

Traverse City Light and Power

**(A Component Unit of the
City of Traverse City, Michigan)**

Financial Statements

**For the Fiscal Year Ended
June 30, 2020**



Vredeveld Haefner LLC
CPAs and Consultants

TRAVERSE CITY LIGHT AND POWER

(A Component Unit of the City of Traverse City, Michigan)

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Vredeveld Haefner LLC

CPAs and Consultants
10302 20th Avenue
Grand Rapids, MI 49534
Fax (616) 828-0307

Douglas J. Vredeveld, CPA
(616) 446-7474
Peter S. Haefner, CPA
(616) 460-9388

INDEPENDENT AUDITORS' REPORT

December 23, 2020

Honorable Chairman and Members
Traverse City Light and Power
Traverse City, Michigan

Report on the Financial Statements

We have audited the accompanying financial statements of Traverse City Light and Power, a Component Unit of the City of Traverse City, Michigan, as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise Traverse City Light and Power's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Traverse City Light and Power as of June 30, 2020, and the changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 6 and the information on pages 32 through 37 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Traverse City Light and Power financial statements as a whole. The schedule of capital assets and depreciation and the schedule of revenues and expenses – budget and actual are presented for purposes of additional analysis and are not a required part of the financial statements.

The schedules have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 23, 2020 on our consideration of Traverse City Light and Power's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Traverse City Light and Power's internal control over financial reporting and compliance.

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MANAGEMENT'S DISCUSSION AND ANALYSIS

TRAVERSE CITY LIGHT AND POWER

Management's Discussion and Analysis

As management of the *Traverse City Light and Power* (the "Department"), we offer readers of the Department's financial statements this narrative overview and analysis of the financial activities for the fiscal year ended June 30, 2020. We encourage readers to consider the information presented here in conjunction with additional information that is furnished in the financial statements and notes to the financial statements.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Department's financial statements. The Department's financial statements comprise three components:

1. Financial statements
2. Notes to the financial statements
3. Supplementary information

Financial Statements

A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Department, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The activity of the Department is accounted for in two proprietary funds (Enterprise Funds) and a fiduciary fund. The Light and Power and the Fiber enterprise funds, are both considered major for reporting purposes.

Enterprise funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing electrical and dark fiber services to customers. Operating expenses for enterprise funds 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 non-operating revenues and expenses.

Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the statement of net position statement because the resources of those funds are not available to support the Department's own programs. The accounting used for fiduciary funds is much like that used for enterprise funds.

The *Statement of Net Position* presents information on all of the Department's assets and liabilities, with the difference between the two reported as *net position*. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the Department is improving or deteriorating.

The *Statement of Revenues, Expenses and Changes in Net Position* presents information showing how the Department's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in past or future fiscal periods (for instance, depreciation expense associated with capital assets).

The Department is principally supported by charges for providing electrical and dark fiber services to customers in Traverse City and Townships within the franchise area. The financial statements include only the Department itself. The Department has no legally separate component units for which the Department is financially accountable.

The Department adopts an annual appropriated budget for its funds as required by City Charter. Budgetary comparison schedules have been provided herein to demonstrate compliance with that charter provision.

The Department does not maintain any governmental funds.

Notes to the financial statements. The notes provide additional information that is essential to gain a full understanding of the data provided in the Department's financial statements.

Supplementary information. In addition to the financial statements and accompanying notes, this report also presents certain *supplementary information*, which includes this management discussion and analysis and benefit plan schedules following the notes to the financial statements.

The Department's Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the Department, assets exceeded liabilities by \$ 78,057,530 at the close of the most recent fiscal year, June 30, 2020.

The largest portion of net position for the Department is its investment in capital assets (primarily land, construction in progress, buildings, distribution system and equipment). The Department uses these capital assets to provide services to customers. The remaining Department net position is unrestricted and available for Department activity.

Traverse City Light and Power's Net Position

Business-type Activities	June 30	
	2020	2019
Current and other assets	\$22,732,827	\$22,314,254
Capital assets	71,152,266	68,151,757
Total assets	93,885,093	90,466,011
Deferred outflows	3,674,549	4,108,177
Long-term liabilities outstanding	14,057,856	14,260,995
Other liabilities	3,545,208	3,538,363
Total liabilities	17,603,064	17,799,358
Deferred inflows	1,899,048	1,528,533
Net position		
Invested in capital assets	69,537,891	68,151,757
Unrestricted	8,519,639	7,094,540
Total net position	\$78,057,530	\$75,246,297

Traverse City Light and Power's Changes in Net Position

Business-type Activities	June 30	
	2020	2019
Operating revenue	\$33,404,981	\$34,611,240
Operating expenses	(30,630,857)	(33,400,527)
Nonoperating revenue (expense)	557,213	789,204
Special Item	-	(1,034,859)
Increase in net position	3,331,337	965,058
Net position – beginning of year, as restated	74,726,193	74,281,289
Net position – end of year	\$78,057,530	\$75,246,297

Business-type activities

The overall financial position of the Department remained strong in 2019-2020. There are no outstanding debt obligations except for the commitments through the power supply contracts with Michigan Public Power Agency ("MPPA") to reimburse MPPA for operating and/or debt service costs relating to the Campbell, Belle River and Kalkaska generation plants.

Revenue

Overall, the Electric Fund's revenues were under budget by approximately \$2,019,800. Electric operating revenues were under budget by \$2,221,000 relating to less kilowatt hours sold than what was budgeted caused by the COVID-19 pandemic. Other operating revenues, more specifically, MISO income came under budget relating to the book-value of transmission assets declining more than expected. Reimbursements under nonoperating revenues exceeded budget relating to storm assistance payments from other electric utilities.

Expenses

In fiscal year 2019-20, Electric Funds operating expenses was under budget by approximately \$4.2 M. There were many fluctuations within the departments but overall the most significant related to salaries and wages, payroll taxes and fringes, and purchase power expense. There were many factors that impacted salaries and wages and payroll taxes and fringes. These include vacancies, amortization of interest earnings related to the pension system, change in deferred inflows/outflows relating to the OPEB liability, and increase in the amount of work capitalized. Purchase power costs are under budget because of less kilowatt hours sold caused by the COVID-19 pandemic.

Capital asset and debt administration

Traverse City Light and Power Capital Assets (net of depreciation)

	June 30	
	2020	2019
Land and land improvements	\$ 1,071,410	\$ 1,105,070
Construction in progress	3,671,515	2,061,270
Buildings and improvements	5,836,798	5,833,125
Equipment and distribution system	94,188,326	90,520,655
Accumulated depreciation	(33,615,783)	(31,368,363)
Total	\$71,152,266	\$68,151,757

Additional information about capital assets is provided in Note 3 to the financial statements.

Debt of the Department consists of amounts outstanding for accrued compensated absences. Additional information can be found in Note 4 to the financial statements.

Economic Factors and Next Year's Budgets and Rates

Overall the budget remains similar to past years. A rate increase of 2.5% was budgeted, but currently has been deferred. In addition to this rate increase, a slight increase in sales was budgeted based on load growth while taking into consideration the impacts of energy waste reduction. Additionally, a slight increase in purchase power costs are expected going from \$58.49 to \$62.80 per MWh, which will be passed on to the customer through the utility's variable power service cost recovery rate. The utility is continuing with an accelerated amortization schedule on the utility's unfunded pension liability to increase the overall pension funding percentage. Additionally, the utility has incorporated into the Fiber Fund Budget the deployment of Phase 1 Smart Grid Expansion/Fiber to the Premise Project (internet and phone services) to the utility's commercial and residential customers.

Requests for Information

This financial report is designed to provide a general overview of the Department's finances. Questions concerning any of the information provided in this report or requests for additional financial information, should be addressed to Karla Myers-Beman, Controller, Traverse City Light and Power, 1131 Hastings Street, Traverse City, MI 49686.

FINANCIAL STATEMENTS

TRAVERSE CITY LIGHT AND POWER

(A Component Unit of the City of Traverse City, Michigan)

STATEMENT OF NET POSITION JUNE 30, 2020

ASSETS	Light and Power Fund	Fiber Fund	Business-type Activities Total
Current assets			
Cash and cash equivalents	\$ 2,574,006	\$ 151,654	\$ 2,725,660
Receivables			
Customer, less allowances of \$384,116 for uncollectible accounts (Light and Power Fund)	3,294,162	5,910	3,300,072
Accrued interest	20,882	-	20,882
Taxes	1,604	-	1,604
Other	218,754	-	218,754
Due from other funds	-	461,197	461,197
Inventories	1,491,888	8,928	1,500,816
Prepaid expenses	127,925	-	127,925
Total current assets	7,729,221	627,689	8,356,910
Non-current assets			
Investments	10,993,555	-	10,993,555
Accounts receivables	1,605,966	-	1,605,966
Long-term advances - Due from Fiber Fund	1,614,375	-	1,614,375
Long-term advances - Due from Primary Government	162,021	-	162,021
Land and land improvements	1,071,410	-	1,071,410
Construction in progress	1,922,423	1,749,092	3,671,515
Capital assets being depreciated, net	65,375,078	1,034,263	66,409,341
Total non-current assets	82,744,828	2,783,355	85,528,183
Total assets	90,474,049	3,411,044	93,885,093
Deferred outflows			
Deferred outflows of resources - Pensions	3,396,088	-	3,396,088
Deferred outflows of resources - OPEB	278,461	-	278,461
Total deferred outflows of resources	3,674,549	-	3,674,549

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

TRAVERSE CITY LIGHT AND POWER

(A Component Unit of the City of Traverse City, Michigan)

STATEMENT OF NET POSITION JUNE 30, 2020

LIABILITIES AND NET POSITION	Light and Power Fund	Fiber Fund	Business-type Activities Total
Current liabilities			
Accounts payable	\$ 2,225,894	\$ 451,817	\$ 2,677,711
Accrued expenses and other liabilities	243,296	25,695	268,991
Customer deposits	92,431	-	92,431
Compensated absences	11,081	-	11,081
Unearned revenue	22,867	10,930	33,797
Due to other funds	461,197	-	461,197
Total current liabilities	3,056,766	488,442	3,545,208
Long-term liabilities			
Compensated absences	204,635	1,688	206,323
Long term advances - Due to Electric Fund	-	1,614,375	1,614,375
Net pension liability	11,058,994	-	11,058,994
Net other post employment benefit liability	1,178,164	-	1,178,164
Total liabilities	15,498,559	2,104,505	17,603,064
Deferred inflows			
Deferred inflows of resources - Pensions	1,469,462	-	1,469,462
Deferred inflows of resources - OPEB	429,586	-	429,586
Total deferred inflows of resources	1,899,048	-	1,899,048
Net position			
Invested in capital assets	68,368,911	1,168,980	69,537,891
Unrestricted	8,382,080	137,559	8,519,639
Total net position	\$ 76,750,991	\$ 1,306,539	\$ 78,057,530

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

TRAVERSE CITY LIGHT AND POWER

(A Component Unit of the City of Traverse City, Michigan)

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION FOR THE YEAR ENDED JUNE 30, 2020

	Light and Power Fund	Fiber Fund	Business-type Activities Total
Operating revenues			
Charges for services	\$ 29,553,746	\$ 446,598	\$ 30,000,344
MISO income	3,067,430	-	3,067,430
Other	337,207	-	337,207
Total operating revenues	32,958,383	446,598	33,404,981
Operating expenses			
Purchase power	19,600,773	-	19,600,773
Distribution	3,530,427	-	3,530,427
Transmission	424,522	-	424,522
Customer accounting	525,865	-	525,865
Public service	448,795	-	448,795
Information systems	226,247	-	226,247
General administration	797,949	-	797,949
Fiber	-	135,454	135,454
WIFI	-	25,490	25,490
Other	70,713	763	71,476
City fee	1,656,483	22,136	1,678,619
Depreciation	3,018,147	147,093	3,165,240
Total operating expenses	30,299,921	330,936	30,630,857
Operating income	2,658,462	115,662	2,774,124
Nonoperating revenues (expenses)			
Rental income	114,841	-	114,841
Reimbursements	226,005	33,347	259,352
Interest income	251,430	-	251,430
Change in fair value of investments	45,003	-	45,003
Loss on sale of assets	(113,413)	-	(113,413)
Total nonoperating revenue	523,866	33,347	557,213
Income before transfers	3,182,328	149,009	3,331,337
Transfers			
Transfers in	200,000	-	200,000
Transfers out	-	(200,000)	(200,000)
Total transfers	200,000	(200,000)	-
Change in net position	3,382,328	(50,991)	3,331,337
Net position, beginning of year, as restated	73,368,663	1,357,530	74,726,193
Net position, end of year	\$ 76,750,991	\$ 1,306,539	\$ 78,057,530

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

TRAVERSE CITY LIGHT AND POWER

(A Component Unit of the City of Traverse City, Michigan)

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED JUNE 30, 2020

	Light and Power Fund	Fiber Fund	Business-type Activities Total
Cash flows from operating activities			
Cash received from customers	\$ 32,903,010	\$ 527,251	\$ 33,430,261
Cash payments to employees	(9,225,554)	(74,871)	(9,300,425)
Cash payments to suppliers for goods and services	(18,736,171)	(111,062)	(18,847,233)
Cash payments of City fee	(1,729,419)	(43,450)	(1,772,869)
Net cash provided by operating activities	3,211,866	297,868	3,509,734
Cash flows from noncapital financing activities			
Cash payments to primary government	(7,824)	-	(7,824)
Cash payments to/from other funds	200,000	(200,000)	-
Customer deposits paid	(3,075)	-	(3,075)
Rental income received	114,841	-	114,841
Reimbursements received	226,005	33,347	259,352
Net cash provided by (used in) noncapital financing activities	529,947	(166,653)	363,294
Cash flows from capital and related financing activities			
Interfund loan	(1,153,178)	1,153,178	(2,306,356)
Purchase of capital assets	(4,556,756)	(1,308,023)	(5,864,779)
Sale of property	25,000	-	25,000
Net cash (used in) capital financing activities	(5,684,934)	(154,845)	(8,146,135)
Cash flows from investing activities			
Sale of investments	3,827,777	-	3,827,777
Interest	338,606	-	338,606
Net cash provided by investing activities	4,166,383	-	4,166,383
Net increase/decrease in cash and cash equivalents	2,223,262	(23,630)	(106,724)
Cash and cash equivalents, beginning of year	350,744	175,284	526,028
Cash and cash equivalents, end of year	\$ 2,574,006	\$ 151,654	\$ 2,725,660

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

TRAVERSE CITY LIGHT AND POWER

(A Component Unit of the City of Traverse City, Michigan)

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED JUNE 30, 2020

	Light and Power Fund	Fiber Fund	Business-type Activities Total
Cash flows from operating activities			
Operating income	\$ 2,658,462	\$ 115,662	\$ 2,774,124
Adjustments to reconcile operating income to net cash provided by operating activities			
Depreciation	3,018,147	147,093	3,165,240
Changes in operating assets and liabilities which provided (used) cash			
Receivables	(78,240)	84,538	6,298
Inventories	(1,346)	6,274	4,928
Prepaid expenses	(30,631)	-	(30,631)
Deferred outflow	433,628	-	433,628
Accounts payable	128,677	(35,884)	92,793
Due to other governments	(72,936)	(21,314)	(94,250)
Accrued expenses and other liabilities	(886,155)	5,384	(880,771)
Unearned revenue	22,867	(3,885)	18,982
Compensated absences	35,186	-	35,186
Deferred inflow/outflow	(149,589)	-	(149,589)
Net pension liability	(1,141,966)	-	(1,141,966)
Other post employment liability	(724,238)	-	(724,238)
Net cash provided by operating activities	\$ 3,211,866	\$ 297,868	\$ 3,509,734

Non cash transaction: The cash flow includes the change in fair market value of investments in the amount of \$45,003.

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

TRAVERSE CITY LIGHT AND POWER

(A Component Unit of the City of Traverse City, Michigan)

STATEMENT OF FIDUCIARY NET POSITION FIDUCIARY FUND JUNE 30, 2020

	Other Post employment Benefit Funds
Assets	
Investments, at fair value	
MERS total market fund	\$ 3,805,358
Accounts receivable	30,770
	<hr/>
Total assets	3,836,128
	<hr/>
Net Position	
Held in trust for other post employment benefits	\$ 3,836,128
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The accompanying notes are an integral part of these financial statements.

TRAVERSE CITY LIGHT AND POWER

(A Component Unit of the City of Traverse City, Michigan)

STATEMENT OF CHANGES IN FIDUCIARY NET POSITION FIDUCIARY FUND FOR THE YEAR ENDED JUNE 30, 2020

	Other Post employment Benefit Funds
Additions	
Employer contributions	\$ 164,442
Investment earnings	
Interest and dividend income	64,798
Investment advisor fees	(5,048)
Net investment earnings	59,750
Total additions	224,192
Net position held in trust, beginning of year	3,611,936
Net position held in trust, end of year	\$ 3,836,128

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

TRAVERSE CITY LIGHT AND POWER

(A Component Unit of the City of Traverse City, Michigan)

NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

Under provisions of the City of Traverse City (the “City”) Charter, the Light and Power Board (the “Board”) was created having jurisdiction and control of *Traverse City Light and Power* (the “Department”). The Board consists of seven members (two of which are City Commissioners) and one ex-officio member (the City Manager). The Department’s annual budget is approved by the City Commission. The Department is required to pay 5% of its gross revenue annually to the City’s General Fund as a City fee. For fiscal 2020, the City fee was \$1,678,619.

Reporting Entity

The Department is a discretely presented component unit of the City because the City appoints the Department’s Board of Directors, it has the ability to significantly influence the Department’s operations and it is financially accountable for the Department as defined under GASB Statement No. 14, *The Financial Reporting Entity*, as amended by GASB Statements 39 and 61. Accordingly, the Department is an integral part of that reporting entity.

As required by generally accepted accounting principles, the financial statements of the reporting entity include those of the Department. There are no component units to be included. The criteria for including a component unit includes significant operational or financial relationships with the Department.

Basis of Accounting

The Department uses 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.

Cash and Cash Equivalents

For purposes of the Statement of Cash Flows, the Department considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

Investments

Investments are stated at fair value. The change in fair value of the investments from the beginning of the year to the end of the year is reported in the “Nonoperating revenues” section of the Statements of Revenues, Expenses and Changes in Net Position”.

State statutes and City policy authorize the Department to invest in:

- a. Bonds, 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

TRAVERSE CITY LIGHT AND POWER

(A Component Unit of the City of Traverse City, Michigan)

NOTES TO FINANCIAL STATEMENTS

- by not less than two standard rating services and that matures not more than 270 days after the date of purchase.
- d. Bankers 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.
 - h. Long-term or perpetual trust funds consisting of money and royalties or money derived from oil and gas exploration on property or mineral rights owned by the Department has the same authority to invest the assets as is authorized by Public Act 314, as amended.

Receivables/Payables

All receivables are reported at their gross value and, where appropriate, are reduced by the estimated portion that is expected to be uncollectible.

Transactions between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either due to/from other funds (i.e. the current portion of interfund loans) or advance to/from other funds (i.e. the non-current portion of interfund loans). All other outstanding balances between funds are reported as due to/from other funds. Any residual balances outstanding between the funds are reported in the Statement of Net Position.

Inventories

Inventories consist of materials to be used in the electric system and are valued at cost (first-in, first-out) not in excess of market. Maintenance and office supplies (immaterial at year end) are charged to expenses upon purchase.

Prepaid Expenses

The Department made payments prior to year-end for services that will be performed in the next fiscal year. In these situations, the Department records an asset to reflect the investment in future services.

Capital assets

Capital assets are defined by the government as assets with an initial individual cost of more than \$2,500 and an estimated useful life in excess of two years.

Capital assets are stated at cost. Depreciation is computed using the straight-line method over the estimated lives of the related assets as follows:

	<u>Years</u>
Transmission and distribution plant	30-50
General plant	10-50

TRAVERSE CITY LIGHT AND POWER

(A Component Unit of the City of Traverse City, Michigan)

NOTES TO FINANCIAL STATEMENTS

Compensated Absences

Compensated absences consist of accumulated unpaid vacation, short-term leave and sick pay. Accumulated unpaid vacation and short-term leave are accrued when earned. Sick pay is frozen for employees but upon death or retirement 50% of accumulated sick leave shall be paid to a maximum of 120 days. Two choices for sick pay cash out are available to employees with more than 30 days of sick leave and 10 years of service. Employees can use sick leave as allowing under the Short-Term Leave Plan or cash out all amounts of sick leave in excess of 30 days up to 120 days at the rate of 50% of employee's current pay rate. Days in excess of 120 will be added to the 30 day bank. This choice must be made as a one-time selection at any time after the employee reaches 10 years of service.

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense) until then. The Department has items that qualify for reporting in this category related to the pension plan which is discussed in Note 7 and the OPEB plan as discussed in Note 10.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows or resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The Department has items that qualify for reporting in this category related to the pension plan which is discussed in Note 7 and the OPEB plan as discussed in Note 10.

Pensions

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

Operating Revenue versus Nonoperating Revenue

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Department are charges to customers for sales and services and "MISO" revenue. Operating expenses for the Department 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.

TRAVERSE CITY LIGHT AND POWER

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NOTES TO FINANCIAL STATEMENTS

Funds

The Department reports the following major proprietary funds:

The Light and Power Enterprise Fund is used to account for the operations of the Department's electric utility that provides electric service to customers on a user charge basis.

The Fiber Enterprise Fund is used to account for the operations of the Department's fiber optic utility that provides services to customers on a user charge basis and WIFI system located in the downtown area. The Fiber Fund was created in 2008 with an initial capital contribution from the Light and Power Enterprise Fund.

Restricted resources

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, then unrestricted resources as they are needed.

2. CASH DEPOSITS AND INVESTMENTS

The Department's cash and cash equivalents, and investments at June 30, 2020 are composed of the following:

	<u>Enterprise Funds</u>	<u>Fiduciary Fund</u>	<u>Total</u>
Cash and cash equivalents	\$ 2,725,660	\$ -	\$ 2,725,660
Investments	10,993,555	3,805,358	14,798,913
Total	<u>\$13,719,215</u>	<u>\$3,805,358</u>	<u>\$17,524,573</u>

The cash and investments making up the above balances are as follows:

Deposits	\$5,696,251
Investments	8,022,964
OPEB - investments	3,805,358
Total	<u>\$17,524,573</u>

Deposits consist of various interest bearing cash accounts and certificates of deposit, held by the City of Traverse City Treasurer. The insured and uninsured bank balances for the Department's deposits are not available as these deposits are held in pools with other City funds.

The Department is authorized by Michigan Public Act 20 of 1943 to invest surplus monies in U.S. bonds and notes, certain commercial paper, mutual funds and investment pools that are composed of authorized investment vehicles.

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The Department chooses to disclose its investments by specifically identifying each. As of June 30, 2020, the Department's Michigan CLASS investment and the U.S. Treasury notes are rated by Standard and Poor's and/or Moody's.

The Department also maintains a post employment benefit trust fund where investments are maintained separately from the City's pooled cash and investments and are subject to the Michigan Public Employees Retirement System's Investment Act, Public Act 314, 1965, as amended, authorizes pension and post employment benefit trusts to invest in stocks, government and corporate securities, mortgages, real estate, and various other investment instruments, subject to certain limitations. The investments are managed by the Michigan Employees Retirements System ("MERS") and are in the MERS Total Market Fund.

The Department had the following investments:

<u>Investment</u>	<u>Maturity</u>	<u>Fair Value</u>	<u>Rating</u>
US Treasury Note	08/20/2020	\$ 999,820	Aaa/AA+
US Treasury Note	09/24/2020	999,660	Aaa/AA+
US Treasury Note	11/19/2020	999,360	Aaa/AA+
FHLB Bond	02/05/2025	1,001,060	Aaa/AA+
FHLB Bond	03/25/2025	1,000,540	Aaa/AA+
FHLB Bond	06/02/2026	1,000,050	Aaa/AA+
FHLB Bond	06/04/2027	999,010	Aaa/AA+
FHLB Bond	03/10/2031	268,724	Aaa/AA+
FHLB Bond	02/12/2035	500,555	Aaa/AA+
FHLB Bond	04/02/2024	250,948	Aaa/AA+
Michigan CLASS	NA	<u>3,237</u>	AAAm
		<u><u>\$ 8,022,964</u></u>	

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 Department's 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 dates for each investment are identified above for investments held at year-end.

Credit Risk. State law limits investments to specific government securities, certificates of deposits 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 above. The Department's investment policy does not have specific limits in excess of state law on investment credit risk. The ratings for each investment are identified above for investments held at year end.

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NOTES TO FINANCIAL STATEMENTS

Custodial Credit Risk – Deposits. Custodial credit risk is the risk that in the event of a bank failure, the Department's deposits may not be returned. State law does not require and the Department does not have a policy for deposit custodial credit risk. The insured and uninsured bank balances for the Department deposits are not available as these deposits are held in pools with other City funds.

Custodial Credit Risk – Investments. For investments, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Department 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 Department does not have a policy for investment custodial credit risk. Of the above \$8,022,964 of investments at June 30, 2020, the Department has a custodial credit risk exposure of \$8,019,727 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 Department's custodial credit risk exposure cannot be determined for the above Michigan CLASS investment pool because the Department does not own specifically identifiable securities.

Concentration of Credit Risk. State law limits allowable investments but does not limit concentration of credit risk as identified above. The Department's investment policy does not have specific limits in excess of state law on concentration of credit risk. None of the investments held by the Department, excluding government obligations explicitly guaranteed by the U.S. government and mutual fund investments, exceed 5% of the Department's investments.

Fair Value Measurements. The Department categorizes its fair value measurements of investments within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. Investments that are measured at the fair value using the net asset value per share (or its equivalent) as a practical expedient are not classified in the fair value hierarchy below.

The Department has the following recurring fair value measurements as of year-end.

- MERS Total Market Fund, US Treasury Notes, and FHLB Bonds are valued using quoted market prices in active markets (Level 1 Inputs)
- The Department does not have any investments that report fair value based on significant unobservable inputs (Level 3 Inputs)

Investments in Entities that Calculate Net Asset Value per Share

The Department holds interests in an external investment pool whereby the fair value of the investments are measured on a recurring basis using net asset value per share.

	Fair Value
Michigan Class	\$ 3,237

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NOTES TO FINANCIAL STATEMENTS

3. CAPITAL ASSETS

At June 30, 2020, capital assets consist of the following:

	<u>Beginning Balance</u>	<u>Additions &Transfers</u>	<u>Deletions & Transfers</u>	<u>Ending Balance</u>
Capital assets not being depreciated				
Land and land improvements	\$1,105,070	\$ 6,105	\$ 39,765	\$1,071,410
Construction in progress	2,061,270	6,305,354	4,695,109	3,671,515
Total capital assets not being depreciated	3,166,340	6,311,459	4,734,874	4,742,925
Capital assets being depreciated				
Buildings and improvements	5,833,125	3,673	-	5,836,798
Equipment and distribution system	88,137,249	4,684,146	1,016,475	91,804,920
Fiber System	1,881,543	-	-	1,881,543
WiFi System	501,863	-	-	501,863
Total capital assets being depreciated	96,353,780	4,687,819	1,016,475	100,025,124
Less accumulated depreciation for				
Buildings and improvements	2,125,437	176,595	-	2,302,032
Equipment and distribution system	28,040,876	2,841,552	917,820	29,964,608
Fiber System	976,262	96,905	-	1,073,167
WiFi System	225,788	50,188	-	275,976
Total accumulated depreciation	31,368,363	3,165,240	917,820	33,615,783
Total capital assets being depreciated, net	64,985,417	1,522,579	98,655	66,409,341
Total capital assets, net	<u>\$68,151,757</u>	<u>\$7,834,038</u>	<u>\$4,833,529</u>	<u>\$71,152,266</u>

4. INTERFUND RECEIVABLES AND PAYABLES

<u>Fund</u>	<u>Interfund Receivables</u>	<u>Fund</u>	<u>Interfund Payables</u>
Fiber	\$ 461,197	Light & Power	\$ 461,197
Light & Power	<u>1,614,375</u>	Fiber	<u>1,614,375</u>
Total	<u>\$ 2,075,572</u>	Total	<u>\$ 2,075,572</u>

Interfund receivables and payables are established to cover financing of projects and to match receivables with payables. A current portion of the advance to/from will be established once construction is complete.

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NOTES TO FINANCIAL STATEMENTS

5. LONG-TERM LIABILITIES

Long-term debt at June 30, 2020, consists of the following:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Accrued compensated absences	<u>\$182,107</u>	<u>\$328,161</u>	<u>\$292,864</u>	<u>\$217,404</u>	<u>\$11,081</u>

6. POWER SUPPLY PURCHASE

The Department, along with other Michigan municipal utilities, is a member of the MPPA. The agency was formed to acquire interest in certain electric generating plants and related transmission lines to service its members. MPPA has acquired a 4.8% undivided interest in the Consumers Energy Campbell 3 plant, an 18.6% undivided interest in the Detroit Edison Belle River project, and 100% undivided interest in the Kalkaska Combustion Turbine project.

In 1983, the Department entered into a 35-year power supply and project support contract with MPPA. Under the agreement, the Department will purchase 26.35% of the energy generated by MPPA's 4.8% interest in the Campbell 3 plant and 4.53% of the energy generated by MPPA's 18.6% interest in the Belle River plant. In 2002, the Department entered into a 25-year power supply and project support contract with MPPA. Under the agreement, the Department will purchase 75.9% of the energy generated by MPPA's 100% interest in the Kalkaska Combustion Turbine. In 2009, the Department entered into a power supply contract with MPPA. Under the agreement, the Department will purchase 8.13% of the energy generated in the MPPA's renewable energy contract with Grainger Electric of Michigan, LLC. In 2011, the Department entered into a power supply contract with MPPA. Under the agreement, the Department will purchase 8.13% of the energy generated in the MPPA's renewable energy contract with Northern American Natural Resources of Michigan. In 2014, the Department entered into an Energy Services Agreement with MPPA for the objective of accessing third party marketers in MISO for the purpose of reducing exposure to MISO market during volatile seasons. This is accomplished through MPPA soliciting bids and subsequently entering into contracts on behalf of the Department for firm priced energy supply. In 2017, the Department entered into a commitment with MPPA for 5.80% of energy generated from the Pegasus Wind Farm.

For the year ended June 30, 2020, Traverse City Light and Power recognized expenses totaling \$16,064,496 to purchase power under the terms of all contracts with MPPA. The price of the power was calculated on a basis, as specified in the contracts, to enable MPPA to recover its production, transmission and debt service costs.

Under the terms of the contracts, the Department must make minimum annual payments to cover their share of annual debt service requirements and fixed operation costs of the Campbell 3, Belle River, and Combustion Turbine projects (based on the percentage of power purchased). Future operating costs are estimated based on 2019 costs adjusted for inflation and calculated until the time of project's debt retirement.

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The total estimated future operating costs, which do not include the annual debt payments, are as follows:

Year Ended December 31	Operating Costs
2021	\$ 5,247,117
2022	5,404,531
2023	2,711,600
2024	2,792,948
2025	2,876,736
2026-2027	6,014,968
Total	<u>\$25,047,900</u>

The estimated total annual debt payments (assuming no early calls or refinancing) are as follows:

Year Ended December 31	Principal	Interest	Total
2021	\$ 2,376,923	\$ 558,816	\$ 2,935,739
2022	1,909,168	469,061	2,378,229
2023	1,426,920	394,680	1,821,600
2024	1,499,025	323,334	1,822,359
2025	1,574,925	248,383	1,823,308
2026-2027	3,392,730	256,542	3,649,272
Total	<u>\$12,179,691</u>	<u>\$2,250,816</u>	<u>\$14,430,507</u>

In December 2009, the Department entered into a 20-year purchase power agreement with Heritage Stoney Corners Wind Farm I, LLC to purchase up to 10 megawatts of electric energy and all associated renewable energy credits. For the year ended June 30, 2020, the Department recognized expenses totaling \$3,007,159 under this agreement.

In December 2014, the Department entered into a 20-year purchase power agreement with options to terminate on January 1, 2025 and January 1, 2030 upon ninety-day notice. The Agreement is with Heritage Sustainable Energy, LLC to purchase up to .6 MW of electric energy from the M-72 wind turbine. For the year ended June 30, 2020, the Department recognized expenses totaling \$34,367 under this agreement.

In August 2017, the Department amended the Heritage Sustainable Energy, LLC contract to purchase and additional 1MW of electric energy from the M-72 solar array. It was amended again on July 11, 2019 to include an additional 2MW of electric energy through an expansion of the M-72 1MW solar array. The contract will terminate December 31, 2038. For the year ended June 30, 2020 the Department recognized expenses totaling \$209,768 under this agreement.

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NOTES TO FINANCIAL STATEMENTS

7. RETIREMENT PLAN

General Information about the Pension Plan

Plan Description. The employer's defined benefit pension plan provides certain retirement, disability and death benefits to plan members and beneficiaries. The employer participates in MERS of Michigan. MERS is an agent multiple-employer, statewide public employee pension plan established by the Michigan Legislature under Public Act 135 of 1945 and administered by a nine member Retirement Board. MERS issues a publicly available financial report that includes financial statements and required supplementary information. This report may be obtained accessing the MERS website at www.mersofmich.com.

Benefits Provided

01 - Non Union – closed to new hires, linked to Division 11	
	2019 Valuation
Benefit Multiplier:	2.25% Multiplier (80% max)
Normal Retirement Age:	60
Vesting:	10 years
Early Retirement (Unreduced):	55/25
Early Retirement (Reduced):	50/25
	55/15
Final Average Compensation:	5 years
COLA for Current/Future	
Retirees:	2.50% (Non-Compound)
Member Contributions:	0%
Act 88:	No

10 - Union closed to new hires, linked to Division 12	
	2019 Valuation
Benefit Multiplier:	2.25% Multiplier (80% max)
Normal Retirement Age:	60
Vesting:	6 years
Early Retirement (Unreduced):	50/25
Early Retirement (Reduced):	55/15
Final Average Compensation:	5 years
COLA for Current/Future	
Retirees:	2.50% (Non-Compound)
Member Contributions:	0%
Act 88:	No

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NOTES TO FINANCIAL STATEMENTS

11 - Non-union hired after 7/1/2017, linked to Division 01	
	2019 Valuation
Benefit Multiplier:	1.5% Multiplier (80% max)
Normal Retirement Age:	60
Vesting:	6 years
Early Retirement (Unreduced):	55/25
Early Retirement (Reduced):	55/15
	50/25
Final Average Compensation:	5 years
COLA for Future Retirees:	2.50% (Non-Compound)
Member Contributions:	0%
Act 88:	No

12 - Union hired after 7/1/2012, linked to Division 10	
	2019 Valuation
Benefit Multiplier:	1.5% Multiplier (80% max)
Normal Retirement Age:	60
Vesting:	6 years
Early Retirement (Unreduced):	55/25
Early Retirement (Reduced):	55/15
	50/25
Final Average Compensation:	5 years
COLA for Future Retirees:	2.50% (Non-Compound)
Member Contributions:	0%
Act 88:	No

13 - Union lineworkers pre 7/1/2012, closed to new hires	
	2019 Valuation
Benefit Multiplier:	2.25% Multiplier (80% max)
Normal Retirement Age:	60
Vesting:	6 years
Early Retirement (Unreduced):	50/25
Early Retirement (Reduced):	55/15
Final Average Compensation:	5 years
COLA for Future Retirees:	2.50% (Non-Compound)
Member Contributions:	0%
DC Plan for New Hires:	2/1/2019
Act 88:	No

- Benefits provided include plans with multipliers ranging from 1.5 to 2.25.
- Vesting periods range from 6 to 10 years.
- Normal retirement age is 60 with early retirement at 55 and 50 with 25 years of service.
- Final average compensation is calculated based on 5 years.
- There are no member contributions.

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Employees covered by benefits terms. At the December 31, 2019 valuation date, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	61
Inactive employees entitled to but not yet receiving benefits	7
Active employees	<u>29</u>
	<u>97</u>

Contributions. The employer is required to contribute amounts at least equal to the actuarially determined rate, as established by the MERS Retirement Board. The actuarially determined rate is the estimated amount necessary to finance the cost of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The employer may establish contribution rates to be paid by its covered employees.

Employer minimum contributions range from 6.91 to 9.16% based on annual payroll for open divisions. There are two divisions that are closed to new employees that require an annual employer contribution amount of \$44,373 and \$142,008.

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

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

Inflation: 2.5%

Salary Increases: 3.00% in the long-term

Investment rate of return: 7.35%, net of administrative and investment expenses, including inflation.

Mortality rates used were based on RP-2014 Group Annuity Mortality Tables, with rates multiplied by 105%, RP 2014 Employee Mortality Tables, and RP 2014 Juvenile Mortality Tables of a 50% Male and a 50% Female blend. For disabled retirees, the rates were based on RP-2014 Disabled Retiree Mortality Table of a 50% Male and a 50% Female blend.

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

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

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These ranges are combined to provide the long-term expected rate of return by weighting the expected future real rates of return of the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return	Expected Money Weighted Rate of Return
Global Equity	60.0%	7.75%	3.15%
Global Fixed Income	20.0%	3.75%	.25%
Real Assets	20.0%	9.75%	1.45%
Inflation			2.50%
Administrative fee			.25%
Investment rate of return			7.60%

Discount rate. The discount rate used to measure the total pension liability is 7.6%. The projection of cash flows used to determine the discount rate assumes that employer and employee contributions will be made at the rates agreed upon for employees and the actuarially determined rates for employers. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to pay all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

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Changes in Net Pension Liability

Calculating the Net Pension Liability			
Changes in Net Pension Liability	Total Pension Liability	Increase (Decrease) Plan Fiduciary Net Position	Net Pension Liability
Balances at 12/31/18	(a)	(b)	(a) – (b)
Changes for the Year	\$30,763,609	\$18,562,649	\$12,200,960
Service Cost	264,001	-	264,001
Interest on Total Pension Liability	2,386,419	-	2,386,419
Difference between expected and actual experience	(12,114)	-	(12,114)
Changes in assumption	1,104,897	-	1,104,897
Employer contributions	-	2,403,450	(2,403,450)
Net investment income	-	2,532,811	(2,532,811)
Benefit payments, including employee refunds	(2,130,738)	(2,130,738)	-
Administrative expense	-	(43,690)	43,690
Other	7,402	-	7,402
Net Changes	1,619,867	2,761,833	(1,141,966)
Balances as of 12/31/19	\$32,383,476	\$21,324,482	\$11,058,994

Sensitivity of the Net Position Liability to changes in the discount rate. The following presents the Net Pension Liability of the employer, calculated using the discount rate of 7.60%, as well as what the employer's Net Pension Liability would be using a discount rate that is 1 percentage point lower (6.60%) or 1% higher (8.60%) than the current rate.

	1% Decrease	Current Discount Rate	1% Increase
Net Pension Liability at 12/31/19	\$11,058,994	\$11,058,994	\$11,058,994
Change in Net Pension Liability (NPL)	3,568,337	-	(3,010,146)
Calculated NPL	\$14,627,331	\$11,058,994	\$8,048,848

Note: The current discount rate shown for GASB 68 purposes is higher than the MERS assumed rate of return. This is because for GASB purposes, the discount rate must be gross of administrative expenses, whereas for funding purposes, it is net of administrative expenses.

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

For the year ended June 30, 2020 the employer recognized pension and amortization expense of \$1,721,381. The employer reported deferred outflows and inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Excess (Deficit) Investment Returns	\$1,375,767	(\$1,276,374)
Change in Experience	90,779	(\$193,088)
Change in Assumption	736,598	-
Contributions subsequent to the measurement date*	1,192,944	-
Total	\$3,396,088	(\$1,469,462)

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

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

Year ended	
2021	\$ 341,699
2022	348,849
2023	250,862
2024	(207,728)
	<u>\$733,682</u>

8. DEFERRED COMPENSATION

The Department participated in the City's Deferred Compensation Plan created in accordance with the Internal Revenue Code Section 457. The City has ICMA Retirement Corporation and Mass Mutual as administrators for the Plan. Participants may contribute zero to six percent of covered payroll based on the employee's employment or labor union contract. The employer provides for the administrative group a 100% match up to 6% of the employee's gross pay and for the union group contributes 6% if the employees contributes 1.5% to the program. Plan provision and contribution requirements can only be amended by authorization of the Traverse City Light and Power Board. In the current fiscal year, the Department contributed \$214,065 and employees contributed \$226,736.

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9. DEFINED CONTRIBUTION PLAN

Effective February 1, 2019, the Department eliminated the defined benefit pension plan for line workers hired after July 1, 2012 and replaced it with a MERS defined contribution plan. The employer contributes six percent of base wage only and there is no employee contribution requirement. The plan requires a one-year vesting period. In the current fiscal year, the Department contributed \$32,071 to this plan.

10. POST-EMPLOYMENT BENEFITS

Plan Description. The Department maintains a single employer defined benefit healthcare plan (the "Plan"). In addition to the retirement benefits described in Note 7, the Plan provides health insurance benefits to certain retirees and their beneficiaries, which are advance funded on a discretionary basis. The Plan is included as another post-employment benefits trust fund in the Department's financial statements; a stand-alone financial report of the Plan has not been issued.

Benefits provided. The plan provides health insurance premiums paid at 100% for the retiree only. If a retiree receives a reduced benefit pension as calculated by MERS, the Board will reduce the retiree health payment by the same percentage. Effective July 1, 2017 for all new hires who become eligible for a pension benefit, the Board will pay the retiree's health insurance premium until the retiree is Medicare eligible. If a retiree receives a reduced benefit pension as calculated by MERS, the Board will reduce the retiree health payment by the same percentage.

Membership of the Plan consisted of the following at the date of the latest actuarial valuation (June 30, 2020):

Active plan members	26
Retirees and beneficiaries receiving benefits	<u>45</u>
Total	<u>71</u>

Contributions. The Plan was established and is being funded under the authority of the Traverse City Light and Power Board. Employees are not required to contribute to the plan.

The Plan's funding policy is that the employer will contribute any required amounts as determined by an annual actuarial valuation. There are no long-term contracts for contributions to the Plan. The plan has no legally required reserves.

Net OPEB Liability. The total OPEB liability in the June 30, 2020 annual actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation: 2.25%

Salary Increases: 2.50%

Investment rate of return: 7.5%

TRAVERSE CITY LIGHT AND POWER

(A Component Unit of the City of Traverse City, Michigan)

NOTES TO FINANCIAL STATEMENTS

Healthcare cost trend rates: -10.51% to 6.50% per year

Mortality rates used MP-2019 Combined Annuitant Mortality Table for males and females.

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

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

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Global Equity	60%	7.75%
Global Fixed Income	20%	3.75%
Private Investments	20%	9.75%
Total	100.0%	

The City, as the investment fiduciary, has chosen for the Plan an asset mix intended to meet or exceed a long-term rate of return of 7.5%.

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

Discount rate. The discount rate used to measure the total OPEB liability is 7.5%. The projection of cash flows used to determine the discount rate assumed that City contributions will be made at rates equal to the actuarially determined contribution rates. Based on those assumptions, the OPEB plan's fiduciary net position was projected to be available to make all projected OPEB payments for current active and inactive employees. Therefore, the long-term expected rate of return on OPEB plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

TRAVERSE CITY LIGHT AND POWER

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NOTES TO FINANCIAL STATEMENTS

Changes in the Net OPEB Liability

Calculating the Net OPEB Liability			
	Increase (Decrease)		
	Total OPEB Liability (a)	Plan Fiduciary Net Position (b)	Net OPEB Liability (a)-(b)
Balances at 6/30/2019	\$5,514,338	\$3,611,936	\$1,902,402
Changes for the Year			
Service cost	3,615	-	3,615
Interest on total OPEB liability	400,451	-	400,451
Differences between expected and actual experience	(104,468)	-	(104,468)
Changes in assumption	(449,662)	-	(449,662)
Employer Contributions	-	514,424	(514,424)
Net investment income	-	64,798	(64,798)
Benefit payments, including employee refunds	(349,982)	(349,982)	-
Administrative expense	-	(5,048)	5,048
Net changes	(500,046)	224,192	(724,238)
Balance as of 6/30/2020	\$5,014,292	\$3,836,128	\$1,178,164

The employer contribution was recognized in other changes since it was not transferred to the retiree health funding vehicle trust.

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

The following presents the net OPEB liability of the employer, calculated using the discount rate of 7.5%, as well as what the employer's net OPEB liability would be using a discount rate that is 1 percentage point lower or higher than the current rate.

	1% Decrease	Current Discount rate	1% Increase
Net OPEB liability	\$1,706,246	\$1,178,164	\$735,171

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

The following presents the net OPEB liability of the employer, calculated using the healthcare cost trend rate of -10.51% to 6.5%, as well as what the employer's net OPEB liability would be using a healthcare cost trend rate that is 1 percentage point lower or higher than the current rate.

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NOTES TO FINANCIAL STATEMENTS

	1% Decrease	Current healthcare cost trend rate	1% Increase
Net OBEB liability	\$702,328	\$1,178,164	\$1,745,592

OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB Plan

For the year ended June 30, 2020 the employer recognized OPEB expense of \$(395,213). The employer reported deferred outflows and inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences in experience	\$ -	\$ 80,998
Changes in assumptions	6,484	348,598
Excess (deficit) investment returns	271,977	-
Total	\$278,461	\$429,586

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

2021	\$ (39,483)
2022	(45,968)
2023	(50,936)
2024	<u>(14,738)</u>
Total	<u>\$(151,125)</u>

11. CONTINGENCIES

In the normal course of business, the Department becomes a party in various legal actions and claims, some of which are uninsured. The outcome of these actions and claims is not expected to have a material effect on the financial position of the Department.

12. RISK OF LOSS

The Department is exposed to various risks of losses related to torts; theft of, damage to, and destruction of assets; errors and omission; injuries to employees; and natural disasters. The Department is covered for these losses through the City via the Michigan Municipal Liability and Property Pool, Michigan Municipal Workers Compensation Self Insurance Fund and commercial health insurance. The Department has had no settled claims resulting from these risks that exceeded their coverage in any of the past three years.

TRAVERSE CITY LIGHT AND POWER

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NOTES TO FINANCIAL STATEMENTS

13. DESIGNATIONS OF CASH

The following are designations of cash balances established by the Board and City Charter:

	<u>June 30, 2020</u>
Emergencies	\$ 100,056
Minimum Cash Reserve	<u>9,118,000</u>
Total	<u>\$9,218,056</u>

14. COMMITMENTS

The utility has agreements with the MPPA committing it to purchase of up to 2MW of renewable energy from Granger Electric of Michigan, LLC, .65MW of renewable energy from North American Natural Resources, Inc., and 29.6 MW of all energy, capacity, and environmental attributes for solar renewable energy located in Michigan. Additionally, through the MPPA Energy Service Committee, the utility has base energy bilateral contracts for the fiscal year beginning July 1, 2020 through December 31, 2022 in the amount of \$4,793,602, and capacity transaction bilateral contracts for the fiscal year beginning July 1, 2020 through December 31, 2030 in the amount of \$3,448,020.

15. SUBSEQUENT EVENT

At the August 11, 2020 board meeting, the Board approved executing the USDA commitment letter acknowledging and accepting the approval of \$1.8M financing for the On-Bill Program. Concurrently, the City Commission approved the commitment letter and issued a notice of intent for this loan commitment.

On October 1, 2020 TCL&P launched Phase One of the Fiber to the Premise/Smart Grid deployment. This initial phase is being financed through an interfund loan from the Light & Power Fund.

16. PRIOR PERIOD ADJUSTMENT

Beginning net position was decreased by \$520,104 to reflect a change in other post employment benefit deferred inflows/outflows based on the most recent actuary report.

17. UPCOMING PRONOUNCEMENTS

GASB has approved Statement No. 84 *Fiduciary Activities*, Statement No. 87 *Leases*, Statement No. 97 *Certain Component Unit Criteria*, and *Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans – an amendment of GASB Statements No. 14 and No. 84, and a supersession of GASB Statement No. 32.*

The statements listed above through Statement No. 93 had their required effective dates postponed by one year with the issuance of Statement No. 95, *Postponement of Effective Dates of Certain Authoritative Guidance*, with the exception of Statement No. 87 which was postponed by one and a half years.

REQUIRED SUPPLEMENTARY INFORMATION

TRAVERSE CITY LIGHT AND POWER

REQUIRED SUPPLEMENTARY INFORMATION
MERS DEFINED BENEFIT PENSION PLAN
SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS
FOR THE YEAR ENDED JUNE 30, 2020

	December 31,					
	2014	2015	2016	2017	2018	2019
Total pension liability						
Service cost	\$ 313,020	\$ 295,317	\$ 300,475	\$ 310,387	\$ 285,497	\$ 264,001
Interest	2,083,781	2,142,935	2,276,465	2,292,239	2,370,497	2,386,419
Differences between expected and actuarial experience	-	363,835	(509,997)	363,115	(370,024)	(12,114)
Changes in assumptions	-	1,444,054	-	-	-	1,104,897
Benefit payments, including refunds	(1,626,244)	(1,715,604)	(1,818,642)	(1,930,810)	(2,021,640)	(2,130,738)
Other changes	-	(759)	-	1,448	(300)	7,402
Net change in total pension liability	770,557	2,529,778	248,301	1,036,379	264,030	1,619,867
Total pension liability, beginning of year	25,914,564	26,685,121	29,214,899	29,463,200	30,499,579	30,763,609
Total pension liability, end of year	26,685,121	29,214,899	29,463,200	30,499,579	30,763,609	32,383,476
Plan fiduciary net position						
Contribution - employer	773,230	858,331	1,564,302	2,253,396	2,395,423	2,403,450
Net investment income (loss)	1,000,478	(234,339)	1,686,136	2,200,228	(760,557)	2,532,810
Administrative expenses	(36,578)	(34,767)	(33,363)	(34,750)	(37,098)	(43,690)
Benefit payments, including refunds	(1,626,244)	(1,715,604)	(1,818,642)	(1,930,809)	(2,021,640)	(2,130,737)
Net change in plan fiduciary net position	110,886	(1,126,379)	1,398,433	2,488,065	(423,872)	2,761,833
Plan fiduciary net position, beginning of year	16,115,516	16,226,402	15,100,023	16,498,456	18,986,521	18,562,649
Plan fiduciary net position, end of year	16,226,402	15,100,023	16,498,456	18,986,521	18,562,649	21,324,482
Department's net pension liability	\$ 10,458,719	\$ 14,114,876	\$ 12,964,744	\$ 11,513,058	\$ 12,200,960	\$ 11,058,994
Plan fiduciary net position as a percent of total pension liability	60.81%	51.69%	56.00%	62.25%	60.34%	65.85%
Covered employee payroll	\$ 2,862,491	\$ 2,736,729	\$ 2,728,607	\$ 2,883,420	\$ 2,679,680	\$ 2,412,833
Department's net pension liability as a percent of covered employee payroll	365.37%	515.76%	475.14%	399.28%	455.31%	458.34%

Notes to Schedule

The data presented above is based on a December 31 measurement date.

The schedule is being accumulated prospectively until 10 years of information is presented.

TRAVERSE CITY LIGHT AND POWER

REQUIRED SUPPLEMENTARY INFORMATION

DEFINED BENEFIT PENSION PLAN

MERS SCHEDULE OF EMPLOYER CONTRIBUTIONS

FOR THE YEAR ENDED JUNE 30, 2020

	2015	2016	2017	2018	2019	2020
Actuarially determined contribution	\$ 770,572	\$ 891,939	\$ 944,388	\$ 1,110,648	\$ 1,113,276	\$ 2,382,248
Actual contribution	(770,572)	(891,939)	(2,202,960)	(2,356,392)	(2,428,720)	(2,382,248)
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (1,258,572)</u>	<u>\$ (1,245,744)</u>	<u>\$ (1,315,444)</u>	<u>\$ -</u>
Covered employee payroll	\$ 2,880,960	\$ 2,866,124	\$ 2,862,491	\$ 2,837,222	\$ 2,680,970	\$ 2,412,833
Contribution as a percentage of covered employee payroll	26.75%	31.12%	32.99%	39.15%	41.53%	98.73%
Notes to schedule						
Actuarial cost method	Entry Age					
Amortization method	Level percentage of payroll, open					
Remaining amortization period	15 years					
Asset valuation method	5 year smoothed (10 year smoothing 2014)					
Inflation	2.5% (3.5% 2014)					
Salary increases	3.75 to 14.5% (4.50% in 2014)					
Investment rate of return	7.35% (8.25% 2014)					
Retirement age	Varies depending on plan adoption					
Mortality	RP-2014 mortality tables of a 50% Male and 50% Female blend (50% female/50% male 1994 group annuity mortality table 2014)					

Note to Schedule

The schedule is being accumulated prospectively until 10 years of information is presented.

TRAVERSE CITY LIGHT AND POWER

**REQUIRED SUPPLEMENTARY INFORMATION
OTHER POST EMPLOYMENT BENEFIT TRUST FUND
SCHEDULE OF CHANGES IN NET OPEB LIABILITY AND RELATED RATIOS
FOR THE YEAR ENDED JUNE 30, 2020**

	2018	2019	2020
Total OPEB liability			
Service cost	\$ 2,852	\$ 3,363	\$ 3,615
Interest	406,878	390,609	400,451
Differences between expected and actuarial experience	(269,497)	-	(104,468)
Changes in assumptions	28,187	-	(449,662)
Benefit payments, including refunds	(342,038)	(350,628)	(349,982)
Other changes	(38,996)	87,555	-
	<u>(212,614)</u>	<u>130,899</u>	<u>(500,046)</u>
Net change in total OPEB liability	(212,614)	130,899	(500,046)
Total OPEB liability, beginning of year	<u>5,596,053</u>	<u>5,383,439</u>	<u>5,514,338</u>
Total OPEB liability, end of year	<u>5,383,439</u>	<u>5,514,338</u>	<u>5,014,292</u>
Plan fiduciary net position			
Contribution - employer	229,388	-	514,424
Net investment income	191,582	78,435	64,798
Differences between expected and actuarial experience	-	(161,940)	-
Benefit payments	-	-	(349,982)
Other changes	-	357,118	-
Administrative expenses	(6,221)	(5,561)	(5,048)
	<u>414,749</u>	<u>268,052</u>	<u>224,192</u>
Net change in plan fiduciary net position	414,749	268,052	224,192
Plan fiduciary net position, beginning of year	<u>2,929,135</u>	<u>3,343,884</u>	<u>3,611,936</u>
Plan fiduciary net position, end of year	<u>3,343,884</u>	<u>3,611,936</u>	<u>3,836,128</u>
Department's net OPEB liability	<u>\$ 2,039,555</u>	<u>\$ 1,902,402</u>	<u>\$ 1,178,164</u>
Plan fiduciary net position as a percent of total OPEB liability	62.11%	65.50%	76.50%
Covered employee payroll	\$ 2,837,222	\$ 2,680,970	\$ 2,198,312
Department's net OPEB liability as a percent of covered employee payroll	71.89%	70.96%	53.59%

Notes to Schedule

TCL&P Plan was included within the City's Plan for fiscal year end June 30, 2017.

The schedule is being accumulated prospectively until 10 years of information is presented.

TRAVERSE CITY LIGHT AND POWER

**REQUIRED SUPPLEMENTARY INFORMATION
OTHER POST EMPLOYMENT BENEFIT TRUST FUND**

**SCHEDULE OF NET OPEB LIABILITY, FIDUCIARY NET POSITION AND RELATED RATIOS
FOR THE YEAR ENDED JUNE 30, 2020**

	2017		2018		2019		2020
Total OPEB liability	\$ 5,596,053	\$	5,383,439	\$	5,514,338	\$	5,014,292
OPEB fiduciary net position	<u>2,929,135</u>		<u>3,343,884</u>		<u>3,611,936</u>		<u>3,836,128</u>
Net OPEB liability	<u>2,666,918</u>		<u>2,039,555</u>		<u>1,902,402</u>		<u>1,178,164</u>
OPEB fiduciary net position as a % of total							
OPEB liability	52.34%		62.11%		65.50%		76.50%
Covered employee payroll	\$ 2,862,491		2,837,222		2,680,970		2,198,312
NET OPEB liability as a percentage of covered							
employee payroll	93.17%		71.89%		70.96%		53.59%

Note to Schedule

The schedule is being accumulated prospectively until 10 years of information is presented.

TRAVERSE CITY LIGHT AND POWER

**REQUIRED SUPPLEMENTARY INFORMATION
OTHER POST EMPLOYMENT BENEFIT TRUST FUND
SCHEDULE OF CONTRIBUTIONS
FOR THE YEAR ENDED JUNE 30, 2020**

	2017	2018	2019	2020
Actuarially determined contribution	\$ 229,556	\$ 175,757	\$ 175,757	\$ 164,442
Actual contribution	229,556	229,388	175,757	164,442
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ (53,631)</u>	<u>\$ -</u>	<u>\$ -</u>
Covered employee payroll	\$ 2,862,491	\$ 2,837,222	\$ 2,680,970	\$ 2,198,312
Contribution as a percentage of covered employee payroll	8.02%	6.19%	6.56%	7.48%

Notes to Schedule

Actuarial cost method	Entry Age Normal
Amortization method	Straight Line
Remaining amortization period	4.45
Asset valuation method	Market Value
Inflation	2.25%
Salary increases	2.50%
Investment rate of return	7.50%
Retirement age	Varies depending on retirement plan
Mortality	MP-2019 Combined Annuitant Mortality Table for males and females
Health Care Trend rates	-10.51 to 6.50%

State of Michigan PA 202 information

Actuarially recommended contributions in accordance with State PA ' \$	164,442
Minimum required contribution under PA 202	164,442
Actual contribution	164,442
Contribution for employees hired after June 30, 2019	3,363

State of Michigan PA 202 assumptions, if different from GASB:

- Mortality - Public Employee and Police, headcount weighted, MP-2018
- Expected asset return - 7.0%
- Expected salary increase - 3.5%
- Effective discount rate - 7.0%
- Medical trend - Pre-medicare: 8.5% graded down to 4.25% by .25% per year, Post-medicare 7.0% graded to 4.5% by .25% per year

Note to Schedule

The schedule is being accumulated prospectively until 10 years of information is presented.

TRAVERSE CITY LIGHT AND POWER

**REQUIRED SUPPLEMENTARY INFORMATION
OTHER POST EMPLOYMENT BENEFIT TRUST FUND
SCHEDULE OF INVESTMENT RETURNS
FOR THE YEAR ENDED JUNE 30, 2020**

	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>
Annual money-weighted rate of return, net of investment expense	20.50%	5.90%	2.60%	1.83%

Note to Schedule

The schedule is being accumulated prospectively until 10 years of information is presented.

OTHER SUPPLEMENTARY INFORMATION

TRAVERSE CITY LIGHT AND POWER

(A Component Unit of the City of Traverse City, Michigan)

SCHEDULE OF CAPITAL ASSETS AND DEPRECIATION (UNAUDITED) LIGHT AND POWER FUND FOR THE YEAR ENDED JUNE 30, 2020

	Capital Assets - Cost			Balance at June 30, 2020
	Balance at June 30, 2019	Additions/ Transfers	Deletions/ Transfers	
Land and land improvements				
Land	\$ 1,073,535	\$ -	\$ 39,765	\$ 1,033,770
Land improvements	31,535	6,105	-	37,640
Total land and land improvements	1,105,070	6,105	39,765	1,071,410
Buildings and improvements				
Service center	5,667,299	3,673	-	5,670,972
Office structures	97,149	-	-	97,149
Other buildings	68,677	-	-	68,677
Total buildings and improvements	5,833,125	3,673	-	5,836,798
Equipment and distribution system				
Union St. Dam	24,010	-	-	24,010
Keystone plant	390	-	-	390
Wind generation unit	20,850	-	-	20,850
Transmission and distribution	86,188,311	4,658,098	1,010,826	89,835,583
General	1,903,688	26,048	5,649	1,924,087
Total equipment and distribution system	88,137,249	4,684,146	1,016,475	91,804,920
Construction in progress	2,059,590	4,557,942	4,695,109	1,922,423
Total	\$ 97,135,034	\$ 9,251,866	\$ 5,751,349	\$ 100,635,551

Balance at June 30, 2019	Accumulated Depreciation		Balance at June 30, 2020	Capital Assets - Net
	Current Depreciation	Deletions		Balance at June 30, 2020
\$ -	\$ -	\$ -	\$ -	\$ 1,033,770
-	-	-	-	37,640
-	-	-	-	1,071,410
2,088,590	173,405	-	2,261,995	3,408,977
16,184	1,226	-	17,410	79,739
20,663	1,964	-	22,627	46,050
2,125,437	176,595	-	2,302,032	3,534,766
24,010	-	-	24,010	-
390	-	-	390	-
3,439	626	-	4,065	16,785
27,012,249	2,651,707	912,171	28,751,785	61,083,798
1,000,788	189,219	5,649	1,184,358	739,729
28,040,876	2,841,552	917,820	29,964,608	61,840,312
-	-	-	-	1,922,423
\$ 30,166,313	\$ 3,018,147	\$ 917,820	\$ 32,266,640	\$ 68,368,911

TRAVERSE CITY LIGHT AND POWER

(A Component Unit of the City of Traverse City, Michigan)

SCHEDULE OF CAPITAL ASSETS AND DEPRECIATION (UNAUDITED) FIBER FUND FOR THE YEAR ENDED JUNE 30, 2020

	Capital Assets - Cost			
	Balance at June 30, 2019	Additions/ Transfers	Deletions/ Transfers	Balance at June 30, 2020
Equipment and distribution system				
Overhead	\$ 1,104,684	\$ -	\$ -	\$ 1,104,684
Underground	308,228	-	-	308,228
Termination boxes	367,282	-	-	367,282
Wireless equipment	51,725	-	-	51,725
WIFI system	501,863	-	-	501,863
Other property	49,624	-	-	49,624
Total equipment and distribution system	2,383,406	-	-	2,383,406
Construction in progress	1,680	1,747,412	-	1,749,092
Total	\$ 2,385,086	\$ 1,747,412	\$ -	\$ 4,132,498

Balance at June 30, 2019	Accumulated Depreciation		Balance at June 30, 2020	Capital Assets - Net
	Current Depreciation	Deletions		Balance at June 30, 2020
\$ 565,546	\$ 55,582	\$ -	\$ 621,128	\$ 483,556
138,874	15,411	-	154,285	153,943
194,983	18,364	-	213,347	153,935
28,446	2,586	-	31,032	20,693
225,788	50,188	-	275,976	225,887
48,413	4,962	-	53,375	(3,751)
1,202,050	147,093	-	1,349,143	1,034,263
-	-	-	-	1,749,092
\$ 1,202,050	\$ 147,093	\$ -	\$ 1,349,143	\$ 2,783,355

TRAVERSE CITY LIGHT AND POWER

(A Component Unit of the City of Traverse City, Michigan)

SCHEDULE OF REVENUES AND EXPENSES - BUDGET AND ACTUAL (UNAUDITED) LIGHT AND POWER FUND FOR THE YEAR ENDED JUNE 30, 2020

	Amended Budget	Actual	Positive (Negative) Variance
Operating revenues - sales			
Residential	\$ 6,161,000	\$ 6,108,225	\$ (52,775)
Commercial	15,265,000	13,869,720	(1,395,280)
Industrial	9,571,000	8,853,328	(717,672)
Public authority	315,000	294,385	(20,615)
Street lighting	225,000	237,499	12,499
Green energy	16,000	72,433	56,433
Yard lights	125,000	118,156	(6,844)
Total operating revenues - sales	31,678,000	29,553,746	(2,124,254)
Other operating revenues			
Forfeited discounts	55,000	49,187	(5,813)
Merchandise and jobbing	145,000	169,678	24,678
Sale of scrap	30,000	22,950	(7,050)
Recovery of bad debts	200	14	(186)
MISO income	3,220,000	3,067,430	(152,570)
Miscellaneous	51,100	95,378	44,278
Total other operating revenues	3,501,300	3,404,637	(96,663)
Nonoperating revenues			
Rental income	57,500	57,232	(268)
Pole rental income	52,000	57,609	5,609
Reimbursements	53,000	226,005	173,005
Interest income	200,000	251,430	51,430
Change in fair market value of investments	-	45,003	45,003
Gain/(Loss) on sale of assets	-	(113,413)	(113,413)
Total nonoperating revenues	362,500	523,866	161,366
Total revenues	35,541,800	33,482,249	(2,059,551)

TRAVERSE CITY LIGHT AND POWER

(A Component Unit of the City of Traverse City, Michigan)

SCHEDULE OF REVENUES AND EXPENSES - BUDGET AND ACTUAL (UNAUDITED) LIGHT AND POWER FUND FOR THE YEAR ENDED JUNE 30, 2020

	<u>Amended Budget</u>	<u>Actual</u>	<u>Positive (Negative) Variance</u>
Purchase power expense			
Salaries and wages	\$ 64,000	\$ 59,372	\$ 4,628
Payroll taxes and fringes	91,800	45,772	46,028
Purchased power	21,442,200	19,315,937	2,126,263
Professional and contractual	128,500	141,979	(13,479)
Professional development	-	6,920	(6,920)
Operation supplies	3,600	3,761	(161)
Communications	300	115	185
Safety	3,600	3,751	(151)
Transportation	7,000	1,172	5,828
Equipment rental	13,100	21,791	(8,691)
Miscellaneous	600	203	397
	<u>21,754,700</u>	<u>19,600,773</u>	<u>2,153,927</u>
Total purchase power expenses			

Continued

TRAVERSE CITY LIGHT AND POWER

(A Component Unit of the City of Traverse City, Michigan)

SCHEDULE OF REVENUES AND EXPENSES - BUDGET AND ACTUAL (UNAUDITED) LIGHT AND POWER FUND FOR THE YEAR ENDED JUNE 30, 2020

	Amended Budget	Actual	Positive (Negative) Variance
Distribution expense			
Salaries and wages	\$ 1,815,400	\$ 1,509,931	\$ 305,469
Payroll taxes and fringes	1,714,200	980,449	733,751
Substation	122,050	131,340	(9,290)
Overhead lines	222,800	219,831	2,969
Underground lines	26,500	36,299	(9,799)
Storm work	50,000	4,014	45,986
Customer installation	-	4,782	(4,782)
Electric meters	4,000	11,080	(7,080)
Street lighting	236,700	218,037	18,663
Traffic signals	10,000	26,555	(16,555)
Plant and structures	109,000	80,177	28,823
Load and dispatching contractual services	38,000	34,290	3,710
Professional services	182,500	9,375	173,125
Professional development	57,000	31,110	25,890
Operation supplies	117,500	115,057	2,443
Utilities	92,400	95,027	(2,627)
Safety	31,000	26,803	4,197
Transportation	29,500	25,512	3,988
Equipment rental	15,200	(13,320)	28,520
Inventory adjustment	10,000	(24,586)	34,586
Miscellaneous	10,300	8,664	1,636
Total distribution expense	4,894,050	3,530,427	1,363,623
Transmission expense			
Salaries and wages	227,900	196,778	31,122
Substation	84,000	65,960	18,040
Overhead lines	23,000	18,644	4,356
MISO	36,500	47,501	(11,001)
Load and dispatching	15,000	10,710	4,290
Equipment rental	1,000	2,047	(1,047)
Inventory adjustment	-	15,174	(15,174)
Miscellaneous	78,000	67,708	10,292
Total transmission expense	465,400	424,522	40,878

Continued

TRAVERSE CITY LIGHT AND POWER

(A Component Unit of the City of Traverse City, Michigan)

SCHEDULE OF REVENUES AND EXPENSES - BUDGET AND ACTUAL (UNAUDITED) LIGHT AND POWER FUND FOR THE YEAR ENDED JUNE 30, 2020

	Amended Budget	Actual	Positive (Negative) Variance
Customer accounting expense			
Salaries and wages	\$ 163,100	\$ 182,153	\$ (19,053)
Meter reading	82,800	66,966	15,834
Payroll taxes and fringes	153,700	55,476	98,224
Office supplies	4,500	6,979	(2,479)
Postage	28,000	24,806	3,194
Communications	46,200	46,200	-
Stationary and printing	1,000	128	872
Professional and contractual	34,000	65,578	(31,578)
Uncollectible accounts	3,500	53,392	(49,892)
Collection expense	4,500	1,097	3,403
Data processing	18,000	6,076	11,924
Professional development	4,500	-	4,500
Transportation	5,000	1,464	3,536
Equipment rental	12,300	10,807	1,493
Miscellaneous	8,200	4,743	3,457
Total customer accounting expense	569,300	525,865	43,435
Public service expense			
Salaries and wages	105,400	91,636	13,764
Payroll taxes and fringes	71,900	3,392	68,508
Office supplies	1,000	5	995
Communications	-	474	(474)
Public service information	456,300	353,288	103,012
Total public service expense	634,600	448,795	185,805

Continued

TRAVERSE CITY LIGHT AND POWER

(A Component Unit of the City of Traverse City, Michigan)

SCHEDULE OF REVENUES AND EXPENSES - BUDGET AND ACTUAL (UNAUDITED) LIGHT AND POWER FUND FOR THE YEAR ENDED JUNE 30, 2020

	Amended Budget	Actual	Postive (Negative) Variance
Information Systems			
Salaries	\$ 123,700	\$ 73,940	\$ 49,760
Payroll taxes and fringes	149,100	12,135	136,965
Professional development	6,800	299	6,501
Professional and contractual	50,000	17,093	32,907
Office supplies	1,000	755	245
Operation supplies	5,000	2,549	2,451
Communication	9,000	4,702	4,298
Software	122,000	113,262	8,738
Hardware	15,000	504	14,496
Uniforms	500	543	(43)
Printing and publishing	-	143	(143)
Miscellaneous	500	322	178
Total information systems	482,600	226,247	256,353

TRAVERSE CITY LIGHT AND POWER

(A Component Unit of the City of Traverse City, Michigan)

SCHEDULE OF REVENUES AND EXPENSES - BUDGET AND ACTUAL (UNAUDITED) LIGHT AND POWER FUND FOR THE YEAR ENDED JUNE 30, 2020

	Amended Budget	Actual	Postive (Negative) Variance
General administration expense			
Salaries	\$ 379,500	\$ 380,661	\$ (1,161)
Payroll taxes and fringes	330,400	219,131	111,269
Professional development	18,520	7,578	10,942
Professional and contractual	52,400	51,729	671
Office supplies	10,000	4,249	5,751
Fees and per diems	70,000	61,596	8,404
Special services	7,000	6,322	678
Legal fees	80,000	56,436	23,564
Utilities	5,000	3,624	1,376
Printing and publishing	7,000	4,696	2,304
Transportation	1,000	-	1,000
Miscellaneous	2,500	1,927	573
Total general administration expense	963,320	797,949	165,371
Other expenses			
Insurance - general	77,625	70,713	6,912
City fee	1,773,000	1,656,483	116,517
Depreciation	2,850,000	3,018,147	(168,147)
Total other expenses	4,700,625	4,745,343	(44,718)
Total operating expenses	34,464,595	30,299,921	(4,164,674)
Transfers			
Transfer in	200,000	200,000	-
Change in net position	\$ 1,277,205	\$ 3,382,328	\$ 2,105,123

TRAVERSE CITY LIGHT AND POWER

(A Component Unit of the City of Traverse City, Michigan)

SCHEDULE OF REVENUES AND EXPENSES - BUDGET AND ACTUAL (UNAUDITED)
FIBER FUND
FOR THE YEAR ENDED JUNE 30, 2020

	Amended Budget	Actual	Positive (Negative) Variance
Operating revenues - sales			
Charges for services - dark fiber	\$ 448,000	\$ 446,598	\$ (1,402)
Residential sales - lit fiber	165,700	-	(165,700)
Commercial sales - lit fiber	251,800	-	(251,800)
VOIP sales	31,900	-	(31,900)
Total operating revenues	897,400	446,598	(450,802)
Non-operating revenues			
Reimbursements	34,000	33,347	(653)
Interest income	500	-	(500)
Total non-operating revenues	34,500	33,347	(1,153)
Total revenues	931,900	479,945	(451,955)
Fiber expenses			
Salaries and wages	120,000	42,596	77,404
Payroll taxes and fringes	105,500	37,659	67,841
Operation supplies	2,000	621	1,379
Software and hardware	5,800	290	5,510
Professional and contractual	12,500	33,371	(20,871)
Lit fiber contract	386,200	-	386,200
Professional development	2,500	60	2,440
Transportation	10,000	2,508	7,492
Pole attachment fees	10,900	9,994	906
Repair and Maintenance	5,500	6,895	(1,395)
Miscellaneous	-	1,460	(1,460)
Total fiber expenses	660,900	135,454	525,446
WIFI expenses			
Operation and maintenance	27,000	25,490	1,510
Other expenses			
Insurance and bonds	5,000	763	4,237
City fee	44,900	22,136	22,764
Depreciation	248,600	147,093	101,507
Total other expenses	298,500	169,992	128,508
Total operating expenses	986,400	330,936	655,464
Transfers			
Transfers out	500	200,000	(199,500)
Change in net position	\$ (55,000)	\$ (50,991)	\$ 4,009

INTERNAL CONTROL AND COMPLIANCE



Vredevelde Haefner LLC

CPAs and Consultants
10302 20th Avenue
Grand Rapids, MI 49534
Fax (616) 828-0307

Douglas J. Vredevelde, CPA
(616) 446-7474
Peter S. Haefner, CPA
(616) 460-9388

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

December 23, 2020

Honorable Chairman and Members
Traverse City Light and Power
Traverse City, Michigan

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Traverse City Light and Power, a Component Unit of the City of Traverse City, Michigan, as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise Traverse City Light and Power's basic financial statements, and have issued our report thereon dated December 23, 2020.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Traverse City Light and Power's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Traverse City Light and Power's internal control. Accordingly, we do not express an opinion on the effectiveness of Traverse City Light and Power's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of Traverse City Light and Power's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Traverse City Light and Power's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Traverse City Light and Power's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Traverse City Light and Power's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Ordenfeld Haefner LLC