

MINUTES
BOARD OF LIGHT & POWER
REGULAR MEETING – JANUARY 3, 2008

Call to Order: Board Chairman Greg Canfield called the meeting to order at 5:33 pm with Board members Perry Beachum, Jim Hall, Judy Straub and General Manager Tom Richards present. Also in attendance was Peter Haefner from Vredevelde Haefner. There was a motion by Hall and second by Beachum to excuse the absence of Board member Keith Valentine from the meeting. The motion passed by unanimous vote of the Board.

Approval of Agenda: There was a motion by Beachum and support by Hall that the agenda be approved as presented. The motion passed with unanimous vote of the Board.

Approval of the Minutes: Canfield noted a typographical error on page 4 and also one on page 5 that needed to be corrected. With errors noted and corrections to be made it was moved by Beachum and supported by Straub that the minutes of the regular meeting of December 6 be approved. The motion passed with unanimous vote of the Board.

ACTION ITEMS:

Review and Acceptance of Audit (2006-2007): Richards introduced Peter Haefner of the auditing firm of Vredevelde Haefner who conducted the audit for the year ending June 30, 2007 for Lowell Light & Power and for year ending 6/29/07 for Lowell Cable TV. Haefner gave a summary of the “clean” opinion of their findings of the financial statements. Clean opinion, he explained, means that they found no unusual findings or issues in the results of operations, financial position and cash flow in the fiscal year 2006/2007.

Haefner went over the assets and liabilities and the difference between the two. He stated the utility has cash and cash equivalents and investments of approximately one million dollars that are unrestricted and can be used for operations which typically are used to cover payables. He also covered the restricted dollars. He explained that the restricted investments (MPPA) trust is money that was set with the MPPA, which the utility is a member of, was set aside by the Board. These dollars set aside through an agreement with MPPA can be used to pay bills through MPPA yet these dollars are restricted for that purpose only.

Haefner explained that in the future the utility would have to record a liability for the anticipated expense of post-employment benefits (primarily health care coverage) to be paid after an employee retires. Under new accounting standards, the utility will be required to begin to record a liability for those plans.

Haefner then discussed the utility’s net assets.

Haefner pointed out that the utility had an operating loss for the year. He noted the increase in purchased power costs, and depreciation expense for new distribution facilities and new the Chatham Street storage facilities.

Haefner discussed the cable television side of the audit. He explained that the cable system experienced a slight operating loss but that was 100% the result of selling the cable operations and giving all of the balance plus the cost of the sale over to the City. He explained the without the sale, the system would have been closer to a break even result at year-end.

Haefner discussed the statement of cash flow. This statement shows where the dollars are coming from and where the dollars are going to in cash. This statement shows how the bonds are being paid off, how the interest is being paid, and the acquisition of the capital assets, along with the completion of the Chatham Street building.

Straub asked Haefner about property the tax expense item. She was under the impression that the utility made a payment in lieu of paying property taxes. Richards explained that the Chatham Street building was taxable property through 2006 (the year it was purchased), but it will remain as a tax exempt property until it is leased by a tenant. Then the leased portion of the building will be taxable on a prorated basis.

Haefner went over the electric utility expenses. He noted that 55% of the expenses were from purchased power, 1% from generation, and depreciation was 11%. He showed that purchased power has increased \$700,000 in the last four years. Straub asked if there was a difference in the cost of purchased power from each of the different plants that the utility purchases power from. Richards explained that Campbell is where the utility gets most of the energy and it is at the lowest cost to the utility. Belle River is the closest to the Campbell cost and Traverse City is the highest cost to the utility. Haefner also explained how the Lowell's electric cost is significantly lower because it's ownership of generating assets. He said that the savings is several hundred thousand dollars a year just by having the generation capacity.

Haefner discussed the year to year changes in net income for the past four years.

Haefner noted that like virtually all municipalities, in LL&P's audit letter, they must report a material weakness within the utilities accounting process. This weakness is that the staff doesn't fully prepare its financial statements in full compliance with the generally accepted accounting principals. The weakness is the inability of the accounting staff to know each and every accounting standard that is applicable to the organization. He added that one way to correct this is to each year train the staff on all the standards or to hire an outside firm other than the auditors to prepare the financial statements because they can be a component of the internal control. He stated that the utilities staff is fully capable to prepare the required financials but not able to prepare all of the notes accompanying the financials. He related that most of his clients have responded that since they are able to prepare all of the needed financial reports needed throughout the year they could not justify the added expense of the necessary training or consultants to

eliminate the “weakness” label under the new rules. He added that the utility’s financials required virtually no adjustments to the financial statements in this year’s audit. Haefner commended the management and staff, on their financial work throughout the year and in closing out the Cable TV books after the sale.

There was a motion by Straub and second by Hall to accept the audit report. The motion passed with unanimous vote of the Board.

Accounts Payable, December 2007. There was a motion by Beachum and second by Hall that the Accounts Payable of December be accepted as presented. The motion passed with unanimous vote of the Board.

De Minimis Benefits Policy: Richards recommended the Board adopt a De Minimis benefits policy. He noted that while some minor expenditures that benefit the staff are of insignificant amounts, they would be considered taxable benefits under IRS rules. By adopting a policy enabling the board to approve “de Minimis” benefits these expenditures would be permissible. After some discussion it was moved by Straub and supported by Hall to adopt the following as a policy in the employee handbook:

Section 5.7 De Minimis Benefits: Employee compensation may include additional de Minimis benefits as approved at the discretion of the Board and administered by the General Manager.

The motion passed with unanimous vote of the Board.

Governance Policy-Review and consideration of Manager’s proposal: Richards provided the Board with a draft of proposed Governance Policies to help define and clarify the distinct roles and responsibilities of the Board, the Board members individually and the General Manager. After discussion, Hall made a motion to table this subject until Board Member Valentine was present and the Board would have more time to read through the draft before any decisions were made. The motion was seconded by Beachum. The motion passed by unanimous vote of the Board. The subject will be put on the agenda for the February 7 meeting.

Power Line Clearance Discussion of Policy and Practice: Beachum started the discussion with his feelings that the utility was changing the looks and atmosphere of the City of Lowell with all the removing and trimming of trees. He said he thinks the utility needs to look at alternatives before removing all the trees.

Hall asked if there was any feedback or follow-up from Mr. Johnston from last months meeting. There has not been any communications from him since the Board put a moratorium on trimming of trees in the December 6 meeting.

After more discussion Canfield suggested the Board needed more time to discuss the issue and he would also like Board Member Valentine present to join in the discussion.

Richards asked for clarification on the moratorium. He asked if the utility was permitted to trim or cut as necessary to restore power in the event of a storm. By consensus the

Board indicated its approval to trim trees to the degree necessary in an emergency situation, and to assist the DPW with any trimming requested specifically by the DPW director.

Hall made a motion to table the discussion of power line clearance and set a special meeting to discuss the issue. The Board set the date for the work session on January 24th at 5:30 pm at the Light & Power office. There was support by Beachum. The motion passed with unanimous vote of the Board.

Purchasing Policy: In response to a suggestion of a specific purchasing policy Richards briefed the Board on the volume of significant purchases that are required throughout the year and the many situations that need to be considered before adopting a blanket purchasing policy. After more discussion it was the consensus of the Board that Operations Manager Mullins should be present for discussion of the policy options. A motion was made by Hall and a support by Beachum that the discussion of a Purchasing Policy be tabled until the next meeting. The motion passed with a unanimous vote of the Board.

APPA Policymakers Workshop: Richards recommended that like previous board members had, the new Board would benefit greatly from the utility and governance training offered frequently by the American Public Power Association. He encouraged the Board to attend the APPA Policymakers Workshop. He had explored the possibility of having the workshop held in Michigan. He proposed that if Lowell sponsored the training in Michigan, other MMEA members could attend and share in the opportunity and expenses. He suggested the training could possibly be held in Lansing's MMEA offices or even in Lowell. Straub felt it would be a good idea for the Board members to attend this workshop. It was suggested that the training session be held on March 7th and 8th. The Board asked Richards to coordinate the workshop.

INFORMATIONAL ITEMS

Public Comment: The Board consented to move Public Comments was moved up in the agenda to accommodate citizens attending the meeting.

John and Lucille Erickson expressed concern about the electric bill of \$282.73 they received today. Mrs. Erickson said last month their electric bill was \$74.00. She was shocked at the increase and didn't think that the outdoor Christmas lighting they had added would have caused it. Richards asked Mrs. Erickson if she had expressed her concerns to any office staff. She said she had not. Richards told the Ericksons that the staff would most definitely want to look into the matter and to test the meter if a problem was indicated. He took their phone number and said the appropriate staff member would be in contact with them immediately.

Performance Data: Richards presented a table of monthly performance measurements to the Board. There was little discussion and no questions regarding the data sheet information.

Income Statement: Richards presented and briefly went over the monthly income statement with the Board.

Other Items: Richards updated the Board on the progress in developing the Light & Power website. He provided a list of items to be included on the website.

He also provided a handout of an example of explanatory notes on the billing statement, to be printed on the back of the statement and also to be provided on the website.

Richards also handed out the minutes of the last MPPA Board meeting.

2008 Meeting Schedule: Due to a conflict with the MMEA conference in the fall, Richards suggested that the Board change the regular board meeting scheduled for October 2nd, 2008 to a different date. After discussion that the MMEA conference would be from October 1st through October 3rd, there was a motion by Beachum and support by Straub to change the regular meeting date from October 2nd to October 9th, 2008. The motion passed by unanimous vote of the Board.

Complaint Register: There were no complaints registered in December.

Date for Next Meeting: The date for the next regular meeting is February 7th, 2008.

PUBLIC COMMENT

There were no public comments.

ADJOURNMENT

Beachum made a motion to adjourn the meeting. It was supported by Straub. The motion passed by unanimous vote of the Board. The meeting adjourned at 7:57 pm.

Approved:

Greg Canfield – Chairman

7 March 2008