# GRAND HAVEN BOARD OF LIGHT AND POWER

**(AN ENTERPRISE FUND OF THE CITY OF GRAND HAVEN, MICHIGAN)**

**Grand Haven, Michigan**

**FINANCIAL STATEMENTS**

**AND**

**SUPPLEMENTARY INFORMATION**

**YEARS ENDED**

**JUNE 30, 2011 AND 2010**

Rehmann

*Business wisdom delivered.*

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# Grand Haven Board of Light and Power

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Rehmann

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# INDEPENDENT AUDITORS' REPORT

October 28, 2011

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*** (an enterprise fund of the City of Grand Haven, Michigan), as of and for the years ended June 30, 2011 and 2010, 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, 2011 and 2010, 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, 2011 and 2010, 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 28, 2011 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.

The Schedules of Funding Progress for the pension and other postemployment benefit plans and the Schedule of Employer Contributions for the other postemployment benefit plan on page 26 are not required parts of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audits were 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 schedules and Management's Discussion and Analysis are presented for purposes of additional analysis and are not a required part of the Grand Haven Board of Light and Power's basic financial statements. The supplementary schedules have been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, are fairly presented, in all material respects, in relation to the basic financial statements taken as a whole. The Management's Discussion and Analysis has not been subjected to the auditing procedures applied in the audits of the basic financial statements and, accordingly, we do not express an opinion on it.

Rehmann Robson

## Management's Discussion and Analysis

This section of the Grand Haven Board of Light & Power's (BLP) annual financial report presents the analysis of the BLP's financial performance during the fiscal years ending June 30, 2011 and 2010. 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 13,400 residential, commercial, and industrial customers in the City of Grand Haven and portions of the surrounding communities. The BLP generated 82 percent of its retail sales and 100 percent of its wholesale sales. The BLP purchased the balance of its energy requirements and made all wholesale sales through the Michigan Public Power Agency's Power Pool Project through December 31, 2010. The Power Pool Project ended as of that date. Beginning January 1, 2011 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**
(Dollars in Thousands)

| | June 30, | | |
|---|---|---|---|
| | 2011 | 2010 | 2009 |
| Current and Other Assets | $29,134 | $29,368 | $27,128 |
| Property, Plant and Equipment | 39,388 | 42,042 | 44,914 |
| Total Assets | 68,522 | 71,410 | 72,042 |
| | | | |
| Long-term Liabilities | 38,541 | 43,608 | 48,319 |
| Other Liabilities | 6,138 | 6,345 | 3,950 |
| Total Liabilities | 44,679 | 49,953 | 52,269 |
| | | | |
| Invested in Capital Assets, Net | 847 | (1,566) | 1,715 |
| Restricted | 8,546 | 8,438 | 3,411 |
| Unrestricted | 14,450 | 14,585 | 14,647 |
| Total Net Assets | 23,843 | 21,457 | 19,773 |

Current & Other Assets decrease primarily due to decrease in Cash and Accounts Receivable based on operations, partially offset by an increase in Coal Inventory due 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 new accelerated payment requirements for state sales tax.

**Results of Operations**
(Dollars in Thousands)

| | Years Ended June 30, | | |
|---|---|---|---|
| | 2011 | 2010 | 2009 |
| Operating Revenue | $35,751 | $31,131 | $32,032 |
| Operating Expenses | 30,871 | 26,876 | 28,977 |
| Nonoperating Expense, Net | 2,494 | 2,571 | 2,751 |
| Net Income | 2,386 | 1,684 | 304 |
| Beginning Net Assets | 21,457 | 19,773 | 19,469 |
| Ending Net Assets | 23,843 | 21,457 | 19,773 |

The increase in operating revenue is primarily the result of an increase in both wholesale sales and retail sales. Retail kWh sales increased in Residential as well as Commercial and Industrial categories. An average rate increase of 5.5% in retail sales was effective July 1, 2010. Revenue from thermal energy related to snowmelt system operations was $39,374 and is part of the operating revenue increase. Increased fuel cost due to increased generation and the purchase of biodiesel fuel made from vegetable oil was offset by grant funds received from the State. An increase in wholesale sales was the result of a recovering economy and increased opportunity for sales through the Energy Services Project.

Fiscal 2011 included a scheduled outage, which resulted in an increase in Operating Expenses compared to fiscal 2010. Outage costs totaled $1,192,000.

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 $309,000 for fiscal 2011 while expenses incurred for the program were $253,000. Revenue from surcharges billed to customers for Renewable Portfolio Standard Program was $58,000. The BLP began purchasing power produced from landfill gas through the Granger Project at the Michigan Public Power Agency in July 2010.

Interest income decreased 72%. Miscellaneous income no longer includes the recognition of revenue from the 2003 sale of sulfur dioxide (SO2) credits.

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

## Budget

The BLP approved a $30,598,200 operating expense budget for fiscal year 2011. Actual operating expenses were $30,870,688 or 1% over budget.

## 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 $1,598,327 in fiscal year 2011, which was paid by internally generated funds and $188,557 by the 2007 bond issue.

**Capital Assets**
(net of depreciation)

| | June 30, | | |
|---|---|---|---|
| | 2011 | 2010 | 2009 |
| Land | $222,281 | $222,281 | $222,281 |
| Construction in progress | 396,722 | 853,943 | 566,156 |
| Steam production | 22,116,732 | 23,812,632 | 26,260,045 |
| Diesel production | 825,684 | 884,864 | 960,936 |
| Transmission and distribution plant | 15,680,494 | 16,126,403 | 16,735,906 |
| General plant | 146,790 | 141,932 | 168,866 |
| Total | $39,388,703 | $42,042,055 | $44,914,190 |

Additional information on the BLP's capital assets can be found in note 4 on pages 15-16 of this report.

**Long-Term Debt**

| | June 30, | | |
|---|---|---|---|
| | 2011 | 2010 | 2009 |
| 2003 electric system refunding bonds | $37,750,000 | $42,930,000 | $47,850,000 |
| 2007 electric system refunding bonds | 1,770,000 | 2,020,000 | 2,220,000 |
| Unamortized bond premium | 838,678 | 1,149,401 | 1,499,685 |
| Unamortized deferred loss | | | |
| on refunding | (1,817,332) | (2,491,238) | (3,250,998) |
| Total | $38,541,346 | $43,608,163 | $48,318,687 |

Additional information on the BLP's long-term debt can be found in note 6 on pages 17-18 of this report.

## Next Year's Budget and Rates

The budget approved for the fiscal year 2012 reflects an average rate change of 2.4% for customers. Increased operating expenses dictate the need for the rate increase. There is not a scheduled maintenance outage for fiscal 2012.

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

# Grand Haven Board of Light and Power

## Statements of Net Assets

| | June 30 | |
|---|---|---|
| | **2011** | **2010** |
| **Assets** | | |
| **Current assets** | | |
| Cash and cash equivalents | $ 9,755,655 | $ 13,104,121 |
| Receivables: | | |
| Accounts | 2,964,309 | 3,023,734 |
| Interest | 1,382 | 2,725 |
| Inventories | 6,593,216 | 3,344,455 |
| Prepaid expenses and other current assets | 78,121 | 74,369 |
| **Total current assets** | **19,392,683** | **19,549,404** |
| **Noncurrent assets** | | |
| Restricted assets: | | |
| Cash and cash equivalents | 6,922,228 | 6,955,944 |
| Investments | 2,672,936 | 2,668,947 |
| Interest receivable | 7,574 | 4,742 |
| Capital assets not being depreciated | 619,003 | 1,076,224 |
| Capital assets being depreciated, net | 38,769,700 | 40,965,831 |
| Unamortized bond issuance costs | 138,322 | 189,189 |
| **Total noncurrent assets** | **49,129,763** | **51,860,877** |
| **Total assets** | **68,522,446** | **71,410,281** |
| **Liabilities** | | |
| **Current liabilities** | | |
| Accounts payable | 3,759,767 | 3,955,569 |
| Due to other funds of the City of Grand Haven | 139,463 | 129,345 |
| Due to component units of the City of Grand Haven | 20,979 | - |
| Accrued payroll and related | 587,643 | 493,217 |
| Customer deposits | 406,317 | 410,135 |
| Unearned revenue | 2,752 | 1,858 |
| Current portion of bonds payable | 5,408,060 | 5,066,817 |
| Accrued interest payable from restricted assets | 1,056,581 | 1,191,081 |
| **Total current liabilities** | **11,381,562** | **11,248,022** |
| **Noncurrent liabilities** | | |
| Deferred revenue | 21,040 | 23,792 |
| Net other postemployment benefit obligation | 143,074 | 140,000 |
| Bonds payable - net of current portion | 33,133,286 | 38,541,346 |
| **Total noncurrent liabilities** | **33,297,400** | **38,705,138** |
| **Total liabilities** | **44,678,962** | **49,953,160** |
| **Net assets** | | |
| Invested in capital assets, net of related debt (deficit) | 847,357 | (1,566,108) |
| Restricted | 8,546,157 | 8,438,552 |
| Unrestricted | 14,449,970 | 14,584,677 |
| **Total net assets** | **$ 23,843,484** | **$ 21,457,121** |

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

# Grand Haven Board of Light and Power

## Statements of Revenues, Expenses and Changes in Net Assets

| | Year ended June 30 | |
|---|---|---|
| | **2011** | **2010** |
| **Operating revenues** | | |
| Residential sales | $ 10,085,490 | $ 8,880,161 |
| Commercial and industrial sales | 21,173,910 | 18,928,214 |
| Public street and highway lighting | 500,680 | 468,693 |
| Other sales to public authorities | 640,753 | 643,789 |
| Sales for resale | 3,019,281 | 1,927,063 |
| Thermal energy | 39,374 | - |
| Forfeited discounts | 105,127 | 101,596 |
| Rental income | 39,928 | 39,465 |
| Capital contributions | 144,752 | 140,730 |
| Other services | 1,375 | 1,000 |
| **Total operating revenues** | **35,750,670** | **31,130,711** |
| **Operating expenses** | | |
| Power production | 20,796,850 | 17,108,419 |
| Distribution | 1,909,683 | 1,784,409 |
| Customer accounts | 880,021 | 811,298 |
| Administrative and general | 1,625,924 | 1,728,173 |
| Depreciation | 4,038,168 | 3,997,430 |
| Statutory charge | 1,620,042 | 1,445,997 |
| **Total operating expenses** | **30,870,688** | **26,875,726** |
| **Operating income** | **4,879,982** | **4,254,985** |
| **Nonoperating income (expense)** | | |
| Interest income | 15,615 | 55,145 |
| Interest expense | (2,528,377) | (2,853,765) |
| Gain on sale of capital assets | 1,750 | 8,704 |
| Emission allowances | 1,858 | 157,150 |
| Other revenue | 15,535 | 61,497 |
| **Total nonoperating expense - net** | **(2,493,619)** | **(2,571,269)** |
| **Change in net assets** | **2,386,363** | **1,683,716** |
| Net assets, beginning of year | 21,457,121 | 19,773,405 |
| **Net assets, end of year** | **$ 23,843,484** | **$ 21,457,121** |

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

# Grand Haven Board of Light and Power

## Statements of Cash Flows

| | Year ended June 30 | |
|---|---|---|
| | **2011** | **2010** |
| **Cash flows from operating activities** | | |
| Receipts from customers and users | $ 35,813,456 | $ 30,316,239 |
| Payments to suppliers | (26,550,642) | (14,885,563) |
| Payments to employees | (3,595,098) | (3,303,794) |
| **Net cash provided by operating activities** | **5,667,716** | **12,126,882** |
| **Cash flows from noncapital financing activities** | | |
| Emission allowances | 1,858 | 157,150 |
| **Cash flows from capital and related financing activities** | | |
| Principal paid on long-term debt | (5,430,000) | (5,120,000) |
| Interest paid on long-term debt | (2,248,827) | (2,513,773) |
| Proceeds from sale of capital assets | 215,261 | 8,704 |
| Purchase of capital assets | (1,598,327) | (1,125,295) |
| **Net cash used in capital and related financing activities** | **(9,061,893)** | **(8,750,364)** |
| **Cash flows from investing activities** | | |
| Cash received for interest | 4,622 | 47,360 |
| Purchases of investment securities | (10,778,485) | (13,293,720) |
| Proceeds from sale or maturities of investment securities | 10,784,000 | 12,730,000 |
| **Net cash provided by (used in) investing activities** | **10,137** | **(516,360)** |
| **Net (decrease) increase in cash and cash equivalents** | **(3,382,182)** | **3,017,308** |
| Cash and cash equivalents, beginning of year | 20,060,065 | 17,042,757 |
| **Cash and cash equivalents, end of year** | **$ 16,677,883** | **$ 20,060,065** |
| **Statement of net assets classification of cash and cash equivalents** | | |
| Cash and cash equivalents | $ 9,755,655 | $ 13,104,121 |
| Restricted assets, cash and cash equivalents | 6,922,228 | 6,955,944 |
| **Total cash and cash equivalents** | **$ 16,677,883** | **$ 20,060,065** |

Continued…

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

# Grand Haven Board of Light and Power

## Statements of Cash Flows

| | Year ended June 30 2011 | Year ended June 30 2010 |
|---|---|---|
| **Reconciliation of operating income to net cash provided by operating activities:** | | |
| Operating income | $ 4,879,982 | $ 4,254,985 |
| Adjustments to reconcile operating income to net cash provided by operating activities | | |
| Depreciation | 4,038,168 | 3,997,430 |
| Other revenue | 15,535 | 61,497 |
| Bad debt expense | 10,316 | 33,783 |
| Changes in operating assets and liabilities which provided (used) cash | | |
| Accounts receivable | 49,109 | (718,819) |
| Inventories | (3,248,761) | 1,973,674 |
| Prepaid expenses and other current assets | (3,752) | 3,263 |
| Accounts payable | (195,802) | 2,574,624 |
| Due to other funds of the City of Grand Haven | 10,118 | 24,469 |
| Due to component units of the City of Grand Haven | 20,979 | - |
| Accrued payroll and related | 94,426 | (14,675) |
| Customer deposits | (3,818) | (46,199) |
| Unearned revenue | (1,858) | (157,150) |
| Net other postemployment benefit obligation | 3,074 | 140,000 |
| **Net cash provided by operating activities** | **$ 5,667,716** | **$ 12,126,882** |

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

## 1. NATURE OF BUSINESS AND SIGNIFICANT ACCOUNTING POLICIES

The Grand Haven Board of Light and Power (the “Board”) is an Enterprise Fund of the City of Grand Haven, Michigan (the “City”). It operates under direction of the City Charter. The Board provides electric services to users in the City of Grand Haven and portions of the surrounding area. The economic resources measurement focus and the accrual basis of accounting are used in preparing the financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

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

***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 at 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.

### *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.

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.

### *Unamortized Bond Issuance Costs*

Debt issue costs of $610,458 of 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 $50,867 and $57,117 for the years ended June 30, 2011 and 2010, respectively. Accumulated amortization was $472,136 and $421,269 at June 30, 2011 and 2010, respectively.

### *Revenue Recognition*

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

***Reclassification***

Certain amounts as reported in the 2010 financial statements have been reclassified to conform with the 2011 presentation.

## 2. DEPOSITS AND INVESTMENTS

The Board's deposits and investments are included on the statements of net assets under the following classifications at June 30:

| | 2011 | | 2010 | |
|---|---|---|---|---|
| | **Cash and Cash Equivalents** | **Restricted Assets** | **Cash and Cash Equivalents** | **Restricted Assets** |
| Deposits (checking & savings accounts) | $ 6,089,855 | $ 6,922,228 | $ 13,103,321 | $ 6,955,944 |
| Petty cash | 800 | - | 800 | - |
| Investments | 3,665,000 | 2,672,936 | - | 2,668,947 |
| **Total** | **$ 9,755,655** | **$ 9,595,164** | **$ 13,104,121** | **$ 9,624,891** |

***Statutory Authority***

State statutes authorize the Board to invest in:

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

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

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

d. Bankers acceptances of United States banks.

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

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

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

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

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

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

At June 30, 2010, the Board had the following investments:

| Investment | Maturity Date | Fair Value |
|---|---|---|
| U.S. Treasury Bill | 8/5/2010 | $ 1,333,004 |
| U.S. Treasury Bill | 12/16/2010 | 1,335,943 |
| | | $ 2,668,947 |

***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. At June 30, 2011, $13,061,859 of the Board's bank balance of 13,823,806 was exposed to custodial credit risk because it was uninsured and uncollateralized. At June 30, 2010, $12,656,007 of the Board's bank balance of $19,886,097 was exposed to custodial credit risk because it was uninsured and uncollateralized. 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.

*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 ASSETS

Restricted net assets consist of the following at June 30:

| | 2011 | 2010 |
|---|---|---|
| Bond and interest redemption account – | | |
| Cash and cash equivalents | $ 6,776,582 | $ 6,620,082 |
| Debt service reserve account – | | |
| Cash and cash equivalents | 851 | 2,510 |
| United States Treasury bills & notes | 2,672,936 | 2,668,947 |
| Construction account – | | |
| Cash and cash equivalents | 144,795 | 333,352 |
| Interest receivable | 7,574 | 4,742 |
| **Total revenue bond restricted assets** | **9,602,738** | **9,629,633** |
| Less current liabilities payable from restricted assets | | |
| Accrued interest | 1,056,581 | 1,191,081 |
| **Total restricted net assets** | **$ 8,546,157** | **$ 8,438,552** |

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, 2011 is as follows:

| | Balance July 1, 2010 | Additions | Deletions and Transfers | Balance June 30, 2011 |
|---|---|---|---|---|
| **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 | 1,296,185 | 10,000 | 96,025,730 |
| Diesel production | 6,183,435 | - | - | 6,183,435 |
| Transmission and distribution plant | 34,001,283 | 723,950 | 857,161 | 33,868,072 |
| General plant | 1,412,728 | 35,413 | - | 1,448,141 |
| | 136,336,991 | 2,055,548 | 867,161 | 137,525,378 |
| **Accumulated depreciation** | | | | |
| 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 |
| **Net capital assets, being depreciated** | **40,965,831** | **(1,982,620)** | **213,511** | **38,769,700** |
| **Total capital assets, net** | **$ 42,042,055** | **$ (384,293)** | **$ 2,269,059** | **$ 39,388,703** |

A summary of capital assets as of and for the year ended June 30, 2010 is as follows:

| | Balance July 1, 2009 | Additions | Deletions and Transfers | Balance June 30, 2010 |
|---|---|---|---|---|
| **Capital assets, not being depreciated** | | | | |
| Land | $ 222,281 | $ - | $ - | $ 222,281 |
| Construction in progress | 566,156 | 1,125,295 | 837,508 | 853,943 |
| | 788,437 | 1,125,295 | 837,508 | 1,076,224 |
| **Capital assets, being depreciated** | | | | |
| Steam production | 94,240,054 | 499,491 | - | 94,739,545 |
| Diesel production | 6,183,435 | - | - | 6,183,435 |
| Transmission and distribution plant | 33,715,774 | 331,057 | 45,548 | 34,001,283 |
| General plant | 1,405,768 | 6,960 | - | 1,412,728 |
| | 135,545,031 | 837,508 | 45,548 | 136,336,991 |
| **Accumulated depreciation** | | | | |
| Steam production | 67,980,009 | 2,946,904 | - | 70,926,913 |
| Diesel production | 5,222,499 | 76,072 | - | 5,298,571 |
| Transmission and distribution plant | 16,979,868 | 940,560 | 45,548 | 17,874,880 |
| General plant | 1,236,902 | 33,894 | - | 1,270,796 |
| | 91,419,278 | 3,997,430 | 45,548 | 95,371,160 |
| **Net capital assets, being depreciated** | **44,125,753** | **(3,159,922)** | **-** | **40,965,831** |
| **Total capital assets, net** | **$ 44,914,190** | **$ (2,034,627)** | **$ 837,508** | **$ 42,042,055** |

## 5. UNEARNED REVENUE

Each year, the Board is allocated 1,484 S02 allowances from the Environmental Protection Agency, which are fully marketable commodities. As the Board did not anticipate utilizing all of the allowances granted to it in future years, in 2003 the Board sold 6,900 future allowances, which is reflected in the financial statements as unearned revenue. In addition, the Board receives revenue from allowances that are withheld by the EPA are being sold at auction. The Board recognized $1,858 and $157,150 in emission allowances revenue for the years ended June 30, 2011 and 2010, respectively.

## 6. LONG-TERM DEBT

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

| | Balance July 1, 2010 | Additions | Deletions | Balance June 30, 2011 | 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 Refunding Bonds, due in annual installments of $265,000 to $330,000 through 2017; interest paid semi-annually at 4.0% to 5.0%. | 2,020,000 | - | 250,000 | 1,770,000 | 265,000 |
| **Subtotal installment debt** | **44,950,000** | **-** | **5,430,000** | **39,520,000** | **5,720,000** |
| Unamortized bond premium | 1,149,401 | - | 310,723 | 838,678 | 267,032 |
| Unamortized deferred loss on refunding | (2,491,238) | - | (673,906) | (1,817,332) | (578,972) |
| **Total long-term debt** | **$ 43,608,163** | **$ -** | **$ 5,066,817** | **$ 38,541,346** | **$ 5,408,060** |

Long-term debt activity as of and for the year ended June 30, 2010 is as follows:

| | Balance July 1, 2009 | Additions | Deletions | Balance June 30, 2010 | Due Within One Year |
|---|---|---|---|---|---|
| 2003 Electric System Revenue Refunding Bonds, due in annual installments of $5,180,000 to $7,210,000 through 2017; interest paid semi-annually at 5.0% to 5.5%. | $ 47,850,000 | $ - | $ 4,920,000 | $ 42,930,000 | $ 5,180,000 |
| 2007 Electric System Revenue Refunding Bonds, due in annual installments of $250,000 to $330,000 through 2017; interest paid semi-annually at 4.0% to 5.0%. | 2,220,000 | - | 200,000 | 2,020,000 | 250,000 |
| **Subtotal installment debt** | **50,070,000** | **-** | **5,120,000** | **44,950,000** | **5,430,000** |
| Unamortized bond premium | 1,499,685 | - | 350,284 | 1,149,401 | 310,723 |
| Unamortized deferred loss on refunding | (3,250,998) | - | (759,760) | (2,491,238) | (673,906) |
| **Total long-term debt** | **$ 48,318,687** | **$ -** | **$ 4,710,524** | **$ 43,608,163** | **$ 5,066,817** |

***Debt Service Requirements***

The annual requirements to maturity on debt outstanding as of June 30, 2011, excluding the unamortized premium and deferred refunding costs on bonds payable, are as follows:

| Year Ending June 30 | Principal | Interest | Total |
|---|---|---|---|
| 2012 | $ 5,720,000 | $ 2,107,863 | $ 7,827,863 |
| 2013 | 6,040,000 | 1,810,676 | 7,850,676 |
| 2014 | 6,370,000 | 1,496,100 | 7,866,100 |
| 2015 | 6,730,000 | 1,163,475 | 7,893,475 |
| 2016 | 7,120,000 | 795,200 | 7,915,200 |
| 2017 | 7,540,000 | 404,800 | 7,944,800 |
| **Total** | **$ 39,520,000** | **$ 7,778,114** | **$ 47,298,114** |

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 12.60% and 5.51% of annual covered payroll for union and non-union employees, respectively. The required employee contribution rates are 4.0% and 5.51% for union and non-union employees, respectively. Total employee contributions were $196,185 and $152,613 for the years ended June 30, 2011 and 2010, 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, 2011, the Board's annual pension cost of $422,568 for MERS was equal to the Board's required and actual contributions. The required contribution was determined as part of the December 31, 2008 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**

| Fiscal Year | Annual Pension Costs (APC) | Percentage of APC Contributed | Net Pension Obligation |
|---|---|---|---|
| 2009 | $ 291,800 | 100% | $ - |
| 2010 | 290,184 | 100% | - |
| 2011 | 422,568 | 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 $1,632,378 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, 2011, the Board contributed $155,822 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:

| | 2011 | 2010 |
|---|---|---|
| Annual required contribution | $ 163,170 | $ 393,099 |
| Interest on net OPEB obligation | 10,500 | 11,357 |
| Adjustment to annual required contribution | (14,774) | (15,128) |
| Net OPEB cost (expense) | 158,896 | 389,328 |
| Contributions made | 155,822 | 249,328 |
| Increase in net OPEB obligation | 3,074 | 140,000 |
| Net OPEB obligation, beginning of year | 140,000 | - |
| **Net OPEB obligation, end of year** | **$ 143,074** | **$ 140,000** |

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

| Year Ended June 30 | Annual OPEB Cost | Contributions | Percentage of Annual OPEB Cost Contributed | Net OPEB Obligation |
|---|---|---|---|---|
| 2011 | $ 158,896 | $ 155,822 | 98.07% | $ 143,074 |
| 2010 | 389,328 | 249,328 | 64.04% | 140,000 |

*Funded status and funding progress.* As of June 30, 2010, the most recent actuarial valuation, the actuarial accrued liability for benefits was $1,373,246, of which $1,214,620 was unfunded. The covered payroll (annual payroll of the active employees covered by the Plan) was $3,561,740 and the ratio of the UAAL to the covered payroll was 34 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, 2010 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 2010 mortality table for healthy and the IRS 2010 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, 2010 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.

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.

| Year Ended June 30 | Beginning of Year Liability | Current Year Premium Equivalent Costs | Premium Equivalent Payments | Balance at Year End |
|---|---|---|---|---|
| 2011 | $ - | $ 802,800 | $ 802,800 | $ - |
| 2010 | - | 802,600 | 802,600 | - |

## 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, 2011, approximately 241,000 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:

| | 2011 | 2010 |
|---|---|---|
| Sales | $ 2,831,459 | $ 2,102,095 |
| Purchases | 1,951,365 | 905,563 |
| Receivables | 252,626 | 297,101 |

### 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:

| | 2011 | 2010 |
|---|---|---|
| Operating revenue from City-owned facilities | $ 973,886 | $ 916,054 |
| Operating expenses - statutory charge | 1,620,042 | 1,445,997 |
| Accounts receivable | 107,556 | 234,253 |
| Accounts payable | 573 | 12,752 |
| Due to other funds of the City | 139,463 | 129,345 |

### 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:

| | 2011 | 2010 |
|---|---|---|
| Capital assets not being depreciated | $ 619,003 | $ 1,076,224 |
| Capital assets being depreciated, net | 38,769,700 | 40,965,831 |
| Bonds payable | (38,541,346) | (43,608,163) |
| | **$ 847,357** | **$ (1,566,108)** |

* * * * *

# REQUIRED SUPPLEMENTARY INFORMATION

# Grand Haven Board of Light and Power

## Required Supplementary Information

## For the Year Ended June 30, 2011

**Michigan 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 Total (a/b) | Covered Payroll (c) | UAAL as a Percentage of Covered Payroll ((b-a)/c) |
|---|---|---|---|---|---|---|
| 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% |

**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 Total (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% |

**Other Postemployment Benefit Plan**
**Schedule of Employer Contributions**

| Years Ended | Annual Required Contribution | Percentage Contributed |
|---|---|---|
| 06/30/10 | $ 393,099 | 63.4% |
| 06/30/11 | 163,170 | 95.5% |

# SUPPLEMENTARY INFORMATION

# Grand Haven Board of Light and Power

## Schedules of Revenues, Expenses and Changes in Net Assets

| | Year ended June 30 | | Increase | Percentage of Operating Revenue | |
|---|---|---|---|---|---|
| | 2011 | 2010 | (Decrease) | 2011 | 2010 |
| **Operating revenues** | | | | | |
| Residential sales | $ 10,085,490 | $ 8,880,161 | $ 1,205,329 | 28.22% | 28.53% |
| Commercial and industrial sales | 21,173,910 | 18,928,214 | 2,245,696 | 59.23% | 60.79% |
| Public street and highway lighting | 500,680 | 468,693 | 31,987 | 1.40% | 1.51% |
| Other sales to public authorities | 640,753 | 643,789 | (3,036) | 1.79% | 2.07% |
| Sales for resale | 3,019,281 | 1,927,063 | 1,092,218 | 8.45% | 6.19% |
| Thermal energy | 39,374 | - | 39,374 | 0.11% | 0.00% |
| Forfeited discounts | 105,127 | 101,596 | 3,531 | 0.29% | 0.33% |
| Rental income | 39,928 | 39,465 | 463 | 0.11% | 0.13% |
| Capital contributions | 144,752 | 140,730 | 4,022 | 0.40% | 0.45% |
| Other services | 1,375 | 1,000 | 375 | 0.00% | 0.00% |
| **Total operating revenues** | **35,750,670** | **31,130,711** | **4,619,959** | **100.00%** | **100.00%** |
| **Operating expenses** | | | | | |
| Power production | 20,796,850 | 17,108,419 | 3,688,431 | 58.17% | 54.96% |
| Distribution | 1,909,683 | 1,784,409 | 125,274 | 5.34% | 5.73% |
| Customer accounts | 880,021 | 811,298 | 68,723 | 2.46% | 2.61% |
| Administrative and general | 1,625,924 | 1,728,173 | (102,249) | 4.55% | 5.55% |
| Depreciation | 4,038,168 | 3,997,430 | 40,738 | 11.30% | 12.84% |
| Statutory charge | 1,620,042 | 1,445,997 | 174,045 | 4.53% | 4.64% |
| **Total operating expenses** | **30,870,688** | **26,875,726** | **3,994,962** | **86.35%** | **86.33%** |
| **Operating income** | **4,879,982** | **4,254,985** | **624,997** | **13.65%** | **13.67%** |
| **Nonoperating income (expense)** | | | | | |
| Interest income | 15,615 | 55,145 | (39,530) | 0.04% | 0.18% |
| Interest expense | (2,528,377) | (2,853,765) | 325,388 | -7.07% | -9.17% |
| Gain on sale of capital assets | 1,750 | 8,704 | (6,954) | 0.00% | 0.03% |
| Emission allowances | 1,858 | 157,150 | (155,292) | 0.01% | 0.50% |
| Other revenue | 15,535 | 61,497 | (45,962) | 0.04% | 0.20% |
| **Total nonoperating expense - net** | **(2,493,619)** | **(2,571,269)** | **77,650** | **-6.98%** | **-8.26%** |
| **Change in net assets** | **$ 2,386,363** | **$ 1,683,716** | **$ 702,647** | **6.67%** | **5.41%** |

# Grand Haven Board of Light and Power

## Schedules of Operating Expenses

| | Year ended June 30 | | Increase | Percentage of Operating Revenue | |
|---|---|---|---|---|---|
| | 2011 | 2010 | (Decrease) | 2011 | 2010 |
| **Power production** | | | | | |
| Steam expense: | | | | | |
| Operation: | | | | | |
| Supervision and engineering | $ 125,300 | $ 72,827 | $ 52,473 | 0.35% | 0.23% |
| Vacation, sick and holiday pay | 316,062 | 295,378 | 20,684 | 0.88% | 0.95% |
| Fringe benefits | 1,088,690 | 998,084 | 90,606 | 3.05% | 3.21% |
| Fuel and fuel handling | 12,165,390 | 11,633,861 | 531,529 | 34.04% | 37.37% |
| Steam | 506,683 | 440,925 | 65,758 | 1.42% | 1.42% |
| Scrubber | 394,399 | 394,552 | (153) | 1.10% | 1.27% |
| Electric plant | 314,306 | 331,202 | (16,896) | 0.88% | 1.06% |
| Other | 430,570 | 330,042 | 100,528 | 1.20% | 1.06% |
| Total operation | 15,341,400 | 14,496,871 | 844,529 | 42.92% | 46.57% |
| Maintenance: | | | | | |
| Supervision | 47,875 | 44,714 | 3,161 | 0.13% | 0.14% |
| Structures | 77,064 | 51,239 | 25,825 | 0.22% | 0.16% |
| Boiler plant | 1,674,983 | 608,626 | 1,066,357 | 4.69% | 1.96% |
| Scrubber | 471,072 | 393,097 | 77,975 | 1.32% | 1.26% |
| Electric plant | 272,028 | 5,763 | 266,265 | 0.76% | 0.02% |
| Other | 38,868 | 33,889 | 4,979 | 0.11% | 0.11% |
| Total maintenance | 2,581,890 | 1,137,328 | 1,444,562 | 7.23% | 3.65% |
| Total steam expense | 17,923,290 | 15,634,199 | 2,289,091 | 50.15% | 50.22% |
| Diesel expense: | | | | | |
| Operation: | | | | | |
| Supervision and engineering | 3,839 | 3,832 | 7 | 0.01% | 0.01% |
| Vacation, sick and holiday pay | 23,025 | 25,925 | (2,900) | 0.06% | 0.08% |
| Fringe benefits | 82,548 | 96,183 | (13,635) | 0.23% | 0.31% |
| Fuel: | | | | | |
| Oil | 72,172 | 42,824 | 29,348 | 0.20% | 0.14% |
| Gas | 1,223 | 11,398 | (10,175) | 0.00% | 0.04% |
| Operating labor | 45,820 | 47,090 | (1,270) | 0.13% | 0.15% |
| Other | 124,735 | 86,276 | 38,459 | 0.35% | 0.28% |
| Total operation | 353,362 | 313,528 | 39,834 | 0.98% | 1.01% |
| Maintenance: | | | | | |
| Structures | 4,909 | 4,004 | 905 | 0.01% | 0.01% |
| Engines | 121,820 | 164,782 | (42,962) | 0.34% | 0.53% |
| Other | 18,776 | 15,478 | 3,298 | 0.05% | 0.05% |
| Total maintenance | 145,505 | 184,264 | (38,759) | 0.40% | 0.59% |
| Total diesel expense | 498,867 | 497,792 | 1,075 | 1.38% | 1.60% |
| System control | 69,113 | 46,226 | 22,887 | 0.19% | 0.15% |
| Purchased power | 2,037,612 | 763,285 | 1,274,327 | 5.70% | 2.45% |
| Network | 267,968 | 166,917 | 101,051 | 0.75% | 0.54% |
| **Total power production** | **20,796,850** | **17,108,419** | **3,688,431** | **58.17%** | **54.96%** |

Continued…

# Grand Haven Board of Light and Power

## Schedules of Operating Expenses

| | Year ended June 30 | | Increase | Percentage of Operating Revenue | |
|---|---|---|---|---|---|
| | 2011 | 2010 | (Decrease) | 2011 | 2010 |
| **Distribution** | | | | | |
| Operation: | | | | | |
| Supervision and engineering | $ 203,053 | $ 231,696 | $ (28,643) | 0.57% | 0.74% |
| Vacation, sick and holiday pay | 183,080 | 143,984 | 39,096 | 0.51% | 0.46% |
| Fringe benefits | 507,250 | 480,692 | 26,558 | 1.42% | 1.54% |
| Station expense | 64,186 | 58,525 | 5,661 | 0.18% | 0.19% |
| Overhead lines: | | | | | |
| Labor | 240,958 | 192,067 | 48,891 | 0.67% | 0.62% |
| Materials | 7,249 | 7,110 | 139 | 0.02% | 0.02% |
| Transportation | 88,761 | 69,934 | 18,827 | 0.25% | 0.22% |
| Underground lines | 63,885 | 61,922 | 1,963 | 0.18% | 0.20% |
| Street lighting and signal system | 18,650 | 23,110 | (4,460) | 0.05% | 0.07% |
| Meters: | | | | | |
| Labor | 114,939 | 104,975 | 9,964 | 0.33% | 0.36% |
| Other | 10,248 | 10,737 | (489) | 0.03% | 0.03% |
| Heating | 32,740 | 27,879 | 4,861 | 0.09% | 0.09% |
| Engineering supplies | 29,497 | 20,986 | 8,511 | 0.08% | 0.07% |
| Customer installation | 67,709 | 68,119 | (410) | 0.19% | 0.22% |
| Other | 114,851 | 88,642 | 26,209 | 0.32% | 0.28% |
| Total operation | 1,747,056 | 1,590,378 | 156,678 | 4.89% | 5.11% |
| Maintenance: | | | | | |
| Tree trimming | 115,128 | 112,237 | 2,891 | 0.33% | 0.37% |
| Buildings and substations | 41,018 | 21,199 | 19,819 | 0.11% | 0.07% |
| Overhead system | 31,997 | 28,089 | 3,908 | 0.09% | 0.09% |
| Underground system | 457 | 517 | (60) | 0.00% | 0.00% |
| Storm damage | 8,432 | 75,978 | (67,546) | 0.02% | 0.24% |
| Street lighting and signal system | 25,506 | 1,506 | 24,000 | 0.07% | 0.00% |
| Other | 166 | 937 | (771) | 0.00% | 0.00% |
| Total maintenance | 222,704 | 240,463 | (17,759) | 0.62% | 0.77% |
| Reimbursements | (60,077) | (46,432) | (13,645) | -0.17% | -0.15% |
| **Total distribution** | **1,909,683** | **1,784,409** | **125,274** | **5.34%** | **5.73%** |
| **Customer accounts** | | | | | |
| Operation: | | | | | |
| Supervision and engineering | 70,732 | 56,406 | 14,326 | 0.20% | 0.18% |
| Vacation, sick and holiday pay | 38,632 | 36,611 | 2,021 | 0.11% | 0.12% |
| Fringe benefits | 157,871 | 141,708 | 16,163 | 0.44% | 0.46% |
| Meter reading | 111,014 | 93,231 | 17,783 | 0.31% | 0.30% |
| Customer records and collection | 237,586 | 241,930 | (4,344) | 0.66% | 0.78% |
| EO expense | 252,912 | 206,737 | 46,175 | 0.71% | 0.66% |
| Uncollectible accounts - net | 10,316 | 33,783 | (23,467) | 0.03% | 0.11% |
| Other | 958 | 892 | 66 | 0.00% | 0.00% |
| **Total customer accounts** | **880,021** | **811,298** | **68,723** | **2.46%** | **2.61%** |

Continued…

# Grand Haven Board of Light and Power

## Schedules of Operating Expenses

| | Year ended June 30 | | Increase | Percentage of Operating Revenue | |
|---|---|---|---|---|---|
| | 2011 | 2010 | (Decrease) | 2011 | 2010 |
| **Administrative and general** | | | | | |
| Operation: | | | | | |
| Salaries | $ 276,511 | $ 265,355 | $ 11,156 | 0.78% | 0.84% |
| Vacation, sick and holiday pay | 43,059 | 70,644 | (27,585) | 0.12% | 0.23% |
| Fringe benefits | 123,354 | 120,948 | 2,406 | 0.35% | 0.39% |
| Office supplies and expense | 72,445 | 52,769 | 19,676 | 0.20% | 0.17% |
| Outside services | 78,285 | 218,181 | (139,896) | 0.22% | 0.70% |
| Transfers to component units | 87,540 | 78,967 | 8,573 | 0.24% | 0.25% |
| Insurance | 802,800 | 802,600 | 200 | 2.25% | 2.58% |
| Advertising | 9,917 | 5,882 | 4,035 | 0.03% | 0.02% |
| Franchise requirement | 15,325 | 15,427 | (102) | 0.04% | 0.05% |
| Maintenance | 22,924 | 20,244 | 2,680 | 0.06% | 0.07% |
| Other | 93,764 | 77,156 | 16,608 | 0.26% | 0.25% |
| **Total administrative and general** | **1,625,924** | **1,728,173** | **(102,249)** | **4.55%** | **5.55%** |
| **Depreciation** | | | | | |
| Steam production | 3,011,937 | 2,946,906 | 65,031 | 8.42% | 9.47% |
| Diesel production | 59,179 | 76,072 | (16,893) | 0.17% | 0.24% |
| Transmission and distribution plant | 936,497 | 940,560 | (4,063) | 2.62% | 3.02% |
| General plant | 30,555 | 33,892 | (3,337) | 0.09% | 0.11% |
| **Total depreciation** | **4,038,168** | **3,997,430** | **40,738** | **11.30%** | **12.84%** |
| **Statutory charge** | **1,620,042** | **1,445,997** | **174,045** | **4.53%** | **4.64%** |
| **Total operating expenses** | **$ 30,870,688** | **$ 26,875,726** | **$ 3,994,962** | **86.35%** | **86.33%** |

# 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, 2011 |
|---|---|---|---|---|
| Amount of issue – $47,850,000 | | | | |
| Date of issue – April 3, 2003 | 5.25 | 7/1/2011 | $ 5,455,000 | $ 5,455,000 |
| | 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 | | | | 37,750,000 |
| Plus unamortized premium | | | | 812,838 |
| Less unamortized loss on refunding | | | | (1,817,332) |
| | | | | **36,745,506** |
| Amount of issue – $2,400,000 | | | | |
| Date of issue – March 9, 2007 | 4.00 | 7/1/2011 | 265,000 | 265,000 |
| | 4.00 | 7/1/2012 | 275,000 | 275,000 |
| | 4.50 | 7/1/2013 | 285,000 | 285,000 |
| | 4.50 | 7/1/2014 | 300,000 | 300,000 |
| | 5.00 | 7/1/2015 | 315,000 | 315,000 |
| | 5.00 | 7/1/2016 | 330,000 | 330,000 |
| Total face value | | | | 1,770,000 |
| Plus unamortized premium | | | | 25,840 |
| | | | | **1,795,840** |
| **Total** | | | | **$ 38,541,346** |

# Grand Haven Board of Light and Power

## Schedules of Debt Service Coverage Ratio

| | Year ended June 30 2011 | 2010 |
|---|---|---|
| Operating revenue | $ 35,750,670 | $ 31,130,711 |
| Operating expenses | 30,870,688 | 26,875,726 |
| **Operating income** | **4,879,982** | **4,254,985** |
| Non-operating expenses – net | (2,493,619) | (2,571,269) |
| **Net income** | **2,386,363** | **1,683,716** |
| **Reconciliation of net income to net revenue under the resolution** | | |
| Additions | | |
| Depreciation | 4,038,168 | 3,997,430 |
| Statutory charge | 1,620,042 | 1,445,997 |
| Bond interest expense | 2,787,068 | 3,142,324 |
| Amortization of debt premiums and issue costs | (259,856) | (293,167) |
| Transfers to component units | 87,540 | 78,967 |
| **Total additions** | **8,272,962** | **8,371,551** |
| Deductions | | |
| Interest income – debt service reserve | 4,887 | 8,391 |
| Capital contributions | 184,126 | 140,730 |
| **Total deductions** | **189,013** | **149,121** |
| **Net revenue under the resolution** | **$ 10,470,312** | **$ 9,906,146** |
| **Aggregate debt service** | | |
| Debt service | $ 7,833,162 | $ 7,812,564 |
| Less interest income on debt service | (4,887) | (8,391) |
| **Aggregate debt service under the resolution** | **$ 7,828,275** | **$ 7,804,173** |
| **Ratio of aggregate debt service to net revenue** | **1.34** | **1.27** |

# 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 28, 2011

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, 2011, and have issued our report thereon dated October 28, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

## Internal Control Over Financial Reporting

In planning and performing our audit, we considered 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 2011-1 to be a material weakness in internal control over financial reporting.

**Finding 2011-1 - 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 several audit adjustments (each of which was reviewed, approved, and posted by management) to correct various account balances and record year-end accruals. In our opinion, these adjustments collectively 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 primarily caused by the Board's decision that it is more cost effective to outsource the preparation of its annual financial statements including assistance with certain year-end adjustments, 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 deficiency described below as item 2011-2 to be a significant deficiency.

**Finding 2011-2 - Account Reconciliations and Reporting**

**Criteria:** As part of the month-end and year-end closing process, accounts receivable and customer deposit reports (along with their corresponding subsidiary ledgers) should be reconciled to the general ledger in order to ensure accurate financial information is presented.

**Condition:** The accounts receivable and customer deposits report by customer has not been generated since January 2011 and, as a result, these balances are not being reconciled to the general ledger on a periodic 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 balances for accounts receivable and customer deposits could not be reconciled to a detail listing of customers making up the balance. This exposes 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 the subsidiary ledger reports be produced and reconciled to 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.

## 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.*

We noted certain matters that we reported to management of the Grand Haven Board of Light and Power in a separate letter dated October 28, 2011.

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