 as amended.

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

Receivables

All receivables are reported at their net value. Allowance for uncollectible receivables was immaterial at year end.

Prepaid Items

The Board made payment for services 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.

Inventory

Inventory consists principally of coal and supplies and is stated at the lower of costs, determined principally by the moving average method, or market.

Deposits

Deposits consist primarily of a balance on account with the Michigan Public Insurance Association (MPIA) which provides insurance services to the Board.

Restricted Assets

Certain proceeds of the Board's past revenue bonds, as well as certain resources set aside for revenue bond repayment, are classified as restricted assets on the statements of net position 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 are stated at cost and include items defined by the Board as assets with an initial, individual cost of more than $5,000 and an estimated useful life in excess of one year. Such assets are valued at cost where historical records are available and at an estimated historical cost where no historical records exist. Donated capital assets are valued at their estimated fair value on the date received.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related capital assets, as applicable.

Depreciation on capital assets is computed using the straight-line method over the following estimated useful lives:

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

Deferred outflows/inflows of resources

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense) until then. The Board has one item that qualifies for reporting in this category. A deferred charge on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt.

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The Board has no item that qualify for reporting in this category.

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.

Bond Premium

Bond premiums associated with the bond issuances are being amortized to interest expense over the life of the related bonds.

Electric System Revenue Bond resolution

The Board is required to adhere to the terms of the Electric System Revenue Bond Resolution (the "Resolution"). 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.

2. DEPOSITS AND INVESTMENTS

The captions on the financial statements relating to cash and cash equivalents and investments are as follows:

Cash and cash equivalents	$11,312,735
Restricted cash and cash equivalents	8,655,298
Restricted investments	1,340,739
	$21,308,772

Cash and cash equivalents and investment captions consist of the following at June 30, 2014:

Deposits	$11,312,735
Money market funds	8,655,298
Investments	1,340,739
Total	**$21,308,772**

The deposits are in financial institutions located in Michigan in varying amounts. State policy limits the Board's investing options to financial institutions located in Michigan. Board bond resolution provides for specific limits on the amount of deposits with each financial institution based on specific criteria. All accounts are in the name of the City of Grand Haven. They are recorded in the Board's records at fair value. Interest is recorded when earned.

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 does not have, a policy for deposit custodial credit risk. Insurance coverage pertains to all deposits of the City of Grand Haven; hence, the specific coverage pertaining to the Board's deposits, if any, is not readily determinable. As of year-end the Board had total bank balances of $11,632,001 that may be exposed to custodial credit risk.

Investments

The Board chooses to disclose its investments by specifically identifying each. As of year-end, the Board had the following investments:

	Maturity	Fair Value	Rating	Source
Money markets funds	n/a	$8,655,298	AAAm	S&P
Treasury bill	7/24/14	1,340,739	N/A	
Total		**$9,996,037**		

Investment risk

Interest Rate Risk. State law and City policy limit the allowable investments and the maturities of some of the allowable investments as identified in Note 1, the summary of significant accounting policies. The City'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 date for each investment is identified above for investments held at year-end.

Credit Risk. State law limits investments to specific securities as identified in Note 1 of the summary of significant accounting policies. The investment policy does not have specific limits in excess of state law on investment credit risk except as provide for in bond resolution. The rating for each investment is identified above for investments held at year-end.

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 City does not have a policy for investment custodial credit risk. For the above $8,655,298 of money market funds the Board's custodial credit risk exposure cannot be determined because the invested funds do not consist of specifically identifiable securities. The investment in Treasury Bills identified above are held by the counterparty's trust department for the Board.

Concentration of Credit Risk. State law limits allowable investments but does not limit concentration of credit risk as identified in Note 1, the summary of significant accounting policies. The Board limits how much it holds in investments in any one type of security or issuer to minimize the impact of potential losses. City's investment policy does not have specific limits in excess of state law on concentration of credit risk. All investments held at year-end are reported above.

3. UNEARNED REVENUE

The Board receives revenue from allowances that are withheld by the EPA and are being sold at auction. The Board recognized $10,084 in emission allowances revenue during the year.

4. CAPITAL ASSETS

Capital asset activity for the year was as follows:

	Balance July 1, 2013	Additions	Deletions	Balance June 30, 2014
Capital assets, not being depreciated				
Land	$ 222,281	$ -	$ -	$ 222,281
Construction in progress	507,961	746,314	499,532	754,743
Total capital assets, not being depreciated	730,242	746,314	499,532	977,024
Capital assets, being depreciated				
Steam production	96,285,373	38,379	-	96,323,752
Diesel production	6,183,435	75,240	-	6,258,675
Transmission and distribution	35,267,785	1,324,861	-	36,592,646
General plant	1,683,488	100,504	-	1,783,992
Total capital assets, being depreciated	139,420,081	1,538,984	-	140,959,065
Less accumulated depreciation for:				
Steam production	79,906,089	2,973,978	-	82,880,067
Diesel production	5,473,047	61,334	-	5,534,381
Transmission and distribution	20,103,234	979,986	-	21,083,220
General plant	1,390,361	67,359	-	1,457,720
Total accumulated depreciation	106,872,731	4,082,657	-	110,955,388
Net capital assets, being depreciated	32,547,350	(2,543,673)	-	30,003,677
Capital assets, net	**$33,277,592**	**$(1,797,359)**	**$499,532**	**$30,980,701**

5. LONG-TERM DEBT

The following is a summary of the debt transactions of the Board for the year ended June 30, 2014.

	Balance July 1, 2013	Additions	Deletions	Balance June 30, 2014	Due Within One Year
2003 Electric System Revenue Refunding Bonds, due in annual installments of $5,676,000 to $7,210,000 through 2017; interest paid semi-annually at 5.25% to 5.5%	$26,530,000	$ -	$6,085,000	$20,445,000	$6,430,000
2007 Electric System Revenue Bonds, due in annual installments of $285,000 to $330,000 through 2017; interest paid semi-annually at 4.5% to 5.0%	1,230,000	-	285,000	945,000	300,000
Total bonds	27,760,000	-	6,370,000	21,390,000	6,730,000
Bond Premium	350,765	-	172,028	178,737	-
Compensated absences	591,987	70,305	-	662,292	-
Total Long-term debt	$28,702,752	$70,305	$6,542,028	$22,231,029	$6,730,000

The annual requirements to amortize all debt outstanding as of June 30, 2014 are as follows:

Year Ending June 30	Principal	Interest
2015	$6,730,000	$986,651
2016	7,120,000	608,063
2017	7,540,000	206,525
Total	**$21,390,0000**	**$1,801,239**

6. RETIREMENT PLANS

Defined Benefit Pension Plan

The Board participates with the City in the Municipal Employees Retirement System of Michigan (MERS), an agent multiple-employer defined benefit pension plan providing retirement, death and disability benefits covering certain Board employees. The System is administered by the MERS retirement board.

Act No. 220 of the Public Acts of 1984, as amended, establishes and amends the benefit provisions of the participants in MERS. A publicly available financial report that includes financial statements and required supplementary information for MERS may be obtained by writing to the Municipal Employees Retirement System of Michigan, 1134 Municipal Way, Lansing, Michigan 48917

The Board is required to contribute at an actuarially determined rate of 10.24% to 12.63% of covered payroll depending on employee classification; employees are required to contribute from 5% to 8.82% of covered payroll. The current year required and actual contributions were $470,665 and $315,188 for the Board and employees respectively. The contribution requirements of the Board are established and may be amended by the MERS Retirement Board. The contribution requirements of plan members are established and may be amended by the Board, subject to collective bargaining agreements and depending on the MERS contribution program adopted by the Board.

For the year ended June 30, 2014, the Board's annual pension cost of $470,665, for MERS is detailed below. The required contribution was determined as part of the December 31, 2012 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 1.0% to 4.5% per year compounded annually, attributable to inflation; and (c) additional projected salary increases of 0.0% to 13.0% 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 difference in investment income between expected return and market return is recognized over a 10-year period at the rate of 10% per year. The City's unfunded actuarial accrued liability is being amortized at a level percentage of projected payroll on an open basis. The remaining amortization period at December 31, 2013 was 25 years.

Three-Year Trend Information

Fiscal Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Asset
6/30/12	$467,070	100%	$ -
6/30/13	468,773	100%	-
6/30/14	470,665	100%	-

The funding progress of the Board's portion of the MERS retirement plan has not been separately determined from the City. The most recent schedule of funding progress for the City as a whole is as follows:

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 Total	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
12/31/13	$85,412,709	$74,175,758	$(11,236,951)	87%	$10,587,808	106%

7. POST EMPLOYMENT BENEFITS

The Board participates with the City in a single-employer defined benefit healthcare plan (the Retiree Health Plan). The plan provides health insurance premiums for retirees and their beneficiaries, which are advance-funded on a discretionary basis. Benefit provisions are established through the City's pension ordinance and negotiations between the Board and bargaining units and employee groups. The plan makes 75% to 80% of the premium payment and the retiree pays the balance. The Retiree Health Plan does not issue a publicly available financial report and a legal trust has been established for the plan.

The contribution requirements of the plan members and the Board are determined and may be amended by the Board and the City. 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. For the current year the annual required contribution (ARC) was $196,332 while actual contributions were $173,116.

The Board's annual other post-employment 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 costs each year and amortize any unfunded actuarial liabilities (or funding excess) over a period of thirty years. The most recent actuarial valuation of the Retiree Health Plan was performed as of June 30, 2014. The following table shows the components of the Boards annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the Board's OPEB obligation and asset with the plan.

Annual required contribution	$196,332
Interest on Net OPEB obligation	9,179
Adjustment to annual required contribution	(159,705)
Annual OPEB cost (expense)	45,806
Contribution made	173,116
Change in net OPEB obligation	127,310
Net OPEB obligation, beginning of year	92,917
Net OPEB assets, end of year	$34,393

Three-Year Trend Information

Fiscal Year Ending	Annual OPEB Cost	Percentage Contributed	Net OPEB Obligation (Asset)
6/30/12	$159,602	86%	$166,100
6/30/13	62,150	218%	92,917
6/30/14	55,495	318%	(34,393)

Schedule of Funding Progress

Actuarial Valuation Date	Market Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio Total	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
6/30/14	$369,302	$1,562,918	$1,193,616	24%	$3,589,854	33%

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and 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 required supplementary information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value (market value) of plan assets are increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

The schedule of employer contributions presented as required supplementary information following the notes to the financial statements, presents multiyear trend information about actuarial required contributions and actual amounts contributed to the plan. The actuarial required contribution represent a level of funding, if paid on an ongoing basis, is projected to cover normal costs and the amortization of any unfunded actuarial accrued liability over a period not to exceed 30 year.

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 the plan members to that 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 perspective of the calculation.

In the June 30, 2014, actuarial valuation, the individual entry age normal actuarial cost method, level percentage, closed amortization method, and an amortization period of 9 years were utilized. The actuarial assumptions included a 7.5% return on plan assets, a discount rate of 7.5%, 5%medical insurance inflation and the 2014 mortality tables.

8. RISK MANAGEMENT

The Board is insured for employee benefits (unemployment, medical and workers' compensation) through the City's self-insurance program which charges premiums to the Board for coverage (City internal service fund). The City estimates the liability for 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.

The Board is exposed to various risks related to liability, damage or loss for which it participated in the creation of a self-insurance program known as the Michigan Professional Insurance Authority (MPIA). The 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 deposited by the Board to defend and protect the Board. MPIA has purchased commercial insurance for coverage in excess of the Board's self-insured reserve limits. All risk of loss related to the Board's participation in the MPIA is retained by the Board.

Following is insurance coverage and related deductibles in effect at June 30:

Coverage	**2014 Deductible**	**2013 Deductible**
Property, real and personal, including earthquake and flood excluding equipment breakdown	$ 250,000	$ 250,000
Equipment breakdown, excluding Sims #3	50,000	250,000
Equipment breakdown at Sims, excluding Sims #3	250,000	250,000
Equipment breakdown, specific to Sims #3 boiler	500,000	500,000
General liability	50,000	50,000
Auto comprehensive per auto	500	1,000
Auto collision per auto	1,000	1,000
Public officials liability	50,000	50,000
Employee benefits liability	10,000	50,000
Crime	25,000	25,000
Aggregate excess liability, per event	1,000,000	1,000,000
Open cargo	1% of value	1% of value

The Board makes annual payment to the MPIA for administrative charges, insurance purchases and an estimated risk retention reserves. At year end the risk retention reserve balance held by the MPIA for the Board was $1,752,509 which excluded assets set aside for estimated claims of $69,500. The estimated claims at the end of the year included claims already incurred and reported as well as an estimate for claims incurred but not reported. Claim liabilities are calculated considering the effects of inflation and recent claim settlement trends including frequency and amount of pay-outs and other economic and social factors. Settled claims have not exceeded insurance coverage in any of the past three years, and changes in insurance coverage are reflected above

The claims liability for the Board as reported by the MPIA for the year's ended June 30, 2013 and 2014 was $69,500 and $69,500, respectively. Claims adjustment expense cannot be specifically identified to each participant in the MPIA. Total claims expense reported by the MPIA for the years ended June 30, 2013 and 2014 was $148,160 and $499, respectively.

9. JOINT VENTURE

The Board is a member of 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. 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 currently participates in the Transmission Project, Granger Project, North American Natural Resources Project, and the Energy Service Project. The Board does not have an equity interest or participate in the net income or loss of the MPPA. The dollar amount of Board's commitments for participation in the various MPPA projects is currently indeterminable.

The Transmission Project was financed with initial capital contributions of 13 MPPA participants which were utilized to purchase an undivided interest in the transmission grid by the MPPA.

The Granger and North American Natural Resources (NANR) Projects are landfill renewable energy programs operated by the MPPA which provides MPPA participants with renewable energy to meet Michigan Public Act 295 requirements.

The Energy Services Project provides 15 MPPA participants with capacity and energy provided by third parties through the MPPA.

During the current year the Board had the following transactions with the MPPA:

Electricity sales to/through MPPA	$2,101,872
Electricity purchase from/through MPPA	5,075,437
Payments to MPPA for the transmission project	733,230
Payments to MPPA for the Granger Project	1,337,486
Payments to MPPA for the NANR project	170,896
Payments to the MPPA for the energy service project	48,072

10. 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 and reflects balances receivable for these services as accounts receivable. The Board is required to pay five percent of gross retail sales to the City under provisions of the City Charter. The payment of the five percent of gross sales to the City is reported as transfers out to the City of Grand Haven.

11. LITIGATION

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

12. COMMITTMENTS

The Board has entered into long-term contracts for the purchase of a minimum of 150,000 tons of coal annually through December 31, 2017.

13. RESTATEMENT

Net position of the Board at June 30, 2013 is restated from prior periods. Net position at June 30, 2013 was increased by $1,243,963 to reflect $1,509,451 of deposits net of liabilities outstanding at the Michigan Public Insurance Association (MPIA) and $265,488 of capital assets reported by the Board which belonged to other entities.

REQUIRED SUPPLEMENTARY INFORMATION

GRAND HAVEN BOARD OF LIGHT AND POWER

REQUIRED SUPPLEMENTARY INFORMATION

RETIREE HEALTH POST EMPLOYMENT BENEFIT PLAN
SCHEDULE OF FUNDING PROGRESS

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
6/30/2010	$ 158,626	$ 1,373,246	$ (1,214,620)	11.55%	$ 3,561,740	34.10%
6/30/2012	316,280	1,566,016	(1,249,736)	20.20%	3,039,960	41.11%
6/30/2014	369,302	1,562,918	(1,193,616)	23.63%	3,589,854	33.25%

GRAND HAVEN BOARD OF LIGHT AND POWER

REQUIRED SUPPLEMENTARY INFORMATION

FOR THE YEAR ENDED JUNE 30, 2014

PENSION PLAN

SCHEDULE OF EMPLOYER CONTRIBUTIONS

Year Ended June 30	Annual required Contribution	Actual Contribution	Percent Contributed
2012	$ 467,070	$ 467,070	100%
2013	468,773	468,773	100%
2014	470,665	470,665	100%

RETIREE HEALTH OTHER POST EMPLOYMENT BENEFIT PLAN

SCHEDULE OF EMPLOYER CONTRIBUTIONS

Year Ended June 30	Annual required Contribution	Actual Contribution	Percent Contributed
2012	$ 164,444	$ 136,576	83%
2013	179,757	135,333	75%
2014	196,332	173,116	88%

SUPPLEMENTARY INFORMATION

GRAND HAVEN BOARD OF LIGHT AND POWER

SCHEDULE OF OPERATING EXPENSES

FOR THE YEAR ENDED JUNE 30, 2014

		Percentage of Operating Revenue
Power production		
Steam expense		
Operation		
Supervision and engineering	$ 82,277	0.21%
Vacation, sick and holiday pay	386,907	0.97%
Fringe benefits	1,035,809	2.61%
Fuel and fuel handling	10,611,890	26.70%
Steam	654,999	1.65%
Scrubber	371,334	0.93%
Electric plant	261,238	0.66%
Other	484,851	1.22%
Total operation	13,889,305	34.95%
Maintenance		
Supervision	46,306	0.12%
Structures	109,536	0.28%
Boiler plant	1,318,044	3.32%
Scrubber	320,397	0.81%
Electric plant	82,700	0.21%
Other	30,228	0.08%
Total maintenance	1,907,211	4.80%
Total steam expense	15,796,516	39.75%
Diesel expense		
Operation		
Supervision and engineering	2,076	0.01%
Vacation, sick and holiday pay	12,291	0.03%
Fringe benefits	39,556	0.10%
Oil	27,434	0.07%
Gas	13,999	0.04%
Operating labor	38,501	0.10%
Other	74,422	0.19%
Total operation	208,279	0.52%
Maintenance		
Structures	4,154	0.01%
Engines	39,258	0.10%
Other	369	0.00%
Total maintenance	43,781	0.11%
Total diesel expense	252,060	0.63%
System control	74,491	0.19%
Purchased power	6,583,819	16.57%
Transmission	842,706	2.12%
Total Power production	23,549,592	59.26%

GRAND HAVEN BOARD OF LIGHT AND POWER

SCHEDULE OF OPERATING EXPENSES

FOR THE YEAR ENDED JUNE 30, 2014

		Percentage of Operating Revenue
Distribution		
Operation		
Supervision and engineering	$ 204,773	0.52%
Vacation, sick and holiday pay	146,717	0.37%
Fringe benefits	482,348	1.21%
Station expense	63,224	0.16%
Overhead lines		
Labor	297,003	0.75%
Materials	282	0.00%
Transportation	100,349	0.25%
Underground lines	67,019	0.17%
Street lighting and signal system	24,307	0.06%
Meter		
Labor	155,640	0.39%
Other	13,740	0.03%
Engineering supplies	31,722	0.08%
Customer installation	73,049	0.18%
Other	125,117	0.31%
Total operation	1,785,290	4.49%
Maintenance		
Tree trimming	127,664	0.32%
Building and substations	40,469	0.10%
Overhead system	34,583	0.09%
Underground system	933	0.00%
Storm damage	16,923	0.04%
Street lighting and signal	18,508	0.05%
Other	18,172	0.05%
Total maintenance	257,252	0.65%
Reimbursements	(82,227)	-0.21%
Total Distribution	1,960,315	4.93%

GRAND HAVEN BOARD OF LIGHT AND POWER

SCHEDULE OF OPERATING EXPENSES

FOR THE YEAR ENDED JUNE 30, 2014

		Percentage of Operating Revenue
Customer accounts		
Operation		
Supervision and engineering	$ 51,440	0.13%
Vacation, sick and holiday pay	37,580	0.09%
Fringe benefits	130,172	0.33%
Meter reading	124,962	0.31%
Customer records and collection	261,597	0.66%
Energy optimization	419,852	1.06%
Uncollectable accounts, net	37,160	0.09%
Other	847	0.00%
Total customer accounts	1,063,610	2.68%
Administrative and general		
Operation		
Salaries	405,602	1.02%
Vacation, sick and holiday pay	63,079	0.16%
Fringe benefits	196,509	0.49%
Office supplies and expense	109,600	0.28%
Outside services	198,142	0.50%
Transfers to component units	51,582	0.13%
Insurance	802,500	2.02%
Insurance adjustment	(71,739)	-0.18%
Advertising	28,107	0.07%
Franchise requirement	16,808	0.04%
Maintenance	26,125	0.07%
Other	129,981	0.33%
Total administrative and general	1,956,296	4.92%
Depreciation		0.00%
Steam production	2,973,976	7.48%
Diesel production	61,335	0.15%
General plant	67,359	0.17%
Transmission and distribution	979,987	2.47%
Total depreciation	4,082,657	10.27%
Total operating expenses	$ 32,612,470	82.07%

GRAND HAVEN BOARD OF LIGHT AND POWER

SCHEDULE OF LONG -TERM DEBT MATURITY

JUNE 30, 2014

Bond Issue	Interest Rate	Date of Maturity	Annual Maturity	Principal Outstanding
Amount of issue - $47,850,000				
Date of Issue - April 3, 2003	5.25%	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 2003 bond principal				20,445,000
Plus unamortized premium				173,079
				20,618,079
Amount of issue - $2,400,000				
Date of Issue - March 9, 2007	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 2007 bond principal				945,000
Plus unamortized premium				5,658
				950,658
Total				$ 21,568,737

GRAND HAVEN BOARD OF LIGHT AND POWER

SCHEDULE OF REVENUE BOND COVERAGE RATIO

JUNE 30, 2014

Operating revenue	$ 39,738,529
Operating expense	32,612,470
Operating income (loss)	7,126,059
Non-operating revenue (expense)	(983,823)
Changes in net position	6,142,236
Reconciliation of change in net position to net revenues under the Electric System Revenue Bond resolution	
Additons:	
Depreciation	4,082,657
Payment to City of Grand Haven PILOT	1,814,122
Bond interest expense	1,370,944
Amortization of debt premiums	(172,028)
Transfers to component units of the City of Grand Haven	51,582
Total additions	7,147,277
Deductions:	
Interest income - debt service reserve	2,301
Capital contributions	-
Total deductions	2,301
Net revenue under the resolution	$ 13,287,212
Aggregrate debt service	
Debt service	$ 7,706,370
Less: interest income on debt service	(2,301)
Aggregrate debt service under the resolution	$ 7,704,069
Ratio of aggregrate debt service to net revenue	1.72

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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*

December 10, 2014

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

We have audited, in accordance with the 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, the financial statements of Grand Haven Board of Light and Power, Grand Haven, Michigan (the Board) as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Board's basic financial statements, and have issued our report thereon dated December 10, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Board's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Board's internal control. Accordingly, we do not express an opinion on the effectiveness of the Board's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. However, as described in the accompanying schedule of findings and questioned costs, we identified deficiencies in internal control that we consider to be material weaknesses.

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 deficiencies described in the accompanying schedule of findings as items 2014-001 and 2014-002 to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Board'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.*

Grand Haven Board of Light and Power Response to Findings

The Board's responses to the findings identified in our audit are described in the accompanying schedule of findings. The Board's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the responses.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Board's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Board's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Vredeveld Haefner LLC

GRAND HAVEN BOARD OF LIGHT AND POWER

SCHEDULE OF FINDINGS AND RESPONSES

FOR THE YEAR ENDED JUNE 30, 2014

Finding 2014-001

Finding type – Material weakness

CONDITION: The Board does not have the ability to prepare financial statements in accordance with Generally Accepted Accounting Principles (GAAP).

CRITERIA: The ability to prepare the Board's financial statements in accordance GAAP 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.)

CAUSE OF CONDITION: The Board has not implemented a system of controls which provides for preparation of the financial statement in accordance with GAAP.

POTENTIAL EFFECT OF CONDITION: As a result of this condition the Board was unable to prepare the Board's financial statements in accordance with GAAP.

RECOMMENDATION: We recommend that the Board implement controls to provide for the preparation of the financial statements in accordance with GAAP.

MANAGEMENT RESPONSE: The Board has evaluated the benefits of implementing a system of controls which provides for the preparation of the financial statements in accordance with GAAP, and determined that it is in the best interest of the Board to outsource this task to its external auditors, and carefully review any proposed adjusting journal entries, financial statements and notes to the financial statements prior to approving them and accept responsibility for their content and presentation.

Finding 2014-002

CONDITION: The Board has not implemented a system of controls to assure the timely accounting for, and reconciliation of, general leger account balances with supporting documentation. We noted specifically that reconciliation of all bank account balances were not performed in a timely manner, multiple year end asset and liability account balances were not in agreement with supporting detail and that errors occurred in rolling balances on the accounting system from 2013 to the 2014.

CRITERIA: A good system of controls includes timely posting and reconciliation of accounting system account balances to supporting documents.

CAUSE OF CONDITION: The Board has not implemented a system of controls which provides for timely accounting for, and reconciliation of, general ledger account balances with supporting documentation.

POTENTIAL EFFECT OF CONDITION: This condition results in inaccurate account balances reported throughout the year.

RECOMMENDATION: We recommend the Board implement a system of controls to assure timely posting and reconciliation of accounting system account balances to supporting documents.

MANAGEMENT RESPONSE: In reconciling the bank accounts, two of them in particular, there were some procedural issues identified. Corrections that will be implemented that include but are not limited to: daily verification that all deposit batches received in the bank are accounted for, the electronic check processing procedure will be reviewed to reduce risk of errors, and the daily cash activity sheets will be reviewed to verify all cash receipt activity is included for the day. In addition, new methods will be researched to handle electronic payments sent and received in the accounting system in an effort to make the reconciliation process simpler, all monthly bank accounts will be balanced each month, and adjustments will be noted in detail on the bank reconciliation including the date the issue occurred, supporting detail for the adjustment will be included with the reconciliation, and if the issue is not resolved the following month, a note will be made on the reconciliation as to why and when it is expected to be resolved.

The issues with the errors that occurred from rolling the year-end balance from fiscal 2013 to 2014 will be addressed by running a year end trial balance after all adjustments have been entered and verifying that it matches the beginning balances of the accounts after the trial balance is rolled.