

Financial Statements and Auditors' Report
MICHIGAN PROFESSIONAL INSURANCE AUTHORITY
June 30, 2007 and 2006

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Independent Auditors' Report

Michigan Professional Insurance Authority
Grand Haven, Michigan

We have audited the accompanying basic financial statements of the Michigan Professional Insurance Authority (a public entity risk pool) as of and for the years ended June 30, 2007 and 2006. These financial statements are the responsibility of the Authority'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 audits 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 basic financial statements referred to above present fairly, in all material respects, the financial position of the Michigan Professional Insurance Authority as of June 30, 2007 and 2006, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis on Pages 4 and 5 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 that consisted principally of inquiries of management regarding methods of measurement and presentation of the required supplementary information. However, we did not audit the information and we express no opinion or any other form of assurance on it.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The Schedules of Net Investment Income described in the table of contents are presented for purposes of additional analysis, and are not a required part of the basic financial statements. Such information 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.

Bloomington, Illinois
September 7, 2007

Striegel Knobloch & Co. LLC

MICHIGAN PROFESSIONAL INSURANCE AUTHORITY

Management's Discussion and Analysis

The Authority – An Overview

The Authority, a group self-insurance pool, was established pursuant to Chapter 124.5, Sections 5(1) and 5(5), of the Michigan Compiled Laws, as established by Act 35 of 1951 (Intergovernmental Contracts Between Municipal Corporations).

The Authority was established for the purpose of preventing or lessening casualty losses to governmental properties and injuries to persons or property which might result in claims being made against its current participating public entities, including the Grand Haven, Michigan Board of Light and Power ("GHBLP") and the Zeeland, Michigan Board of Public Works ("ZBPW").

Each participating public entity bears its own risk in its self-insurance accounts which are administered by the Authority for them.

On July 1, 2004, the Authority entered into a management contract with the Risk Insurance Management Company (RIMCO), an Illinois not-for-profit corporation, for risk management, investment and related insurance services.

2007 Environment

The year began with hardening of rates in many lines, particularly for power plants. Many businesses and public entities faced sharply higher rates for commercial insurance. In some cases, policyholders will be unable to purchase sufficient coverage for power plant utility distribution systems. Other lines of insurance, such as general liability and business autos, have experienced premium increases as well.

Financial Position

The Authority's total assets at June 30, 2007 and 2006 were approximately \$2,921,000 and \$1,715,000, respectively. Of these amounts, \$2,840,000 and \$1,653,000, respectively, consisted of investments as follows:

<u>June 30, 2007</u>	<u>Amount in Thousands</u>	<u>Terms</u>
U.S. government obligations	\$ 1,573	0 to 30 years
Common equities and preferred stock	1,267	0 to 8 years

<u>June 30, 2006</u>	<u>Amount in Thousands</u>	<u>Terms</u>
U.S. government obligations	\$ 994	0 to 12 years
Common equities and preferred stock	659	0 to 11 years

MICHIGAN PROFESSIONAL INSURANCE AUTHORITY

Management's Discussion and Analysis - Continued

Results of Operations

Participating public entities contributed \$1,902,500 and \$1,838,000 to fund the Authority as of June 30, 2007 and 2006, respectively. The Authority finished the years ended June 30, 2007 and 2006 with assets of approximately \$2,921,000 and \$1,715,000, respectively. Controlling participating public entity losses is the primary objective of the Authority's management.

Cash Flow and Liquidity

The Authority had positive cash flow in 2007 and 2006 of \$51,522 and \$42,092, respectively. The Authority has no borrowed funds.

Board Policies and Management Practices

The Board of Directors of the Authority currently requires that audits conducted by independent outside firms be performed on an annual basis. The 2007 audit schedule included (1) a financial audit for GAAP which was completed in August 2007 and (2) an investment review of performance.

Opinion

The preceding Management's Discussion and Analysis provides an assessment of the financial position, results of operations and cash flow and liquidity for the fiscal years ended June 30, 2007 and 2006 as reported in the 2007 annual report. Representations made herein are those of management according to the best of their knowledge and belief.

MICHIGAN PROFESSIONAL INSURANCE AUTHORITY

Statements of Net Assets

June 30,

ASSETS

	<u>2007</u>	<u>2006</u>
Investments (Note 1):		
Notes	\$ 11,793	\$ 102,062
Bonds	1,561,569	891,849
Common equities and preferred stock	<u>1,266,622</u>	<u>658,608</u>
Total Investments	2,839,984	1,652,519
Cash - money market (Note 1)	51,522	42,092
Interest and dividends receivable	23,128	14,787
Prepaid expenses	<u>6,022</u>	<u>6,022</u>
Total Assets	\$ <u>2,920,656</u>	\$ <u>1,715,420</u>

LIABILITIES AND NET ASSETS

Liabilities:		
Accounts payable	\$ <u>-</u>	\$ <u>-</u>
Total Liabilities	-	-
Net assets	2,775,625	1,746,526
Investment unrealized gains (losses)	<u>145,031</u>	<u>(31,106)</u>
Total Liabilities and Net Assets	\$ <u>2,920,656</u>	\$ <u>1,715,420</u>

The accompanying notes are an integral part of these statements.

MICHIGAN PROFESSIONAL INSURANCE AUTHORITY

Statements of Revenues, Expenses and Changes in Net Assets

For the Years Ended June 30,

	<u>2007</u>	<u>2006</u>
Revenue:		
Participating public entities' contributions	\$ 1,902,500	\$ 1,838,000
Administrative contribution	-	-
Net investment income	<u>116,602</u>	<u>28,103</u>
Total Revenue	<u>2,019,102</u>	<u>1,866,103</u>
Expense:		
Claims paid	-	44,280
Insurance expense	815,793	770,788
Management fees	165,000	165,000
Professional services	<u>9,210</u>	<u>23,182</u>
Total Expense	<u>990,003</u>	<u>1,003,250</u>
Net Change in Net Assets	<u>\$ 1,029,099</u>	<u>\$ 862,853</u>

The accompanying notes are an integral part of these statements.

MICHIGAN PROFESSIONAL INSURANCE AUTHORITY

Statements of Changes in Net Assets

For the Years Ended June 30,

	<u>2007</u>	<u>2006</u>
Net assets – beginning	\$ 1,746,526	\$ 883,673
Net earnings	<u>1,029,099</u>	<u>862,853</u>
Net assets – ending	<u>\$ 2,775,625</u>	<u>\$ 1,746,526</u>

The accompanying notes are an integral part of these statements.

MICHIGAN PROFESSIONAL INSURANCE AUTHORITY

Statements of Cash Flows

For the Years Ended June 30,

	<u>2007</u>	<u>2006</u>
Cash flows from (used in) operating activities (Note 3):		
Cash received from member assessments	\$ 1,902,500	\$ 1,838,000
Cash received from reimbursements	-	-
Cash paid for premiums	(815,793)	(776,810)
Cash paid for claims	-	(44,280)
Cash paid for professional and administrative fees	(180,163)	(192,092)
Interest and dividends received	<u>97,685</u>	<u>62,196</u>
Net cash from operating activities	<u>1,004,229</u>	<u>887,014</u>
Cash flows from (used in) investing activities:		
Purchase of investments	(2,170,944)	(1,827,589)
Proceeds from investment sales	<u>1,176,145</u>	<u>874,085</u>
Net cash used in investing activities	<u>(994,799)</u>	<u>(953,504)</u>
Net increase (decrease) in cash and equivalents	9,430	(66,490)
Cash and equivalents at beginning of year	<u>42,092</u>	<u>108,582</u>
Cash and equivalents at end of year	\$ <u>51,522</u>	\$ <u>42,092</u>

The accompanying notes are an integral part of these statements.

MICHIGAN PROFESSIONAL INSURANCE AUTHORITY

Notes to Financial Statements

June 30, 2007 and 2006

Note 1 - Summary of Significant Accounting Policies:

The financial statements have been prepared in accordance with U.S. generally accepted accounting principles appropriate for public entity risk pools, which are funds used to account for the financing of risks, exposure or liabilities of other units of government or other governments. The policies that materially affect financial position and results of operations are summarized as follows:

Organization and Nature of Business:

The Authority was formed on July 1, 2004, and is an agency separate and apart from the charter members and other units of government pursuant to Chapter 124 of the Michigan Compiled Laws. It was established for the purpose of preventing or lessening casualty losses to governmental properties which might result in claims being made against the participating public entities. The participating public entities are Zeeland, Michigan Board of Power and Water and Grand Haven, Michigan Board of Light and Power, both located in the State of Michigan.

It is the intent of the participating public entities of the Authority to create an entity which will administer a risk management fund or a joint risk management fund and utilize such funds contributed by the participating public entities to defend and protect, as provided herein, any participating public entities of the Authority and employees against stated liability or loss. The individual participating public entities retain the risk of loss in the event of claims. The participating public entities will reimburse the Authority for funds paid on their behalf if they exceed their individual contributions.

On July 1, 2004, the Authority entered into a management contract with Risk Insurance Management Company (RIMCO), an Illinois not-for-profit corporation, for risk management, investment and related insurance services.

The Authority reports as a Business Type Activity. Business Type Activities are those that are financed in whole or in part by fees charged to external parties for goods or services.

MICHIGAN PROFESSIONAL INSURANCE AUTHORITY

Notes to Financial Statements - Continued

June 30, 2007 and 2006

Note 1 - Summary of Significant Accounting Policies - Continued:

Investments:

The classification of securities is generally determined at the date of purchase as follows:

Securities held to maturity:

Bonds, notes and debentures for which the Authority has the positive intent and ability to hold to maturity are reported at cost, adjusted for premiums and discounts that are recognized in interest income using the interest method over the period to maturity.

Securities available for sale:

Securities available for sale consist of bonds, notes, debentures and certain equity securities not classified as securities held to maturity. Unrealized holding gains and losses on securities available for sale are reported as a net amount in a separate component of members' surplus until realized. Gains and losses on the sale of securities available for sale are determined using the specific identification method. Premiums and discounts are recognized in interest income using the interest method over the period to maturity.

Available-For-Sale Securities at June 30, 2007:

	<u>Amortized Cost</u>	<u>Unrealized (Losses)</u>	<u>Fair Value</u>
U.S. Treasury securities and obligations of U.S. government corporations and agencies	\$ 1,597,432	\$ (24,070)	\$ 1,573,362
Common equities and preferred stock	<u>1,097,521</u>	<u>169,101</u>	<u>1,266,622</u>
Total	<u>\$ 2,694,953</u>	<u>\$ 145,031</u>	<u>\$ 2,839,984</u>

MICHIGAN PROFESSIONAL INSURANCE AUTHORITY

Notes to Financial Statements - Continued

June 30, 2007 and 2006

Note 1 - Summary of Significant Accounting Policies - Continued:

Available-For-Sale Securities at June 30, 2006:

	<u>Amortized Cost</u>	<u>Unrealized (Losses)</u>	<u>Fair Value</u>
U.S. Treasury securities and obligations of U.S. government corporations and agencies	\$ 1,024,978	\$ (31,067)	\$ 993,911
Common equities and preferred stock	<u>658,647</u>	<u>(39)</u>	<u>658,608</u>
Total	<u>\$ 1,683,625</u>	<u>\$ (31,106)</u>	<u>\$ 1,652,519</u>

Use of Estimates in the Preparation of Financial Statements:

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions. This will affect the reported amounts of assets and liabilities, disclosures of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses. Actual results could differ from those estimates.

Note 2 - Insurance Coverage:

The Authority has entered into insurance contracts for the benefit of participating public entities with various companies. These policies provide the following deductibles for the participating public entities:

Property, including building and contents, earthquake, flood and fire	\$ 250,000
Errors and omissions by employees	25,000
General liability	100,000
Auto – collision per occurrence	1,000
Umbrella	10,000
Specific to SIMS #3 generating plant (GHBLP)	500,000

MICHIGAN PROFESSIONAL INSURANCE AUTHORITY

Notes to Financial Statements - Continued

June 30, 2007 and 2006

Note 2 - Insurance Coverage - Continued:

Additionally, there is ocean marine coverage with a potential deductible of one-half of one percent of the insured value of the cargo, as disclosed on the bill of lading for that shipment.

The above deductibles represent the level of exposure to the participating public entities. It is the intent of the participating public entities, by having these policies, to reduce the loss that may arise from catastrophes.

Note 3 - Cash Flows Statements:

For purposes of the Statements of Cash Flows, the Authority considers the cash in the bank and money market account on the balance sheet to be cash equivalents. The following is a reconciliation of net earnings to cash provided (used) by operating activities:

	<u>2007</u>	<u>2006</u>
Net earnings	\$1,029,099	\$ 862,853
Adjustments:		
Realized (gains) loss on securities	(16,529)	32,135
Changes in assets and liabilities:		
Decrease (increase) in receivables	(8,341)	(1,701)
Increase in prepaids	-	(6,022)
(Decrease) increase in liabilities	<u>-</u>	<u>(251)</u>
Net cash from operating activities	<u>\$1,004,229</u>	<u>\$ 887,014</u>

SUPPLEMENTAL SCHEDULE

MICHIGAN PROFESSIONAL INSURANCE AUTHORITY

Schedules of Net Investment Income

For the Years Ended June 30,

	<u>2007</u>	<u>2006</u>
Investment income:		
Interest income	\$ 81,482	\$ 51,238
Dividend income	24,544	12,659
Investment (gains) loss	<u>16,529</u>	<u>(32,135)</u>
Total	122,555	31,762
Investment expense	<u>5,953</u>	<u>3,659</u>
Net investment income	<u>\$ 116,602</u>	<u>\$ 28,103</u>