

A REGULAR MEETING

Of The

TRAVERSE CITY LIGHT AND POWER BOARD

Will Be Held On

TUESDAY, January 12, 2010

At

5:15 p.m.

In The

COMMISSION CHAMBERS
(2nd floor, Governmental Center)
400 Boardman Avenue

Traverse City Light and Power will provide necessary reasonable auxiliary aids and services, such as signers for the hearing impaired and audio tapes of printed materials being considered at the meeting, to individuals with disabilities at the meeting/hearing upon notice to Traverse City Light and Power. Individuals with disabilities requiring auxiliary aids or services should contact the Light and Power Department by writing or calling the following.

Jessica Dezelski,
Administrative Assistant
1131 Hastings Street
Traverse City, MI 49686
(231) 932-4543

Traverse City Light and Power
1131 Hastings Street
Traverse City, MI 49686
(231) 922-4940

Posting Date: 01-08-10
5:00 p.m.

PLEDGE OF ALLEGIANCE

1. ROLL CALL

2. CONSENT CALENDAR

The purpose of the consent calendar is to expedite business by grouping non-controversial items together to be dealt with by one Board motion without discussion. Any member of the Board, staff or the public may ask that any item on the consent calendar be removed therefrom and placed elsewhere on the agenda for full discussion. Such requests will be automatically respected. If an item is not removed from the consent calendar, the action noted in parentheses on the agenda is approved by a single Board action adopting the consent calendar.

A. Consideration of approving minutes of the Regular Meeting of December 22, 2009.

3. OLD BUSINESS

A. Consideration of approving TCL&P Wind Turbine Generator Repair/Replacement. (Rollenhagen)

4. NEW BUSINESS

A. Presentation of the June 2009 Audit. (Haefner)

5. REPORTS AND COMMUNICATIONS

A. From Legal Counsel:

None as of January 8, 2010

B. From Staff:

(1) Verbal update re: East Side Substation (Rice/Dine)

C. From Board:

None as of January 8, 2010

6. PUBLIC COMMENT

/jd

**TRAVERSE CITY
LIGHT AND POWER BOARD**

Minutes of Regular Meeting
Held at 5:15 p.m., Commission Chambers, Governmental Center
Tuesday, December 22, 2009

BOARD MEMBERS -

Present: Linda Johnson, Michael Coco, John Welch, James Hoogesteger, John Snodgrass, Ralph Soffredine

Absent: Jim Carruthers

EX OFFICIO MEMBER -

Present: R. Ben Bifoss

OTHERS: Ed Rice, Tim Arends, Jessica Dezelski, Karen Feahr, Jim Cooper, Glen Dine, Mark Rollenhagen, Nick Abraitis, W. Peter Doren

The meeting was called to order at 5:15 p.m. by Chairperson Johnson.

2. CONSENT CALENDAR

Moved by Soffredine, seconded by Hoogesteger, that the following items, as recommended on the Consent Calendar portion of the agenda, be approved:

- A. Consideration of approving minutes of the Regular Meeting of December 8, 2009.
- B. Consideration of an Interactive Utility Website Maintenance Agreement (Approval recommended) (Arends)

CARRIED unanimously.

3. OLD BUSINESS

- A. Marsha Smith from the Grand Vision made a presentation to the Board regarding the Grand Vision Supporter Agreement.

Moved by Welch, seconded by Soffredine, to approve the Grand Vision Supporter Agreement and to authorize the Executive Director to complete and execute that agreement.

CARRIED unanimously.

4. NEW BUSINESS

- A. Moved by Welch, seconded by Soffredine, that the Light & Power Board adopt the Termination of Electric Service Policy as presented to be effective immediately, and repeal any inconsistent policy.

CARRIED unanimously.

- B. Moved by Welch, seconded by Hoogesteger, that in the best interest of the Light & Power ratepayers and to contribute to the requirements of Public Act 295, the Board approve and enter into the Power Purchase Agreement and the Operating and Maintenance Agreement between Traverse City Light & Power and BATA, subject to approval as to substance by the Executive Director, and as to form by counsel; and to authorize the Executive Director to enter into the Partial Assignment of Wind Energy Utility Easement.

CARRIED unanimously.

- C. Moved by Coco, seconded by Welch, that the Board authorize the Chairman and Secretary to execute an agreement with Milsoft Utility Solutions Inc., in an amount not to exceed \$146,788, for delivery, implementation, and integration of an electrical engineering analysis application and outage management system project at TCL&P, with travel and related expenses billed as an additional cost as incurred; subject to approval as to substance by the Executive Director, and approval as to form by general counsel; and to authorize the Executive Director to administer amendments and change orders that are in the best interest of the department.

CARRIED unanimously.

5. REPORTS AND COMMUNICATIONS

- B. (1) Ed Rice spoke re: the M-72 wind turbine repair.
(2) Ed Rice spoke re: Study Session on January 4, 2010.
(3) Ed Rice spoke re: 2010 strategic planning.
- C. (1) Commissioner Soffredine spoke re: pole charges.
(2) Member Welch spoke re: financial statement questions, natural gas analysis, Kalkaska CT, and east side transmission.
(3) Member Snodgrass spoke re: Kalkaska CT.
(4) Commissioner Soffredine presented a plaque from TCAPS to Light & Power.
(5) Chairperson Johnson read a thank you letter from the DDA.

6. PUBLIC COMMENT

No one from the public commented.

The meeting adjourned at 5:37 p.m.

/jd

Edward E. Rice, Secretary
LIGHT AND POWER BOARD



**TRAVERSE CITY
LIGHT & POWER**

To: Light & Power Board
From: Mark Rollenhagen *mwr*
Date: January 7, 2010
Subject: TCL&P Wind Turbine Generator Repair/Replacement

After we commenced initial repairs for the bearing replacement at the M-72 wind turbine, it was discovered that the generator shaft was damaged. There are two possible options at this point, 1) repair/rebuild the existing generator, or 2) replace the entire generator with a new and updated model. Staff has proposals for these two options from two separate vendors. A third vendor, Vestas, declined to participate. The pricing for the options are tabulated below.

	<u>Rebuild Generator</u>	<u>New Generator *</u>
TRICO TC Wind	\$57,668.00	\$94,070.00
EMS Broadwind Energy	\$66,608.40	No Bid

* The estimated costs from TRICO TC includes an estimated labor component (\$15k). Other costs that will be incurred include (approx. \$15k) a crane to remove and replace the generator.

Staff recommends the purchase of a new and updated generator. If the Board is in agreement with staff's recommendation the following motion would be appropriate:

**MOVED BY _____, SECONDED BY _____,
 THAT THE BOARD AUTHORIZE THE EXECUTIVE DIRECTOR TO ENTER INTO A
 SERVICE AGREEMENT WITH TRICO TC WIND IN AN AMOUNT NOT TO EXCEED
 \$100,000 FOR A NEW REPLACEMENT GENERATOR FOR THE TCL&P WIND
 TURBINE, INSTALLATION, AND TRAVEL RATED EXPENSES; SUBJECT TO
 APPROVAL AS TO SUBSTANCE BY THE EXECUTIVE DIRECTOR, AND APPROVAL
 AS TO FORM BY COUNSEL; AND TO AUTHORIZE THE EXECUTIVE DIRECTOR TO
 ADMINISTER AMENDMENTS AND CHANGE ORDERS THAT ARE IN THE BEST
 INTEREST OF THE DEPARTMENT.**



Vredeveld Haefner LLC

CPA's and Consultants

4001 Granada Ct.

Grand Rapids, MI 49534

FAX (616) 828-0307

December 11, 2009

Douglas J. Vredeveld, CPA

(616) 446-7474

Peter S. Haefner, CPA

(616) 460-9388

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

We have audited the financial statements of the business-type activities and each major fund of the Traverse City Light and Power Board, (the "Department") for the year ended June 30, 2009. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards and *Government Auditing Standards*, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated June 18, 2009. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the Department are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements are the useful lives of capital assets and assumptions utilized in the pension plan and other post employments benefits actuarial valuations.

Management's estimate of the useful lives of capital assets is based on historical actual usefulness and expected future usefulness of these assets. Assumptions utilized for actuarial valuations are based on past and expected future experience. We evaluated the key factors and assumptions used to develop the estimates and assumptions in determining that they are reasonable in relation to the financial statements taken as a whole.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management did not record an asset for additional contributions made for post employment benefits in the amount of \$130,616 which is an uncorrected misstatements of the financial statements. Management has determined that its effect is immaterial, both individually and in the aggregate, to the financial statements taken as a whole. In addition, none of the misstatements detected as a result of the audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated December 11, 2009.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the governmental unit's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

We also noted the following:

Multiple capital assets were fully depreciated and appeared to have reached their normal useful life expectancy. We suggest that the department controlling capital assets review the capital asset schedules annually to identify capital assets that have been disposed of and/or the need to modify capital asset lives to more closely correlate with actual useful lives.

The Governmental Accounting Standards Board (GASB) has issued its Statement No. 54 which provides guidance and clarification as to the determination of restrictions of fund balances or net assets as well as on the determination of funds and fund types. This may result in some modifications to your audited financial statements in subsequent years when the standard becomes effective.

This information is intended solely for the use of the Board and management of the Department and is not intended to be and should not be used by anyone other than these specified parties.

Sincerely,

Uredexold Haefner LLC



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

Financial Statements

**For the Fiscal Year Ended
June 30, 2009**



Vredeveld Haefner LLC

TRAVERSE CITY LIGHT AND POWER

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

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INDEPENDENT AUDITORS' REPORT

December 11, 2009

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

We have audited the accompanying financial statements of each major fund of Traverse City Light and Power (a component unit of the City of Traverse City, Michigan) (the "Department") as of and for the year ended June 30, 2009, as listed in the table of contents. These financial statements are the responsibility of the management of the Department. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of each major fund of the Department as of June 30, 2009, and the respective changes in financial position and cash flows of each major fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated December 11, 2009, on our consideration of the Department'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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*, and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 3-6 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements of Traverse City Light and Power. The schedules of capital assets and depreciation, and schedules of revenues and expenditures - budget and actual, are supplementary information presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on it.

Oredevold Haefner LLC

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, 2009. 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. Fund financial statements
2. Notes to the financial statements, and
3. Supplementary information.

Fund 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). The Light and Power Fund and the Fiber Fund, both of which are 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 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.

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

The *Statements of Revenues, Expenses and Changes in Net Assets* present information showing how the Department's net assets changed during the most recent fiscal year. All changes in net assets 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 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 fund as required by the City Charter. Budgetary comparison schedules have been provided herein to demonstrate compliance with that charter provision.

The Department does not maintain any governmental or fiduciary funds.

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

Other 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 schedules following the notes to financial statements.

The Department's Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the Department, assets exceeded liabilities by approximately \$68,300,000 at the close of the most recent fiscal year, June 30, 2009.

By far, the largest portion of net assets for the Department is its investment in capital assets (primarily land, construction in progress, buildings, distribution system and equipment), less any related debt that is still outstanding. The Department uses these capital assets to provide services to customers. The bulk of the remaining Department net assets are unrestricted and available for Department activity.

Traverse City Light and Power's Net Assets

	June 30	
	2009	2008
Business-type Activities		
Current and other assets	\$ 32,342,557	\$ 27,872,178
Capital assets	<u>38,900,738</u>	<u>39,063,105</u>
Total assets	71,243,295	66,935,283
Long-term liabilities outstanding	327,335	265,356
Other liabilities	<u>2,576,566</u>	<u>2,744,365</u>
Total liabilities	2,903,901	3,009,721
Net assets		
Invested in capital assets	38,900,738	39,063,105
Unrestricted	<u>29,438,656</u>	<u>24,862,457</u>
Total net assets	<u>\$ 68,339,394</u>	<u>\$ 63,925,562</u>

Traverse City Light and Power's Changes in Net Assets

	June 30	
	2009	2008
Business-type Activities		
Operating revenue	\$ 28,530,645	\$ 29,610,200
Operating expenses	25,114,268	25,968,906
Nonoperating revenue (expenses) – net	<u>997,455</u>	<u>1,525,591</u>
Increase in net assets	4,413,832	5,166,885
Net assets – beginning of year	<u>63,925,562</u>	<u>58,758,677</u>
Net assets – end of year	<u>\$ 68,339,394</u>	<u>\$ 63,925,562</u>

Business-type activities

The overall financial position of the Department remained strong in 2008-2009. There are no outstanding debt obligations except for the commitment through the power supply contract with MPPA to reimburse MPPA for debt service costs relating to the Campbell, Belle River and Kalkaska Combustion Turbine generation plants.

Revenue

While residential sales increased .5% over last year, commercial sales were down 3.4% and industrial sales were down 6.3% resulting in a \$1,188,313 decrease in operating revenues. Management attributes this decrease to the local downturn in the economy.

Expenses

In fiscal year 2008-2009, operating expenses decreased approximately \$939,000 from fiscal year 2007-2008. Lower purchased power costs and less power purchased are the primary reason for the decrease while other expenses remained static for the year.

Capital asset and debt administration

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

	June 30	
	2009	2008
Land and land improvements	\$ 819,327	\$ 737,439
Construction in progress	3,508,006	3,632,400
Buildings and improvements	4,009,603	3,985,430
Equipment and distribution system	49,728,874	48,302,701
Accumulated depreciation	<u>(19,165,072)</u>	<u>(17,594,865)</u>
Total	<u>\$ 38,900,738</u>	<u>\$ 39,063,105</u>

Additional information about capital assets is provided in Note 3 and 8 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

It is not anticipated that a rate increase will be necessary in the near future; however, future generation needs and recently passed legislation requiring 10% renewable energy generation by 2015 will impact the Department's capital plans. Currently, the Department has entered into negotiations for a 20 year power purchase agreement to purchase 10 Megawatts of wind energy.

Due to the uncertainty of the local and state economy, the Department maintained a status quo budget in 2009-2010 allowing for modest increases for inflation.

Requests for Information

This financial report is designed to provide a general overview of the Department's finances for all those with an interest in the finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to Tim Arends, Controller, Traverse City Light and Power, 1131 Hastings Street, Traverse City, MI 49686.

BASIC FINANCIAL STATEMENTS

TRAVERSE CITY LIGHT AND POWER

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

BALANCE SHEETS JUNE 30, 2009

ASSETS	Light and Power Fund	Fiber Fund	Total
Current assets			
Cash and cash equivalents	\$ 9,838,825	\$ -	\$ 9,838,825
Investments	15,888,499	-	15,888,499
Receivables			
Customer, less allowances of \$161,333 for uncollectible accounts (Light and Power Fund)	3,036,446	38,412	3,074,858
Accrued interest	48,269	-	48,269
Taxes	13,226	-	13,226
Other	936,421	-	936,421
Due from other funds	139,924	-	139,924
Inventories	1,685,579	-	1,685,579
Prepaid expenses	19,687	-	19,687
Total current assets	31,606,876	38,412	31,645,288
Long-term assets			
Long-term advances - due from primary government	697,269	-	697,269
Land and land improvements	819,327	-	819,327
Construction in progress	3,508,006	-	3,508,006
Capital assets, net	33,092,931	1,480,474	34,573,405
Total long-term assets	38,117,533	1,480,474	39,598,007
Total assets	\$ 69,724,409	\$ 1,518,886	\$ 71,243,295

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

LIABILITIES AND NET ASSETS	Light and Power Fund	Fiber Fund	Total
Current liabilities			
Accounts payable	\$ 2,131,412	\$ 640	\$ 2,132,052
Accrued expenses and other liabilities	127,649	-	127,649
Customer deposits	105,885	-	105,885
Unearned revenue	-	50,596	50,596
Due to other funds	-	139,924	139,924
Due to primary government	14,540	5,920	20,460
Total current liabilities	2,379,486	197,080	2,576,566
Long-term liabilities			
Compensated absences	327,335	-	327,335
Total liabilities	2,706,821	197,080	2,903,901
Net assets (deficit)			
Invested in capital assets	37,420,264	1,480,474	38,900,738
Unrestricted (deficit)	29,597,324	(158,668)	29,438,656
Total net assets	67,017,588	1,321,806	68,339,394
Total liabilities and net assets	\$ 69,724,409	\$ 1,518,886	\$ 71,243,295

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)

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS FOR THE YEAR ENDED JUNE 30, 2009

	Light and Power Fund	Fiber Fund	Total
Operating revenues			
Charges for services	\$ 26,342,881	\$ 110,526	\$ 26,453,407
MISO income	1,850,378	-	1,850,378
Other	218,980	7,880	226,860
Total operating revenues	28,412,239	118,406	28,530,645
Operating expenses			
Generation	16,864,472	-	16,864,472
Distribution	2,671,590	-	2,671,590
Transmission	391,998	-	391,998
Customer accounting	552,332	-	552,332
Public service	245,527	-	245,527
General administration	1,108,795	-	1,108,795
Fiber	-	142,611	142,611
Other	102,605	-	102,605
City fee	1,454,540	5,920	1,460,460
Depreciation and amortization	1,500,544	73,334	1,573,878
Total operating expenses	24,892,403	221,865	25,114,268
Operating income (loss)	3,519,836	(103,459)	3,416,377
Non-operating revenues (expenses)			
Rental income	55,648	-	55,648
Reimbursements	242,217	75,120	317,337
Interest income	640,223	-	640,223
Change in fair market value of investments	9,392	-	9,392
Loss on sale of capital asset	(25,145)	-	(25,145)
Total non-operating revenues	922,335	75,120	997,455
Change in net assets	4,442,171	(28,339)	4,413,832
Net assets, beginning of year	62,575,417	1,350,145	63,925,562
Net assets, end of year	\$ 67,017,588	\$ 1,321,806	\$ 68,339,394

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)

STATEMENTS OF CASH FLOWS FOR THE YEAR ENDED JUNE 30, 2009

	Light and Power Fund	Fiber Fund	Total
Cash flows from operating activities			
Cash received from customers	\$ 28,657,019	\$ 149,964	\$ 28,806,983
Cash payments to employees	(3,125,291)	(2,224)	(3,127,515)
Cash payments to suppliers for goods and service	(18,832,876)	(142,449)	(18,975,325)
Cash payments of city fees	(1,719,716)	(482)	(1,720,198)
Net cash provided by operating activities	4,979,136	4,809	4,983,945
Cash flows from non-capital financing activities			
Long-term advance to primary government	61,427	-	61,427
Due from other funds	(139,924)	-	(139,924)
Due to other funds	-	139,924	139,924
Customer deposits	(8,921)	-	(8,921)
Rental income	55,648	-	55,648
Reimbursements	242,217	75,120	317,337
Net cash provided by non-capital financing activities	210,447	215,044	425,491
Cash flows from capital and related financing activities			
Proceeds from sale of capital assets	56,967	-	56,967
Purchase of capital assets	(1,273,770)	(219,853)	(1,493,623)
Net cash used in capital and related financing activities	(1,216,803)	(219,853)	(1,436,656)
Cash flows from investing activities			
Sale of investments	50,809	-	50,809
Investment income	639,081	-	639,081
Net cash provided by investing activities	689,890	-	689,890
Net increase in cash and cash equivalents	4,662,670	-	4,662,670
Cash and cash equivalents, beginning of year	5,176,155	-	5,176,155
Cash and cash equivalents, end of year	\$ 9,838,825	\$ -	\$ 9,838,825

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)

STATEMENTS OF CASH FLOWS FOR THE YEAR ENDED JUNE 30, 2009

	<u>Light and Power Fund</u>	<u>Fiber Fund</u>	<u>Total</u>
Cash flows from operating activities			
Operating income (loss)	\$ 3,519,836	\$ (103,459)	\$ 3,416,377
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation and amortization	1,500,544	73,334	1,573,878
Changes in operating assets and liabilities which (used) provided cash:			
Receivables	244,780	(19,038)	225,742
Inventories	547	-	547
Prepaid expenses	(8,083)	-	(8,083)
Accounts payable	(134,066)	(2,062)	(136,128)
Due to other governments	(265,176)	5,438	(259,738)
Accrued expenses and other liabilities	58,775	-	58,775
Unearned revenue	-	50,596	50,596
Compensated absences	61,979	-	61,979
Net cash provided by operating activities	<u><u>\$ 4,979,136</u></u>	<u><u>\$ 4,809</u></u>	<u><u>\$ 4,983,945</u></u>

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 for payment in lieu of taxes. For fiscal 2009, the City fee was \$1,460,460.

Reporting entity

The Department is a discrete 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*. Accordingly, the Department is presented as a discrete component unit in the City's financial statements and 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 include significant operational or financial relationships with the Department.

2. **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 (including restricted assets) 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 "Non-operating revenues (expenses)" section of the Statements of Revenues, Expenses and Changes in Net Assets".

State statutes authorize the Department to invest in:

- a. Bond, securities, other obligations and repurchase agreements of the United States, or an agency or instrumentality of the United States.

TRAVERSE CITY LIGHT AND POWER

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

NOTES TO FINANCIAL STATEMENTS

- b. Certificates of deposit, savings accounts, deposit accounts, or depository receipts of a qualified financial institution.
- c. Commercial paper rated at the time of purchase within the two highest classifications established by not less than two standard rating services and that matures not more than 270 days after the date of purchase.
- d. Bankers acceptance 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.

Inventories

Inventories consist of materials to be used in the electric system and are valued at average cost. Maintenance and office supplies (immaterial at year end) are charged to expenses upon purchase.

Capital assets

Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 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>
Buildings and structures	20-50
Power production equipment and distribution system	5-50

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 and sick pay is accrued up to a maximum when it is probable that the benefit will be paid to the employee.

Operating Revenue versus Non-operating 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 non-operating revenues and expenses.

TRAVERSE CITY LIGHT AND POWER

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

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. The Fiber Fund was created in 2008 with an initial capital contribution from the Light and Power Enterprise Fund.

GASB 20

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

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.

Budgetary Information

The Department follows the requirements set forth in the Charter in establishing the budgetary data reflected in the financial statements:

- The Department submits a proposed budget to the City Manager. After review, the City Manager submits a recommended operating budget to the City Commission. Public hearings are held to obtain taxpayer comments. The budget is legally adopted through a City Commission resolution prior to the beginning of the budgetary year for the Department's fund. The budget is then adopted by the Department's Board.
- The budget is adopted on a basis consistent with generally accepted accounting principles. Budgeted amounts are as originally adopted or amended by the City Commission during the year.

TRAVERSE CITY LIGHT AND POWER

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

NOTES TO FINANCIAL STATEMENTS

2. CASH DEPOSITS AND INVESTMENTS

The Department's cash and cash equivalents, investments and restricted assets at June 30, 2009 are composed of the following:

	Cash and cash Equivalents	Investments	Totals
Deposits	\$ 9,838,625	\$ 11,734,901	\$ 21,573,526
Investments	-	4,153,598	4,153,598
Petty cash	200	-	200
Total	\$ 9,838,825	\$15,888,499	\$ 25,727,324

Deposits consist of various interest bearing cash accounts and certificates of deposit, held by the City Treasurer. The insured and uninsured bank balances for the Department 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.

The Department chooses to disclose its investments by specifically identifying each. As of June 30, 2009, the Department's MBIA Class Pool investment is rated by Standard & Poor's. The Department had the following investments:

<u>Investment</u>	<u>Maturity</u>	<u>Fair Value</u>	<u>Rating</u>
US Treasury note	09/24/2009	\$ 999,590	AAA
US Treasury note	12/24/2009	998,340	AAA
US Treasury note	09/30/2010	1,017,230	AAA
US Treasury note	09/30/2013	100,266	AAA
MPPA Investments Pool	Various	1,029,084	Unrated
MBIA Class Pool	N/A	3,006	BB+/BB-
Investment pool	14 days	6,082	Unrated
		\$ 4,153,598	

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.

TRAVERSE CITY LIGHT AND POWER

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

NOTES TO FINANCIAL STATEMENTS

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.

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 \$4,153,598 of investments at June 30, 2009, the Department has a custodial credit risk exposure of \$3,115,426 because the related securities are uninsured, unregistered and held by the government's brokerage firm which is also the counterparty for these particular securities. Of the above investment pools the Department's custodial credit risk exposure cannot be determined 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 the 5% of the Department's investments.

TRAVERSE CITY LIGHT AND POWER

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

NOTES TO FINANCIAL STATEMENTS

3. CAPITAL ASSETS

At June 30, 2009 capital assets consist of the following

	Beginning Balance	Increases	Decreases	Ending Balance
Business-type activities				
Capital assets not being depreciated				
Land and land improvements	\$ 737,439	\$ 81,888	\$ -	\$ 819,327
Construction in progress	3,632,400	410,606	535,000	3,508,006
Total capital assets not being depreciated	4,369,839	492,494	535,000	4,327,333
Capital assets being depreciated				
Buildings and improvements	3,985,430	24,173	-	4,009,603
Equipment and distribution system	46,968,681	1,292,103	85,783	48,175,001
Fiber system	1,334,020	219,853	-	1,553,873
Total capital assets being depreciated	52,288,131	1,536,129	85,783	53,738,477
Less accumulated depreciation for				
Buildings and improvements	623,363	119,801	-	743,164
Equipment and distribution system	16,971,437	1,380,743	3,671	18,348,509
Fiber system	65	73,334	-	73,399
Total accumulated depreciation	17,594,865	1,573,878	3,671	19,165,072
Total capital assets being depreciated, net	34,693,266	(37,749)	82,112	34,573,405
Business-type activities capital assets, net	\$ 39,063,105	\$ 454,745	\$ 617,112	\$38,900,738

4. LONG-TERM DEBT

Long-term debt at June 30, 2009 consists of the following:

	Compensated Absences
Beginning Balance, July 1, 2008	\$ 265,356
Additions	61,979
Ending Balance, June 30, 2009	\$ 327,335

TRAVERSE CITY LIGHT AND POWER

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

NOTES TO FINANCIAL STATEMENTS

5. POWER SUPPLY PURCHASE

The Department, along with other Michigan municipal utilities, is a member of the Michigan Public Power Agency (“MPPA”). The agency was formed to acquire interests in certain electric generating plants and related transmission lines. MPPA has acquired a 4.8% undivided interest in the Consumers Power Company Campbell 3 plant, an 18.61% undivided interest in the Detroit Edison Company 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 18.81% 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.

For the years ended June 30, 2009, Traverse City Light and Power recognized expenses totaling \$16,223,311, to purchase power under the terms of the contract. The price of the power was calculated on a basis, as specified in the contract, to enable MPPA to recover its production, transmission and debt service costs.

Under the terms of the contract, 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 2009 costs adjusted for inflation. The total estimated future operating costs, which do not include the debt payments below as follows:

<u>Year Ended December 31</u>	<u>Operating Costs</u>
2010	\$ 5,873,648
2011	6,049,858
2012	6,231,353
2013	6,418,294
2014	4,056,660
2015-2019	19,628,708
2020-2024	11,746,205
2025-2027	<u>7,927,656</u>
	<u>\$ 67,932,382</u>

TRAVERSE CITY LIGHT AND POWER

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

NOTES TO FINANCIAL STATEMENTS

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

<u>Year Ended December 31</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2010	\$ 2,249,546	\$ 1,854,111	\$ 4,103,657
2011	2,360,782	1,750,396	4,111,178
2012	2,470,034	1,640,981	4,111,015
2013	2,592,937	1,519,905	4,112,842
2014	2,705,292	1,391,549	4,096,841
2015-2019	11,515,839	4,865,936	16,381,775
2020-2024	7,145,985	2,542,470	9,688,455
2025-2027	5,252,280	560,853	5,813,133
	<u>\$ 36,292,695</u>	<u>\$ 16,126,201</u>	<u>\$52,418,896</u>

The MPPA and its member utilities were over-charged on their power sales contract agreements. Because of this, MPPA and the member utilities have established a trust fund ("The Municipal Competitive Trust"). Specific policies have been established by each member regarding the use of these funds. The Department's share of this trust fund was \$1,029,084 as of June 30, 2009.

6. RETIREMENT PLAN

Through the City, the Department participates in the Municipal Employees' Retirement System (MERS), defined benefit plan that covers substantially all employees. Annual contributions to the plan are based on actuarial studies performed annually. The Department's contributions to the plan during the years ended June 30, 2009 was \$537,080. The required disclosures related to the plan are provided in the City's Financial Statements.

7. POST-EMPLOYMENT BENEFITS

In addition to the pension benefits described above, the Department provides post-retirement health insurance premiums in accordance with their personnel policies and union agreements. The benefit includes payment of the retiree's premium until they reach the age of Medicare eligibility and at that time premiums for complementary coverage is paid by the Department. The Department paid approximately \$131,000 for 29 participants in 2009.

The Department participates in the City's Municipal Employees' Retirement System retiree health funding vehicle that covers substantially all employees. Annual contributions to the plan are based on actuarial studies performed bi-annually. The Department's contribution to the plan for the fiscal year ended June 30, 2009 was \$170,442. The required disclosures related to the plan are provided in the City's Financial Statements.

TRAVERSE CITY LIGHT AND POWER

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

NOTES TO FINANCIAL STATEMENTS

8. COMMITMENTS

In September 1994, the Department purchased the distribution facilities located within the City of Traverse City from Consumers Power Company ("Consumers") for \$840,000. The purchase was made in connection with the settlement of litigation initiated by the Department against Consumers. The purchase was completed under the auspices of the Michigan Public Service Commission and approved by the Department Board. The Department will take possession of these facilities in three stages, one remaining stage to occur in September 2014.

On December 19, 2007, the Department entered into an agreement with Wolverine Power Supply Cooperative, Inc. for the construction of, and operation & maintenance of, a transmission substation. The cost of this project is estimated at \$6,600,000 (\$3,300,000 for each party). The Department contributed \$3,300,000 into an investment fund upon execution of the agreement to be used for its 50% share of construction costs. On June 30, 2009 the balance in the fund was \$1,563,460.

Property

During fiscal 2004, the Department entered into an agreement with Maritime Heritage Alliance to lease the Light and Power's coal dock. The lease requires annual rental payments of \$1. Under the lease agreement, the Department must maintain the property, carry adequate insurance and pay all assessments and property taxes on the property. The fair value of the lease is not considered by management to be significant in any one year and, therefore, is not recorded as contributed revenue and lease expense. This lease expires July 2023.

9. CONTINGENCIES

In the normal course of business, the Department becomes a party in various legal actions and claims, some of which are uninsured. While the outcome of these actions and claims is not expected to have a material effect on the financial position of the Department, the Board has established a designation of \$3,891,366 within unrestricted net assets at June 30, 2009 to cover the potential impact of current and future uninsured claims.

10. 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
(A Component Unit of the City of Traverse City, Michigan)

NOTES TO FINANCIAL STATEMENTS

11. DESIGNATIONS OF NET ASSETS

The following are designations of unrestricted net assets established by the Board

	<u>June 30,</u> <u>2009</u>
Emergencies	\$ 100,056
Uninsured claims	3,891,366
Capital expansion	<u>14,325,000</u>
Total	<u>\$18,316,422</u>

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SUPPLEMENTARY INFORMATION

TRAVERSE CITY LIGHT AND POWER

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

SCHEDULE OF CAPITAL ASSETS AND DEPRECIATION LIGHT AND POWER FUND FOR THE YEAR ENDED JUNE 30, 2009

	Capital Assets - Cost			Balance at June 30, 2009
	Balance at June 30, 2008	Additions/ Transfers	Deletions/ Transfers	
Land	\$ 491,806	\$ -		\$ 491,806
Land - coal dock	245,633	-	-	245,633
Land improvements	-	81,888	-	81,888
Total land and land improvements	737,439	81,888	-	819,327
Buildings				
Keystone plant	3,191	-	-	3,191
Brown Bridge	2,701	-	-	2,701
Distribution plant	3,909,335	4,534	-	3,913,869
Office structures	20,935	19,639	-	40,574
Other buildings	49,268	-	-	49,268
Total buildings	3,985,430	24,173	-	4,009,603
Equipment and distribution system				
Union St. Dam	24,010	-	-	24,010
Keystone plant	58,130	-	-	58,130
Brown Bridge	145,372	-	-	145,372
Wind generation unit	763,860	-	-	763,860
Transmission and distribution	44,878,344	1,171,516	54,463	45,995,397
General	1,098,965	120,587	31,320	1,188,232
Total equipment and distribution system	46,968,681	1,292,103	85,783	48,175,001
Construction-in-progress	3,632,400	410,606	535,000	3,508,006
Total	\$ 55,323,950	\$ 1,808,770	\$ 620,783	\$ 56,511,937

Balance at June 30, 2008	Accumulated Depreciation		Balance at June 30, 2009	Capital Assets - Net
	Current Depreciation	Deletions		Balance at June 30, 2009
\$ -	\$ -	\$ -	\$ -	\$ 491,806
-	-	-	-	245,633
-	-	-	-	81,888
-	-	-	-	819,327
3,191	-	-	3,191	-
2,436	52	-	2,488	213
612,514	117,348	-	729,862	3,184,007
3,005	923	-	3,928	36,646
2,217	1,478	-	3,695	45,573
623,363	119,801	-	743,164	3,266,439
17,709	720	-	18,429	5,581
58,043	12	-	58,055	75
112,491	3,556	-	116,047	29,325
286,450	22,916	-	309,366	454,494
15,738,903	1,299,858	-	17,038,761	28,956,636
757,841	53,681	3,671	807,851	380,381
16,971,437	1,380,743	3,671	18,348,509	29,826,492
-	-	-	-	3,508,006
\$ 17,594,800	\$ 1,500,544	\$ 3,671	\$ 19,091,673	\$ 37,420,264

TRAVERSE CITY LIGHT AND POWER

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

**SCHEDULE OF CAPITAL ASSETS AND DEPRECIATION
FIBER FUND
FOR THE YEAR ENDED JUNE 30, 2009**

	Capital Assets - Cost			Balance at June 30, 2009
	Balance at June 30, 2008	Additions/ Transfers	Deletions/ Transfers	
Equipment and distribution system				
Overhead	\$ 807,575	\$ 82,416	\$ -	\$ 889,991
Underground	187,816	33,771	-	221,587
Termination boxes	285,604	60,788	-	346,392
Wireless equipment	51,725	-	-	51,725
Other property	1,300	42,878	-	44,178
Total equipment and distribution system	1,334,020	219,853	-	1,553,873
Construction-in-progress	-	135,084	135,084	-
Total	\$ 1,334,020	\$ 354,937	\$ 135,084	\$ 1,553,873

Balance at June 30, 2008	Accumulated Depreciation		Balance at June 30, 2009	Capital Assets
	Current Depreciation	Deletions		Net Balance at June 30, 2009
\$ -	\$ 42,439	\$ -	\$ 42,439	\$ 847,552
-	10,235	-	10,235	211,352
-	15,800	-	15,800	330,592
-	2,586	-	2,586	49,139
65	2,274	-	2,339	41,839
<u>65</u>	<u>73,334</u>	<u>-</u>	<u>73,399</u>	<u>1,480,474</u>
-	-	-	-	-
<u>\$ 65</u>	<u>\$ 73,334</u>	<u>\$ -</u>	<u>\$ 73,399</u>	<u>\$ 1,480,474</u>

TRAVERSE CITY LIGHT AND POWER

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

SCHEDULE OF REVENUES AND EXPENSES - BUDGET AND ACTUAL LIGHT AND POWER FUND FOR THE YEAR ENDED JUNE 30, 2009

	<u>Amended Budget</u>	<u>Actual</u>	<u>Positive (Negative) Variance</u>
Operating revenues - sales			
Residential	\$ 5,193,000	\$ 4,929,924	\$ (263,076)
Commercial	14,085,000	12,988,557	(1,096,443)
Industrial	8,550,000	7,913,325	(636,675)
Public authority	291,500	241,214	(50,286)
Street lighting	195,000	188,332	(6,668)
Yard lights	85,600	81,529	(4,071)
Total operating revenues - sales	<u>28,400,100</u>	<u>26,342,881</u>	<u>(2,057,219)</u>
Other operating revenues			
Forfeited discounts	57,600	57,701	101
Merchandise and jobbing	125,000	130,069	5,069
Sale of scrap	27,500	6,891	(20,609)
Recovery of bad debts	400	-	(400)
MISO income	2,000,000	1,850,378	(149,622)
Miscellaneous	30,000	24,319	(5,681)
Total other operating revenues	<u>2,240,500</u>	<u>2,069,358</u>	<u>(171,142)</u>
Non-operating revenues			
Rental income	18,000	27,788	9,788
Pole rental income	14,400	27,860	13,460
Reimbursements	200,000	242,217	42,217
Interest income	450,000	640,223	190,223
Change in fair market value of investments	-	9,392	9,392
Total non-operating revenues	<u>682,400</u>	<u>947,480</u>	<u>265,080</u>
Total revenues	<u>31,323,000</u>	<u>29,359,719</u>	<u>(1,963,281)</u>

TRAVERSE CITY LIGHT AND POWER

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

SCHEDULE OF REVENUES AND EXPENSES - BUDGET AND ACTUAL (CONTINUED) LIGHT AND POWER FUND FOR THE YEAR ENDED JUNE 30, 2009

	Amended Budget	Actual	Positive (Negative) Variance
Generation Expense			
Wind generator - M-72 Traverse	\$ 40,000	\$ 37,202	\$ 2,798
Wind farm development	-	241,190	(241,190)
Kalkaska combustion turbine	325,000	183,537	141,463
Hydrodams			
Brown bridge dam	30,000	12,364	17,636
Sabin dam	14,500	4,428	10,072
Boardman dam	20,000	4,155	15,845
Purchased power			
Power pool	7,250,000	6,424,085	825,915
Kalkaska combustion turbine	5,150,000	3,407,813	1,742,187
Campbelle	3,850,000	3,694,297	155,703
Belle River	3,115,000	2,697,116	417,884
Coal dock	73,000	7,057	65,943
Boardman river	12,500	-	12,500
Trap and transfer	3,000	772	2,228
Union street fish ladder	1,500	310	1,190
Professional development	4,500	13,169	(8,669)
Operation supplies	10,500	121,346	(110,846)
Communications	5,200	5,643	(443)
Safety	12,400	8,917	3,483
Miscellaneous	14,900	1,071	13,829
Total generation expenses	19,932,000	16,864,472	3,067,528

TRAVERSE CITY LIGHT AND POWER

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

SCHEDULE OF REVENUES AND EXPENSES - BUDGET AND ACTUAL (CONTINUED) LIGHT AND POWER FUND FOR THE YEAR ENDED JUNE 30, 2009

	<u>Amended Budget</u>	<u>Actual</u>	<u>Positive (Negative) Variance</u>
Distribution Expense			
Supervision and engineering	\$ 475,000	\$ 464,410	\$ 10,590
Substation	142,000	154,557	(12,557)
Overhead lines	375,000	391,791	(16,791)
Load and dispatching	535,000	589,207	(54,207)
Underground lines	223,000	236,486	(13,486)
Customer installations	32,500	35,589	(3,089)
Electric meters	175,000	47,576	127,424
Street lighting	118,500	135,080	(16,580)
Plant and structures	226,500	222,065	4,435
Professional development	90,000	118,413	(28,413)
Operation supplies	49,050	65,410	(16,360)
Utilities	88,500	72,228	16,272
Safety	57,000	50,624	6,376
Miscellaneous	26,500	88,154	(61,654)
Total distribution expense	<u>2,613,550</u>	<u>2,671,590</u>	<u>(58,040)</u>
Transmission Expense			
Supervision and engineering	141,000	13,478	127,522
Substation	10,500	7,501	2,999
Overhead lines	4,100	270,800	(266,700)
Load and dispatching	-	63,078	(63,078)
Plant and structures	35,000	16	34,984
MISO	62,500	19,987	42,513
Miscellaneous	2,500	17,138	(14,638)
Total transmission expense	<u>255,600</u>	<u>391,998</u>	<u>(136,398)</u>

TRAVERSE CITY LIGHT AND POWER

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

SCHEDULE OF REVENUES AND EXPENSES - BUDGET AND ACTUAL (CONTINUED) LIGHT AND POWER FUND FOR THE YEAR ENDED JUNE 30, 2009

	<u>Amended Budget</u>	<u>Actual</u>	<u>Positive (Negative) Variance</u>
Customer Accounting Expense			
Salaries	\$ 246,000	\$ 167,314	\$ 78,686
Meter reading	-	119,535	(119,535)
Payroll taxes and fringes	77,500	117,247	(39,747)
Office supplies	2,600	8,733	(6,133)
Postage	30,000	29,414	586
Stationary and printing	9,000	5,081	3,919
Equipment rental	6,000	12,549	(6,549)
Professional and contractual	15,000	12,374	2,626
Uncollectible accounts	28,500	48,022	(19,522)
Collection expense	1,500	1,295	205
Data processing	9,000	23,391	(14,391)
Professional development	3,500	3,832	(332)
Miscellaneous	1,650	3,545	(1,895)
Total customer accounting expense	<u>430,250</u>	<u>552,332</u>	<u>(122,082)</u>
Public Service Expense			
Community investment fund	65,800	50,230	15,570
Energy audits	-	3,902	(3,902)
Public service information	166,100	191,395	(25,295)
Total public service expense	<u>231,900</u>	<u>245,527</u>	<u>(13,627)</u>

TRAVERSE CITY LIGHT AND POWER

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

SCHEDULE OF REVENUES AND EXPENSES - BUDGET AND ACTUAL (CONCLUDED) LIGHT AND POWER FUND FOR THE YEAR ENDED JUNE 30, 2009

	<u>Amended Budget</u>	<u>Actual</u>	<u>Postive (Negative) Variance</u>
General Administration Expense			
Salaries	\$ 705,000	\$ 669,997	\$ 35,003
Payroll taxes and fringes	192,500	160,376	32,124
Professional development	15,000	28,528	(13,528)
Professional and contractual	100,000	76,898	23,102
Office supplies	27,500	12,426	15,074
Fees and per diems	99,000	62,931	36,069
Special services	9,000	5,313	3,687
Legal fees	75,000	65,908	9,092
Utilities	7,200	9,559	(2,359)
Rent	500	640	(140)
Printing and publishing	8,000	8,666	(666)
Miscellaneous	5,000	7,553	(2,553)
Total general administration expense	<u>1,243,700</u>	<u>1,108,795</u>	<u>134,905</u>
Other expenses			
Insurance - general	125,000	102,605	22,395
Depreciation and amortization	1,625,000	1,500,544	124,456
City fee	1,581,000	1,454,540	126,460
Loss on sale of assets	-	25,145	(25,145)
Total other expenses	<u>3,331,000</u>	<u>3,082,834</u>	<u>248,166</u>
Total expenses	<u>28,038,000</u>	<u>24,917,548</u>	<u>3,120,452</u>
Change in net assets	<u>\$ 3,285,000</u>	<u>\$ 4,442,171</u>	<u>\$ 1,157,171</u>

TRAVERSE CITY LIGHT AND POWER

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

SCHEDULE OF REVENUES AND EXPENSES - BUDGET AND ACTUAL FIBER FUND FOR THE YEAR ENDED JUNE 30, 2009

	Amended Budget	Actual	Positive (Negative) Variance
Operating revenues - sales			
Public authority	\$ 74,650	\$ -	\$ (74,650)
Other sales	111,950	110,526	(1,424)
Total operating revenues - sales	186,600	110,526	(76,074)
Other operating revenues			
Miscellaneous	-	7,880	7,880
Non-operating revenues			
Reimbursements	-	75,120	75,120
Other financing sources			
Transfer in	77,150	-	(77,150)
Total revenues	263,750	193,526	(70,224)
Fiber Expenses			
Supervision and engineering	79,200	48,518	30,682
Overhead	21,800	4,097	17,703
Underground	19,800	-	19,800
Termination boxes	-	2,023	(2,023)
Customer installations	26,000	18,607	7,393
Professional development	20,000	13,512	6,488
Miscellaneous	41,600	55,854	(14,254)
Total fiber expenses	208,400	142,611	65,789
Other			
Insurance and bonds	2,000	-	2,000
City fee	9,350	5,920	3,430
Depreciation and amortization	44,000	73,334	(29,334)
Total other	55,350	79,254	(23,904)
Total expenses	263,750	221,865	41,885
Change in net assets	\$ -	\$ (28,339)	\$ (28,339)

INTERNAL CONTROL AND COMPLIANCE



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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 11, 2009

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

We have audited the financial statements of each major fund of Traverse City Light and Power (a component unit of the City of Traverse City, Michigan) (the "Department") as of and for the year ended June 30, 2009, and have issued our report thereon dated December 11, 2009. We conducted our audit in accordance with 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Department's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Department's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Department's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Department's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Department's financial statements that is more than inconsequential will not be prevented or detected by the Department's internal control.

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

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Department's financial statements are free of 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*.

This report is intended solely for the information and use of management, the Light and Power Board, the City Commission, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Oredevold Haefner LLC