

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other			Local Unit Name Lowell Light & Power and Cable Television		County Kent
Fiscal Year End June 30, 2007		Opinion Date November 30, 2007		Date Audit Report Submitted to State December 12, 2007	

We affirm that:

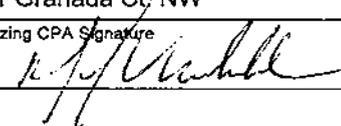
We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

- | | | |
|-----|----|--|
| YES | NO | Check each applicable box below. (See instructions for further detail.) |
|-----|----|--|
1. All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
 2. There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
 3. The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
 4. The local unit has adopted a budget for all required funds.
 5. A public hearing on the budget was held in accordance with State statute.
 6. The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
 7. The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
 8. The local unit only holds deposits/investments that comply with statutory requirements.
 9. The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
 10. There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
 11. The local unit is free of repeated comments from previous years.
 12. The audit opinion is UNQUALIFIED.
 13. The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
 14. The board or council approves all invoices prior to payment as required by charter or statute.
 15. To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)		
Financial Statements	<input checked="" type="checkbox"/>			
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>			
Other (Describe)	<input type="checkbox"/>	none		
Certified Public Accountant (Firm Name) Vredeveld Haefner LLC		Telephone Number 616-446-7474		
Street Address 4001 Granada Ct. NW		City Grand Rapids	State MI	Zip 49534
Authorizing CPA Signature 		Printed Name Douglas J. Vredeveld		License Number 21289

**LOWELL LIGHT & POWER
AND
LOWELL CABLE TELEVISION
LOWELL, MICHIGAN**

FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2007

LOWELL LIGHT & POWER AND LOWELL CABLE TELEVISION

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INDEPENDENT AUDITORS' REPORT

November 30, 2007

Members of the Board
Lowell Light & Power and Lowell Cable Television
Lowell, Michigan

We have audited the accompanying financial statements of Lowell Light & Power and Lowell Cable Television, (enterprise funds of the City of Lowell, Michigan), as of and for the year ended June 30, 2007, as listed in the table of contents. These financial statements are the responsibility of the management of Lowell Light & Power and Lowell Cable Television. 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. 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 audit provides a reasonable basis for our opinions.

As discussed in note 1, the financial statements present only the Lowell Light & Power and Lowell Cable Television enterprise funds and do not purport to, and do not present fairly the financial position of the City of Lowell, Michigan, or the changes in its financial position or cash flows in conformity with accounting principals generally accepted in the United States of America.

Lowell Light & Power and Lowell Cable Television have not presented management's discussion and analysis that accounting principles generally accepted in the United States of America has determined is necessary to supplement, although not required to be part of, the basic financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Lowell Light & Power and Lowell Cable Television enterprise funds as of June 30, 2007, and the changes in financial position and cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Our audit was conducted for the purpose of forming an opinion on Lowell Light & Power and Lowell Cable Television's basic financial statements. The individual fund schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.



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INDEPENDENT AUDITORS' REPORT

November 30, 2007

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Lowell Light & Power and Lowell Cable Television

Lowell, Michigan

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LOWELL LIGHT & POWER AND CABLE TELEVISION

PROPRIETARY FUNDS STATEMENT OF NET ASSETS

JUNE 30, 2007

Assets	Business-Type Activities		Total
	Light & Power	Cable Television	
Current assets			
Cash and cash equivalents	\$ 86,467	\$ 100,723	\$ 187,190
Investments	888,531	-	888,531
Restricted cash and cash equivalents	436,739	-	436,739
Restricted investments - MPPA trust	377,202	-	377,202
Accounts receivable	768,514	4,390	772,904
Due from other funds	469,457	500,362	969,819
Inventory	3,450	-	3,450
Prepaid expenses	32,065	6,029	38,094
Total current assets	3,062,425	611,504	3,673,929
Non-current assets			
Restricted cash and cash equivalents	367,362	-	367,362
Advance receivable from Michigan Public Power Association	47,190	-	47,190
Capital assets			
Land	199,157	-	199,157
Construction in progress	684	-	684
Vehicles, plant and equipment	16,148,165	-	16,148,165
Accumulated depreciation	(7,654,980)	-	(7,654,980)
Total non-current assets	9,107,578	-	9,107,578
Total assets	12,170,003	611,504	12,781,507
Liabilities			
Current liabilities			
Accounts payable	389,620	100,142	489,762
Accrued liabilities	110,831	13,167	123,998
Due to other funds	26,522	481,288	507,810
Current portion of bonds payable	145,000	-	145,000
Customer deposits	171,337	-	171,337
Total current liabilities	843,310	594,597	1,437,907
Non-current liabilities			
Compensated absences	41,672	16,907	58,579
Bonds payable	4,505,341	-	4,505,341
Total non-current liabilities	4,547,013	16,907	4,563,920
Total liabilities	5,390,323	611,504	6,001,827
Net assets			
Investment in capital assets net of related debt	4,042,685	-	4,042,685
Restricted for debt service	398,254	-	398,254
Unrestricted	2,338,741	-	2,338,741
Total net assets	\$ 6,779,680	\$ -	\$ 6,779,680

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

LOWELL LIGHT & POWER AND CABLE TELEVISION

PROPRIETARY FUNDS STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

FOR THE YEAR ENDED JUNE 30, 2007

	Business-Type Activities		Total
	Light & Power	Cable Television	
Operating revenue			
Sales	\$ 5,729,301	\$ 1,133,368	\$ 6,862,669
Late fees	51,054	24,895	75,949
Other	72,918	80,252	153,170
Total operating revenue	<u>5,853,273</u>	<u>1,238,515</u>	<u>7,091,788</u>
Operating expense			
Operations and maintenance	5,203,859	1,172,304	6,376,163
Depreciation	669,045	72,243	741,288
Total operating expense	<u>5,872,904</u>	<u>1,244,547</u>	<u>7,117,451</u>
Operating income (loss)	<u>(19,631)</u>	<u>(6,032)</u>	<u>(25,663)</u>
Non-operating revenue (expense)			
Interest income	124,253	6,084	130,337
Loss on asset disposal	(15,799)	-	(15,799)
Interest expense	(221,889)	(19,883)	(241,772)
Total non-operating revenue (expense)	<u>(113,435)</u>	<u>(13,799)</u>	<u>(127,234)</u>
Income (loss) before transfers and extraordinary gain	(133,066)	(19,831)	(152,897)
Transfers			
Transfers out to the City of Lowell	(242,173)	(2,793,646)	(3,035,819)
Extraordinary gain on sale of cable system	<u>-</u>	<u>2,698,396</u>	<u>2,698,396</u>
Changes in net assets	(375,239)	(115,081)	(490,320)
Net assets, beginning of year	<u>7,154,919</u>	<u>115,081</u>	<u>7,270,000</u>
Net assets, end of year	<u>\$ 6,779,680</u>	<u>\$ -</u>	<u>\$ 6,779,680</u>

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

LOWELL LIGHT & POWER AND CABLE TELEVISION

PROPRIETARY FUNDS STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED JUNE 30, 2007

	<u>Business-Type Activities</u>		
	<u>Light & Power</u>	<u>Cable Television</u>	<u>Total</u>
Cash flows from operating activities			
Receipts from customers and users	\$ 5,837,035	\$ 1,238,515	\$ 7,075,550
Payments to employees	(861,372)	(385,251)	(1,246,623)
Payments to suppliers	(4,382,932)	(793,632)	(5,176,564)
Net cash provided by (used in) operating activities	<u>592,731</u>	<u>59,632</u>	<u>652,363</u>
Cash flows from non-capital financing activities			
Advances between funds	50,666	(50,666)	-
Advance to MPPA	(2,247)	-	(2,247)
Interest payments	-	(19,883)	(19,883)
Transfers out	(242,173)	-	(242,173)
Net cash provided by (used in) non-capital financing activities	<u>(193,754)</u>	<u>(70,549)</u>	<u>(264,303)</u>
Cash flows from capital and related financing activities			
Interest payments	(216,451)	-	(216,451)
Payments on bonds	(140,000)	-	(140,000)
Proceeds from sale of capital assets	21,465	-	21,465
Acquisitions of capital assets	(380,354)	(75,232)	(455,586)
Net cash provided by (used in) capital and related financing activities	<u>(715,340)</u>	<u>(75,232)</u>	<u>(790,572)</u>
Cash flows from investing activities			
Proceeds from sale of investments	195,034	-	195,034
Purchase of investments	(81,068)	-	(81,068)
Interest income	124,253	6,084	130,337
Net cash provided by (used in) investing activities	<u>238,219</u>	<u>6,084</u>	<u>244,303</u>
Net increase (decrease) in cash and cash equivalents	<u>(78,144)</u>	<u>(80,065)</u>	<u>(158,209)</u>
Cash and cash equivalents, beginning of year	<u>968,712</u>	<u>180,788</u>	<u>1,149,500</u>
Cash and cash equivalents, end of year	<u>\$ 890,568</u>	<u>\$ 100,723</u>	<u>\$ 991,291</u>
Cash and cash equivalents consists of the following captions on the statement of net assets:			
Cash and cash equivalents	\$ 86,467	\$ 100,723	\$ 187,190
Restricted cash and cash equivalents - current	436,739	-	436,739
Restricted cash and cash equivalents - non-current	367,362	-	367,362
	<u>\$ 890,568</u>	<u>\$ 100,723</u>	<u>\$ 991,291</u>

(Continued)

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

LOWELL LIGHT & POWER AND CABLE TELEVISION

PROPRIETARY FUNDS STATEMENT OF CASH FLOWS (continued)

FOR THE YEAR ENDED JUNE 30, 2007

	Business-Type Activities		<u>Total</u>
	<u>Light & Power</u>	<u>Cable Television</u>	
Cash flows from operating activities			
Operating income (loss)	\$ (19,631)	\$ (6,032)	\$ (25,663)
Adjustments to reconcile operating income to net cash provided by (used in) operating activities			
Depreciation	669,045	72,243	741,288
Change in operating assets and liabilities which provided (used) cash			
Accounts receivable	16,238	684	16,922
Inventory	(1,932)	-	(1,932)
Prepaid expenses	(1,367)	4,050	2,683
Accounts payable	(82,217)	7,224	(74,993)
Accrued liabilities	(1,967)	(20,758)	(22,725)
Due to other governmental entities	(1,387)	11,003	9,616
Compensated absences	8,879	3	8,882
Customer deposits	7,070	(8,785)	(1,715)
Net cash provided by (used in) operating activities	<u>\$ 592,731</u>	<u>\$ 59,632</u>	<u>\$ 652,363</u>

(Concluded)

On June 29, 2007 the City sold the Cable Television system and related infrastructure to a private party for \$3,294,005. No cash had been received at year end for the sale. The amount due from the sale is recorded in the City General fund while the Cable Television fund reports noncash transactions involving the sale including transfers to the general fund and balances due from the general fund.

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

LOWELL LIGHT & POWER AND LOWELL CABLE TELEVISION

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2007

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of Lowell Light & Power and Lowell Cable Television, Lowell, Michigan (the "Utilities") conform to generally accepted accounting principles as applicable to governments. The following is a summary of the significant policies.

Reporting Entity

Lowell Light & Power and Lowell Cable Television are enterprise funds of the City of Lowell (the City). They operate under direction of the City Charter and City Council resolution. The Utilities provide electric and cable television services to users in the City of Lowell and portions of the surrounding area. On June 29, 2007 the City sold the Cable Television system and related cable television and internet system infrastructure to a private party.

As required by generally accepted accounting principles, the financial statements of the reporting entity include those of Lowell Light & Power and Lowell Cable Television. There are no component units to be included. The criteria for including a component unit include significant operational or financial relationships with the Utilities.

Fund Financial Statements

Individual enterprise funds are reported as separate columns in the statements. The Utilities report the following enterprise funds:

Light & Power Fund - This fund is used to account for the electricity utility which includes fees and costs associated with the generation, purchase, transmission, distribution and sale of electricity.

Cable Television Fund - This fund is used to account for the fees and costs associated with the distribution, operation and sale of cable television and internet services.

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 expenditures 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.

Enterprise funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the fund's principal ongoing operations. The principal operating revenues of the enterprise funds are charges for services. Operating expenses of the utilities include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

LOWELL LIGHT & POWER AND LOWELL CABLE TELEVISION

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2007

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their enterprise funds, subject to this same limitation. The Utilities has elected not to follow subsequent private-sector guidance.

Cash and Cash Equivalents

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

Investments

Investments are recorded at fair value. Investments - MPPA Trust are held in trust and can only be disbursed to the MPPA for purchased power or specified MPPA payment purposes.

State statutes authorize the Utilities 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 through 12/31/97.

Receivables

All receivables are reported at their net value. Allowance for uncollectible receivables was \$6,147 for Lowell Light & Power.

LOWELL LIGHT & POWER AND LOWELL CABLE TELEVISION

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2007

Inventories

Inventories consist principally of diesel fuel and materials and supplies which are generally used for or operations. Inventories are stated at cost using the first-in first-out (FIFO) method.

Capital Assets

Capital assets are stated at cost and include items defined by the utilities as assets with an initial, individual cost of more than \$100 and an estimated useful life in excess of two years. Such assets are valued at cost where historical records are available and at an estimated historical cost where no historical records exist. Donated capital assets are valued at their estimated fair value on the date received.

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

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

	Years
Vehicles	5-15
Plant and equipment	5-50

Compensated Absences

Substantially all Utilities employees are granted vacation and sick leave, which accumulates subject to per employee maximums. These hours vest with each employee however, only the accumulated vacation is payable upon termination or retirement. The related liability for accumulated vacation has been recorded as a long-term liability on the financial statements.

Risk Management

The Utilities are 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. During the year ended June 30, 2007, the Utilities carried commercial insurance to cover risks of losses. The Utilities has had no settled claims resulting from these risks that exceeded their commercial coverage in any of the past three fiscal years.

LOWELL LIGHT & POWER AND LOWELL CABLE TELEVISION

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2007

2. DEPOSITS AND INVESTMENTS

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

	<u>Total</u>
Cash and cash equivalents	\$ 187,190
Investments	888,531
Restricted cash and cash equivalents - current	436,739
Restricted Investments - MPPA trust	377,202
Restricted cash and cash equivalents - long term	<u>367,362</u>
	<u>\$2,257,024</u>

Cash and cash equivalents and investments captions consist of the following at June 30, 2007:

Deposits	\$ 991,291
Mutual funds and securities	<u>1,265,733</u>
Total	<u>\$2,257,024</u>

The deposits are in two financial institutions located in Michigan in varying amounts. State policy limits the Treasurer's investing options to financial institutions located in Michigan. All accounts are in the name of the Utilities and a specific fund or common account. They are recorded in the Utilities 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 Utilities' deposits may not be returned. State law does not require, and the Utilities do not have, a policy for deposit custodial credit risk. As of year-end, \$796,865 of the Utilities' bank balance of \$996,865 was exposed to custodial credit risk.

Investments

The Utilities choose to disclose investments by type. As of year-end, the Utilities had the following deposits and investments:

	<u>Maturity</u>	<u>Fair Value</u>	<u>Rating</u>	<u>Source</u>
Pooled investment accounts	N/A	\$ 377,202	Unrated	
Money market accounts	N/A	32,259	Unrated	
GNMA Pool	Through 2016	418	AAA	S&P
US Government and Agency Securities	Through 2008	<u>855,854</u>	AAA	S&P
		<u>\$1,265,733</u>		

LOWELL LIGHT & POWER AND LOWELL CABLE TELEVISION

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2007

Investment and deposit risk

Interest Rate Risk. State law limits the allowable investments and the maturities of some of the allowable investments as identified in Note 1, the summary of significant accounting policies. The Utilities' investment policy does not have specific limits in excess of state law on investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. The maturity date for each type of investment is identified above for investments held at year-end.

Credit Risk. State law limits investments to specific government securities, certificates of deposit and bank accounts with qualified financial institutions, commercial paper with specific maximum maturities and ratings when purchased, bankers acceptances of specific financial institutions, qualified mutual funds and qualified external investment pools as identified in Note 1, the summary of significant accounting policies. The investment policy does not have specific limits in excess of state law on investment credit risk. The rating for each investment is identified above for investments held at year end.

Custodial Credit Risk - Investments. For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Utilities will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. State law does not require and the Utilities do not have a policy for investment custodial credit risk. Of the above \$856,272 of investments, the Utilities have a custodial credit risk of \$856,272 because the related securities are uninsured, unregistered and held by the government's brokerage firm which is also the counterparty for these particular securities. The Utilities' custodial credit risk exposure related to the above pooled and money market fund investments cannot be determined because the Utilities' investments do not consist of specifically identifiable securities.

Concentration of Credit Risk. State law limits allowable investments but does not limit concentration of credit risk as identified in Note 1, the summary of significant accounting policies. The Utilities investment policy does not have specific limits in excess of state law on concentration of credit risk. All investments held at year-end are reported above.

3. INTERFUND TRANSACTIONS

Transactions between funds include a short-term receivable by Light & Power from Cable Television as follows:

	<u>Balance</u> <u>July 1,</u> <u>2006</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30,</u> <u>2007</u>
Lowell Cable Television loan from Lowell Light & Power (consolidation loan) payable in monthly installments of \$5,879 through 2015, including interest at 4%	\$ 520,123	\$ -	\$ 50,666	\$ 469,457

The balance of the above loan is reported as due to/from other funds and is expected to be paid in full during fiscal year 2008. The balance of due to/from other funds reported at year end are receivable from and payable to other funds reported in the City of Lowell's financial statements.

LOWELL LIGHT & POWER AND LOWELL CABLE TELEVISION

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2007

4. CAPITAL ASSETS

Capital asset activity for the year was as follows:

	<u>Balance</u> <u>July 1, 2006</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30, 2007</u>
Capital assets, not being depreciated				
Land	\$ 199,157	\$ -	\$ -	\$199,157
Construction in Progress	517,086	684	517,086	684
Total capital assets, not being depreciated	<u>716,243</u>	<u>684</u>	<u>517,086</u>	<u>199,841</u>
Capital assets, being depreciated				
Vehicles	736,457	16,044	102,069	650,432
Plant and equipment	17,067,517	955,944	2,525,728	15,497,733
Total capital assets, being depreciated	<u>17,803,974</u>	<u>971,988</u>	<u>2,627,797</u>	<u>16,148,165</u>
Less accumulated depreciation for:				
Vehicles	532,757	71,446	83,454	520,749
Plant and equipment	8,420,331	669,842	1,955,942	7,134,231
Total accumulated depreciation	<u>8,953,088</u>	<u>741,288</u>	<u>2,039,396</u>	<u>7,654,980</u>
Net capital assets, being depreciated	<u>8,850,886</u>	<u>230,700</u>	<u>588,401</u>	<u>8,493,185</u>
Capital assets, net	<u>\$9,567,129</u>	<u>\$231,384</u>	<u>\$1,105,487</u>	<u>\$8,693,026</u>

5. OTHER POST EMPLOYMENT BENEFITS

The City provides health care insurance benefits to retired full-time employees. Currently there are 4 retirees eligible. The utilities recognize the cost of the post employment health care benefits when the payments are made. During 2007, the amount expended for post employment benefits was \$27,887.

LOWELL LIGHT & POWER AND LOWELL CABLE TELEVISION

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2007

6. LONG-TERM DEBT

The following is a summary of the debt transactions of the Utilities for the year ended June 30, 2007.

	<u>Balance</u> <u>July 1,</u> <u>2006</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30,</u> <u>2007</u>	<u>Due</u> <u>Within</u> <u>One</u> <u>Year</u>
Light & Power Fund					
Electric Supply System Revenue Bonds, Series 2002; payable in annual amounts of \$130,000 to \$350,000 through 2027, with interest ranging from 3.0% to 5.0%	\$4,900,000	\$ -	\$140,000	\$4,760,000	\$145,000

The above balances do not include unamortized discount and issuance costs of \$109,659.

The annual requirements to amortize all debt outstanding as of June 30, 2007 are as follows:

<u>Year Ending</u> <u>June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2008	\$ 145,000	\$ 212,651	\$ 357,651
2009	150,000	207,944	357,944
2010	155,000	202,603	357,603
2011	160,000	196,593	356,593
2012	170,000	189,993	359,993
2013-2017	950,000	839,707	1,789,707
2018-2022	1,180,000	606,745	1,786,745
2023-2027	1,500,000	282,331	1,782,331
2028	350,000	8,750	358,750
Total	\$4,760,000	\$2,747,317	\$7,507,317

7. DEFINED BENEFIT PENSION PLAN

Plan Description

The Utilities participate with the City in a defined benefit pension plan. The City participates in the Municipal Employees Retirement System of Michigan (MERS), an agent multiple-employer defined benefit pension plan providing retirement, death and disability benefits. The System is administered by the MERS retirement board. Act No. 427 of the Public Acts of 1984, as amended, establishes and amends the benefit provisions of the participants in MERS. A publicly available financial report that includes financial statements and required supplementary information for MERS may be obtained by writing to the Municipal Employees Retirement System of Michigan, 1134 Municipal Way, Lansing, Michigan 48917.

LOWELL LIGHT & POWER AND LOWELL CABLE TELEVISION

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2007

Funding Policy

The City is required to contribute at an actuarially determined rate, which for the current year was from 11.04% (depending on position) of annual covered payroll. Participating employees are not required to contribute to the Plan. The contribution requirements of the City are established and may be amended by the MERS Retirement Board. The contribution requirements of employees are established and may be amended by the City, dependent on the MERS contribution program adopted by the City.

Annual Pension Cost

For the year ended June 30, 2007, the Utilities share of the City's annual pension cost was \$106,317 for MERS which was equal to the Utilities required and actual contributions. The required contribution was determined as part of the December 31, 2004 actuarial valuation using the entry age actuarial cost method. The actuarial assumptions included: (a) a rate of return on the investment of present and future assets of eight (8.0) percent; and (b) projected salary increases of four and one-half (4.5) percent per year compounded annually based on inflation and (c) additional projected salary increases of 0.0% to 4.2% per year based on an age-related scale to reflect merit, longevity and promotional salary increases. The actuarial value of MERS assets was determined on the basis of a valuation method that assumes the fund earns the expected rate of return and includes an adjustment to reflect fair value. The City's unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at December 31, 2006, the date of the latest actuarial valuation, was 30 years.

Three-Year Trend Information			
Fiscal Year	Annual Pension	Percentage of APC	Net Pension
<u>Ending</u>	<u>Cost (APC)</u>	<u>Contributed</u>	<u>Obligation</u>
6/30/05	\$96,184	100%	-
6/30/06	97,370	100%	-
6/30/07	106,317	100%	-

The schedule of funding progress for the City of Lowell, Michigan, is included in the City's financial statements for the year ended June 30, 2007.

8. JOINT VENTURE

The Lowell Light & Power is a member of a joint venture, the Michigan Public Power Agency (MPPA), with 13 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. Effective in October 2005, the members of the power pool (one of MPPA's programs) gave their required five year notice of withdrawal from the pool which will cease on December 31, 2010. Lowell Light & Power is currently in negotiations along with other members of the pool to form a new contract for the sale and purchase of power. Complete financial statements for the Michigan Public Power Agency can be obtained from the administrative offices at 809 Centennial Way, Lansing, Michigan 48917.

LOWELL LIGHT & POWER AND LOWELL CABLE TELEVISION

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2007

Under the joint venture, the Utilities have entered into Power Sales Contracts and Project Support Contracts. These contracts provide for the Utilities to purchase from MPPA 1.24% of the energy generated by MPPA's 37.22% ownership in Detroit Edison's Belle River Unit No.1, which became operational in August 1984; 11.86% of MPPA's 4.80% ownership in Consumers Energy's Campbell Unit No. 3, which became operational in September 1980; and 5.63% of the energy generated by MPPA's 100% ownership in Combustion Turbine Project No. 1 (50 mw rated simple cycle combustion turbine generating unit and ancillary support facilities located in Kalkaska, Michigan) which became operational in 2004. These contracts require the Utilities to purchase approximately 3, 4.5 and 2.8 megawatts of power, respectively.

For the year ended June 30, 2007, the Utilities recognized expenses totaling \$3,137,680 under the terms of the contract which represented approximately \$564,356 for fixed operating costs, \$921,689 for debt service and \$1,651,635 for the purchase of power. Accounts payable to MPPA totaled \$324,082 at June 30, 2007. Under the terms of its contracts, the Utilities must make minimum annual payments equal to its share of debt service and its share of the operating costs of Detroit Edison's Belle River No. 1, Consumers Energy's Campbell Unit No. 3 and Combustion Turbine Project No. 1. Future operating costs are estimated based on 2006 costs adjusted for inflation.

A summary of future contract payments with the MPPA is as follows:

Year Ending June 30	Belle River		Campbell		Combustion Turbine	
	<u>Debt Service</u>	<u>Operating</u>	<u>Debt Service</u>	<u>Operating</u>	<u>Debt Service</u>	<u>Operating</u>
2008	\$ 340,948	\$ 198,427	\$ 493,183	\$ 293,494	\$ 143,776	\$ 89,366
2009	340,905	204,380	493,080	302,298	143,634	92,047
2010	340,911	210,511	411,877	311,367	143,672	94,808
2011	340,962	216,827	413,917	320,708	143,877	97,653
2012	340,960	223,332	415,069	330,330	143,675	100,582
2013-2017	1,704,639	1,221,268	1,589,777	690,686	718,612	550,024
2018-2022	340,957	541,339	-	-	718,705	637,629
2023-2027	-	-	-	-	718,536	739,187
Total	\$3,750,282	\$2,816,084	\$3,816,903	\$2,248,883	\$2,874,487	\$2,401,296

Debt Service requirements expire in the years 2013, 2018, and 2027 for the Campbell, Belle River and Combustion Turbine Projects, respectively. The above amounts include estimated operating costs for the same period as the Debt Service. The contracts for the Utilities' commitment for operating costs to extend beyond these dates are dependent upon the use of the facilities.

The joint venture is a result of an ongoing financial responsibility. The Utilities did not have an initial equity interest and do not participate in net income or losses.

**INDIVIDUAL FUND
SCHEDULES**

LOWELL LIGHT & POWER AND CABLE TELEVISION

LIGHT & POWER SCHEDULE OF OPERATING REVENUES AND EXPENSES

FOR THE YEAR ENDED JUNE 30, 2007

Operating revenue	
Sales	
Residential	\$ 1,575,089
Commercial	3,983,957
Resale - Campbell	-
Resale - Belle river	66,217
Resale - MPPA	103,201
Standby power and security lights	837
Late fees	51,054
Other	<u>72,918</u>
Total operating revenue	<u>5,853,273</u>
Operating expense	
Operations and maintenance	
Generation	
Fuel	9,201
Maintenance	29,766
Operating supervision/engineering	3,698
Generation	6,168
Other employee compensation	19,293
Other	<u>7,495</u>
Total generation	<u>75,621</u>
Purchase power	
Campbell	2,189,647
Belle river	657,810
Traverse City	290,223
Other	<u>607,829</u>
Total purchased power	<u>3,745,509</u>
Distribution	
Maintenance	
Overhead lines	\$ 282,189
Street lighting	2,910
Meters	8,030
Structures	70,098
Line transformers	812
Operating supervision and engineering	37,105
Load dispatching	3,993
Substation	7,611
Underground lines	23,609
Other	136,987
Customer installation	<u>22,424</u>
Total distribution	<u>595,768</u>

LOWELL LIGHT & POWER AND CABLE TELEVISION

LIGHT & POWER SCHEDULE OF OPERATING REVENUES AND EXPENSES

FOR THE YEAR ENDED JUNE 30, 2007

Operating expense	
Operations and maintenance	
Customer accounting	
Meter reading	35,670
Customer records and collections	46,515
Uncollectible accounts expense	6,038
Customer assistance	3,615
Supervision	7,144
Other	<u>10,083</u>
Total customer accounting	<u>109,065</u>
General and administrative	
Legal and accounting	14,336
Other employee compensation - unallocated	147,516
Payroll tax - unallocated	47,819
Pension and benefits - unallocated	225,606
Injuries, damage, and safety - unallocated	20,367
Administrative and general wages	100,611
Supplies	48,874
Demonstration, sales and advertising	7,704
Insurance	30,814
Conferences and special meetings	25,204
Property tax	8,706
Other	<u>339</u>
Total general and administrative	<u>677,896</u>
Total operations and maintenance	5,203,859
Depreciation	<u>669,045</u>
Total operating expense	<u>5,872,904</u>
Operating income (loss)	<u>\$ (19,631)</u>

(Concluded)

LOWELL LIGHT & POWER AND CABLE TELEVISION

CABLE TELEVISION SCHEDULE OF OPERATING REVENUES AND EXPENSES

FOR THE YEAR ENDED JUNE 30, 2007

Operating revenue

Sales

Basic	\$	739,421
HBO		10,051
Cinemax		4,234
Choices/digital		61,105
Showtime and movie		2,834
Pay per view		2,667
Installation Fees		5,140
Internet		300,430
Other monthly sales		7,486
Late fees		24,895
Other		<u>80,252</u>

Total operating revenue

1,238,515

Operating expense

Operations and maintenance

Programming

Basic	359,072
Basic - digital	15,650
HBO	9,076
HBO - digital	9,092
Cinemax	2,374
Cinemax - digital	1,924
Showtime/movie	1,989
Showtime/movie - digital	4,208
Choices/digital	11,782
Program guide	8,444
Internet	156,987
Other	<u>2,424</u>

Total programming

583,022

Distribution

Maintenance	19,891
Operating supervision and engineering	15,714
Overhead lines	5,100
Underground lines	1,230
Other	<u>14,957</u>

Total distribution

56,892

(Continued)

LOWELL LIGHT & POWER AND CABLE TELEVISION

CABLE TELEVISION SCHEDULE OF OPERATING REVENUES AND EXPENSES

FOR THE YEAR ENDED JUNE 30, 2007

Operating expense

Operations and maintenance	
General and administrative	
Legal and accounting	\$ 33,748
Other employee compensation - unallocated	47,258
Payroll tax - unallocated	23,525
Pension and benefits - unallocated	99,322
Franchise fee	40,203
Demonstration, sales and advertising	4,453
Administrative and general wages	51,624
Supplies	30,373
Operations	63,931
Maintenance	38,033
Customer records and collections	46,518
Insurance	2,983
Injuries, damage, and safety	3,630
Rent	13,595
Customer accounts	30,287
Conferences and special meetings	2,163
Other	744
	<hr/>
Total general and administrative	532,390
	<hr/>
Total operations and maintenance	1,172,304
	<hr/>
Depreciation	72,243
	<hr/>
Total operating expenses	1,244,547
	<hr/>
Operating income (loss)	\$ (6,032)

(Concluded)



Vredeveld Haefner LLC

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November 30, 2007

Board Members

Lowell Light & Power
City of Lowell, Michigan

In planning and performing our audit of the financial statements of Lowell Light & Power and Lowell Cable Television (the "Utilities") for the year ended June 30, 2007, in accordance with auditing standards generally accepted in the United States of America, we considered the Utilities' internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Utilities' internal control. Accordingly, we do not express an opinion on the effectiveness of the Utilities' internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified a deficiency in internal control that we consider to be a material weakness.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or a combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or a combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the entity's financial statements will not be prevented or detected by the entity's internal control. We believe the following deficiency constitutes a material weakness.

The Utilities do not have procedures in place to prepare financial statements in accordance with U.S. generally accepted accounting principles including procedures to record certain revenue and expenditure accruals and to present required financial statement disclosures. The organization has determined that any benefits derived from eliminating the above deficiency would not exceed or justify the costs to do so.

Other matter

Other post employment benefits

The Governmental Accounting Standards Board recently issued Statement No. 43 *Financial Reporting for Post Employment Plans and Other Than Pension Plans*. This Statement will become effective for the Utilities for the 2007-2008 year, and will require additional disclosure, an actuarial or other valuation of those employee benefits granted to retirees, and recognition of expenses in the financial statements for the costs associated with providing post employment health care benefits during the period an employee renders services to the Utilities. We suggest that your staff become familiar with the requirements of this statement and take appropriate action to assure information is available for the 2007-2008 year to appropriately account for and disclose the city's post employment benefit plans. We would be happy to work with your staff to implement these significant new accounting standards.

This report is intended solely for the information and use of the Board and Management of Lowell Light & Power, and is not intended to be and should not be used by anyone other than these specified parties.

Sincerely,

Orlando Haefner LLC