

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name Marquette Board of Light & Power	County Marquette
Audit Date 6/30/04	Opinion Date 8/25/04	Date Accountant Report Submitted to State: 10/22/04	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- Yes No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- Yes No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- Yes No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- Yes No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- Yes No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- Yes No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- Yes No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- Yes No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- Yes No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.			✓
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGU).			✓

Certified Public Accountant (Firm Name) Makela, Toutant, Hill & Nardi, P.C.			
Street Address 201 West Bluff Street	City Marquette	State MI	ZIP 49855
Accountant Signature <i>Paul B. Nardi, CPA</i>		Date <i>10/22/04</i>	

Audited Financial Statements
and Other Financial Information

MARQUETTE BOARD OF LIGHT AND POWER
Marquette, Michigan

June 30, 2004

Audited Financial Statements
and Other Financial Information

MARQUETTE BOARD OF LIGHT AND POWER

June 30, 2004

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Management Discussion and Analysis

This annual report consists of a series of financial statements, notes to the financial statements, and other financial information. Following is a brief description of each statement and the notes.

The balance sheet presents the financial position of the Marquette Board of Light and Power (MBLP) on a full accrual, historical cost basis. This statement provides information about the nature and amount of resources and obligations for the years ended June 30, 2004, and June 30, 2003.

The statement of revenues, expenses, and changes in net assets provides the reader with the revenues and expenses by major category for the current fiscal year and the prior fiscal year giving the opportunity for a direct comparison of these items for the past two fiscal years. Increases and decreases in the individual line items on this statement can be analyzed and evaluated. This statement also indicates the change in net assets.

The statement of cash flows presents changes in cash and cash equivalents, resulting from operating, capital and related financing, and investing activities. This statement presents cash receipts and cash disbursement information, without consideration of the earnings event, when an obligation arises, or depreciation of capital assets.

The notes to the financial statements provide required disclosures and other information that are essential to a full understanding of material data provided in the statements. The notes present information about the MBLP's significant accounting policies, account balances and activities, material risks, obligations, commitments, contingencies and any subsequent events.

After the financial statements and notes to financial statements, the MBLP presents other financial information. This information includes a schedule of operating expenses, schedule of utility plant in service, comparative operating statistics, and comparative financial and statistical information.

The following table summarizes the financial condition and operations for the MBLP for 2004 and 2003:

	June 30, 2004	June 30, 2003	Dollar Change	Percent Change
Current and other assets	\$ 18,972,993	\$ 16,015,586	\$ 2,957,407	18.47%
Restricted assets	6,170,741	7,069,042	(898,301)	-12.71%
Capital assets	40,786,937	42,617,967	(1,831,030)	-4.30%
Total assets	<u>65,930,671</u>	<u>65,702,595</u>	228,076	0.35%
Long-term debt outstanding	13,768,351	17,203,365	(3,435,014)	-19.97%
Other liabilities	7,581,836	7,005,732	576,104	8.22%
Total liabilities	<u>21,350,187</u>	<u>24,209,097</u>	(2,858,910)	11.81%
Net assets:				
Invested in plant, net of related debt	28,886,862	27,040,679	1,846,183	6.83%
Restricted	2,210,809	5,440,430	(3,229,621)	-29.96%
Unrestricted	<u>13,482,813</u>	<u>9,012,389</u>	4,470,424	19.36%
Total net assets	<u>\$ 44,580,484</u>	<u>\$ 41,493,498</u>	<u>\$ 3,086,986</u>	<u>7.44%</u>

Management Discussion and Analysis--Continued

	FY2004	FY2003	Dollar Change	Percent Change
Revenues:				
Electric revenues	\$ 19,942,130	\$ 19,562,574	\$ 379,556	1.94%
Sales to UppCo and WepCo	3,097,767	4,719,783	(1,622,016)	-34.37%
Interest earnings	426,681	573,053	(146,372)	-25.54%
Other	768,604	618,932	149,672	24.18%
Total revenues	<u>24,235,182</u>	<u>25,474,342</u>	<u>(1,239,160)</u>	<u>-4.86%</u>
Expenses:				
Electric expenses	21,099,735	21,781,724	(681,989)	-3.13%
Interest and debt expense	570,553	663,760	(93,207)	-14.04%
Other	32,155	30,673	1,482	4.83%
Total expenses	<u>21,702,443</u>	<u>22,476,157</u>	<u>(773,714)</u>	<u>-3.44%</u>
Net income before extraordinary item	2,532,739	2,998,185	(465,446)	-15.52%
Extraordinary item		(121,998)	121,998	-100.00%
Capital Contributions from customers	<u>554,247</u>	<u>119,193</u>	<u>435,054</u>	<u>365.00%</u>
Increase in net assets	<u>\$ 3,086,986</u>	<u>\$ 2,995,380</u>	<u>\$ 91,606</u>	<u>3.06%</u>

Current and other assets have increased by 18.47 percent. This is primarily due to the investment in Upper Peninsula Public Power Agency (UPPPA) and additional short-term investments to pay for shipments of coal. The primary purpose of UPPPA is to facilitate an ownership interest in American Transmission Company. Restricted assets and restricted net assets have declined due to the payment of bonds and interest with Construction Fund moneys. Long-term debt was reduced due to the annual bond payment. All long-term debt currently held by the MBLP will be paid off by July 01, 2008.

Sales to UppCo and WepCo have declined from the prior year. The prior year included sales to WepCo due to the May 2003 flood event. Interest earnings have fallen from the prior year due to financial market conditions and cash flow considerations. Other revenues have increased in large part due to increased limestone shipments over the prior year. Capital contributions from customers increased over the prior year largely due to the Spring Street Commons Area, which was co-funded by the MBLP and the Downtown Development Authority.

Management Discussion and Analysis--Continued

Net assets have increased by about \$3,000,000 during the fiscal year ended June 30, 2004, indicating that the MBLP's financial position has improved as a result of the year's operation.

There were no significant variations between the original and final budgets. Notable variations from budgeted amounts to actual amounts were: higher sales to WepCo under the capacity contract; higher limestone shipments; increased operation and maintenance costs for the combustion turbine due to increased operation; lower purchased power costs due to the deferral of maintenance work on Board generating assets, unavailability of purchased power, and economic considerations.



REPORT OF INDEPENDENT AUDITORS

The Honorable Chairman and Members
Marquette Board of Light and Power
Marquette, Michigan

We have audited the accompanying financial statements of the Marquette Board of Light and Power as of and for the years ended June 30, 2004 and 2003, as listed in the table of contents. These financial statements are the responsibility of the Marquette Board of Light & Power's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the 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.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Marquette Board of Light and Power as of June 30, 2004 and 2003, and the results of its operations and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The information presented in Management's Discussion and Analysis on pages one through three is not a required part of the basic financial statements, but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Makela, Toutant, Hill & Nardi, P.C.

August 25, 2004



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Our goal is to help you meet yours!

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BALANCE SHEETS

MARQUETTE BOARD OF LIGHT AND POWER

	June 30	
	2004	2003
ASSETS		
UTILITY PLANT		
Electric utility plant in service--Notes A and C	\$ 111,345,699	\$ 110,328,477
Less allowances for depreciation and amortization	<u>70,558,762</u>	<u>67,710,510</u>
NET UTILITY PLANT	40,786,937	42,617,967
RESTRICTED ASSETS--Notes B and D:		
Construction fund		945,600
Bond and interest redemption fund	3,959,932	3,912,344
Bond reserve fund	2,198,000	2,198,000
Pinehill landfill escrow fund	<u>12,809</u>	<u>13,098</u>
TOTAL RESTRICTED ASSETS	6,170,741	7,069,042
CURRENT ASSETS		
Operation and maintenance fund--Note A:		
Cash and cash equivalents	2,777,987	4,454,192
Investments	<u>3,704,501</u>	<u>308,570</u>
	6,482,488	4,762,762
Accounts receivable, less allowance for losses in collection (2004--\$123,502; 2003--\$94,729)	1,033,410	1,642,120
Inventories		
Coal	858,433	780,935
Diesel fuel	336,011	359,673
Materials and supplies	403,302	412,003
Prepaid expenses	<u>66,735</u>	<u>57,849</u>
TOTAL CURRENT ASSETS	9,180,379	8,015,342
INTERNALLY DESIGNATED ASSETS		
Customer electric rate stabilization fund	2,346,484	2,283,732
Turbine and major generating equipment overhaul fund	1,244,082	977,745
Replacement-risk retention fund	2,555,042	2,512,119
Improvement fund	<u>1,892,238</u>	<u>2,087,092</u>
TOTAL INTERNALLY DESIGNATED ASSETS	8,037,846	7,860,688
OTHER ASSETS		
Investment in UPPPA	1,648,112	
Unamortized bond issue expenses	<u>106,656</u>	139,556
TOTAL OTHER ASSETS	1,754,768	139,556
TOTAL ASSETS	<u>\$ 65,930,671</u>	<u>\$ 65,702,595</u>

See notes to financial statements.

	June 30	
	2004	2003
NET ASSETS		
Invested in utility plant, net of related debt	\$ 28,886,862	\$ 27,040,709
Restricted	2,210,809	3,156,698
Unrestricted	13,482,813	11,296,091
TOTAL NET ASSETS	<u>44,580,484</u>	<u>41,493,498</u>
LONG-TERM LIABILITIES		
Revenue bonds less current maturities--Notes E and F	11,900,075	15,577,288
Reserve for turbine and major generating equipment overhaul	1,244,082	977,745
Postclosure costs--Landfill	624,194	648,332
TOTAL LONG-TERM LIABILITIES	<u>13,768,351</u>	<u>17,203,365</u>
CURRENT LIABILITIES (payable from restricted assets)		
Current maturities on revenue bonds	3,705,000	3,610,000
Revenue bond accrued interest payable	254,932	302,314
TOTAL CURRENT LIABILITIES--RESTRICTED ASSETS	<u>3,959,932</u>	<u>3,912,314</u>
CURRENT LIABILITIES (payable from current assets)		
Accounts payable	1,345,395	934,483
Employee compensation and related liabilities	124,129	59,986
Accrued sick and vacation pay	833,609	832,043
Customer deposits, including accrued interest (2004--\$18,453; 2003--\$18,071)	1,278,771	1,213,526
Post-closure costs--landfill	40,000	40,000
Other		13,380
TOTAL CURRENT LIABILITIES	<u>3,621,904</u>	<u>3,093,418</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 65,930,671</u>	<u>\$ 65,702,595</u>

See notes to financial statements.

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS

MARQUETTE BOARD OF LIGHT AND POWER

	Year Ended June 30	
	2004	2003
OPERATING REVENUES		
Electricity sales:		
Urban	\$ 11,486,191	\$ 11,387,999
Rural	6,710,934	6,417,459
Sales to Alger-Delta Co-op	768,081	762,024
Sales to Wisconsin Electric Power Company	3,097,767	4,719,783
Street lighting	302,194	299,405
Other municipal departments	674,730	695,687
Rent and other	738,928	589,186
	<u>23,778,825</u>	<u>24,871,543</u>
OPERATING EXPENSES		
Production	10,970,444	11,698,077
Purchased power	709,764	765,097
Distribution and transmission	961,924	1,039,641
Customer accounting	469,905	486,154
Administrative and general	3,652,965	3,448,704
Provisions for depreciation and amortization of landfill site, excluding amounts charged to other operating expenses (2004--\$93,947; 2003--\$72,409)	3,094,111	3,103,402
Charges from municipality in lieu of property taxes--City of Marquette	1,240,622	1,240,649
	<u>21,099,735</u>	<u>21,781,724</u>
OPERATING INCOME	<u>2,679,090</u>	<u>3,089,819</u>
OTHER INCOME (DEDUCTIONS)		
Investment income	426,681	573,053
Interest on refunding bonds	(509,865)	(604,628)
Delayed payment fees	29,676	29,746
Amortization of bond issuance expense	(60,688)	(59,132)
Other interest expense	(32,155)	(30,673)
TOTAL OTHER INCOME (DEDUCTIONS)	<u>(146,351)</u>	<u>(91,634)</u>
NET INCOME BEFORE EXTRAORDINARY ITEM	<u>2,532,739</u>	<u>2,998,185</u>
EXTRAORDINARY ITEM		
Flood event		(121,998)
NET INCOME	<u>2,532,739</u>	<u>2,876,187</u>
CAPITAL CONTRIBUTIONS FROM CUSTOMERS		
	554,247	119,193
CHANGE IN NET ASSETS	<u>3,086,986</u>	<u>2,995,380</u>
NET ASSETS AT THE BEGINNING OF YEAR	<u>41,493,498</u>	<u>38,498,118</u>
NET ASSETS AT THE END OF YEAR	<u>\$ 44,580,484</u>	<u>\$ 41,493,498</u>

See notes to financial statements.

STATEMENTS OF CASH FLOWS

MARQUETTE BOARD OF LIGHT AND POWER

	Year Ended June 30	
	2004	2003
CASH FLOWS FROM (USED BY) OPERATING ACTIVITIES		
Cash received from customers	\$ 24,421,527	\$ 24,574,500
Cash received for interest	421,092	428,750
Cash paid to suppliers and employees	(17,231,485)	(17,603,083)
Cash paid for interest	(557,247)	(789,903)
NET CASH PROVIDED BY OPERATING ACTIVITIES	7,053,887	6,610,264
CASH FLOWS FROM (USED BY) INVESTING ACTIVITIES		
Capital expenditures, net	(2,105,863)	(2,717,851)
Contributions from customers	554,247	119,193
Proceeds from maturities and sales of investment securities	4,334,924	3,372,574
Proceeds from sale of equipment	2,445	
Purchases of investment securities	(4,509,914)	(4,033,301)
NET CASH FLOWS USED BY INVESTING ACTIVITIES	(1,724,161)	(3,259,385)
CASH FLOWS USED BY NONCAPITAL FINANCING ACTIVITIES		
Principal payments on revenue bonds	(3,610,000)	(2,675,000)
NET CASH FLOWS USED BY NONCAPITAL FINANCING ACTIVITIES	(3,610,000)	(2,675,000)
NET INCREASE IN OPERATION AND MAINTENANCE FUND CASH, CASH EQUIVALENTS, AND INVESTMENTS	1,719,726	675,879
OPERATION AND MAINTENANCE FUND CASH, CASH EQUIVALENTS, AND INVESTMENTS AT BEGINNING OF YEAR	4,762,762	4,086,883
OPERATION AND MAINTENANCE FUND CASH, CASH EQUIVALENTS, AND INVESTMENTS AT END OF YEAR	\$ 6,482,488	\$ 4,762,762
Reconciliation of net income to net cash provided by operating activities:		
Net income	\$ 2,532,739	\$ 2,876,187
Adjustments to reconcile net income to cash provided by operating activities:		
Depreciation	3,188,058	3,175,811
Bad debt expense	28,773	24,426
Amortization of bond issuance expense and bond discounts	60,687	59,132
Unrealized (gain) loss on investments	66,884	(104,307)
(Increase) decrease in:		
Accounts receivable	579,937	(344,345)
Inventory	(45,135)	844,097
Prepaid expenses	(8,886)	(7,639)
Accrued interest receivable	(72,473)	(39,996)
Increase (decrease) in:		
Landfill site post-closure care cost liability	(24,138)	(29,670)
Accounts payable	410,912	317,337
Employee compensation and related liabilities	64,143	3,168
Accrued sick and vacation pay	1,566	(18,268)
Customer deposits, including accrued interest	65,245	48,229
Reserve for turbine overhaul and generating equipment	266,337	(22,003)
Revenue bond interest payable	(47,382)	(185,075)
Other	(13,380)	13,180
NET CASH FLOWS FROM OPERATING ACTIVITIES	\$ 7,053,887	\$ 6,610,264

See notes to financial statements.

NOTES TO FINANCIAL STATEMENTS

MARQUETTE BOARD OF LIGHT AND POWER

June 30, 2004

NOTE A—STATEMENT OF ACCOUNTING POLICIES

The accounting policies followed by the Marquette Board of Light and Power (Board) and the methods of applying those policies, which materially affect the determination of the financial position, other changes in equity, and results of operations are summarized below.

Description of Reporting Entity: The Marquette Board of Light and Power, Marquette, Michigan, was formed by a revision of the charter of the City of Marquette, Michigan, in 1964 to operate the city's electric utility. The Board consists of five members, elected by the voters of the City of Marquette, each serving three-year terms. The Board appoints the director. The Marquette Board of Light and Power is owned by the City of Marquette, Michigan. The Board provides electrical service to the residents of the City of Marquette, as well as non-residents within an area of approximately 140 square miles outside the city limits. The Board, subject to confirmation by the Marquette City Commission, sets rates for light and power. The accompanying financial statements include only the Marquette Board of Light and Power and no other governmental agencies or departments of the City of Marquette.

The Marquette Board of Light and Power is accounted for as an enterprise fund. Enterprise funds are used to account for operations that are financed and operated in a manner similar to private business enterprises, where the intent of the governing body is that the costs (expenses, including depreciation and amortization) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges.

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

Revenues and expenses are recognized on the accrual basis in accordance with accounting principles generally accepted in the United States of America and with the requirements of Act 2 of the Public Acts of 1968, which is the Uniform Accounting Act of the State of Michigan. Revenues are recognized when they are earned and expenses are recognized when they are incurred.

New Accounting Pronouncement: The Governmental Accounting Standards Board has issued Statement of Accounting Standards Number 34, Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments (SGAS 34). The Board was required to implement the provisions of SGAS 34 for the year ended June 30, 2003. SGAS 34 established standards for external financial reporting for all state and local governmental entities which includes a statement of net assets, a statement of activities and changes in net assets, and a statement of cash flows. It requires the classification of net assets into the three components of invested in capital assets: net of related debt, restricted and unrestricted. These classifications are defined as follows:

MARQUETTE BOARD OF LIGHT AND POWER

NOTE A--STATEMENT OF ACCOUNTING POLICIES--Continued

Invested in capital assets, net of related debt: This component of net assets consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.

Restricted: This component of net assets consists of assets with constraints placed on their use through creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.

Unrestricted: This component of net assets consists of net assets that do not meet the definition of restricted or invested in capital assets, net of related debt.

Utility Plant: Utility plant acquired prior to 1940 is stated on the basis of values determined by independent appraisers as of that date. Subsequent additions are stated at cost. Costs of the utility plant related to providing service to additional customers are capitalized and, in some cases, a related fee is charged to customers and recorded as contributions from customers.

Additions, improvements, and other capital outlay that significantly extends the useful life of an asset are capitalized. Capitalization thresholds vary by asset category and by type of expenditure.

Depreciation and amortization are provided for on the straight-line method over the following estimated useful lives:

	<u>Estimated Useful Life</u>
Hydro license	30 years
Structures and improvements	33-50 years
Equipment	5-33 years

Gains or losses on normal disposals are not included in net income, but are recorded as adjustments of the allowances for depreciation. Gains or losses on extraordinary retirements or unusual disposals are recorded in net income in their year of occurrence.

MARQUETTE BOARD OF LIGHT AND POWER

NOTE A--STATEMENT OF ACCOUNTING POLICIES--Continued

Inventories: Inventories of fuel, material, and supplies are valued at cost (not in excess of market) determined on the moving-average method.

Accrued Sick Leave: The Board has a policy of allowing employees to accumulate sick leave benefits. At retirement, certain terminations of employment, or employees with ten years or more of service are paid for one-half of the accumulated days at their current rate of pay. Such benefits are recorded when earned.

Unbilled Revenue: The Board recognizes revenues on the basis of monthly cycle billings to customers. Accordingly, unbilled revenue from billing date to June 30 has not been recorded. The cost of service rendered is recognized when incurred.

Cash and Cash Equivalents: The Board considers all demand deposits, time deposits, and highly liquid debt instruments, purchased with an original maturity of three months or less, to be cash equivalents. Cash and cash equivalents are reported at carrying amount that approximates fair value.

Investments: The Board reports investments at fair value as determined by quoted market prices. The exception to this policy is for the Board's investment in Upper Peninsula Public Power Agency which is carried at cost because there is no quoted market value for the investment.

Statement of Cash Flows: The Board prepares the statement of cash flows to present the change in the operation and maintenance fund cash and equivalents and investment account balances.

Rates: The Board will charge and collect rates, with the approval of the city commission, necessary to provide net revenues, as defined in the bond agreement, sufficient to cover annual debt service not less than 1.25 times.

Operation and Maintenance Fund: Transfers will be made from the receiving fund in amounts necessary to pay the next month's estimated operating expenses. This fund also includes assets reserved for customer deposits and short-term investments for payment of coal invoices.

Use of Estimates: The preparation of financial statements, in conformity with accounting principles generally accepted in the United States of America, requires the Board's management to make estimates and assumptions that affect certain reported amounts and disclosures. Actual results could differ from those estimates.

Reclassifications: Certain amounts as of and for the year ended June 30, 2003, have been reclassified to conform with the current year's classification.

MARQUETTE BOARD OF LIGHT AND POWER

NOTE B--RESTRICTED AND DESIGNATED ASSETS

The major funds created by provisions of the ordinances authorizing the issuance of revenue bonds and by Board designation are as follows:

Bond and Interest Redemption Fund: Transfers will be made from the receiving fund in amounts sufficient to pay bond and interest maturities.

Bond Reserve Fund: Transfers will be made to the bond reserve fund in an amount equal to 10 percent of the 2001A revenue bonds original issuance amount.

Replacement-Risk Retention Fund: Transfers will be made to the fund, as the Board determines necessary, to finance major distribution repairs and replacements and provide for potential claims not covered by existing insurance policies. Transfers to this fund are subordinate to payments in lieu of taxes.

Improvement Fund: Transfers will be made to the improvement fund as the Board deems necessary for improvements, enlargements, and extensions of the system. Transfers to this fund are subordinate to transfers to the replacement-risk retention fund.

Pinehill Landfill Escrow Fund: The Board has established an escrow fund (based on tonnage) for the future closure of the landfill due to a state regulation.

Turbine and Major Generating Equipment Overhaul Fund: The Board has established a turbine and major generating equipment overhaul fund for future turbine and major generating equipment overhauls.

Construction Fund: This fund consists of funds that are committed for the utility plant expansions, or for the payment of outstanding bonds. Interest on bonds and notes is capitalized during construction net of interest earned on investment of unexpended bond and note proceeds.

Customer Electric Rate Stabilization Reserve: This fund consists of funds reserved for plant expansion, retirement of debt, reduction or elimination of adverse fuel adjustments, and/or to avert a rate increase.

NOTES TO FINANCIAL STATEMENTS--Continued

MARQUETTE BOARD OF LIGHT AND POWER

NOTE C--UTILITY PLANT

A summary of utility plant is as follows:

	June 30	
	2004	2003
Land and land rights	\$ 999,971	\$ 999,971
Landfill site	120,000	120,000
Hydro license	405,173	393,823
Structures and improvements	10,560,068	10,554,501
Equipment	99,260,487	98,260,182
	<u>111,345,699</u>	<u>110,328,477</u>
Accumulated depreciation	<u>(70,558,762)</u>	<u>(67,710,510)</u>
	<u>\$40,786,937</u>	<u>\$ 42,617,967</u>

A summary of utility plant activity for the year ended June 30, 2004, is as follows:

	Balance at Beginning of Year	Additions	Retirements	Balance at End of Year
Hydraulic production	\$ 5,586,916	\$ 287,544		\$ 5,874,460
Internal combustion	1,407,481	7,004		1,414,485
Turbine combustion	4,491,083			4,491,083
Steam production	66,130,392	42,355		66,172,747
Transmission line project	2,747,630	201,675	\$ (865,900)	2,083,405
General plant and equipment	3,564,738	207,269	(48,163)	3,723,844
Distribution	26,400,237	1,357,996	(172,558)	27,585,675
	<u>110,328,477</u>	<u>2,103,843</u>	<u>(1,086,621)</u>	<u>111,345,699</u>
Accumulated depreciation	<u>(67,710,510)</u>	<u>(3,188,058)</u>	<u>339,806</u>	<u>(70,558,762)</u>
	<u>\$ 42,617,967</u>	<u>\$ (1,084,215)</u>	<u>\$ (746,815)</u>	<u>\$ 40,786,937</u>

NOTES TO FINANCIAL STATEMENTS--Continued

MARQUETTE BOARD OF LIGHT AND POWER

NOTE D--DEPOSITS AND INVESTMENTS

The composition of restricted assets, internally designated assets, and operation and maintenance fund assets reported on the balance sheet at June 30, 2004, are as follows:

	<u>Cash and Cash Equivalents</u>	<u>Investments</u>	<u>Accrued Interest</u>	<u>Total</u>
RESTRICTED ASSETS				
Bond and interest redemption fund	\$ 3,959,932			\$ 3,959,932
Bond reserve fund		\$ 2,198,000		2,198,000
Pinehill escrow fund	12,809			12,809
	<u>3,972,741</u>	<u>2,198,000</u>	<u>\$ 0</u>	<u>6,170,741</u>
INTERNALLY DESIGNATED ASSETS				
Customer electric rate stabilization fund	638,937	1,648,194	59,353	2,346,484
Turbine overhaul fund	414,353	809,810	19,919	1,244,082
Improvement fund		1,816,873	75,365	1,892,238
Replacement-risk retention fund		2,459,951	95,091	2,555,042
	<u>1,053,290</u>	<u>6,734,828</u>	<u>249,728</u>	<u>8,037,846</u>
OPERATION AND MAINTENANCE FUND				
	<u>2,777,987</u>	<u>3,612,896</u>	<u>91,605</u>	<u>6,482,488</u>
TOTAL	<u><u>\$ 7,804,018</u></u>	<u><u>\$ 12,545,724</u></u>	<u><u>\$ 341,333</u></u>	<u><u>\$ 20,691,075</u></u>

Cash and cash equivalents can also be summarized into the following categories:

Imprest cash	\$ 1,701
Cash in demand accounts	277,662
Cash in savings accounts	3,551,914
Other	<u>3,972,741</u>
	<u><u>\$ 7,804,018</u></u>

Deposits

At year-end, the carrying amount of the Board's deposits with financial institutions was \$7,802,317 and the balance per bank statement was \$8,063,672 of which \$8,058,592 was held in interest-bearing accounts. Of the bank balance, approximately \$305,000 of the Board's deposits are insured by the Federal Deposit Insurance Corporation (FDIC). The remaining balance of \$7,759,000 was uninsured and uncollateralized. The regulation, in summary, provides that deposits of a governmental unit are insured for the lesser of the amount of the combined deposit or \$100,000 for both demand deposits and time deposits in every financial institution, that is not a branch location, that is a member of the FDIC.

NOTES TO FINANCIAL STATEMENTS--Continued

MARQUETTE BOARD OF LIGHT AND POWER

NOTE D--DEPOSITS AND INVESTMENTS--Continued

Investments

The Board's investments are categorized below to give an indication of the level of risk assumed at year-end. Category 1 includes investments that are insured or registered or for which the securities are held by the Board or its agent in the Board's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the brokers' or dealers' safekeeping department or agent in the Board's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the broker or dealer, or by its safekeeping department or agent, but not in the Board's name.

Statutory Authority

Investment Type	Category 1	Category 2	Category 3	Fair Value/ Carrying Value	Cost
U.S. Government Obligations		\$ 2,244,376		\$ 2,281,799	\$ 2,244,376
Certificates of Deposit			\$ 10,263,925	10,263,925	10,263,925
Total	\$ 0	\$ 2,244,376	\$ 10,263,925	\$ 12,545,724	\$ 12,508,301

Act 196, PA 1997, authorizes the Board to deposit and invest in:

- 1) Bonds, securities, and other direct obligations of the United States or its agencies.
- 2) Certificates of deposit, savings accounts, deposit accounts, or depository receipts of federally-insured banks, insured savings and loan associations, or credit unions insured by the National Credit Union Administration that are eligible to be a depository of surplus money belonging to the state under Section 5 or 6 of Act 105, PA 1855, as amended.
- 3) Commercial paper rated at time of purchase within the two highest classifications established by no less than two standard rating services. Maturity cannot be more than 270 days after purchase.
- 4) United States government or federal agency obligation repurchase agreements.
- 5) Bankers' acceptance of United States banks.
- 6) Obligations of the State of Michigan or its political subdivisions which are rated investment grade.
- 7) Mutual funds composed of investments that are legal for direct investments by local units of government in Michigan.

The Board's investments are in accordance with statutory authority.

MARQUETTE BOARD OF LIGHT AND POWER

NOTE D--DEPOSITS AND INVESTMENTS--Continued

During the year ended June 30, 2004, the Board joined with six other municipal electric utilities and formed the Upper Peninsula Public Power Agency (Agency) a joint action agency created under Public Act 448 of the State of Michigan. The primary purpose of the Agency is to facilitate an ownership interest in American Transmission Company, LLC, for its members, with any investment revenues countering likely increases in wholesale transmission expenses. The Board transferred transmission assets with a net book value of \$746,390 and approximately \$902,000 in cash to the Agency in return for an approximate 68 percent ownership interest in the Agency. This investment is carried at cost.

NOTE E--LONG-TERM DEBT

Details of outstanding long-term revenue bonds as of June 30, 2004, are as follows:

Issue of October 11, 2001, 2.625 to 3.80%, net of \$89,925 discount, payable in variable annual installments through 2009	<u>\$ 11,900,075</u>
---	----------------------

Maximum annual maturities through 2009 total \$3,805,000. Bonds maturing in the years 2006 through 2009 are subject to redemption prior to maturity at the option of the city, in such order as the city may determine, and by lot within a single maturity, on any interest payment date on or after July 1, 2006. Bonds called for redemption shall be redeemed at par and accrued interest to the date fixed for redemption.

The annual cash requirements to amortize all recorded debt outstanding, including interest payments, are as follows for each of the fiscal years ended:

June 30	July 1		January 1	Total
	Interest	Principal	Interest	
2005	\$ 254,933	\$ 3,705,000	\$ 203,063	\$ 4,162,996
2006	203,063	3,805,000	145,988	4,154,051
2007	145,988	2,695,000	101,520	2,942,508
2008	101,520	2,790,000	51,300	2,942,820
2009	51,300	2,700,000		2,751,300
	<u>\$ 756,804</u>	<u>\$ 15,695,000</u>	<u>\$ 501,871</u>	<u>\$ 16,953,675</u>

NOTES TO FINANCIAL STATEMENTS--Continued

MARQUETTE BOARD OF LIGHT AND POWER

NOTE E--LONG-TERM DEBT

The following is a summary of long-term debt transactions for the year ended June 30, 2004:

	<u>June 30, 2003</u>	<u>Additions</u>	<u>Payments or Amortization</u>	<u>June 30, 2004</u>
Revenue Bonds payable	\$ 15,695,000		\$(3,705,000)	\$ 11,990,000
Less: Unamortized net discount	(117,712)		27,787	(89,925)
TOTAL BONDS PAYABLE	<u>\$ 15,577,288</u>	<u>\$ 0</u>	<u>\$(3,677,213)</u>	<u>\$ 11,900,075</u>

Interest payments relating to the 2001A revenue bonds totaled \$557,246 and \$789,703 for the years ended June 30, 2004 and 2003, respectively. Other interest payments totaled \$37,581 and \$35,211 for the years ended June 30, 2004 and 2003, respectively.

NOTE F--FUNDS AVAILABLE FOR DEBT SERVICE

Income available for debt service consists of the following:

	<u>Year Ended June 30</u>	
	<u>2004</u>	<u>2003</u>
Operating income	\$ 2,679,090	\$ 3,089,819
Charges from municipality in lieu of property taxes	1,240,622	1,240,649
Provision for depreciation and amortization	3,188,058	3,175,811
Investment income	426,681	573,053
Delayed payment fee	29,676	29,746
AMOUNT AVAILABLE FOR DEBT SERVICE	<u>\$ 7,564,127</u>	<u>\$ 8,109,078</u>

Debt service requirements consist of the following:

	<u>Year Ended June 30</u>	
	<u>2004</u>	<u>2003</u>
Principal--2001A	\$ 3,705,000	\$ 3,610,000
Interest expense--2001A	509,865	604,628
TOTAL DEBT SERVICE	<u>\$ 4,214,865</u>	<u>\$ 4,214,628</u>
Debt service ratio	<u>1.79</u>	<u>1.92</u>

MARQUETTE BOARD OF LIGHT AND POWER

NOTE G--NET ASSETS

Net assets represent the difference between assets and liabilities. The following is a summary of the individual components of the Board's net assets as of June 30:

	2004	2003
Invested in utility plant, net of related debt:		
Net utility plant	\$ 40,786,937	\$ 42,617,967
Funds restricted for debt service	3,959,932	3,912,344
Revenue bonds payable	(15,605,075)	(19,187,288)
Accrued interest on long-term debt	(254,932)	(302,314)
INVESTED IN UTILITY PLANT, NET OF DEBT	<u>28,886,862</u>	<u>27,040,709</u>
Restricted:		
Bond reserve fund	2,198,000	2,198,000
Construction fund		945,600
Pinehill landfill escrow	12,809	13,098
TOTAL RESTRICTED	<u>2,210,809</u>	<u>3,156,698</u>
Unrestricted:		
Contributions from customers	1,899,415	1,345,169
Unrestricted	11,583,398	9,950,922
TOTAL UNRESTRICTED	<u>13,482,813</u>	<u>11,296,091</u>
TOTAL NET ASSETS	<u><u>\$ 44,580,484</u></u>	<u><u>\$ 41,493,498</u></u>

NOTE H--DEFINED BENEFIT PENSION PLAN

The Board participates in the Municipal Employees' Retirement System of Michigan (MERS), an agent multiple-employer pension plan. The plan provides retirement, disability, and death benefits to plan members and beneficiaries in accordance with state statute and Board ordinance. The Municipal Employees' Retirement System of Michigan issues a publicly available financial report that includes financial statements and required supplementary information for the entire MERS system. The report may be obtained by writing to the Municipal Employees' Retirement System of Michigan, 1134 Municipal Way, Lansing, Michigan 48917.

All employees' benefits, except for the executive director, vest after ten years of service. The executive director's benefits vest at eight years of service. Current Board bargaining and nonbargaining active employees covered by the defined benefit plan who retire at or after the age of 60 with 10 years of credited service are entitled to an annual retirement benefit payable

MARQUETTE BOARD OF LIGHT AND POWER

NOTE H--DEFINED BENEFIT PENSION PLAN--Continued

monthly in an amount equal to the sum of 2.25 percent of a member's five year average compensation, times the number of years service. Board employees who have retired prior to July 1, 1992, at or after the age of 60 with 10 years of credited service are entitled to an annual retirement benefit payable for life, in an amount equal to the sum of 1.2 percent times the first \$4,200 of a member's five-year final average compensation, plus 1.7 percent times the portion of final average compensation over \$4,200. The executive director and the management group who retire at or after the age of 60 with 10 years of credited service are entitled to an annual retirement benefit payable monthly in an amount equal to the sum of 2.5 and 2.25 percent, respectively, of a member's five-year final average compensation times the number of years of service credit. All Board bargaining unit employees hired on or after July 1, 1999, are entitled to an annual retirement benefit payable monthly in an amount equal to the sum of 2.0 percent of the five-year final average compensation times the number of years of service (B-2). (MERS) provides for early retirement benefits for all active employees at age 55 with 15 years of service at a reduced retirement benefit and at age 55 with 25 years of service without reduced benefits and age 50 with 25 years of service at a reduced benefit.

Current, active Board bargaining, non-bargaining, and management employees covered by the defined benefit plan hired prior to July 1, 1999, are entitled to the annual cost of living benefit upon retirement (E-2).

The System also provides death and disability benefits. The benefit provisions and all other requirements are established by state statute and Board ordinance.

Active employees with ten or more years of service, who become disabled, receive an amount equal to the same as would be received under the normal retirement requirements, except that the reduction for retirement before age 60 is not applied. If the disability is from service connected causes, the amount of retirement allowance shall be computed as if the member had acquired exactly 10 years of credited service, if the actually acquired credited service is less than 10 years.

If an employee dies, the beneficiary receives a retirement allowance computed in the same manner as a service retirement allowance, but reduced to reflect Option II (100 percent joint and survivor) election. An employee's surviving spouse will receive a retirement allowance equal to 85 percent of the deceased members or deceased vested former members accrued retirement allowance computed in the same manner as a service retirement allowance, based on service and final average compensation at time of death.

Plan members are required to contribute percentages ranging from 4.7 percent to 4.8 percent of their annual salary to the plan, except for the Executive Director's contribution which is paid by the Board. The Board is required to contribute an actuarially-determined rate. The contribution requirements of plan members and the Board are established and may be amended by the Board and the MERS Board of Trustees, respectively.

MARQUETTE BOARD OF LIGHT AND POWER

NOTE H--DEFINED BENEFIT PENSION PLAN--Continued

For 2004, the Board's annual pension cost was \$271,728. The Board's actual contributions for 2004 were \$269,928. The required contribution was determined as part of the December 31, 2001, actuarial valuation using the entry age normal cost funding method. The actuarial assumptions included (a) 8.0 percent investment rate of return (net of administrative expenses), (b) projected salary increases ranging from 5.0 percent to 9.4 percent per year, and (c) 4.5 percent per year cost-of-living adjustments. Both (a) and (b) included an inflation component of 4.5 percent. The actuarial value of the plan assets was determined using techniques that smooth effects of short-term volatility in the market value of investments.

<u>Fiscal Year Funding</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
2000	213,168	225%	\$ -
2001	229,444	164%	-
2002	277,151	100%	-
2003	276,564	100%	-
2004	271,728	99%	-

NOTE I--DEFINED BENEFIT CONTRIBUTION PENSION PLAN

The Board adopted a defined contribution pension plan effective August 1, 1998, covering all salaried employees hired on or after July 1, 1998. The Board and covered employees are each required to contribute 4.0 percent of annual covered payroll. Employees may voluntarily contribute up to an additional 10.0 percent of their annual salary up to the maximum allowed under the Internal Revenue Code. For the year ended June 30, 2004, contributions by the Board totaled \$11,853, and contributions by the employees totaled \$11,853.

NOTE J--DEFERRED COMPENSATION PLAN

The Board offers its employees two deferred compensation plans created in accordance with the Internal Revenue Code, Section 457. One plan is administered by the International City Managers Association (ICMA) and the other plan by the Nationwide Retirement Solutions Corporation. The plans, available to all Board employees, permit an employee to defer a portion of current earnings until termination, retirement, death, or unforeseeable emergency.

The Board does not make any contributions to the plans; however, voluntary contributions made by qualified participants to the plans for the years ended June 30, 2004 and 2003, totaled \$236,065 and \$227,299, respectively.

MARQUETTE BOARD OF LIGHT AND POWER

NOTE K--OTHER POST-EMPLOYMENT BENEFITS

In addition to the pension benefits described in Note E, the Board provides post-employment health care benefits to eligible retirees and their dependents. The benefits are provided in accordance with a collective bargaining agreement and Board policy. Retirees must be eligible to receive benefits from the MERS System to be covered; however, deferred vested retirees are ineligible for retiree medical coverage. All employees hired on or after July 1, 1995, will, upon retirement, receive full Board-paid health care premiums until they become eligible for reduced Social Security benefits, at which time the Board will continue the premium at the then existing rate level and the retiree will pay any annual premium increases until age 65 at which time coverage ceases. The Board funds the benefits on a pay-as-you-go basis. There are currently 72 contracts covering retirees and/or dependents receiving post-employment health care coverage paid for by the Board. For the years ended June 30, 2004 and 2003, the Board incurred premium expense of \$651,126 and \$576,334, respectively.

NOTE L--PURCHASE COMMITMENTS

The Board has a commitment to purchase a minimum of 140,000 net tons per year through 2008 of Western Coal from a supplier at a base contract price of \$21.60 (indexed quarterly) per ton at a heating value of 9,350 BTU's per pound. Of this commitment, 30,450 tons were purchased as of June 30, 2004, relating to the 2004 Great Lakes shipping season. The contract was extended through the end of the 2008 shipping season with a \$.50 per ton price reduction effective January 1, 2004.

NOTE M--CAPACITY AND ENERGY SALES AGREEMENT

Effective July 1, 1998, the Board entered into an agreement to sell unit capacity and related energy to a third party. The agreement has an initial term of seven (7) years. The initial amount of capacity nominated by the Board is equal to forty (40) mega-watts. The amount of capacity nominated shall be modified each year for projected changes in the Board's native system load, plus existing off-system sales, plus projected changes in the rated capacity of the Board's generating units. During the years ended June 30, 2004 and 2003, the Board recorded \$3,097,767 and \$4,719,783 of revenue representing both capacity and energy sales under this agreement.

NOTE N--PINEHILL LANDFILL SITE

The Board owns a Type III sanitary landfill site located in Negaunee Township, Michigan, which was used for the disposal of fly ash resulting from the burning of coal for the operation of the Shiras Steam Plant. The Board was notified by the Michigan Department of Natural Resources that the cell used at the landfill had resulted in degradations of the groundwaters located under the landfill. The Michigan Department of Environmental Quality (DEQ) approved the Board's feasibility study for the landfill. The Board subsequently submitted a Remedial Action Plan (RAP) for the site that was approved by the DEQ in February 1998. Based upon the approved RAP, the Board has recorded an estimated liability for the post-closure costs, which are expected to be limited to the annual costs relating to sampling and testing.

MARQUETTE BOARD OF LIGHT AND POWER

NOTE O--RISK MANAGEMENT

The Board is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Board manages these risks in several manners.

The Board maintains coverage from commercial insurance companies as well as public entity risk pools and industry mutuals for a variety of risks including general and public officials liability, property, boiler machinery, fleet, inland marine, and workmen's compensation. The Board participates in public entity risk pools with other public utilities and various municipalities for coverage. These agreements allow for the pools to make additional assessments in order to make the pools self-sustaining. The Board is unable to provide an estimate of the amounts of additional assessments, if any, that may be required to make the pools self-sustaining. Certain other risks are borne by the Board, and the Board has established a Replacement-Risk Retention Fund (see Note B).

Settled claims resulting from these risks have not exceeded insurance coverage in any of the past three fiscal years. The Board estimates that the amount of actual or potential claims, if any, against the Board as of June 30, 2004, are not material to the financial statements; and therefore, they contain no provision for estimated claims.

NOTE P--EXTRAORDINARY ITEM

On May 15, 2003, the Marquette Board of Light and Power's hydro properties experienced a flood event caused by the failure of a dike at the Silver Lake dam. There was significant erosion along the Dead River and the earthen embankment to the south of the #3 dam abutment was washed away. Numerous board facilities were affected by the water and debris including the #2 Hydro Plant basement, the roads to #2 Hydro Plant and Penstock, the #3 Hydro Plant and substation, the river banks, and other facilities.

The Board is expending resources on an ongoing basis to address the affects of the flood. The Board has not made a decision as of the statement date as to whether to repair, rebuild, or remove the #3 Dam. The Board is working with involved parties to address issues related to the flood and its aftermath.

OTHER FINANCIAL INFORMATION



**REPORT OF INDEPENDENT AUDITORS
ON OTHER FINANCIAL INFORMATION**

The Honorable Chairman and Members
Marquette Board of Light and Power
Marquette, Michigan

Our report on our audits of the basic financial statements of the Marquette Board of Light and Power appears on page four. Those audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The financial statements and schedules listed in the table of contents as other financial information are presented for purposes of additional analysis and are not a required part of the basic financial statements of the Marquette Board of Light and Power. Such information for the six years ended June 30 has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Makela, Toutant, Hill & Nardi, P.C.

August 25, 2004



OPERATING EXPENSES

MARQUETTE BOARD OF LIGHT AND POWER

	Year Ended June 30	
	2004	2003
PRODUCTION		
Steam Power Generation:		
Operation:		
Supervision and engineering	\$ 80,458	\$ 74,495
Fuel	6,749,463	6,774,172
Steam expenses	921,566	830,788
Electric expenses	389,823	346,196
Other	209,997	172,282
	<u>8,351,307</u>	<u>8,197,933</u>
Maintenance:		
Supervision and engineering	68,525	63,481
Structures	51,035	58,970
Boiler plant	873,833	846,298
Electric plant	155,191	155,776
Other	13,169	9,147
	<u>1,161,753</u>	<u>1,133,672</u>
TOTAL STEAM POWER GENERATION	<u>9,513,060</u>	<u>9,331,605</u>
Peaking Unit:		
Operation:		
Fuel	1,206,368	2,058,418
Operation and maintenance	118,306	181,013
TOTAL PEAKING UNIT	<u>1,324,674</u>	<u>2,239,431</u>
Hydraulic:		
Operation:		
Supervision and engineering	17,680	16,330
Generation	5,620	12,019
Other	24,035	19,975
	<u>47,335</u>	<u>48,324</u>
Maintenance:		
Supervision and engineering	17,127	15,744
Structures	6,467	16,088
Reservoirs, dams, and waterways	55,964	32,071
Electric plant	5,530	14,303
Other	287	512
	<u>85,375</u>	<u>78,718</u>
TOTAL HYDRAULIC	<u>132,710</u>	<u>127,042</u>
TOTAL PRODUCTION	<u>10,970,444</u>	<u>11,698,078</u>

OPERATING EXPENSES--Continued

MARQUETTE BOARD OF LIGHT AND POWER

	Year Ended June 30	
	2004	2003
PURCHASED POWER	\$ 709,764	\$ 765,097
TOTAL PRODUCTION AND PURCHASED POWER	11,680,208	12,463,175
DISTRIBUTION AND TRANSMISSION		
Operation:		
Supervision and engineering	112,663	104,957
Lines	14,229	35,780
Street lighting and signal systems	1,080	1,487
Meters	80,623	62,473
Customer installation	43,503	47,063
Other	42,854	43,178
	<u>294,952</u>	<u>294,938</u>
Maintenance:		
Supervision and engineering	103,982	96,804
Lines, structures, and station equipment	449,661	538,187
Line transformers	9,242	14,016
Street lighting and signal systems	77,996	72,578
Meters and other	26,091	23,117
	<u>666,972</u>	<u>744,702</u>
TOTAL DISTRIBUTION AND TRANSMISSION	961,924	1,039,640
CUSTOMER ACCOUNTING		
Supervision	39,625	36,773
Meter reading	128,310	127,886
Billing and collection	292,641	312,751
Other	9,329	8,651
TOTAL CUSTOMER ACCOUNTING	<u>469,905</u>	<u>486,061</u>

OPERATING EXPENSES--Continued

MARQUETTE BOARD OF LIGHT AND POWER

	Year Ended June 30	
	2004	2003
ADMINISTRATIVE AND GENERAL		
Salaries	\$ 380,456	\$ 353,552
Office supplies and expense	30,232	26,713
Professional services	47,402	51,149
Workers' compensation and insurance and direct payments	55,249	84,280
Fire, liability, and other insurance	315,510	293,310
Customer sales and safety relations	56,409	50,209
Employees' welfare and benefits:		
Social security	331,999	325,905
Medical insurance	1,449,625	1,240,314
Life insurance and long-term disability	50,956	56,881
Vacations, sick leave, and funeral leave	361,920	372,702
Retirement	282,426	288,147
Paid holidays	100,144	100,490
Longevity pay	15,731	17,038
Safety program	31,580	28,705
Maintenance	22,446	34,764
Other	120,880	124,638
TOTAL ADMINISTRATIVE AND GENERAL	<u>3,652,965</u>	<u>3,448,797</u>
PROVISION FOR DEPRECIATION		
Plant (excluding amounts charged elsewhere 2004--\$93,947; 2003--\$72,409)	3,094,111	3,103,402
CHARGES IN LIEU OF PROPERTY TAXES PAID TO MUNICIPALITY		
	<u>1,240,622</u>	<u>1,240,649</u>
	<u>\$21,099,735</u>	<u>\$21,781,724</u>

UTILITY PLANT IN SERVICE

MARQUETTE BOARD OF LIGHT AND POWER

Year Ended June 30, 2004 (with comparative totals for 2003)

	ASSETS				ALLOWANCES FOR DEPRECIATION				NET VALUE June 30, 2004	NET VALUE June 30, 2003	
	Balance at June 30, 2003	Additions	Retirement	Transfers	Balance at June 30, 2004	Balance at June 30, 2003	Provisions	Retirements			Balance at June 30, 2004
HYDRAULIC PRODUCTION											
Land and land rights	\$ 85,146				\$ 85,146					\$ 85,146	\$ 85,146
License	393,823	\$ 11,350			405,173					405,173	393,823
Structures and improvements	273,686				273,686	\$ 167,882	\$ 3,117		\$ 170,999	102,687	105,804
Reservoirs, dams, and waterways	3,843,449	276,194			4,119,643	1,548,454	68,246		1,616,700	2,502,943	2,294,995
Waterwheels, turbine, and generators	587,246				587,246	472,767	17,072		489,839	97,407	114,479
Roads, railways, and bridges	53,482				53,482	38,581	629		39,210	14,272	14,901
Accessory electrical equipment	348,859				348,859	329,962	4,152		334,114	14,745	18,897
Miscellaneous	1,225				1,225	1,225			1,225	0	0
	<u>5,586,916</u>	<u>287,544</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>5,874,460</u>	<u>2,558,871</u>	<u>93,216</u>	<u>\$ 0</u>	<u>2,652,087</u>	<u>3,222,373</u>	<u>3,028,045</u>
INTERNAL COMBUSTION											
ENGINE PRODUCTION											
Structures and improvements	721,144				721,144	584,599	11,754		596,353	124,791	136,545
Fuel holders, producers, and accessories	207,002				207,002	80,348	3461		80,348	126,654	126,654
Prime movers	274,836				274,836					274,836	274,836
Accessory electrical equipment	181,071	7,004			188,075	181,071			181,071	7,004	0
Miscellaneous	23,428				23,428	23,428			23,428	0	0
	<u>1,407,481</u>	<u>7,004</u>	<u>0</u>	<u>0</u>	<u>1,414,485</u>	<u>869,446</u>	<u>15,215</u>	<u>0</u>	<u>884,661</u>	<u>529,824</u>	<u>538,035</u>
TURBINE COMBUSTION											
Structures and improvements	300,285				300,285	241,573	9,999		251,572	48,713	58,712
Prime movers	163,024				163,024	157,464	14,589		172,053	(9,029)	5,560
Generators	3,476,159				3,476,159	2,799,294	115,756		2,915,050	561,109	676,865
Accessory electrical equipment	551,615				551,615	316,038	20,912		336,950	214,665	235,577
	<u>4,491,083</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>4,491,083</u>	<u>3,514,369</u>	<u>161,256</u>	<u>0</u>	<u>3,675,625</u>	<u>815,458</u>	<u>976,714</u>
STEAM PRODUCTION											
Land and land rights	951,797				951,797					951,797	951,797
Structures and improvements	8,454,004	3,167			8,457,171	5,684,189	281,519		5,965,708	2,491,463	2,769,815
Boiler plant and equipment	27,901,290				27,901,290	18,975,659	812,207		19,787,866	8,113,424	8,925,631
Turbogenerator units	11,057,932				11,057,932	8,078,067	345,832		8,423,899	2,634,033	2,979,865
Accessory electric equipment	6,204,754	1,588			6,206,342	4,231,168	192,931		4,424,099	1,782,243	1,973,586
Steam pollution control equipment	10,585,230				10,585,230	8,435,344	206,254		8,641,598	1,943,632	2,149,886
Miscellaneous power plant equipment	975,385	37,600			1,012,985	641,652	30,767		672,419	340,566	333,733
	<u>66,130,392</u>	<u>42,355</u>	<u>0</u>	<u>0</u>	<u>66,172,747</u>	<u>46,046,079</u>	<u>1,869,510</u>	<u>0</u>	<u>47,915,589</u>	<u>18,257,158</u>	<u>20,084,313</u>

UTILITY PLANT IN SERVICE--Continued

MARQUETTE BOARD OF LIGHT AND POWER

Year Ended June 30, 2004 (with comparative totals for 2003)

	ASSETS				ALLOWANCES FOR DEPRECIATION				NET VALUE June 30, 2004	NET VALUE June 30, 2003	
	Balance at June 30, 2003	Additions	Retirement	Transfers	Balance at June 30, 2004	Balance at June 30, 2003	Provisions	Retirements			Balance at June 30, 2004
TRANSMISSION LINE PROJECT											
Station equipment	\$ 2,041,976	\$ 85,791	\$ 642,871		\$ 1,484,896	\$ 832,096	\$ 64,304	\$ 92,862	\$ 803,538	\$ 681,358	\$ 1,209,880
Poles and fixtures	463,620		119,505		344,115	256,751	14,146	18,236	252,661	91,454	206,869
Overhead conductors and devices	242,034	115,884	103,524		254,394	145,161	7,499	8,412	144,248	110,146	96,873
	<u>2,747,630</u>	<u>201,675</u>	<u>865,900</u>	<u>\$ 0</u>	<u>2,083,405</u>	<u>1,234,008</u>	<u>85,949</u>	<u>119,510</u>	<u>1,200,447</u>	<u>882,958</u>	<u>1,513,622</u>
GENERAL											
Structures and improvements	664,160	2,400			666,560	543,705	20,903		564,608	101,952	120,455
Office furniture and equipment	717,982	19,900	10,995		726,887	435,859	70,170	10,995	495,034	231,853	282,123
Transportation equipment	1,267,228	164,483	26,742		1,404,969	657,198	88,462	25,766	719,894	685,075	610,030
Tools and work equipment	107,728				107,728	106,568	435		107,003	725	1,160
Laboratory equipment	99,542	5,789			105,331	79,229	4,641		83,870	21,461	20,313
Power operated equipment	547,518				547,518	525,191	5,485		530,676	16,842	22,327
Communication equipment	132,861	4,718	10,426		127,153	103,640	5,660	10,425	98,875	28,278	29,221
Miscellaneous equipment	27,719	9,979			37,698	12,365	3,853		16,218	21,480	15,354
	<u>3,564,738</u>	<u>207,269</u>	<u>48,163</u>	<u>0</u>	<u>3,723,844</u>	<u>2,463,755</u>	<u>199,609</u>	<u>47,186</u>	<u>2,616,178</u>	<u>1,107,666</u>	<u>1,100,983</u>
DISTRIBUTION											
Land and land rights	83,027				83,027					83,027	83,027
Substation equipment	2,933,166	5,551			2,938,717	1,402,304	140,477		1,542,781	1,395,936	1,530,862
Poles, towers, and fixtures	4,392,315	144,680	33,673		4,503,322	1,839,063	106,020	35,484	1,909,599	2,593,723	2,553,252
Overhead conductors and devices	6,210,770	174,548	23,771		6,361,547	2,870,133	157,879	24,899	3,003,113	3,358,434	3,340,637
Underground conduit	419,409	19,522			438,931	14,501	12,489		26,990	411,941	404,908
Underground conductors and devices	2,680,053	537,332			3,217,385	485,658	80,022		565,680	2,651,705	2,194,395
Line transformers	4,188,086	213,071	48,488		4,352,669	1,850,521	109,855	46,101	1,914,275	2,438,394	2,337,565
Services	1,676,811	78,848			1,755,659	756,101	43,371		799,472	956,187	920,710
Meters	1,134,232	111,966	66,626		1,179,572	527,537	29,977	66,626	490,888	688,684	606,695
Installation on customers' premises	22,417				22,417	21,604	217		21,821	596	813
Structures and improvements	141,222				141,222	81,055	4,703		85,758	55,464	60,167
Street lighting and signal systems	2,518,729	72,478			2,591,207	1,175,505	78,293		1,253,798	1,337,409	1,343,224
	<u>26,400,237</u>	<u>1,357,996</u>	<u>172,558</u>	<u>0</u>	<u>27,585,675</u>	<u>11,023,982</u>	<u>763,303</u>	<u>173,110</u>	<u>11,614,175</u>	<u>15,971,500</u>	<u>15,376,255</u>
	<u>\$ 110,328,477</u>	<u>\$ 2,103,843</u>	<u>\$ 1,086,621</u>	<u>\$ 0</u>	<u>\$ 111,345,699</u>	<u>\$ 67,710,510</u>	<u>\$ 3,188,058</u>	<u>\$ 339,806</u>	<u>\$ 70,558,762</u>	<u>\$ 40,786,937</u>	<u>\$ 42,617,967</u>

COMPARATIVE OPERATING STATISTICS

MARQUETTE OF BOARD OF LIGHT AND POWER

	Year Ended June 30		Megawatt Hours		Revenues/Expenses	
	2004	2003	Year Ended June 30 2004	2003	Year Ended June 30 2004	2003
OPERATING REVENUES						
Electricity:						
Residential:						
Urban	\$ 3,463,058	\$ 3,457,301	47,744	48,903	\$72.53	\$70.70
Rural	3,602,726	3,508,351	48,768	48,589	73.87	72.20
Commercial:						
Urban	2,917,778	2,986,680	43,518	45,931	67.05	65.03
Rural	756,492	731,775	10,337	10,233	73.18	71.51
Power:						
Urban	2,218,247	2,123,542	39,906	39,373	55.59	53.93
Rural	2,060,393	1,882,240	36,736	34,683	56.09	54.27
Other public authorities:						
Urban	2,887,108	2,820,475	52,977	53,140	54.50	53.08
Rural	291,323	295,094	4,488	4,673	64.91	63.15
Sales for resale:						
Alger-Delta Cooperative	768,081	762,024	15,735	16,197	48.81	47.05
Wisconsin Electric						
Power Company	3,097,767	4,719,783	29,121	43,986	106.38	107.30
Upper Peninsula Power Co.						
Street lighting:						
Urban	219,665	216,032	1,899	1,911	115.67	113.05
Rural	82,529	83,373	667	637	123.73	130.88
Other Municipal Depts.	674,730	695,687	10,543	11,224	64.00	61.98
	<u>23,039,897</u>	<u>24,282,357</u>	<u>342,439</u>	<u>359,480</u>	67.28	67.55
Rent and other	<u>738,928</u>	<u>589,186</u>			2.16	1.64
	<u>23,778,825</u>	<u>24,871,543</u>			69.44	69.19
OPERATING EXPENSE	<u>21,099,735</u>	<u>21,781,724</u>			61.62	59.25
NET OPERATING INCOME	<u>2,679,090</u>	<u>3,089,819</u>			7.82	9.94
Other income	<u>456,357</u>	<u>602,799</u>			1.33	2.97
	<u>3,135,447</u>	<u>3,692,618</u>			9.15	12.91
Other deductions	<u>602,708</u>	<u>694,433</u>			1.76	3.87
Net income before extraordinary item	2,532,739	2,998,185			7.39	8.60
Extraordinary item		(121,998)				(1.81)
NET INCOME	<u>\$ 2,532,739</u>	<u>\$ 2,876,187</u>			<u>\$ 7.39</u>	<u>\$ 6.79</u>

COMPARATIVE OPERATING STATISTICS--Continued

MARQUETTE BOARD OF LIGHT AND POWER

	Megawatt Hours		Percentage	
	Year Ended June 30		Year Ended June 30	
	2004	2003	2004	2003
ELECTRICITY PRODUCED				
Delivered to customers	342,439	359,480	89.64%	90.63%
Consumed in operations	27,704	26,674	7.25%	6.73%
Unaccounted for	1,858	10,471	3.11%	2.64%
	<u>372,001</u>	<u>396,625</u>	<u>100.00%</u>	<u>100.00%</u>

COMPARATIVE FINANCIAL AND STATISTICAL INFORMATION

MARQUETTE BOARD OF LIGHT AND POWER

	Year Ended June 30					
	2004	2003	2002	2001	2000	1999
MEGAWATT HOURS						
Power use:						
Residential	96,512	97,492	92,162	90,108	89,475	86,046
Commercial	53,855	56,164	55,709	56,299	56,191	53,475
Power	76,642	74,056	65,973	64,395	61,437	60,185
Other public authorities	57,465	57,813	56,723	52,873	51,325	50,359
Alger Delta Co-op	15,735	16,197	14,648	14,183	14,141	13,693
Upper Peninsula Power Co.			108			885
Wisconsin Electric Power Co.	29,121	43,986	5,042	13,604	14,638	19,400
Street lighting	2,566	2,548	2,482	2,459	2,691	2,695
Other municipal departments	10,543	11,224	10,985	10,323	9,500	9,681
	<u>342,439</u>	<u>359,480</u>	<u>303,832</u>	<u>304,244</u>	<u>299,398</u>	<u>296,419</u>
Gross system peak demand (MW)	60.4	62.2	58.9	54.4	53.8	52.9
Plant system capability (MW)	105.1	105.1	105.1	105.1	105.1	105.1
FINANCIAL DATA (thousands)						
Revenues:						
Urban	\$ 11,486	\$ 11,388	\$ 11,106	\$ 10,692	\$ 10,235	\$ 9,920
Rural	6,711	6,417	6,184	5,939	5,778	5,500
Street lighting	302	299	299	301	321	320
Sale for resale:						
Alger Delta Co-op	768	762	710	664	642	624
Upper Peninsula Power Co.			14			45
Wisconsin Electric Power Co.	3,098	4,720	1,298	1,851	1,668	1,960
Other municipal departments	675	696	703	661	602	604
Other	739	589	574	550	459	643
	<u>23,779</u>	<u>24,871</u>	<u>20,888</u>	<u>20,658</u>	<u>19,705</u>	<u>19,616</u>
Expenses:						
Operating	16,765	17,438	13,734	14,205	13,675	12,079
Charges in lieu of property taxes paid to municipality	1,241	1,241	1,248	1,266	1,288	1,264
Provisions for depreciation and amortization	3,094	3,103	3,020	2,881	3,065	3,075
Interest and amortization, less other income	146	92	273	162	611	728
	<u>21,246</u>	<u>21,874</u>	<u>18,275</u>	<u>18,514</u>	<u>18,639</u>	<u>17,146</u>
Net income before extraordinary item	2,533	2,998	2,613	2,144	1,066	2,470
Extraordinary item		(122)	(550)			
NET INCOME	<u>\$ 2,533</u>	<u>\$ 2,876</u>	<u>\$ 2,063</u>	<u>\$ 2,144</u>	<u>\$ 1,066</u>	<u>\$ 2,470</u>

COMPARATIVE FINANCIAL AND STATISTICAL INFORMATION--Continued

MARQUETTE BOARD OF LIGHT AND POWER

	<u>2004</u>	<u>2003</u>	<u>2002</u>	<u>2001</u>	<u>2000</u>	<u>1999</u>
Financial (thousands):						
Net plant in service and construction in progress	\$ 40,787	\$ 42,618	\$ 43,076	\$ 43,649	\$ 43,792	\$ 45,016
Bonds outstanding	\$ 15,605	\$ 19,187	\$ 22,467	\$ 26,878	\$ 29,569	\$ 32,066

SUPPLEMENTAL INFORMATION

MUNICIPAL EMPLOYEES RETIREMENT SYSTEM (MERS)
SCHEDULE OF FUNDING PROGRESS (UNAUDITED)

MARQUETTE BOARD OF LIGHT AND POWER

Valuation Date December 31	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b) - (a)	Funded Ratio (a) / (b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b - a)/c)
1999	\$ 18,484,644	\$ 17,553,732	\$ (930,912)	105%	\$ 3,431,413	0%
2000	\$ 20,201,860	\$ 21,432,284	\$ 1,230,424	94%	\$ 3,585,217	34%
2001	\$ 21,249,595	\$ 22,508,331	\$ 1,258,736	94%	\$ 3,720,528	34%
2002	\$ 21,204,453	\$ 23,824,315	\$ 2,619,862	89%	\$ 3,577,979	73%
2003	\$ 21,931,156	\$ 26,001,957	\$ 4,070,801	84%	\$ 3,911,098	104%

Commencing with the 1993 actuarial valuation, the required contribution was determined using the entry age normal actuarial cost method. The actuarial assumptions included (a) a rate of return on the investment of present and future assets of 8.0 percent per year, compounded annually, (b) projected salary increases of 4.5 percent per year, compounded annually, attributable to inflation, and (c) additional projected salary increases ranging from 0.00 percent to 4.16 percent per year, depending on age, attributable to seniority/merit. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a five year period. The unfunded actuarial accrued liability is being amortized as a level percent of projected payroll on an open basis over a period of 30 years.