



# **GRAND HAVEN BOARD OF LIGHT AND POWER**

**FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2020**



Vredeveld Haefner LLC  
CPAs and Consultants

# GRAND HAVEN BOARD OF LIGHT AND POWER

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### INDEPENDENT AUDITORS' REPORT

October 16, 2020

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 years ended June 30, 2020 and 2019, 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, 2020 and 2019, and the respective changes in financial position and cash flows thereof for the years 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 25 through 28 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 Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated October 16, 2020 on our consideration of the Grand Haven Board of Light and Power's 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 the effectiveness of 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's internal control over financial reporting and compliance.

*Uredaxeld 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, 2020. 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

- Retail rates remained unchanged in this fiscal year.
- Total operating revenues decreased 7.3%, driven by a 7.15% decrease in retail sales revenue. Kilowatt-hours consumption decreased by 7.02% from the previous year. While these decreases were mitigated at fiscal year-end due to warmer weather conditions, the primary contributing factor to the reductions was the COVID 19 Pandemic and Industry closures due to Michigan's stay at home orders. Industrial Kilowatt-hour consumption decreased 12.5%.
- The BLP produced 7.7% less power using its internal generating assets in FY2020 as compared to FY2019. The Sims Power Plant coal inventory was exhausted, and the plant permanently shut down in February of 2020.
- Beginning March 2020, all power is being purchased through contract with the Michigan Public Power Agency. In FY2020, 12.56% of energy supplied was renewable.
- Reductions in Fuel related expenses were a direct result of reduced Kilowatt-hours produced.
- Pension and Other Post-Employment Benefits liabilities resulted in a \$2.5 million expense to the BLP this fiscal year. In FY2020, the actuarial assumptions for investment returns and the wage inflation estimates were adjusted which in part contributed to this increased liability.
- In April 2020, environmental remediation and plant demolition of the Sims Power Plant began. The Plant was fully depreciated and in FY2019. \$3.5 million has been set aside in a liability account for the ash pond and coal deck asset retirement obligation while plant demolition costs and further environmental remediation are expensed when incurred (estimated at \$6.7 million).
- The unrestricted cash balance increased this year by \$5.3 million as we exhausted the coal inventory and from operating income.
- Along with an increase in the unrestricted cash balance, the cash and investment balances held at the Michigan Public Insurance Authority was increased by \$958 thousand and working capital deposits with the Michigan Public Power Agency increased by \$1.3 million.
- In addition to environmental remediation and demolition efforts on Harbor Island, BLP began rebuilding the Island Substation in FY2020 with an estimated budget of \$4 million.
- In FY2020, BLP also embarked on a \$2 million Automated Metering Infrastructure (AMI) project which will be completed in FY2021.

### 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 *Statement 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 *Statement 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 \$49,070,885 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.

<b>Net Position</b>		
	<b>2020</b>	<b>2019</b>
Current and other assets	\$33,344,493	\$30,273,689
Capital assets	30,584,242	28,008,292
<b>Total assets</b>	<b>63,928,735</b>	<b>58,281,981</b>
Deferred outflows of resources	1,948,673	1,829,116
Other liabilities	4,071,878	2,268,063
Long-term liabilities	12,562,979	7,952,488
	<b>16,634,857</b>	<b>10,220,551</b>
Deferred inflows of resources	171,666	-
Net position		
Net Investment in capital assets	30,584,242	28,008,292
Unrestricted	18,486,643	21,882,254
	<b>\$49,070,885</b>	<b>\$49,890,546</b>

The total net position of the Board at June 30, 2020 is \$49,070,885 however, \$30,584,242 represents net investment in capital assets.

### Changes in Net Position

	<u>2020</u>	<u>2019</u>
Operating revenue	\$35,622,861	\$38,334,758
Operating expenses	31,326,589	30,217,064
Operating income (loss)	4,296,272	8,117,694
Nonoperating revenues (expense)	(3,354,068)	89,425
Change in net position before transfers	942,204	8,207,119
Transfers to the City of Grand Haven	1,761,865	1,904,185
Change in net position	(819,661)	6,302,934
<b>Net position-beginning of year</b>	<u>49,890,546</u>	<u>43,587,612</u>
<b>Net position-end of year</b>	<u>\$49,070,885</u>	<u>\$49,890,546</u>

### Capital Asset and Debt Administration

**Capital assets.** The Board's investment in capital assets as of June 30, 2020, amounted to \$30,584,242 (net of accumulated depreciation).

Significant capital purchases during the year consisted primarily of equipment upgrades and replacements and construction projects.

The Board's capital assets are summarized as follows:

Land	\$ 194,823
Construction in progress	4,775,189
Depreciable capital assets, net	<u>25,614,230</u>
<b>Total</b>	<u><b>\$30,584,242</b></u>

Additional information on the Board's capital assets can be found in Note 3 of these financial statements.

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

Compensated absences	<u><b>\$421,409</b></u>
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Additional information on the Board's long-term debt can be found in Note 4 of these financial statements.



## **Factors bearing on future budgets**

### **Factors bearing on future budgets**

- No retail rate changes are budgeted in FY 2021.
- Retail consumption is estimated to increase 2.5%
- All purchased power will be provided through the Michigan Public Power Agency. Renewable purchases are estimated to be 14.5% of all Kilowatt-hours supplied. The average total cost of delivered energy, capacity, renewable energy credits, and transmission per kilowatt-hour is budgeted at 5 cents in fiscal year 2021.
- Along with continued demolition and environmental remediation efforts on Harbor Island, FY 2021 capital budget includes \$1.4 million to begin planning and designing future facilities on the Sims Power Plant site.
- A sale of the Diesel Plant building is being sought in FY 2021.
- Monthly defined benefit pension payments to MERS have been increased to \$80 thousand per month to accelerate progress toward 100% funding. The current funding level is at 80.7% for the Board's portion of the City plan.
- FY 2021s budget includes 55 Full Time Equivalent (FTE) employees. This number is 17 FTEs below FY 2016. These reductions were obtained through attrition. Future attrition will reduce this number below 50 FTEs by FY 2024.
- Employee benefits are budgeted at the same benefit level as that in FY 2020.

## **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 the Board's Accounting and Finance Manager, 616-846-6250

## **BASIC FINANCIAL STATEMENTS**

# GRAND HAVEN BOARD OF LIGHT AND POWER

## STATEMENT OF NET POSITION

JUNE 30, 2020 and 2019

Assets	<u>2020</u>	<u>2019</u>
Current assets		
Cash and cash equivalents	\$ 22,311,169	\$ 16,970,706
Accounts receivable	4,151,014	4,252,910
Prepaid items	14,852	27,647
Inventory	-	4,426,003
Total current assets	<u>26,477,035</u>	<u>25,677,266</u>
Non-current assets		
Deposit with MPIA and MPPA	6,867,458	4,596,423
Capital assets		
Land	194,823	222,281
Construction in progress	4,775,189	536,242
Depreciable capital assets, net	25,614,230	27,249,769
Total non-current assets	<u>37,451,700</u>	<u>32,604,715</u>
<b>Total assets</b>	<b><u>63,928,735</u></b>	<b><u>58,281,981</u></b>
<b>Deferred outflows of resources</b>		
Pension related	1,666,236	1,616,611
OPEB related	282,437	212,505
<b>Total deferred outflows of resources</b>	<b><u>1,948,673</u></b>	<b><u>1,829,116</u></b>
<b>Liabilities</b>		
Current liabilities		
Accounts payable	2,878,301	1,277,689
Accrued liabilities	445,553	313,613
Customer deposits	607,016	528,773
Due to City of Grand Haven	141,008	147,988
Total current liabilities	<u>4,071,878</u>	<u>2,268,063</u>
Long-term liabilities		
Accrued compensated absences	421,409	365,358
Asset retirement obligation	3,529,019	1,500,000
Net pension liability	7,520,756	4,941,117
Net OPEB liability	1,091,795	1,146,013
Total long-term liabilities	<u>12,562,979</u>	<u>7,952,488</u>
<b>Total liabilities</b>	<b><u>16,634,857</u></b>	<b><u>10,220,551</u></b>
<b>Deferred inflows of resources</b>		
Pension related	171,666	-
<b>Net position</b>		
Net investment in capital assets	30,584,242	28,008,292
Unrestricted	18,486,643	21,882,254
<b>Total net position</b>	<b><u>\$ 49,070,885</u></b>	<b><u>\$ 49,890,546</u></b>

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 YEARS ENDED JUNE 30, 2020 and 2019**

	<u>2020</u>	<u>2019</u>
<b>Operating revenue</b>		
Residential sales	\$ 12,019,402	\$ 12,157,429
Commercial sales	9,673,751	10,358,439
Industrial sales	12,200,341	14,015,683
Municipal sales	988,736	1,037,905
Public street and highway lighting	427,112	473,783
Thermal energy	40,722	57,321
Penalties	113,790	180,721
Rental income	47,648	49,477
Other	<u>111,359</u>	<u>4,000</u>
<b>Total operating revenue</b>	<u>35,622,861</u>	<u>38,334,758</u>
<b>Operating expense</b>		
Power production	10,142,838	11,634,563
Wholesale power net	8,518,179	8,373,017
Distribution	2,838,855	2,624,532
Customer accounts	1,246,990	1,204,342
Administrative	2,216,410	2,148,361
Change in pension and benefit costs	2,577,530	465,499
Depreciation	<u>3,785,787</u>	<u>3,766,750</u>
<b>Total operating expense</b>	<u>31,326,589</u>	<u>30,217,064</u>
Operating income (loss)	<u>4,296,272</u>	<u>8,117,694</u>
Non-operating revenue (expense)		
Interest income including MPIA insurance reserve	153,889	201,219
Asset retirement expense	(3,431,203)	-
Payment to City component units	(177,087)	(198,764)
Other	<u>100,333</u>	<u>86,970</u>
Total non-operating revenue (expense)	<u>(3,354,068)</u>	<u>89,425</u>
Changes before transfers	942,204	8,207,119
Transfers to City of Grand Haven	<u>(1,761,865)</u>	<u>(1,904,185)</u>
Changes in net position	(819,661)	6,302,934
<b>Net position, beginning of year</b>	<u>49,890,546</u>	<u>43,587,612</u>
<b>Net position, end of year</b>	<u>\$ 49,070,885</u>	<u>\$ 49,890,546</u>

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

# GRAND HAVEN BOARD OF LIGHT AND POWER

## STATEMENT OF CASH FLOWS

FOR THE YEARS ENDED JUNE 30, 2020 and 2019

	<u>2020</u>	<u>2019</u>
<b>Cash flows from operating activities</b>		
Receipts from customers and users	\$ 35,903,333	\$ 38,815,323
Payments to employees	(7,541,911)	(8,378,921)
Payments to suppliers	<u>(13,464,995)</u>	<u>(17,472,825)</u>
<b>Net cash provided by (used in) operating activities</b>	<u>14,896,427</u>	<u>12,963,577</u>
<b>Cash flows from non-capital financing activities</b>		
Transfers to City of Grand Haven	(1,768,845)	(1,973,327)
Transfers to City component units	<u>(177,087)</u>	<u>(198,764)</u>
<b>Net cash provided by (used in) non-capital financing activities</b>	<u>(1,945,932)</u>	<u>(2,172,091)</u>
<b>Cash flows from capital and related financing activities</b>		
Asset retirement	(914,374)	-
Acquisitions of capital assets	<u>(6,849,547)</u>	<u>(5,201,287)</u>
<b>Net cash provided by (used in) capital and related financing activities</b>	<u>(7,763,921)</u>	<u>(5,201,287)</u>
<b>Cash flows from investing activities</b>		
Interest received	<u>153,889</u>	<u>201,219</u>
<b>Net cash provided by (used in) investing activities</b>	<u>153,889</u>	<u>201,219</u>
Net increase (decrease) in cash and cash equivalents	5,340,463	5,791,418
<b>Cash and cash equivalents, beginning of year</b>	<u>16,970,706</u>	<u>11,179,288</u>
<b>Cash and cash equivalents, end of year</b>	<u>\$ 22,311,169</u>	<u>\$ 16,970,706</u>

(continued)

# GRAND HAVEN BOARD OF LIGHT AND POWER

## STATEMENT OF CASH FLOWS

FOR THE YEARS ENDED JUNE 30, 2020 and 2019

	<u>2020</u>	<u>2019</u>
<b>Cash flows from operating activities</b>		
Operating income (loss)	\$ 4,296,272	\$ 8,117,694
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities		
Depreciation	3,785,787	3,766,750
Other revenue	100,333	86,970
Net pension liability	2,579,639	744,286
Deferred outflows for pensions	(49,625)	(810,477)
Deferred inflows for pensions	171,666	(337,326)
Net OPEB liability	(54,218)	(173,818)
Deferred outflows for OPEB	(69,932)	43,908
Deferred inflows for OPEB	-	(1,074)
Change in operating assets and liabilities which provided (used) cash		
Receivables	101,896	406,085
Prepaid and other assets	12,795	2,263
Inventory	4,426,003	2,083,597
Deposits with others	(2,271,035)	(1,563,266)
Accounts payable	1,600,612	724,993
Accrued liabilities	131,940	17,045
Customer deposits	78,243	(12,490)
Compensated absences	56,051	(131,563)
<b>Net cash provided by (used in) operating activities</b>	<u>\$ 14,896,427</u>	<u>\$ 12,963,577</u>

(concluded)

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

# GRAND HAVEN BOARD OF LIGHT AND POWER

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2020

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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.

# GRAND HAVEN BOARD OF LIGHT AND POWER

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2020

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### ***Investments***

Investments are recorded at fair value.

City policy and 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.

### ***Receivables***

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

### ***Prepaid Items***

The Board made payment 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 with MPIA and MPPA***

These deposits consist primarily of balances on account which will be returned or utilized for future purchases.



# GRAND HAVEN BOARD OF LIGHT AND POWER

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2020

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### **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 \$1,000 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 fair value (the price that would be paid to acquire an asset with an equivalent service potential in an orderly market transaction) 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:

	<b>Years</b>
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 items that qualify for reporting in this category related to the net pension and net OPEB liabilities which is discussed in notes 5 and 6.

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 items that qualify for reporting in this category related to the net pension and net OPEB liabilities which is discussed in notes 5 and 6.

### **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.

### **Pensions**

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Municipal Employees Retirement System (MERS) of Michigan and additions to/deductions from MERS' fiduciary net position have been determined on the same basis as they are reported by MERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

# GRAND HAVEN BOARD OF LIGHT AND POWER

## NOTES TO THE FINANCIAL STATEMENTS

**FOR THE YEAR ENDED JUNE 30, 2020**

### 2. CASH AND CASH EQUIVALENTS

Cash and cash equivalents at year end consisted for deposits with financial institutions as follows:

<b>Cash and cash equivalents</b>	<b>\$22,311,169</b>
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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. 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 \$22,278,321 that may be exposed to custodial credit risk.

### 3. CAPITAL ASSETS

Capital asset activity for the year was as follows:

	<b>Balance July 1, 2019</b>	<b>Additions</b>	<b>Transfer</b>	<b>Deletions</b>	<b>Balance June 30, 2020</b>
<b>Capital assets, not being depreciated</b>					
Land	\$ 222,281	\$ -	\$ -	\$ 27,458	\$ 194,823
Construction in progress	536,242	6,856,881	-	2,617,934	4,775,189
<b>Total capital assets, not being depreciated</b>	758,523	6,856,881	-	2,645,392	4,970,012
<b>Capital assets, being depreciated</b>					
Steam production	98,640,460	-	(1,355,287)	97,285,173	-
Diesel production	6,009,471	-	-	6,009,471	-
Transmission and distribution	49,194,091	2,580,156	1,355,287	2,407,740	50,721,794
General plant	2,655,035	30,444	-	-	2,685,479
Total capital assets, being depreciated	156,499,057	2,610,600	-	105,702,384	53,407,273
Less accumulated depreciation for:					
Steam production	95,725,372	2,407,757	-	98,133,129	-
Diesel production	6,036,929	-	-	6,036,929	-
Transmission and distribution	26,556,340	1,221,565	-	1,071,974	26,705,931
General plant	930,647	156,465	-	-	1,087,112
Total accumulated depreciation	129,249,288	3,785,787	-	105,242,032	27,793,043
<b>Net capital assets, being depreciated</b>	27,249,769	(1,175,187)	-	460,352	25,614,230
<b>Capital assets, net</b>	<b>\$28,008,292</b>	<b>\$5,681,694</b>	-	<b>\$3,105,744</b>	<b>\$30,584,242</b>

# GRAND HAVEN BOARD OF LIGHT AND POWER

## NOTES TO THE FINANCIAL STATEMENTS

### FOR THE YEAR ENDED JUNE 30, 2020

#### 4. LONG-TERM DEBT

The following is a summary of the debt transactions of the Board for the year:

	<b>Balance July 1, 2019</b>	<b>Additions</b>	<b>Deletions</b>	<b>Balance June 30, 2020</b>	<b>Due Within One Year</b>
Compensated absences	\$365,358	\$ 56,051	\$ -	\$421,409	\$ -

#### 5. RETIREMENT PLANS

##### ***Defined Benefit Pension Plan***

##### ***Plan Description***

The Board participates with the City of Grand Haven in the Municipal Employees Retirement System (MERS) of Michigan a defined benefit and hybrid plan providing certain retirement, disability and death benefits to plan members and beneficiaries. The plan information for the Utility is not always separately available from information provided for the City of Grand Haven as a whole. The following information is for the City as a whole unless otherwise noted.

The City participates in the Municipal Employees Retirement System (MERS) of Michigan. MERS is an agent multiple employer, statewide public employee pension plan established by the Michigan Legislature under Public Act 135 of 1945 and administered by a nine member Retirement Board. MERS issues a publicly available financial report that includes financial statements and required supplementary information. This report may be obtained accessing the MERS website at [www.mersofmich.com](http://www.mersofmich.com).

##### ***Benefits Provided***

Pension benefits approved by the City Council are provided to all full-time participating employees based on division/bargaining unit. The plan is closed to new Board employees. Benefits provided include a multiplier of 2.25 to 2.5 times final average compensation. Vesting period of 6 to 10 years. Normal retirement age is 60 with early retirement at 50 to 55 with from 15 to 25 years of service. Final average compensation is calculated based on a 3 year average.

Membership of the defined benefit plan consisted of the following at the date of the latest actuarial valuation (December 31, 2019):

	<u>Total City</u>
Active plan members	163
Inactive employees or beneficiaries currently receiving benefits	220
Inactive employees entitled but not yet receiving benefits	<u>100</u>
Total	<u>483</u>

##### ***Contributions***

The Utility is required to contribute at an actuarially determined rate, which for the current year was \$43,817 per month depending on position and classification. Participating employees are required to contribute from 10% of covered payroll to the Plan based on position and classification. The contribution requirements of the Utility are established and may be amended by the MERS Retirement Board. The contribution requirements of employees are established and may be amended by labor agreements.

# GRAND HAVEN BOARD OF LIGHT AND POWER

## NOTES TO THE FINANCIAL STATEMENTS

### FOR THE YEAR ENDED JUNE 30, 2020

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#### **Net Pension Liability**

The City's net pension liability was measured as of December 31, 2019, and the total pension liability used to calculate the net pension liability was determined by an annual actuarial valuation as of that date.

The total pension liability in the December 31, 2019 annual actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation: 2.5%

Salary Increases: base wage inflation of 3.00% in the long-term (plus merit and longevity from 0 to 11% based on age)

Investment rate of return: 7.35%, net of investment expense, including inflation

Mortality rates used for non-disabled plan member were based on a weighted blend of RP-2014 mortality tables of a 50% Male and 50% Female blend. Mortality rates used for disabled plan member were based on a blend of RP-2014 disabled retiree mortality tables of a 50% Male and 50% Female blend of disabled retirees

The actuarial assumptions used in the valuation were based on the results of the 2020 actuarial experience study.

The long-term expected rate of return on pension plan investments was determined using a model method in which the best-estimate ranges of expected future real rates of return (expected returns, net of investment and administrative expenses and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>	<u>Expected Money Weighted Rate of Return*</u>
Global Equity	60.0%	7.75%	3.15%
Global Fixed Income	20.0%	3.75%	0.25%
Private Investments	20.0%	9.75%	1.45%
Inflation			2.50%
Administrative fee			0.25%
Investment rate of return			<u>7.60%</u>

# GRAND HAVEN BOARD OF LIGHT AND POWER

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2020

Discount rate. The discount rate used to measure the total pension liability is 7.60% which decreased from the prior year. The projection of cash flows used to determine the discount rate assumes that employer and employee contributions will be made at the rates agreed upon for employees and the actuarially determined rates for employers. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to pay all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

### Changes in the Net Pension Liability

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a)-(b)
Balance at December 31, 2018	\$110,233,536	\$80,052,419	\$30,181,117
Changes for the Year:			
Service cost	1,787,913	-	1,787,913
Interest	8,623,429	-	8,623,429
Change in benefits	(25,121)	-	(25,121)
Differences between expected and actual experience	1,579,667	-	1,579,667
Change in assumptions	4,122,188	-	4,122,188
Contributions: employer	-	2,096,768	(2,096,768)
Contributions: employee	-	1,619,918	(1,619,918)
Net investment income	-	10,759,791	(10,759,791)
Benefit payments, including refunds	(6,669,279)	(6,669,279)	-
Administrative expense	-	(185,343)	185,343
Other changes	(2)	-	(2)
Net changes	9,418,795	7,621,855	1,796,940
Balance at December 31, 2019	\$119,652,331	\$87,674,274	\$31,978,057

The Board's share of the City total net pension liability at year end was \$7,520,756.

### Sensitivity of the Net Pension Liability to Changes in the Discount Rate.

The following presents the net pension liability of the employer, calculated using the discount rate of 7.6%, as well as what the employer's net pension liability would be using a discount rate that is 1 percentage point lower (6.6%) or higher (8.6%) than the current rate.

	1% Decrease	Current Discount rate	1% Increase
Total pension liability	\$133,763,022	\$119,652,331	\$107,899,652
Fiduciary net position	87,674,274	87,674,274	87,674,274
Net pension liability	\$ 46,088,748	\$ 31,978,057	\$20,225,378

# GRAND HAVEN BOARD OF LIGHT AND POWER

## NOTES TO THE FINANCIAL STATEMENTS

### FOR THE YEAR ENDED JUNE 30, 2020

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#### Pension Expense and Deferred Outflows/Inflows of Resources Related to Pensions

For the year ended June 30, 2020 the City recognized pension expense of \$6,951,384. The City reported deferred outflows and inflows of resources related to pensions from the following sources:

	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Differences in experience	\$1,562,038	\$729,918
Differences in assumptions	2,748,126	
(Excess) deficit investment returns	525,642	-
Contributions subsequent to the measurement date*	1,083,923	-
Total	<u>\$5,919,729</u>	<u>\$729,918</u>

\* The amount reported as deferred outflows of resources resulting from the contributions subsequent to the measurement date will be recognized as a reduction in the net pension liability for the year ending 2021.

The Board's share of deferred outflows/(inflow) are for changes in assumptions of \$646,320, subsequent contributions of \$528,923, differences in experience of \$367,369/(\$171,666) and investment returns of \$123,624.

Amounts reported as deferred outflows and inflows of resources related to City pensions (excluding contributions subsequent to the measurement date) will be recognized in pension expense as follows:

2021	\$1,835,549
2022	2,046,450
2023	1,120,111
2024	(896,222)
2025	-
Thereafter	<u>-</u>
Total	<u>\$4,105,888</u>

#### Defined Contribution Plan (401a Plan)

The Board provides a defined contribution pension plan (the Plan) that provides pension benefits to all participating full-time employees. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. Employees are required to contribute 4% and the Board contributes 8% of each participant's compensation to the Plan. The Board's contributions are fully vested after four years of service. During the year employees contributed \$65,108 and the Board contributed \$130,217 to the plan.

# GRAND HAVEN BOARD OF LIGHT AND POWER

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2020

### 6. POST-EMPLOYMENT BENEFITS

#### **Plan Description**

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 was closed to employees hired subsequent to September 30, 2013. The Retiree Health Plan does not issue a publicly available financial report and a legal trust has been established for the plan. The following information is for the City as a whole unless otherwise noted. The method used to determine the actuarial valuation of assets is market. There are no long-term contracts for contributions to the Plan. The plan has no legally required reserves.

#### **Benefits provided**

In accordance with the collective bargaining agreements, retirees receive an employer-paid benefit toward health and life insurance premiums for the retiree and spouse. For employees hired before October 1, 2013 the Plan pay from 75% to 80% of the premium payment until age 65 and 0-10% thereafter.

Membership of the Plan consisted of the following at the date of the latest actuarial valuation:

Retirees and beneficiaries receiving benefits	78
Covered spouses	28
Active plan members	<u>61</u>
Total	<u><u>167</u></u>

#### **Net OPEB Liability**

The net OPEB liability was calculated through June 30, 2020 based on an actuarial valuation as of June 30, 2020. The total OPEB liability in the June 30, 2020 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation: 2.5 %  
Salary Increases: 2.0%  
Investment rate of return: 7.35% including inflation  
Healthcare cost trend rates: 8.25% graded down 0.25% to an ultimate rate of 4.5%  
Mortality: 2010 Employee and Healthy Retiree; headcount weighted, 2019 Improvement

The actuarial assumptions used in the valuation were based on the results of the most recent actuarial experience study.

The long-term expected rate of return on OPEB plan investments was determined using a building-block model method in which the best-estimate ranges of expected future real rates of return (expected returns, net of investment and administrative expenses and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

# GRAND HAVEN BOARD OF LIGHT AND POWER

## NOTES TO THE FINANCIAL STATEMENTS

### FOR THE YEAR ENDED JUNE 30, 2020

The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Expected Rate of Return</u>
Global Equity	60.0%	5.25%
Global Fixed Income	20.0%	1.25%
Private Equity	20.0%	7.25%
Cash	0.0%	0.00%

The City, as plan sponsor and investment fiduciary, has chosen for the Plan an asset mix intended to meet or exceed a long-term rate of return of 7.35%.

Concentrations. 100% of the Plan's investments are invested in the MERS total market portfolio.

Rate of return. For the year ended June 30, 2020, the annual money-weighted rate of return on investments, net of investment expense, was 7.2 percent. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

Discount rate. The discount rate used to measure the total OPEB liability is 7.35%. The projection of cash flows used to determine the discount rate assumes that employer and employee contributions will be made at the rates agreed upon for employees and the actuarially determined rates for employers. Based on these assumptions, the OPEB plan's fiduciary net position was projected to be available to pay all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on OPEB plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability. The discount rate used for the beginning of year total OPEB liability was 7.75%.

#### Changes in the Net OPEB Liability

	<u>Increase (Decrease)</u>		
	<u>Total OPEB Liability</u> <u>(a)</u>	<u>Plan Fiduciary Net Position</u> <u>(b)</u>	<u>Net OPEB Liability</u> <u>(a)-(b)</u>
Balance at June 30, 2019	\$8,354,849	\$2,152,424	\$6,202,425
Changes for the Year:			
Service cost	46,820	-	46,820
Interest	623,499	-	623,499
Change in benefits	(34,994)	-	(34,994)
Differences between expected and actual experience	(101,970)	-	(101,970)
Change in assumptions	207,572	-	207,572
Contributions to OPEB trust	-	-	-
Benefits paid from general operating funds	-	713,057	(713,057)
Net investment income	-	50,205	(50,205)
Benefit payments, including refunds	(713,057)	(713,057)	-
Administrative expense	-	(3,939)	3,939
Other changes	-	-	-
Net changes	27,870	46,266	(18,396)
Balance at June 30, 2020	\$8,382,719	\$2,198,690	\$6,184,029

The Board's share of the City total net OPEB liability at year end was \$1,091,795.



# GRAND HAVEN BOARD OF LIGHT AND POWER

## NOTES TO THE FINANCIAL STATEMENTS

### FOR THE YEAR ENDED JUNE 30, 2020

#### Sensitivity of the Net OPEB Liability to changes in the discount rate.

The following presents the net OPEB liability of the employer, calculated using the discount rate of 7.35%, as well as what the employer's net OPEB liability would be using a discount rate that is 1 percentage point lower (6.35%) or higher (8.35%) than the current rate.

	1% Decrease	Current Discount rate	1% increase
Total OPEB liability	\$8,948,496	\$8,382,719	\$7,873,646
Fiduciary net position	2,198,690	2,198,690	2,198,690
Net OPEB liability	\$6,749,806	\$6,184,029	\$5,674,956
Plan fiduciary position as a percentage of the total OPEB liability	24.57%	26.23%	27.92%

#### Sensitivity of the Net OPEB Liability to changes in the healthcare cost trend rates.

The following presents the net OPEB liability of the employer, calculated using the healthcare cost trend rate, as well as what the employer's net OPEB liability would be using a healthcare cost trend rate that is 1 percentage point lower (7%) or higher (9%) than the current rate.

	1% Decrease	Current Healthcare Cost Trend Rate	1% Increase
Total OPEB liability	\$7,833,723	\$8,382,719	\$8,994,602
Fiduciary net position	2,198,690	2,198,690	2,198,690
Net OBEB liability	\$5,635,033	\$6,184,029	\$6,795,912

#### OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

For the year ended June 30, 2020 the employer recognized OPEB expense of \$1,010,322. The employer reported deferred outflows and inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences in experience	\$ 506,616	\$ 78,689
Differences in assumptions	772,547	-
Excess(deficit) investment returns	151,057	-
Total	\$1,430,220	\$78,689

The Board's share of deferred outflows for differences in experience and assumptions was \$282,437.

# GRAND HAVEN BOARD OF LIGHT AND POWER

## NOTES TO THE FINANCIAL STATEMENTS

### FOR THE YEAR ENDED JUNE 30, 2020

Amounts reported as deferred outflows and inflows of resources related to OPEB will be recognized in OPEB expense as follows:

2021	\$ 537,718
2022	537,716
2023	243,639
2024	32,458
2025	-
Thereafter	-
Total	<u>\$1,351,531</u>

#### Defined Contribution Plan (MERS Healthcare Savings Program)

The Board provides a defined contribution post-employment benefit plan (the Plan) that provides a health care saving account to eligible employees hired after September 30, 2008. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. Employees are required to participate immediately upon employment. Employees are required to contribute 1% and the Board contributes 2% of each participant's compensation to the Plan. The Board's contributions are fully vested after five years of service. During the year employees contributed \$14,303 and the Board contributed \$24,586 to the plan.

#### 7. RISK MANAGEMENT

The Board is insured for employee medical benefits 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. MPIA assumes all risk of loss within the scope of the memorandum of coverage to the extent of the coverage limits offered by the memorandum.

Following is insurance coverage and related deductibles in effect at year end:

	<u>Deductible/Retention</u>	
	<u>2020</u>	<u>2019</u>
Property and equipment	\$50,000 - 500,000	\$50,000 - 500,000
General liability	50,000	50,000
Public officials liability	50,000	50,000
Employee benefits liability	100,000	100,000
Crime	25,000	25,000

# GRAND HAVEN BOARD OF LIGHT AND POWER

## NOTES TO THE FINANCIAL STATEMENTS

### FOR THE YEAR ENDED JUNE 30, 2020

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 \$4,867,458 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, 2020 and 2019 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, 2020 and 2019 was \$0 and \$0, respectively.

#### 8. 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, Energy Service Project and Pegasus Wind Project. The dollar amount of Board's commitments for participation in the various MPPA projects of \$100,000,000 declines from a commitment maximum of approximately \$10,120,000 in 2022 to zero in 2047.

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, North American Natural Resources (NANR) and Pegasus Wind projects are renewable energy projects operated by the MPPA which provides MPPA participants with renewable energy to meet Michigan requirements.

The Energy Services Project provides 21 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 purchase from/through MPPA	\$3,905,841
Payments to MPPA for electricity transmission	1,623,460
Payments to MPPA for renewable energy	2,804,022
Payments to MPPA for capacity	77,019
Payments to MPPA for other	388,231

# GRAND HAVEN BOARD OF LIGHT AND POWER

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2020

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### 9. 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.

### 10. LEASE AGREEMENT

The Board has entered into a lease agreement for office space. Current year expense under the agreement was \$11,625. Future minimum payment required under the agreement are as follows:

Year	Amount
2021	\$27,900
2022	27,900
2023	16,275

### 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. COMMITMENTS

The Board has entered into an agreement to transfer a portion of electric revenue generated at the Grand Landing location to help fund payment of component unit debt. These transfers began during 2016 and are contingent upon electric sales revenue and future development at the Grand Landing location. The agreement provides for contingent transfers through 2020.

The Board has entered into contracts for demolition of SIM III and remediation activities with remaining commitments of approximately \$4,000,000 at year end.

### 13. ASSET RETIREMENT

The Board closed the Sims III 70 megawatt coal fired power plant in fiscal year 2020. The Board's operation of electricity generating facilities required use of fuel and ash management facilities that will require environmental remediation under various state and federal laws. The Board has estimated the remaining cost of remediating fuel and ash management facilities at \$3,529,019 based on known costs of similar plant closures and engineering estimates. The Board is expensing the cost of plant demolition and other remediation as they occur.

### 14. SUBSEQUENT EVENTS

Subsequent to year end the Board entered into an agreement with a financial institution for the sale of up to \$20,000,000 of electric utility system revenue bond anticipation notes. The Board issued and received payment for \$5,348,000 of the electric utility system revenue bond anticipation notes on July 31, 2020.

## **REQUIRED SUPPLEMENTARY INFORMATION**

**GRAND HAVEN BOARD OF LIGHT AND POWER**

**DEFINED BENEFIT PENSION PLAN  
SCHEDULE OF CHANGES IN EMPLOYERS NET PENSION  
LIABILITY AND RELATED RATIOS**

**FOR THE YEARS ENDED JUNE 30, 2015 through 2020**

	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>
<b>Total pension liability</b>						
Service cost	\$ 1,714,380	\$ 1,784,375	\$ 1,938,292	\$ 1,896,453	\$ 1,876,313	\$ 1,787,913
Interest	6,872,845	6,970,006	7,719,273	7,931,391	8,390,678	8,623,429
Changes in benefit terms	-	(8,167)	(27,927)	(54,797)	2,423	(25,121)
Difference between expected and actual experience	-	1,069,871	(1,279,520)	2,035,707	(948,030)	1,579,667
Changes in assumptions	-	4,451,385	-	-	-	4,122,188
Benefit payments including employee refunds	(4,522,352)	(5,086,362)	(5,306,454)	(6,048,965)	(6,066,289)	(6,669,279)
Other	-	217,812	(1)	-	(4)	(2)
<b>Net change in total pension liability</b>	<u>4,064,873</u>	<u>9,398,920</u>	<u>3,043,663</u>	<u>5,759,789</u>	<u>3,255,091</u>	<u>9,418,795</u>
<b>Total pension liability, beginning of year</b>	<u>84,711,200</u>	<u>88,776,073</u>	<u>98,174,993</u>	<u>101,218,656</u>	<u>106,978,445</u>	<u>110,233,536</u>
<b>Total pension liability, end of year</b>	<u>\$ 88,776,073</u>	<u>\$ 98,174,993</u>	<u>\$ 101,218,656</u>	<u>\$ 106,978,445</u>	<u>\$ 110,233,536</u>	<u>\$ 119,652,331</u>
<b>Plan Fiduciary Net Position</b>						
Contributions-employer	\$ 1,230,140	\$ 1,351,197	\$ 1,528,835	\$ 6,969,429	\$ 2,803,011	\$ 2,096,768
Contributions-employee	1,017,387	1,188,014	1,399,568	1,649,872	1,583,711	1,619,918
Net investment income	4,384,730	(1,056,807)	7,662,061	9,637,326	(3,336,775)	10,759,791
Benefit payments including employee refunds	(4,522,352)	(5,086,362)	(5,306,454)	(6,048,965)	(6,066,289)	(6,669,279)
Administrative expense	(160,769)	(155,709)	(151,314)	(152,492)	(164,445)	(185,343)
<b>Net change in plan fiduciary net position</b>	<u>1,949,136</u>	<u>(3,759,667)</u>	<u>5,132,696</u>	<u>12,055,170</u>	<u>(5,180,787)</u>	<u>7,621,855</u>
<b>Plan fiduciary net position, beginning of year</b>	<u>69,855,871</u>	<u>71,805,007</u>	<u>68,045,340</u>	<u>73,178,036</u>	<u>85,233,206</u>	<u>80,052,419</u>
<b>Plan fiduciary net position, end of year</b>	<u>\$ 71,805,007</u>	<u>\$ 68,045,340</u>	<u>\$ 73,178,036</u>	<u>\$ 85,233,206</u>	<u>\$ 80,052,419</u>	<u>\$ 87,674,274</u>
<b>Employer net pension liability</b>	<u>\$ 16,971,066</u>	<u>\$ 30,129,653</u>	<u>\$ 28,040,620</u>	<u>\$ 21,745,239</u>	<u>\$ 30,181,117</u>	<u>\$ 31,978,057</u>
Employer net pension liability reported by Grand Haven Board of Light and Power **	<u>\$ 6,141,039</u>	<u>\$ 12,039,809</u>	<u>\$ 11,524,695</u>	<u>\$ 4,196,831</u>	<u>\$ 4,941,117</u>	<u>\$ 7,520,756</u>
Plan fiduciary net position as a percentage of the total pension liability	81%	69%	72%	80%	73%	73%
Covered employee payroll	<u>\$ 11,071,127</u>	<u>\$ 11,535,426</u>	<u>\$ 12,103,488</u>	<u>\$ 11,544,999</u>	<u>\$ 11,230,904</u>	<u>\$ 10,471,556</u>
Employer's net pension liability as a percentage of covered employee payroll	153%	261%	232%	188%	269%	305%

**Notes to schedule:**

\*\*The above schedule provides information for the City of Grand Haven plan as a whole with the exception of this item.  
Above data is based on a measurement date of December 31.

**GRAND HAVEN BOARD OF LIGHT AND POWER**

**DEFINED BENEFIT PENSION PLAN  
SCHEDULE OF EMPLOYER CONTRIBUTIONS**

**FOR THE YEARS ENDED JUNE 30, 2015 through 2020**

Fiscal Year end	Actuarially determined contributions **	Contributions in relation to the actuarially determined contribution **	Contribution deficiency (excess) **	Covered employee payroll **	Contributions as a percentage of covered employee payroll **
6/30/2015	\$ 542,904	\$ 542,904	\$ -	\$ 4,672,250	12%
6/30/2016	582,225	582,225	-	4,689,604	12%
6/30/2017	688,049	688,049	-	5,733,742	12%
6/30/2018	657,368	5,657,368	(5,000,000)	4,265,218	133%
6/30/2019	525,540	1,525,540	(1,000,000)	3,771,656	40%
6/30/2020	525,804	753,552	(227,748)	3,188,749	24%

**Notes to schedule**

Actuarial cost method	Entry Age
Amortization method	Level percentage of payroll, open
Remaining amortization period	25 years
Asset valuation method	5 year smoothed (10 year smothing 2014)
Inflation	2.5% (3.5% 2014)
Salary increases	3.00% (3.75% for 2015 through 2019)
Investment rate of return	7.35% (7.75% for 2015 through 2019)
Retirement age	Varies depending on plan adoption
Mortality	50% female/ 50% male RP-2014 mortality table

**Notes to schedule:**

\*\*The above schedule provides information for the City of Grand Haven plan as a whole with the exception of this item.

# GRAND HAVEN BOARD OF LIGHT AND POWER

## DEFINED BENEFIT OPEB PLAN SCHEDULE OF CHANGES IN EMPLOYERS NET OPEB LIABILITY AND RELATED RATIOS

*FOR THE YEARS ENDED JUNE 30, 2017 through 2020*

	2017	2018	2019	2020
<b>Total OPEB liability</b>				
Service cost	\$ 52,122	\$ 49,554	\$ 42,889	\$ 46,820
Interest	456,376	456,247	556,550	623,499
Changes in benefit terms	-	-	-	(34,994)
Difference between expected and actual experience	79,952	1,015,790	141,760	(101,970)
Changes in assumptions	-	292,450	864,802	207,572
Benefit payments including employee refunds	(535,595)	(639,638)	(779,102)	(713,057)
Other	-	-	-	-
<b>Net change in total OPEB liability</b>	<u>52,855</u>	<u>1,174,403</u>	<u>826,899</u>	<u>27,870</u>
<b>Total OPEB liability, beginning of year</b>	<u>6,300,692</u>	<u>6,353,547</u>	<u>7,527,950</u>	<u>8,354,849</u>
<b>Total OPEB liability, end of year</b>	<u>\$ 6,353,547</u>	<u>\$ 7,527,950</u>	<u>\$ 8,354,849</u>	<u>\$ 8,382,719</u>
<b>Plan Fiduciary Net Position</b>				
Contributions-employer	\$ 500,000	\$ -	\$ 779,102	\$ 713,057
Contributions/benefit payments made from general operating funds	535,595	639,638	-	-
Net Investment income	198,865	151,458	62,008	50,205
Benefit payments including employee refunds	(535,595)	(639,638)	(779,102)	(713,057)
Administrative expense	(4,014)	(4,917)	(4,396)	(3,939)
Other	-	-	-	-
<b>Net change in plan fiduciary net position</b>	<u>694,851</u>	<u>146,541</u>	<u>57,612</u>	<u>46,266</u>
<b>Plan fiduciary net position, beginning of year</b>	<u>1,253,420</u>	<u>1,948,271</u>	<u>2,094,812</u>	<u>2,152,424</u>
<b>Plan fiduciary net position, end of year</b>	<u>\$ 1,948,271</u>	<u>\$ 2,094,812</u>	<u>\$ 2,152,424</u>	<u>\$ 2,198,690</u>
<b>Employer net OPEB liability</b>	<u>\$ 4,405,276</u>	<u>\$ 5,433,138</u>	<u>\$ 6,202,425</u>	<u>\$ 6,184,029</u>
Employer net OPEB liability reported by Grand Haven Board of Light and Power **	<u>\$ 1,013,548</u>	<u>\$ 1,319,831</u>	<u>\$ 1,146,013</u>	<u>\$ 1,091,795</u>
<b>Plan fiduciary net position as a percentage of the total OPEB liability</b>	31%	28%	26%	26%
<b>Covered employee payroll</b>	\$ 11,180,895	\$ 5,433,138	\$ 5,833,306	\$ 4,286,167
<b>Employer's net OPEB liability as a percentage of covered employee payroll</b>	39%	100%	106%	144%

**Notes to schedule:**

\*\*The above schedule provides information for the City of Grand Haven plan as a whole with the exception of this item. Above data is based on a June 30 measurement date.



**GRAND HAVEN BOARD OF LIGHT AND POWER**

**DEFINED BENEFIT OPEB PLAN  
SCHEDULE OF EMPLOYER CONTRIBUTIONS**

**FOR THE YEARS ENDED JUNE 30, 2017 through 2020**

Fiscal Year end	Actuarially determined contributions **	Contributions in relation to the actuarially determined contribution **	Contribution deficiency (excess) **	Covered employee payroll **	Contributions as a percentage of covered employee payroll **
6/30/2017	\$ 202,700	\$ 208,736	\$ (6,036)	\$ 4,398,937	5%
6/30/2018	215,813	215,813	-	3,280,409	7%
6/30/2019	212,789	212,789	-	3,041,327	7%
6/30/2020	273,794	280,815	(7,021)	1,738,293	16%

**Notes to schedule**

Actuarial cost method	Entry Age
Amortization method	Level percent, closed
Remaining amortization period	7 years
Asset valuation method	Market value
Inflation	2.25%
Healthcare cost trend rates	8.25% graded down .25% per year until reaching 4.5%
Salary increases	2.00%
Investment rate of return	7.35% (7.75% 2017-2019)
Retirement age	Varies depending on plan adoption
Mortality	2010 Employee and Healthy Retiree; headcount weighted, 2019 Improvement

**SCHEDULE OF INVESTMENT RETURNS**

**FOR THE YEARS ENDED JUNE 30, 2020 and 2019**

Fiscal Year end	Annual money-weighted rate of return net of investment expense
6/30/2017	12.2%
6/30/2018	7.7%
6/30/2019	2.9%
6/30/2020	7.2%

**Notes to schedule:**

Above returns are based on a measurement date of June 30.

\*\*The above schedule provides information for the City of Grand Haven plan as a whole with the exception of this item.

## **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 16, 2020

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, 2020, and the related notes to the financial statements, which collectively comprise the Board's basic financial statements, and have issued our report thereon dated October 16, 2020.

#### **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.

*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. A *significant deficiency* is a deficiency, or a 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.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

#### **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*.

***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.

*Orlando Haefner LLC*