

A REGULAR MEETING

Of The

TRAVERSE CITY LIGHT AND POWER BOARD

Will Be Held On

TUESDAY, January 22, 2013

At

4:45 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.

Stephanie Tvardek
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: 01-17-13
4:30 p.m.

AGENDA

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 Special Meeting of December 18, 2012 and Regular Meeting of January 8, 2013. (Approval recommended)
- b. Consideration of Authorizing Red Tag Revenue Distributions. (Arends) (Approval recommended)
- c. Consideration of adopting a Minimum Cash Reserve Policy. (Arends) (Approval recommended)
- d. National Cherry Festival Sponsorship request. (Wheaton) (Approval recommended)
- e. G.T. Conservation District Sponsorship request. (Wheaton) (Approval recommended)

Items removed from the Consent Calendar

- a.
- b.
- c.

3. Old Business

None.

4. New Business

- a. Presentation of the 2011-12 Fiscal Year Audit. (Rehmann Group)
- b. MPPA/MMEA presentations. (Dave Walters, MPPA/Jim Weeks, MMEA)

5. Appointments

None.

6. Reports and Communications

- a. From Legal Counsel.
- b. From Staff.
 - 1. APPA RP3 Award recognition to TCL&P. (Solak)
 - 2. M-72 Wind Turbine status report. (Verbal – Olney/Feahr)
 - 3. *TCL&P news and correspondence. (General – No Official Report)*
- c. From Board.
 - 1. Executive Director Recruitment Ad Hoc Committee Update. (Verbal – Taylor)
 - 2. Upcoming board meeting schedule. (Verbal – McGuire)

7. Public Comment

/st

**TRAVERSE CITY
LIGHT AND POWER BOARD**

Minutes of Special Meeting
Held at 5:15 p.m., Commission Chambers, Governmental Center
Tuesday, December 18, 2012

Board Members -

Present: Barbara Budros, Jim Carruthers, Mike Coco, Bob Spence,
John Taylor, Patrick McGuire

Absent: John Snodgrass

Ex Officio Member -

Present: R. Ben Bifoss

Others: Tim Arends, W. Peter Doren, Stephanie Tvardek, Jim Cooper, Glen Dine,
Karen Feahr

The meeting was called to order at 5:15 p.m. by Chairman McGuire.

As requested by Alyssa Barrett, Agenda Item 2(c) was removed from the Consent Calendar for full discussion.

Item 2 on the Agenda being Consent Calendar

Moved by Carruthers, seconded by Budros, that the following actions, as recommended on the Consent Calendar portion of the Agenda as amended, be approved:

- a. Minutes of the Regular Meeting of November 27, 2012.
- b. Receive and file the minutes of the Executive Director Recruitment Ad Hoc Committee Meeting of November 13, 2012.
- c. *Removed from the Consent Calendar.*

CARRIED unanimously.

Items removed from the Consent Calendar

- a. Consideration of adopting MDOT Construction ROW Resolution.

The following individuals addressed the Board:

Tim Arends, *Interim* Executive Director/Controller

Moved by Coco, seconded by Budros, that the Board adopts the State of Michigan "Performance Resolution for Governmental Agencies" as requested by the State for issuance of an annual right-of-way permit.

The following individuals from the Public addressed the Board:

Alyssa Barrett, 9000 East Duck Lake Road

CARRIED unanimously.

Item 3 on the Agenda being Old Business

3(a). Consideration of East Side Transmission Line material purchase.

The following individuals addressed the Board:

Glen Dine, Chief Engineer
Tim Arends, *Interim* Executive Director

Moved by Coco, seconded by Taylor, that the Board authorize the Interim Executive Director to issue a purchase order to Power Line Supply in the amount of \$391,910.18 for line construction material required for the East Side 69kv Transmission Line Project, subject to any reel charges and cost of metal adjustments as noted in the bid.

CARRIED unanimously.

Item 4 on the Agenda being New Business

None.

Item 5 on the Agenda being Appointments

None.

Item 6 on the Agenda being Reports and Communications

A. From Legal Counsel.

None.

B. From Staff.

1. Jim Cooper gave an update regarding Energy Optimization goals and spending.

The following individuals addressed the Board:

Tim Arends, *Interim* Executive Director/Controller

2. Karen Fehr reported on the evaluation of the Kalkaska Combustion Turbine.

3. *TCL&P news and correspondence – no official report.*

The following individuals addressed the Board:

Tim Arends, *Interim* Executive Director/Controller

C. From Board.

1. Bob Spence will provide an update at the next board meeting regarding the MECA training he recently attended.

2. John Taylor gave an update regarding the Executive Director recruitment process.

3. Jim Carruthers reviewed the 2012 City of Traverse City Performance Report.
4. John Taylor spoke regarding the recent Chamber/MLUI Community Energy Plan meeting he attended.

Item 7 on the Agenda being Public Comment

The following individuals from the Public addressed the Board:

Ed Rice, 1664 Strasbourg, Non-Ratepayer

Janice Hicks, 1687 David Place, Non-Ratepayer

Alyssa Barrett, 9000 East Duck Lake Road, Non-Ratepayer

There being no objection, Chairman McGuire declared the meeting adjourned at 6:40 p.m.

/st

Tim Arends, Secretary
LIGHT AND POWER BOARD

**TRAVERSE CITY
LIGHT AND POWER BOARD**

Minutes of Regular Meeting
Held at 5:15 p.m., Commission Chambers, Governmental Center
Tuesday, January 8, 2013

Board Members -

Present: Barbara Budros, Jim Carruthers, Patrick McGuire,

Absent: Mike Coco, John Snodgrass, Bob Spence, John Taylor

Ex Officio Member -

Present: R. Ben Bifoss

Others: Tim Arends, Stephanie Tvardek, Jim Cooper, Glen Dine, Karen Fehar,
Scott Menhart, Tom Olney, Rod Solak, Jessica Wheaton

The meeting was called to order at 5:15 p.m. by Chairman McGuire.

Chairman McGuire declared because a quorum of board members is not present, no action will be taken on any agenda items. Following the conclusion of the meeting, the following scheduled presentations will be given to the public:

- Minimum Cash Reserve Policy – Mark Beauchamp, Utility Financial Solutions
- National Cherry Festival Sponsorship Request – Chuck O’Connor, NCF
- G.T. Conservation District Sponsorship Request – Tree Sutрман & John Gressner, GTCD
- GREM Program – Franklin Energy

There being no objection, Chairman McGuire declared the meeting adjourned at 5:16 p.m.

/st

Tim Arends, Secretary
LIGHT AND POWER BOARD



To: Light and Power Board
From: Tim Arends, *Interim* Executive Director/Controller
Date: December 26, 2012
Subject: Red Tag Revenue Distribution

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In 1996 Traverse City Light & Power implemented a fee of \$5.00 for each red tag (final disconnect notice) placed on a customer's door for unpaid delinquent utility charges. This fee is split with one-half recorded as Light and Power revenue to partially offset the cost of tagging a residence, and the other half is accumulated in a special account for distribution to agencies that assist area citizens in need.

Light & Power regularly refers its customers facing shut-off for non-payment to the Father Fred Foundation, Love I.N.C., Salvation Army, and Northwest MI Community Action Agency. Since 1996, when Light and Power implemented the red tag fee, L&P has distributed \$163,974 to these area agencies.

Currently there is \$14,557.29 in the distribution account, which represents one-half of the charges for red tags.

Staff is recommending that the Board approve distribution of the above amount to the area agencies previously listed. The past three years the Board has elected to donate 100% of red tag revenues to the agencies (which would amount to \$29,114.58 this year.) Contributions of this nature require City Commission approval.

If the Board agrees with staff's recommendation the following motion would be appropriate:

MOVED BY _____, SECONDED BY _____, THAT THE LIGHT & POWER BOARD AUTHORIZES THE DISBURSEMENT OF \$14,557.29, REPRESENTING 50% OF THE ANNUAL REVENUES FOR NON-PAYMENT SHUT-OFF NOTICE TAGGING FEES, TO THE FATHER FRED FOUNDATION, LOVE I.N.C., THE SALAVATION ARMY, AND NORTHWEST MI COMMUNITY ACTION AGENCY, SUBJECT TO CITY COMMISSION APPROVAL.



TRAVERSE CITY
LIGHT & POWER

To: Light & Power Board
From: Tim Arends, *Interim* Executive Director/Controller
Date: January 1, 2013
Subject: Minimum Cash Reserve Policy

Included in your packet is a proposed policy that would create guidelines in calculating a minimum cash reserve for the utility, with the amount to be approved annually through the budget process. The policy was created based on the recommendations of Utility Financial Solutions, LLC (UFS); a company that specializes in cost of service, rate design, and financial analysis.

Cash reserve policies and guidelines are often established by utilities to maintain appropriate cash reserves to help ensure that cash exists for timely payment of bills, short-term and long-term financial health of the utility, stable rates for customers, that cash exists to fund unanticipated costs of contingencies, the amount and timing of future bond issues are identified, and that a significant factor is being met for bond rating agencies.

This proposed policy was presented on January 8, 2013 by Mark Beauchamp, UFS President, who explained why a utility should have a minimum cash reserve policy, and the assumptions made in recommending the appropriate policy for TCL&P, including the appropriate minimum reserve for TCL&P in the current fiscal year. The presentation can be viewed here:

<http://www.upnorthmedia.org/watchgovtv.asp?SDBFid=4995#vid>

Staff recommends that the Board adopts the proposed policy.

This item is appearing on the Consent Calendar as certain board members have already asked and received answers to specific questions they had. Approval of this item on the Consent Calendar means you agree with staff's recommendation to adopt the policy. If any board member has questions, other than clarifying questions, this item should be removed from the Consent Calendar for further discussion.

If the Board agrees with staff's recommendation the following motion would be appropriate to do so:

MOVED BY _____, SECONDED BY _____, THAT THE LIGHT & POWER BOARD ADOPTS THE MINIMUM CASH RESERVE POLICY AS PRESENTED; AND FURTHER ESTABLISHES \$8,750,000 AS THE MINIMUM CASH RESERVE FOR FISCAL YEAR 2012-13.

FOR THE LIGHT & POWER BOARD MEETING OF JANUARY 22, 2013

Traverse City Light & Power Department

Cash & Investments – September 30, 2012:

\$ 27,706,772 *(Reduced by L&P's Bay Front Legacy Project Commitment)*

Reserved:

\$ 4,380,008 *(Uninsured Claims – Established by Board/Commission)*
1,938,914 *(MPPA Competitive Trust – Reserved for Rate Stabilization/Board)*
100,056 *(Emergency Reserve – Established by Commission)*
8,750,000 *(Proposed Minimum Reserve Level)*

\$ 15,168,978 Total Cash Reserves

Designated (major capital projects):

\$ 3,810,000 *(East Hammond Substation & Transmission Line-balance)*
3,800,000 *(Proposed South Substation Project)*
650,000 *(Circuit Rebuild-balance)*

\$ 8,260,000 Total Designated

\$ 23,428,978 Total Cash Reserves & Designated

\$ 4,277,794 Undesignated Cash & Investments

Traverse City Light and Power Department
City of Traverse City, MI
Adopted: _____

TRAVERSE CITY LIGHT & POWER MINIMUM CASH RESERVE POLICY

To help ensure financial stability, timely completion of capital improvements and enable the utility to meet requirements for large unexpected expenditures, a minimum cash reserve policy is established.

This policy attempts to quantify the minimum amount of cash the utility should keep in reserve, the actual cash reserves may vary substantially above the minimum as a result of the following risk factors:

- Operations and Maintenance Risk
- Power Supply Risk
- Historical Investment Risk
- Debt Service Risk
- Five Year Capital Plan Risk

The minimum cash reserve calculation shall be updated annually as part of the budget process and should be calculated within the following guidelines:

Operations and Maintenance Risk

- **The minimum cash reserve will include 11.0% of the annual budgeted operating expenses excluding depreciation expense and power supply expenses.**
 - 11.0% assumes a 40 day lag between billing and payment receipt from customers. (40 days/365 days).

Power Supply Risk

- **The minimum cash reserve will include the amount of the Peak Month of the previous calendar year's power supply expenses, excluding one-time extraordinary adjustments.**

Historical Investment Risk

- **The cash reserve policy will include a % of the historical investment in assets as recorded in the most recently audited financial statements using the following risk table:**

Historical Investment Risk (continued):

Risk Table		
Depreciation Percent	0 - 49%	1.0%
Depreciation Percent	50 - 55%	2.0%
Depreciation Percent	Over 55%	3.0%

- **Example: TCL&P is depreciated at 34.3% on 6-30-2012 as calculated below:**

Historical Asset Investments		\$ 60,390,561
Accumulated Depreciation		20,714,992
Percent Depreciated		34.3%
Risk Associated with Historical Assets		1.0%

Debt Service Risk

- **The cash reserve policy will include a % of the current portion of debt service based on the table below:**
 - Typically bonds are set up on a semi-annual payment schedule. The minimum cash reserve will include the percentage of the maximum payment of the year. In the example below, this would represent 80.4% of the yearly debt payment.

Date	Principal	Interest	Total
10/1/2012	\$ -	\$ 123,313	\$ 123,313
4/1/2013	382,566	123,313	505,879
Total	\$ 382,566	\$ 246,626	\$ 629,192
Highest Payment divided by Annual Debt Service			80.4%

Five-Year Capital Plan Risk

- **The minimum cash reserve policy will include 20% of the average typical five year capital improvements program, less any improvements funded through the issuance of bonds. The average will not include extraordinary capital improvement(s) in an individual year(s).**

Minimum Cash Reserve Calculation

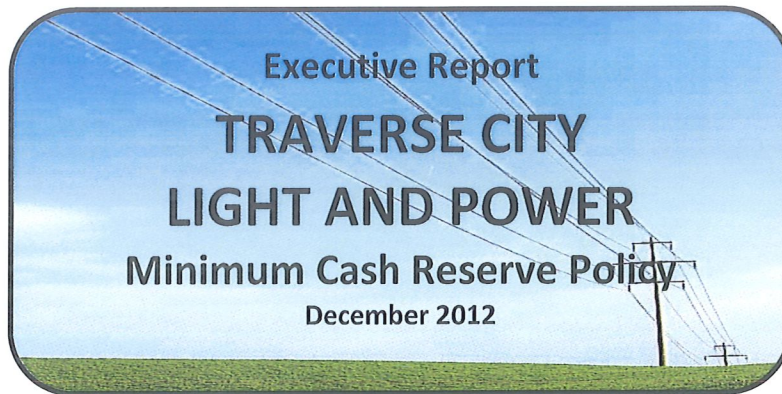
The minimum cash reserve calculation considers the risk “in total” and not each individual category. For example: catastrophic events can occur and the amount may far exceed the amount set aside under “Historical Investment in Assets”. Below is a sample calculation of the 2013 recommended minimum cash reserve based on the 2012 audited financial statements and 2013 Capital Improvements Plan:

Recommended MINIMUM Reserves	Risk Percent Allocated	Recommended Reserve
Yearly O&M Less Depreciation & Power Supply	11.0%	\$ 852,306
Power Supply	9.1%	2,020,867
Historical Investment in Assets	1.0%	603,906
Current Portion of Debt Service	0.0%	-
Five Year Capital Plan - Net of bond proceeds	20.0%	5,275,000
Recommended MINIMUM Reserves		\$ 8,752,079

If certain events occur that results in cash reserves falling below the minimum cash reserve levels, the Board of Directors may take action to restore cash reserves to the minimum levels over the subsequent three years. These actions may include any or all of the following:

- *Rate Adjustments*
- *Cost reductions*
- *Issuance of bonds to fund capital projects*
- *Modification of the assumptions used to determine the minimum cash reserve levels*

Timothy J. Arends
Interim Executive Director and Secretary
 Traverse City Light and Power Board





December 30, 2012

Mr. Tim Arends
Interim Executive Director
Traverse City, MI

Dear Mr. Arends,

We are pleased to present this executive summary report on development of an electric minimum cash reserve policy for the Traverse City Light and Power Department (TCLP).

To help ensure financial stability, timely completion of capital improvements and enable the utility to meet requirements for large unexpected expenditures, a minimum cash reserve policy should be established. Minimum cash reserves attempts to quantify the minimum amount of cash the utility should keep in reserve, the actual cash reserves may vary substantially above the minimum and is dependent on several risk factors for the utility.

The specific purposes of this study are:

- 1) Identify the major risk categories for the Electric Utility
- 2) Establish a risk factor for each exposure
- 3) Determine and recommend a minimum recommended cash reserve

This report includes the results and calculations of the analysis and recommended formula for a minimum reserve policy.

Sincerely,

A handwritten signature in black ink, appearing to read "Mark Beauchamp", is written over a horizontal line.

Utility Financial Solutions, LLC
Mark Beauchamp
CPA, MBA, CMA

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Traverse City Light and Power Cash Reserve Policy

Introduction

Cash reserve policies and guidelines are often established by utilities to maintain appropriate cash reserves to help ensure:

1. Cash exists for timely payment of bills
2. The short-term and long-term financial health of the Utility
3. Stable rates for customers
4. Cash exists to fund unanticipated cost contingencies
5. The amount and timing of future bond issues are identified
6. A significant factor is being met for bond rating agencies

In recent years the compounded impacts of power supply cost uncertainties, a sluggish economy, volatile energy prices, and rising capital improvement costs have posed challenges to maintaining stable rates and cash reserves. It is important for utilities to maintain the financial flexibility to smooth rate increases and stagger rate adjustments for customers of the utility.

Minimum cash reserve guidelines proposed in this report should be set to allow reserves to fluctuate above the minimum guidelines. The decision to hold more money than the established minimum cash guidelines should be based on the assessments of uncertainties and other financial policies such as:

- The financial risk facing the utilities
- Rate setting policies
- Variability in power costs
- Debt policies
- Future capital improvements needed by utility
- Line Extension policies

The adequacy of the guidelines may be reviewed internally each year, and if appropriate, revised guidelines may be recommended.



Traverse City Light and Power Cash Reserve Policy

Methodology

Minimum cash reserves attempts to quantify the minimum amount of cash the utility should keep in reserve, the actual cash reserves may vary substantially above the minimum and is dependent on several risk factors discussed below.

The methodology used in this report is based on certain assumptions related to percent of operation and maintenance, purchase power, historical investment in assets, debt service and the five-year capital plan. The establishment of minimum cash reserves should consider a number factors including:

Operations and Maintenance Risk

Working Capital Lag - Timing differences exist between when expenses are incurred and revenues received from customers. Establishing a minimum cash reserve helps ensure cash exists to pay expenses in a timely manner.

- **The cash reserve policy will include 11.0% of annual operating expenses excluding depreciation expense and power supply expenditures.**
 - 11.0% was derived by assuming a 40 day lag between billing and payment receipt from customers. (40 days/365 days).



Traverse City Light and Power Cash Reserve Policy

Power Supply Risk

Max Month – The peak month power supply cost was used for the minimum cash policy. This represents 9.1% of the total yearly power supply.

- The cash reserve policy will include 9.1% (or the percentage of the Peak Month) of annual power supply.

	Allocated 2013 Power Supply Budget
July	\$ 1,972,326
August	2,020,867
September	1,957,671
October	1,780,787
November	1,872,550
December	1,789,125
January	1,880,037
February	1,701,250
March	1,974,941
April	1,600,886
May	1,950,169
June	1,689,577
Total	\$ 22,190,187
Peak Month	\$ 2,020,867
Percentage of total	9.1%



Traverse City Light and Power Cash Reserve Policy

Historical Investment Risk

Investment in assets – Catastrophic events may occur that require substantial investments to replace damaged assets. Some examples of catastrophic events include ice storms, earthquakes, wind storms, floods, or tornadoes. Many of these catastrophic events may allow the utility to recover the cost of damages from FEMA; however FEMA reimbursements can take between 6 months to 2 years to recover. The utility should ensure adequate cash reserves exist to replace the assets in a timely fashion and to arrange short term financing options. The minimum reserve levels are often combined with emergency funding from banks or bonding agencies. The percent to the minimum cash reserves are dependent on the age of the assets in service and the level of risk of catastrophic type events.

- **The cash reserve policy will include 1% of the historical investment in assets as recorded in the financial statements.**
 - **The typical range under this category is 1 – 3%. The following table represents determination of the risk factor:**

Risk Table		
Depreciation Percent	0 - 49%	1.0%
Depreciation Percent	50 - 55%	2.0%
Depreciation Percent	Over 55%	3.0%

- **TCLP is depreciated at 34.3% as calculated below:**

Historical Investment		\$	60,390,561
Accum Depreciation			20,714,992
Percent Depreciated			34.3%
Risk Associated with historical Assets			1.0%



Traverse City Light and Power Cash Reserve Policy

Debt Service Risk

Annual debt service – Some debt service payments do not occur evenly throughout the year and often occur every six months. The utility has to ensure adequate cash reserves exist to fund the debt service payment when the payment is due.

- The cash reserve policy will include 0% of the current portion of debt service.
 - Currently, TCLP does not have debt. However, should the utility incur debt in the future, TCLP should include the debt payment in the cash calculation. Typically bonds are set up on a semi-annual payment schedule. The analysis should include the percentage of the maximum payment of the year. In the example below, this would represent 80.4% of the yearly debt payment. Below is an example only for future reference. This was not used in the current policy for TCLP:

Date	Principal	Interest	Total
10/1/2011	\$ -	\$ 123,313	\$ 123,313
4/1/2012	382,566	123,313	505,879
Total	\$ 382,566	\$ 246,626	\$ 629,192
Highest Payment divided by Annual Debt Service			80.4%

Five-Year Capital Plan Risk

Capital improvement program – Some capital improvements are funded through bond issuances and some through cash reserves. The establishment of a minimum cash reserve level helps to ensure timely replacement or construction of assets.

- The cash reserve policy will include 20% of the average typical five year capital improvement program less any improvements funded through the issuance of bonds.

	Projected 2013	Projected 2014	Projected 2015	Projected 2016	Projected 2017	Total
Total Capital Plan	\$ 14,140,000	\$ 5,160,000	\$ 5,035,000	\$ 5,510,000	\$ 5,910,000	
Bond Proceeds	-	-	-	-	-	
5 year plan less Bond proceeds	\$ 14,140,000	\$ 5,160,000	\$ 5,035,000	\$ 5,510,000	\$ 5,910,000	\$ 35,755,000

TCLP currently has a \$14 million project planned for 2012-13. The average of \$5.275 per year was used to calculate the cash reserve as the \$14 million project would significantly increase the total for the overall policy and appears to be an extraordinary capital improvement.



Traverse City Light and Power Cash Reserve Policy

Minimum Cash Reserve Calculation

The minimum cash reserve calculation considers the risk “in total” and not each individual category. For example; catastrophic events can occur and the amount may far exceed the amount set aside under “Historical investment in assets”.

If certain events occur that results in cash reserves falling below the minimum cash reserve levels, the Board of Directors should take action to restore cash reserves to the minimum levels over the subsequent three years. These actions may include a number of options:

1. Rate Adjustments
2. Cost reductions
3. Issuance of bonds to fund capital improvement programs
4. Modification of the assumptions used to determine the cash reserve levels

Based on 2011-12 Actual expenditures, the proposed 2013 recommended minimum cash reserve is \$8.75 million as calculated below:

Recommended MINIMUM Reserves	Risk Percent Allocated	Recommended Reserve
Yearly O&M Less Depreciation & Power Supply	11.0%	\$ 852,306
Power Supply	9.1%	2,020,867
Historical Investment in System	1.0%	603,906
Current Portion of Debt Service	0.0%	-
Five Year Capital Plan - Net of bond proceeds	20.0%	5,275,000
Recommended MINIMUM Reserves		\$ 8,752,078

*For simplification, the calculation can be estimated by the O&M budget (no depreciation) and using 101 day working capital

<u>Overall Policy Working Capital Days/O&M expenses</u>	
Expenses	\$ 31,775,659
Minimum Cash Recommendation	8,752,078
Expenses/Minimum recommendation	3.63
Days in year	365.00
Days working capital	101

It is important to emphasize this is a recommended minimum cash reserve. Actual cash reserves may vary substantially above the minimum and is dependent on the life cycle of assets, future capital plan, rate setting polices, and debt policies.

The minimum cash reserve calculation should be updated annually as part of the budget process. The discussion with the Board of Directors should include a visual description of the past trends, current position and future projections.



TRAVERSE CITY
LIGHT & POWER

To: Light & Power Board
From: Jessica Wheaton, Marketing & Community Relations Coordinator
Date: January 15, 2013
Subject: National Cherry Festival Senior Events Sponsorship

A handwritten signature in black ink, appearing to be "J. Wheaton", is written over the "From:" line of the header.

For the past 20 plus years, Traverse City Light & Power (TCL&P) has sponsored the National Cherry Festival (NCF). Because the senior rate payers make up a large percentage of the customer base, TCL&P has specifically sponsored the Senior Events. The Senior Events take place every day during the NCF and consist of events like the Distinguished Senior Breakfast and award ceremony, where a TCL&P representative judges the Distinguished Senior Competition and honors one senior citizen for their contributions to the Traverse City area. Grand Traverse Pavilions is a co-sponsor with TCL&P of the NCF's Senior Events, and they have committed to renewal of the sponsorship for 2013.

The Senior Events sponsorship cost is \$5,000 and goes towards implementing the many Senior Events throughout the week of the festival. With the sponsorship, TCL&P receives logo and written recognition in all Senior Event programs and flyers (see attached), verbal recognition at all events, opportunities for TCL&P employees to participate in the Senior Events and logo and written recognition in the NCF program and website. TCL&P also receives free entry to the Grand Royale Parade where TCL&P traditionally drives a bucket truck.

The sponsorship cost comes out of the Conservation & Public Services budget category and has been budgeted for in FY 2012/13. In 2002/03, when the Community Investment Fund (CIF) was originally created, the NCF was required to fill out a grant application. It was decided that after 2002/03, because of the great positive response from the senior citizens and the community benefits derived from the sponsorship, TCL&P would use budgeted promotion dollars to sponsor the festival and not have the NCF apply for a grant through the CIF. This decision was supported by the board's CIF review committee.

TCL&P also assists the NCF every year by allowing the use of the coal dock for the fireworks at the end of the festival. Although this is not part of the sponsorship, it is a good example of the partnership between TCL&P and the NCF. TCL&P also participates in the festival's Green Day, where TCL&P gives away light bulbs and has interactive energy efficiency activities for kids and adults.

With this festival drawing over 500,000 annually in attendance, and with Traverse City receiving a significant economic boost from the crowd the festival draws to the city, staff

believes that this sponsorship is beneficial and a highly visible example of TCL&P being a community partner.

This item is appearing on the consent calendar as it is deemed non-controversial. Approval of this item on the consent calendar means you agree with staff's recommendation to continue sponsoring the NCF Senior Events for the 2013 festival. If any board member has questions, other than clarifying questions, this item should be removed from the consent calendar for further discussion.

If the board is in agreement, the following motion would be appropriate:

MOVED BY _____ SECONDED BY _____, THAT THE LIGHT AND POWER BOARD APPROVE THE SPONSORSHIP OF THE 2013 NATIONAL CHERRY FESTIVAL SENIOR EVENTS IN THE AMOUNT OF \$5,000, AS PROVIDED FOR IN THE 2012-13 BUDGET.



TRAVERSE CITY
LIGHT & POWER

To: Light & Power Board
From: Jessica Wheaton, Marketing & Community Relations Coordinator
Date: January 15, 2013
Subject: Grand Traverse Conservation District's Seedling and Native Plant Sales

For the past thirteen years, Traverse City Light & Power (TCL&P) has sponsored the Grand Traverse Conservation District's (GTCD) Annual Seedling Sale and Native Plant Sale. The Annual Seedling Sale, typically held around Earth Day, offers community members an opportunity to purchase an assortment of conifers, hardwoods and shrubs. The Native Plant Sale, typically held towards the end of May, offers wildflowers, ground covers, ferns and native rescue plants from around the area. The proceeds from both sales help support the GTCD, an independent, community-serving organization that works to keep the Boardman River healthy, local farms sustainable, public parklands accessible, and children and families outdoors exploring and learning how to care for the natural resources. Prior to the construction of the Boardman River Nature Center in 2008, this sale was held at the TCL&P facility on Hastings Street.

The sponsorship cost for the two sales is \$11,000 and goes towards implementing the sales. With the sponsorship, TCL&P receives a variety of recognition which includes: logos on all sales materials (flyers, brochures, print ads, direct mailings, order forms and planting instruction cards – see attached) along with “sponsored by” taglines on radio ads and television coverage. TCL&P is also recognized on the GTCD website before and after the sales and has a banner displayed at the Boardman River Nature Center during the sales.

Another component of the sponsorship, which is included in the sponsorship cost, is that TCL&P purchases 10,000 white pine seedlings and provides them to local schools and youth groups for Earth Day. *This is separate from TCL&P's seedling giveaway.* Over the thirteen years that TCL&P has sponsored the sales, 130,000 seedlings have been provided to local children. Those seedlings also come with a planting instruction card with TCL&P's logo on it. Because of this component of the sponsorship, the American Public Power Agency has awarded TCL&P with the Golden Tree Award for several years. The award is given to municipal utilities who have given away one tree for every customer on a yearly basis and honors their commitment to the environment.

The sponsorship cost comes out of the Conservation & Public Services budget category and has been budgeted for in FY 2012/13. In 2002/03, when the Community Investment Fund (CIF) was originally created, the GTCD was required to fill out a grant application. It was decided that after 2002/03, because of the community and environmental benefits and positive TCL&P recognition, TCL&P would use budgeted promotion dollars to sponsor the

sales and not have GTCD apply for a grant through the CIF. This decision was supported by the board's CIF review committee.


Staff believes that this sponsorship is beneficial and a highly visible example of TCL&P being a community partner and TCL&P's commitment to the environment. It also supports TCL&P's mission of being an environmentally conscious utility.

This item is appearing on the consent calendar as it is deemed non-controversial. Approval of this item on the consent calendar means you agree with staff's recommendation to continue sponsoring the GTCD Annual Seedling Sale and Native Plant Sale for 2013. If any board member has questions, other than clarifying questions, this item should be removed from the consent calendar for further discussion.

If the board is in agreement, the following motion would be appropriate:

MOVED BY _____ SECONDED BY _____, THAT THE LIGHT AND POWER BOARD APPROVE THE SPONSORSHIP OF THE GRAND TRAVERSE CONSERVATION DISTRICT'S 2013 ANNUAL SEEDLING AND NATIVE PLANT SALES IN THE AMOUNT OF \$11,000, AS PROVIDED FOR IN THE 2012-13 BUDGET.



To: Light & Power Board
From: Tim Arends, *Interim* Executive Director/Controller 
Date: January 16, 2013
Subject: Presentation of the 2011-2012 Financial Statement Audit

The TCL&P's Financial Statement Audit for the fiscal year ended June 30, 2012 will be presented by the audit firm of Rehmann Robson as a New Business agenda item.

If after the Board's questions have be answered and you are satisfied with the report the following motion would be appropriate:

MOVED BY _____, SECONDED BY _____,
THAT THE FINANCIAL STATEMENTS FOR THE FISCAL YEAR ENDED JUNE 30, 2012,
BE ACCEPTED.

Traverse City Light and Power

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

Financial Statements

**For the Fiscal Year Ended
June 30, 2012**

TRAVERSE CITY LIGHT AND POWER

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

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INDEPENDENT AUDITORS' REPORT

December 28, 2012

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

We have audited the accompanying financial statements of the business-type activities and each major fund of *Traverse City Light and Power* (the "Department"), a component unit of the City of Traverse City, Michigan, as of and for the year ended June 30, 2012, which collectively comprise the Department's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Department's management. Our responsibility is to express opinions on these financial statements based on our audit.

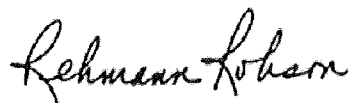
We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and 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 the business-type activities and each major fund of the Department as of June 30, 2012, and the respective changes in financial position and cash flows, where applicable, thereof 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 our report dated December 28, 2012, on our consideration of the Department's internal control over financial reporting and 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.

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 3-5 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.

Our audit was conducted for the purposed of forming opinions on the financial statements that collectively comprise the City's financial statements as a whole. The schedules presented as supplementary information are presented for the purpose of additional analysis and are not a required part of the financial statements. Such 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.

A handwritten signature in cursive script that reads "Lehmann Lobarr".

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, 2012. 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). 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 *Statement of Net Assets* 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 *Statement of Revenues, Expenses and Changes in Net Assets* presents 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 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 or fiduciary 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 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 \$73,000,000 at the close of the most recent fiscal year, June 30, 2012.

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). The Department uses these capital assets to provide services to customers. The remaining Department net assets are unrestricted and available for Department activity.

Traverse City Light and Power's Net Assets

	<u>June 30</u>	
	<u>2012</u>	<u>2011</u>
Business-type Activities		
Current and other assets	\$ 35,190,798	\$ 36,620,224
Capital assets	<u>41,112,747</u>	<u>38,817,697</u>
Total assets	76,303,545	75,437,921
Long-term liabilities outstanding	279,430	292,721
Other liabilities	<u>2,667,465</u>	<u>2,567,933</u>
Total liabilities	<u>2,946,895</u>	<u>2,860,654</u>
Net assets		
Invested in capital assets	41,112,747	38,817,697
Unrestricted	<u>32,243,903</u>	<u>33,759,570</u>
Total net assets	<u>\$ 73,356,650</u>	<u>\$ 72,577,267</u>

Traverse City Light and Power's Changes in Net Assets

	<u>June 30</u>	
	<u>2012</u>	<u>2011</u>
Business-type Activities		
Operating revenue	\$ 32,028,292	\$ 30,165,063
Operating expenses	(31,944,507)	(29,609,252)
Nonoperating revenue (expenses) – net	<u>695,598</u>	<u>1,002,185</u>
Increase in net assets	779,383	1,557,996
Net assets – beginning of year	<u>72,577,267</u>	<u>71,019,271</u>
Net assets – end of year	<u>\$ 73,356,650</u>	<u>\$ 72,577,267</u>

Business-type activities

The overall financial position of the Department remained strong in 2011-2012. There are no outstanding debt obligations except for the commitments through the power supply contracts with MPPA to reimburse MPPA for debt service costs relating to the Campbell, Belle River and Kalkaska Combustion Turbine generation plants.

Revenue

Residential sales were down 0.3% over last year, commercial sales were up 4.8% and industrial sales were up 10.8% contributing to the majority of a \$1,863,229 increase in operating revenues. Management attributes this increase to improvement in the local economy along with a warmer summer season.

Expenses

In fiscal year 2011-2012, operating expenses increased approximately \$2,335,000 from fiscal year 2010-2011 due in large part to increased generation expenses as a result of increased energy sales, increased energy conservation efforts that exceeded Public Act 295 requirements, and an increase in the city fee as a result of increased sales.

Capital asset and debt administration

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

	<u>June 30</u>	
	<u>2012</u>	<u>2011</u>
Land and land improvements	\$ 1,309,430	\$ 806,695
Construction in progress	685,751	780,851
Buildings and improvements	4,411,485	4,010,915
Equipment and distribution system	55,751,137	53,064,601
Accumulated depreciation	<u>(21,045,056)</u>	<u>(19,845,365)</u>
Total	<u>\$ 41,112,747</u>	<u>\$ 38,817,697</u>

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

A rate increase was not budgeted for fiscal year 2012-13; however, future generation needs and recently passed legislation requiring 10% renewable energy generation by 2015 will impact the Department's capital plans. Due to the uncertainty of the local and state economy, the Department maintained a status quo budget in 2012-2013 allowing for modest increases in revenues and expenses for inflation.

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 Tim Arends, 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 ASSETS JUNE 30, 2012

ASSETS	<u>Light and Power Fund</u>	<u>Fiber Fund</u>	<u>Total</u>
Current assets			
Cash and cash equivalents	\$ 10,268,458	\$ 52,018	\$ 10,320,476
Investments	18,450,441	-	18,450,441
Receivables			
Customer, less allowances of \$237,092 for uncollectible accounts (Light and Power Fund)	3,502,763	16,222	3,518,985
Accrued interest	36,660	-	36,660
Taxes	2,690	-	2,690
Other	160,029	-	160,029
Inventories	1,701,462	-	1,701,462
Prepaid expenses	24,165	-	24,165
Total current assets	<u>34,146,668</u>	<u>68,240</u>	<u>34,214,908</u>
Non-current assets			
Other postemployment benefit asset	508,162	-	508,162
Long-term advances - due from primary government	467,728	-	467,728
Land and land improvements	1,309,430	-	1,309,430
Construction in progress	613,319	72,432	685,751
Capital assets being depreciated, net	37,752,819	1,364,747	39,117,566
Total non-current assets	<u>40,651,458</u>	<u>1,437,179</u>	<u>42,088,637</u>
Total assets	<u>\$ 74,798,126</u>	<u>\$ 1,505,419</u>	<u>\$ 76,303,545</u>

TRAVERSE CITY LIGHT AND POWER

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

STATEMENT OF NET ASSETS JUNE 30, 2012

LIABILITIES AND NET ASSETS	Light and Power Fund	Fiber Fund	Total
Current liabilities			
Accounts payable	\$ 1,944,883	\$ 7,828	\$ 1,952,711
Accrued expenses and other liabilities	411,460	-	411,460
Customer deposits	123,346	-	123,346
Unearned revenue	-	12,100	12,100
Due to primary government	158,157	9,691	167,848
Total current liabilities	2,637,846	29,619	2,667,465
Long-term liabilities			
Compensated absences	279,430	-	279,430
Total liabilities	2,917,276	29,619	2,946,895
Net assets			
Invested in capital assets	39,675,568	1,437,179	41,112,747
Unrestricted	32,205,282	38,621	32,243,903
Total net assets	71,880,850	1,475,800	73,356,650
Total liabilities and net assets	\$ 74,798,126	\$ 1,505,419	\$ 76,303,545

TRAVERSE CITY LIGHT AND POWER

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

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS FOR THE YEAR ENDED JUNE 30, 2012

	Light and Power Fund	Fiber Fund	Total
Operating revenues			
Charges for services	\$ 29,410,567	\$ 193,810	\$ 29,604,377
MISO income	2,266,084	-	2,266,084
Other	157,831	-	157,831
Total operating revenues	31,834,482	193,810	32,028,292
Operating expenses			
Generation	22,250,681	-	22,250,681
Distribution	3,596,637	-	3,596,637
Transmission	179,975	-	179,975
Customer accounting	500,426	-	500,426
Public service	676,733	-	676,733
General administration	1,112,653	-	1,112,653
Fiber	-	71,651	71,651
Other	52,215	995	53,210
City fee	1,598,157	9,691	1,607,848
Depreciation	1,808,182	86,511	1,894,693
Total operating expenses	31,775,659	168,848	31,944,507
Operating income	58,823	24,962	83,785
Nonoperating revenues (expenses)			
Rental income	53,008	-	53,008
Reimbursements	354,909	39,069	393,978
Interest income	397,755	-	397,755
Change in fair value of investments	22,891	-	22,891
Loss on sale of fixed assets	(172,034)	-	(172,034)
Total nonoperating revenue (expenses) - net	656,529	39,069	695,598
Change in net assets	715,352	64,031	779,383
Net assets, beginning of year	71,165,498	1,411,769	72,577,267
Net assets, end of year	\$ 71,880,850	\$ 1,475,800	\$ 73,356,650

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

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2012

	Light and Power Fund	Fiber Fund	Total
Cash flows from operating activities			
Cash received from customers	\$ 31,871,637	\$ 187,713	\$ 32,059,350
Cash payments to employees	(5,224,885)	(65,399)	(5,290,284)
Cash payments to suppliers for goods and services	(22,887,422)	(15,600)	(22,903,022)
Cash payments of City fee	(1,511,219)	(18,871)	(1,530,090)
Net cash provided by operating activities	2,248,111	87,843	2,335,954
Cash flows from noncapital financing activities			
Cash payments from primary government	83,012	-	83,012
Cash payments from other governments	250,000	-	250,000
Cash payments to other funds	-	(38,769)	(38,769)
Cash payments from other funds	48,460	-	48,460
Customer deposits received	634	-	634
Rental income received	53,008	-	53,008
Reimbursements received	354,909	39,069	393,978
Net cash provided by noncapital financing activities	790,023	300	790,323
Cash flows from capital and related financing activities			
Purchase of capital assets	(4,325,652)	(36,125)	(4,361,777)
Cash flows from investing activities			
Purchase of investments	(800,696)	-	(800,696)
Interest and dividends received	409,771	-	409,771
Net cash used in investing activities	(390,925)	-	(390,925)
Net increase (decrease) in cash and cash equivalents	(1,678,443)	52,018	(1,626,425)
Cash and cash equivalents, beginning of year	11,946,901	-	11,946,901
Cash and cash equivalents, end of year	\$ 10,268,458	\$ 52,018	\$ 10,320,476

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

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2012

	Light and Power Fund	Fiber Fund	Total
Cash flows from operating activities			
Operating income	\$ 58,823	\$ 24,962	\$ 83,785
Adjustments to reconcile operating income to net cash provided by operating activities			
Depreciation	1,808,182	86,511	1,894,693
Changes in operating assets and liabilities which provided (used) cash			
Receivables	37,155	(6,097)	31,058
Inventories	376,144	-	376,144
Prepaid expenses	25,134	-	25,134
Accounts payable	51,761	(8,353)	43,408
Due to other governments	86,938	(9,180)	77,758
Accrued expenses and other liabilities	16,501	-	16,501
Compensated absences	(13,291)	-	(13,291)
Other postemployment benefit asset	(199,236)	-	(199,236)
Net cash provided by operating activities	\$ 2,248,111	\$ 87,843	\$ 2,335,954

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 2012, the city fee was \$1,607,848.

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*. 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 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.
- 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

TRAVERSE CITY LIGHT AND POWER

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

NOTES TO FINANCIAL STATEMENTS

- 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 cost (first-in, first-out) not in excess of market. 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 improvements	20-50
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. 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.

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 Midwest Independent System Operator "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

(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.

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, 2012 are composed of the following:

	<u>Cash and cash equivalents</u>	<u>Investments</u>	<u>Totals</u>
Deposits	\$10,320,476	\$ 6,975,001	\$ 17,295,477
Investments	<u>-</u>	<u>11,475,440</u>	<u>11,475,440</u>
Total	<u>\$10,320,476</u>	<u>\$ 18,450,441</u>	<u>\$ 28,770,917</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.

The Department chooses to disclose its investments by specifically identifying each. As of June 30, 2012, the Department's Michigan CLASS investment is rated by Standard & Poor's. The Department had the following investments:

TRAVERSE CITY LIGHT AND POWER

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

NOTES TO FINANCIAL STATEMENTS

<u>Investment</u>	<u>Maturity</u>	<u>Fair Value</u>	<u>Rating</u>
US Treasury note	01/15/2013	\$ 503,185	AA+
US Treasury note	04/15/2013	1,011,990	AA+
US Treasury note	09/30/2013	103,531	AA+
US Treasury note	09/30/2014	1,045,630	AA+
US Treasury note	12/31/2014	1,056,020	AA+
US Treasury note	02/16/2016	1,200,216	AA+
US Treasury note	12/31/2016	1,002,375	AA+
US Treasury note	01/30/2017	600,228	AA+
US Treasury note	05/23/2017	998,710	AA+
US Treasury note	06/28/2017	499,520	AA+
US Treasury note	06/30/2018	541,990	AA+
US Treasury note	02/15/2020	470,532	AA+
US Treasury note	05/24/2022	499,580	AA+
MPPA Investments Pool	Various	1,938,914	Unrated
Michigan CLASS	N/A	<u>3,019</u>	AAAm
		<u>\$ 11,475,440</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.

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 \$11,475,440 of investments at June 30, 2012, the Department has a custodial credit risk exposure of \$9,533,507 because the related securities are uninsured, unregistered and held by the

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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 5% of the Department's investments.

3. CAPITAL ASSETS

At June 30, 2012 capital assets consist of the following:

	Beginning Balance	Increases & Transfers	Decreases & Transfers	Ending Balance
Capital assets not being depreciated				
Land and land improvements	\$ 806,695	\$ 502,735	\$ -	\$ 1,309,430
Construction in progress	780,851	3,750,442	3,845,542	685,751
Total capital assets not being depreciated	1,587,546	4,253,177	3,845,542	1,995,181
Capital assets being depreciated				
Buildings and improvements	4,010,915	400,570	-	4,411,485
Equipment and distribution system	51,387,314	3,536,048	867,036	54,056,326
Fiber system	1,677,287	17,524	-	1,694,811
Total capital assets being depreciated	57,075,516	3,954,142	867,036	60,162,622
Less accumulated depreciation for				
Buildings and improvements	978,032	126,336	-	1,104,368
Equipment and distribution system	18,623,780	1,681,846	695,002	19,610,624
Fiber system	243,553	86,511	-	330,064
Total accumulated depreciation	19,845,365	1,894,693	695,002	21,045,056
Total capital assets being depreciated, net	37,230,151	2,059,449	172,034	39,117,566
Total capital assets, net	\$ 38,817,697	\$ 6,312,626	\$ 4,017,576	\$41,112,747

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4. LONG-TERM LIABILITIES

Long-term debt at June 30, 2012 consists of the following:

	<u>Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u>	<u>Due</u>
	<u>07/01/11</u>			<u>06/30/12</u>	<u>Within</u>
					<u>One Year</u>
Accrued compensated absences	\$292,721	\$ -	\$ 13,291	\$279,430	\$ -

5. POWER SUPPLY PURCHASE

In September 2010, the Department entered into two 5-year agreements with the Lansing Board of Water & Light (“LBWL”) to commence January 1, 2011. The purchase power agreement allows for the purchase of a minimum of 10 megawatt of electric energy up to a maximum of 45 megawatt to replace its deficient energy needs from the expired agreement with MPPA. The estimated cost for the 5-year term is \$40,000,000. The energy service agency agreement provides for LBWL to act as the Department’s agent with Midwest ISO (“MISO”). LBWL will enter into third party contracts to purchase energy and sell surplus energy into the MISO daily and hourly markets. The estimated cost for the 5-year term is \$375,000. For the year ended June 30, 2012, the Department recognized expenses totaling \$6,873,449.

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 to service its members. 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 year ended June 30, 2012, Traverse City Light and Power recognized expenses totaling \$12,911,436 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.

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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 2011 costs adjusted for inflation. The total estimated future operating costs, which do not include the annual debt payments, are as follows:

<u>Year Ended December 31</u>	<u>Operating Costs</u>
2013	\$ 8,041,374
2014	5,078,787
2015	5,231,150
2016	5,388,085
2017	5,549,727
2018-2022	18,157,976
2023-2027	<u>17,770,576</u>
	<u>\$ 65,217,675</u>

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

<u>Year Ended December 31</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$ 2,564,893	\$ 1,426,927	\$ 3,991,820
2014	2,673,327	1,302,183	3,975,510
2015	2,773,172	1,166,105	3,939,277
2016	2,871,939	1,024,909	3,896,848
2017	2,190,741	878,642	3,069,383
2018-2022	7,373,108	2,994,339	10,367,447
2023-2027	<u>7,893,600</u>	<u>1,222,939</u>	<u>9,116,539</u>
	<u>\$ 28,340,780</u>	<u>\$ 10,016,044</u>	<u>\$ 38,356,824</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 \$1,938,914 as of June 30, 2012.

In December 2010, 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, 2012, the Department recognized expenses totaling \$2,380,113.

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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 year ended June 30, 2012 was \$733,048. The required disclosures related to the plan are provided in the City's financial statements.

7. POSTEMPLOYMENT BENEFITS

In addition to the pension benefits described above, the Department provides postretirement health insurance premiums in accordance with its personnel policies and union agreements. The benefit includes payment of the retirees' premiums until they reach the age of Medicare eligibility. The Department paid \$199,236 for 33 participants in 2012.

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 biannually. The Department's contribution to the plan for the fiscal year ended June 30, 2012 was \$210,535. The postemployment benefit asset for the current year is \$508,162. The required disclosures related to the plan are provided in the City's financial statements.

8. COMMITMENTS

On February 28, 2012, the Department's Board passed a resolution authorizing a \$1,000,000 contribution to assist in funding improvements which are part of the Bayfront Revitalization Legacy project known as the Bayfront Plan Phase I.

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's Board. The Department will take possession of these facilities in three stages, one remaining stage will occur in September 2014.

Property

During fiscal 2003-04, the Department entered into an agreement with Maritime Heritage Alliance to lease a Department owned coal dock. The lease requires annual rental payments of \$1. Under the lease agreement, the lessee 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.

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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 \$4,352,757 within unrestricted net assets at June 30, 2012 to cover the potential impact of current and future uninsured claims.

The Department participates in federally assisted grant programs, which are subject to financial and compliance audits. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements, and is subject to audit by the grantor agencies. The amount, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time although the Department expects such amounts, if any, to be immaterial.

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.

11. DESIGNATIONS OF NET ASSETS

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

	<u>June 30,</u> <u>2012</u>
Emergencies	\$ 100,056
Uninsured claims	4,352,757
Capital expansion	<u>14,375,000</u>
Total	<u>\$18,827,813</u>

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12. GASB PRONOUNCEMENTS

In December 2010, the Governmental Accounting Standards Board (“GASB”) issued Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. The objective of this statement is to incorporate into the GASB’s authoritative literature certain accounting and financial reporting guidance that is included in the following pronouncements issued on or before November 30, 1989, which does not conflict with or contradict GASB pronouncements:

- Financial Accounting Standards Board (FASB) Statements and Interpretations
- Accounting Principles Board Opinions
- Accounting Research Bulletins of the American Institute of Certified Public Accountants’ (AICPA) Committee on Accounting Procedure.

This statement also supersedes Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, thereby eliminating the election provided for enterprise funds and business-type activities to apply post-November 30, 1989 FASB Statements and Interpretations that do not conflict with or contradict GASB pronouncements. However, those entities can continue to apply, as other accounting literature, post-November 30, 1989 FASB pronouncements that do not conflict with or contradict GASB pronouncements, including this statement. The Department is currently evaluating the impact this standard will have on the financial statements when adopted. The Department will implement Statement No. 62 beginning with the fiscal year ended June 30, 2013. The provisions of this statement generally are required to be applied retroactively for all periods presented.

In June 2011, the GASB issued Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. This Statement provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources. Concepts Statement No. 4, *Elements of Financial Statements*, introduced and defined those elements as a consumption of net assets by the government that is applicable to a future reporting period, and an acquisition of net assets by the government that is applicable to a future reporting period, respectively. Previous financial reporting standards do not include guidance for reporting those financial statement elements, which are distinct from assets and liabilities. Concepts Statement No. 4 also identifies net position as the residual of all other elements presented in a statement of financial position. This Statement amends the net asset reporting requirements in Statement No. 34, *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments*, and other pronouncements by incorporating deferred outflows of resources and deferred inflows of resources into the definitions of the required components of the residual measure and by renaming that measure as net position, rather than net assets. The Department is currently evaluating the impact this standard will have on the financial statements when adopted. The Department will implement Statement No. 63 beginning with the fiscal year ended June 30, 2013.

In March 2012, the GASB issued Statement No. 65, *Items Previously Reported as Assets and Liabilities*, which is required to be implemented for financial statements for periods beginning after December 15, 2012. Statement No. 65 establishes accounting and financial reporting standards that reclassify, as deferred outflows and inflows of resources, certain items that were previously reported as assets and liabilities. This statement also provides other financial guidance related to the impact of the financial statement elements deferred outflows of resources and deferred inflows of resources. The Department plans to implement Statement No. 65 beginning with the fiscal year ended June 30,

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2013.

In June 2012, the GASB issued Statement No. 68, *Accounting and Financial Reporting for Pension Plans*. Statement No. 68 requires governments providing defined benefit pensions to recognize their unfunded pension benefit obligation as a liability for the first time, and to more comprehensively and comparably measure the annual costs of pension benefits. This net pension liability that will be recorded on the discretely presented component unit statements will be computed differently than the current unfunded actuarial accrued liability, using specific parameters set forth by the GASB. The statement also enhances accountability and transparency through revised note disclosures and required supplemental information (RSI). The Department is currently evaluating the impact this standard will have on the financial statements when adopted. The provisions of this statement are effective for financial statements for the year ending June 30, 2015.

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SUPPLEMENTARY INFORMATION

(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, 2012**

	Capital Assets - Cost			Balance at June 30, 20
	Balance at June 30, 2011	Additions/ Transfers	Deletions/ Transfers	
and land improvements				
nd	\$ 478,959	\$ 500,345	\$ -	\$ 979
nd - coal dock	245,633	2,390	-	248
nd improvements	82,103	-	-	82
land and land improvements	806,695	502,735	-	1,309
ngs and improvements				
istribution plant	3,920,769	400,570	-	4,321
ifice structures	40,878	-	-	40
her buildings	49,268	-	-	49
buildings and improvements	4,010,915	400,570	-	4,411
ment and distribution system				
ion St. Dam	24,010	-	-	24
ystone plant	390	-	-	-
ind generation unit	785,616	-	-	785
ansmission and distribution	49,652,022	3,409,845	816,783	52,245
neral	925,276	126,203	50,253	1,001
equipment and distribution system	51,387,314	3,536,048	867,036	54,056
uction in progress	727,020	3,707,919	3,821,620	613
	\$ 56,931,944	\$ 8,147,272	\$ 4,688,656	\$ 60,390

Balance at June 30, 2011	Accumulated Depreciation		Balance at June 30, 2012	Capital Assets - Net
	Current Depreciation	Deletions		Balance at June 30, 2012
-	\$ -	\$ -	\$ -	\$ 979,304
-	-	-	-	248,023
-	-	-	-	82,103
-	-	-	-	1,309,430
965,005	123,632	-	1,088,637	3,232,702
6,376	1,226	-	7,602	33,276
6,651	1,478	-	8,129	41,139
978,032	126,336	-	1,104,368	3,307,117
19,870	720	-	20,590	3,420
337	12	-	349	41
356,177	23,569	-	379,746	405,870
17,939,511	1,558,504	644,749	18,853,266	33,391,818
307,885	99,041	50,253	356,673	644,553
18,623,780	1,681,846	695,002	19,610,624	34,445,702
-	-	-	-	613,319
19,601,812	\$ 1,808,182	\$ 695,002	\$ 20,714,992	\$ 39,675,568

TRAVERSE CITY LIGHT AND POWER

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SCHEDULE OF CAPITAL ASSETS AND DEPRECIATION FIBER FUND FOR THE YEAR ENDED JUNE 30, 2012

	Capital Assets - Cost			Balance at June 30, 2012
	Balance at June 30, 2011	Additions/ Transfers	Deletions/ Transfers	
Equipment and distribution system				
Overhead	\$ 1,013,405	\$ 3,241	\$ -	\$ 1,016,646
Underground	221,587	14,283	-	235,870
Termination boxes	346,392	-	-	346,392
Wireless equipment	51,725	-	-	51,725
Other property	44,178	-	-	44,178
Total equipment and distribution system	1,677,287	17,524	-	1,694,811
Construction in progress	53,831	42,523	23,922	72,432
Total	\$ 1,731,118	\$ 60,047	\$ 23,922	\$ 1,767,243

Accumulated Depreciation				Capital Assets - Net
Balance at June 30, 2011	Current Depreciation	Deletions	Balance at June 30, 2012	Balance at June 30, 2012
\$ 141,787	\$ 50,751	\$ -	\$ 192,538	\$ 824,108
32,393	11,437	-	43,830	192,040
50,440	17,319	-	67,759	278,633
7,758	2,586	-	10,344	41,381
11,175	4,418	-	15,593	28,585
243,553	86,511	-	330,064	1,364,747
-	-	-	-	72,432
\$ 243,553	\$ 86,511	\$ -	\$ 330,064	\$ 1,437,179

TRAVERSE CITY LIGHT AND POWER

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SCHEDULE OF REVENUES AND EXPENSES - BUDGET AND ACTUAL LIGHT AND POWER FUND FOR THE YEAR ENDED JUNE 30, 2012

	Amended Budget	Actual	Positive (Negative) Variance
Operating revenues - sales			
Residential	\$ 6,207,000	\$ 5,407,313	\$ (799,687)
Commercial	15,085,000	14,236,306	(848,694)
Industrial	8,985,000	9,219,732	234,732
Public authority	272,000	278,640	6,640
Street lighting	195,000	189,823	(5,177)
Yard lights	86,600	78,753	(7,847)
	30,830,600	29,410,567	(1,420,033)
Other operating revenues			
Forfeited discounts	53,400	43,823	(9,577)
Merchandise and jobbing	177,900	56,637	(121,263)
Sale of scrap	21,400	28,240	6,840
Recovery of bad debts	500	80	(420)
MISO income	2,100,000	2,266,084	166,084
Miscellaneous	17,750	29,051	11,301
	2,370,950	2,423,915	52,965
Total other operating revenues	2,370,950	2,423,915	52,965
Nonoperating revenues			
Rental income	45,400	21,235	(24,165)
Pole rental income	31,750	31,773	23
Reimbursements	228,650	354,909	126,259
Interest income	500,000	397,755	(102,245)
Change in fair market value of investments	-	22,891	22,891
	805,800	828,563	22,763
Total nonoperating revenues	805,800	828,563	22,763
Total revenues	34,007,350	32,663,045	(1,344,305)

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SCHEDULE OF REVENUES AND EXPENSES - BUDGET AND ACTUAL (CONTINUED) LIGHT AND POWER FUND FOR THE YEAR ENDED JUNE 30, 2012

	<u>Amended Budget</u>	<u>Actual</u>	<u>Positive (Negative) Variance</u>
Generation expense			
Wind generator - M-72 Traverse	\$ 16,000	\$ 18,157	\$ (2,157)
Wind farm development	5,000	1,841	3,159
Kalkaska combustion turbine	225,000	-	225,000
Hydrodams			
Brown Bridge dam	-	1,553	(1,553)
Sabin dam	900	-	900
Boardman dam	900	-	900
Purchased power	21,005,000	22,164,998	(1,159,998)
Coal dock	4,500	8,740	(4,240)
Trap and transfer	1,000	-	1,000
Union street fish ladder	250	-	250
Professional development	750	2,013	(1,263)
Operation supplies	213,000	45,091	167,909
Communications	550	288	262
Safety	4,200	8,000	(3,800)
Miscellaneous	850	-	850
Total generation expenses	<u>21,477,900</u>	<u>22,250,681</u>	<u>(772,781)</u>

TRAVERSE CITY LIGHT AND POWER

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SCHEDULE OF REVENUES AND EXPENSES - BUDGET AND ACTUAL (CONTINUED) LIGHT AND POWER FUND FOR THE YEAR ENDED JUNE 30, 2012

	Amended Budget	Actual	Positive (Negative) Variance
Distribution expense			
Supervision and engineering	\$ 725,000	\$ 656,920	\$ 68,080
Substation	237,350	141,977	95,373
Overhead lines	525,850	317,526	208,324
Load and dispatching	578,500	913,420	(334,920)
Underground lines	163,700	186,258	(22,558)
Customer installations	44,450	30,152	14,298
Electric meters	227,300	210,324	16,976
Street lighting	282,250	296,548	(14,298)
Plant and structures	211,900	314,830	(102,930)
Shop labor	93,900	162,606	(68,706)
Professional development	155,100	104,910	50,190
Operation supplies	102,300	126,459	(24,159)
Utilities	62,900	64,641	(1,741)
Safety	33,850	62,821	(28,971)
Miscellaneous	4,900	7,245	(2,345)
Total distribution expense	3,449,250	3,596,637	(147,387)
Transmission expense			
Supervision and engineering	19,050	28,949	(9,899)
Substation	60,000	27,183	32,817
Overhead lines	39,300	3,713	35,587
Load and dispatching	57,850	50,817	7,033
MISO	20,400	21,190	(790)
Miscellaneous	49,400	48,123	1,277
Total transmission expense	246,000	179,975	66,025

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SCHEDULE OF REVENUES AND EXPENSES - BUDGET AND ACTUAL (CONTINUED) LIGHT AND POWER FUND FOR THE YEAR ENDED JUNE 30, 2012

	Amended Budget	Actual	Positive (Negative) Variance
Customer accounting expense			
Salaries	\$ 160,000	\$ 157,312	\$ 2,688
Meter reading	104,500	105,198	(698)
Payroll taxes and fringes	169,000	124,453	44,547
Office supplies	4,750	3,879	871
Postage	35,350	35,052	298
Stationary and printing	4,250	5,547	(1,297)
Equipment rental	12,300	9,527	2,773
Professional and contractual	42,350	7,919	34,431
Uncollectible accounts	66,300	16,796	49,504
Collection expense	550	535	15
Data processing	20,500	20,087	413
Professional development	2,500	3,792	(1,292)
Miscellaneous	9,700	10,329	(629)
Total customer accounting expense	632,050	500,426	131,624
Public service expense			
Public service information	1,419,600	676,733	742,867
Total public service expense	1,419,600	676,733	742,867

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SCHEDULE OF REVENUES AND EXPENSES - BUDGET AND ACTUAL (CONCLUDED) LIGHT AND POWER FUND FOR THE YEAR ENDED JUNE 30, 2012

	<u>Amended Budget</u>	<u>Actual</u>	<u>Positive (Negative) Variance</u>
General administration expense			
Salaries	\$ 760,300	\$ 716,345	\$ 43,955
Payroll taxes and fringes	261,800	137,566	124,234
Professional development	40,400	16,074	24,326
Professional and contractual	11,150	88,284	(77,134)
Office supplies	8,450	9,708	(1,258)
Fees and per diems	69,450	55,263	14,187
Special services	13,100	6,611	6,489
Legal fees	85,000	58,151	26,849
Utilities	7,200	8,089	(889)
Printing and publishing	3,550	2,847	703
Miscellaneous	16,500	13,715	2,785
Total general administration expense	<u>1,276,900</u>	<u>1,112,653</u>	<u>164,247</u>
Other expenses			
Insurance - general	72,800	52,215	20,585
City fee	1,687,850	1,598,157	89,693
Depreciation	1,715,000	1,808,182	(93,182)
Loss on disposal of capital asset	-	172,034	(172,034)
Total other expenses	<u>3,475,650</u>	<u>3,630,588</u>	<u>(154,938)</u>
Total expenses	<u>31,977,350</u>	<u>31,947,693</u>	<u>29,657</u>
Change in net assets	<u>\$ 2,030,000</u>	<u>\$ 715,352</u>	<u>\$ (1,314,648)</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, 2012

	<u>Amended Budget</u>	<u>Actual</u>	<u>Positive (Negative) Variance</u>
Operating revenues - sales			
Other sales	\$ 216,850	\$ 193,810	\$ (23,040)
Non-operating revenues			
Reimbursements	37,400	39,069	1,669
Total revenues	<u>254,250</u>	<u>232,879</u>	<u>(21,371)</u>
Fiber expenses			
Supervision and engineering	17,200	30,692	(13,492)
Overhead	5,000	14,725	(9,725)
Underground	2,000	4,520	(2,520)
Termination boxes	76,200	13,211	62,989
Customer installations	2,750	8,333	(5,583)
Professional development	500	246	254
Miscellaneous	22,000	(76)	22,076
Total fiber expenses	<u>125,650</u>	<u>71,651</u>	<u>53,999</u>
Other expenses			
Insurance and bonds	1,300	995	305
City fee	10,800	9,691	1,109
Depreciation	86,500	86,511	(11)
Total other expenses	<u>98,600</u>	<u>97,197</u>	<u>1,403</u>
Total expenses	<u>224,250</u>	<u>168,848</u>	<u>55,402</u>
Change in net assets	<u>\$ 30,000</u>	<u>\$ 64,031</u>	<u>\$ 34,031</u>

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 28, 2012

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

We have audited the financial statements of the business-type activities and each major fund of *Traverse City Light and Power* (the "Department"), as of and for the year ended June 30, 2012, which collectively comprise the Department's basic financial statements and have issued our report thereon dated December 28, 2012. 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

Management of the Department is responsible for establishing and maintaining effective 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.

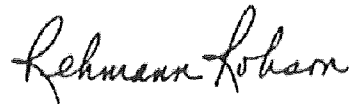
A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as identified above.

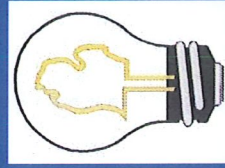
Compliance and Other Matters

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 Board, and others within the Department and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in cursive script that reads "Lehmann Loban".

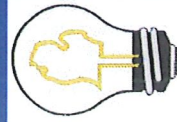
Overview: Michigan Public Power Agency



David Walters
General Manager and CEO
Michigan Public Power Agency

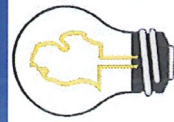
Michigan “Public Power”

- Michigan has 41 municipally-owned electric utility systems
- Range in size from a small village of less than 200 customers (Daggett) to the Lansing Board of Water and Light with almost 100,000 customers
- Total aggregate annual retail electricity sales to public power customers in Michigan is approximately 7.6 billion KWh (or about 7.2% of the State’s total retail electricity sales)
- All public power systems in the State are members of the **Michigan Municipal Electric Association (MMEA)**



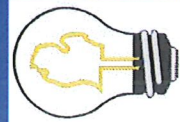
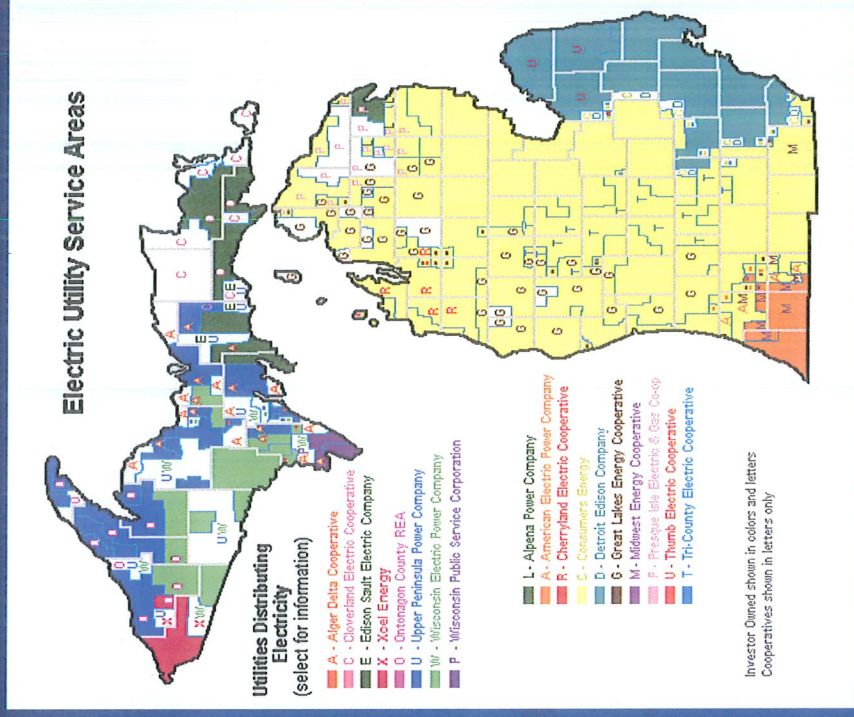
Michigan “Public Power”

- Municipal utilities in Michigan are departments of municipal corporations (i.e. subdivisions of local government) and are regulated by local City Councils and/or Utility Boards (rates and service rules are not under the jurisdiction of the MPSC – one exception EOP and REP require MPSC review)
- Public power systems can provide service outside of municipal limits but are restricted to serving contiguous townships



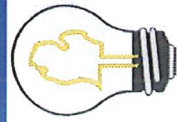
Michigan “Public Power”

- 12 municipal electric systems are located in Michigan’s Upper Peninsula
- 20 municipal utilities within the Consumers Energy service territory
- 4 in the Detroit Edison footprint
- 5 are located in the south-eastern lower peninsula in the service territory of Indiana Michigan Power Company (AEP)



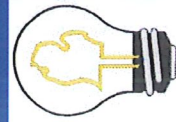
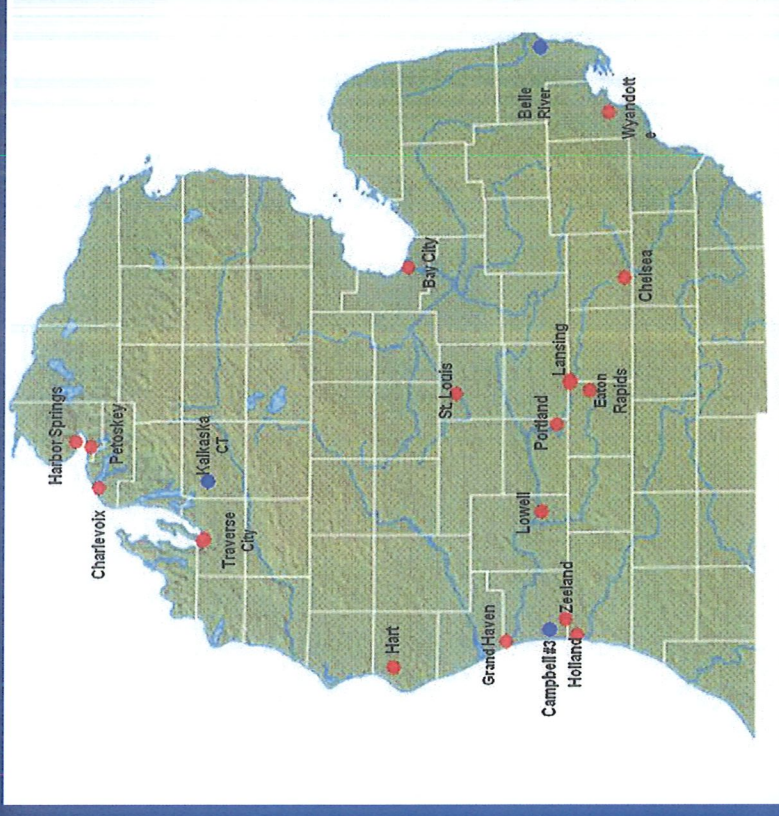
Michigan “Public Power”

- Michigan PA 448 of 1976, as amended, encourages the formation of **Joint Action Agencies (JAAs)** to allow municipal electric utilities to jointly “*acquire, finance, maintain, and operate generating, transmission, and distribution facilities of electric power, fuel and energy reserves and all necessary related properties, equipment, and facilities;*”
- Three JAAs are currently serving Michigan’s municipal electric utilities:
 - Michigan Public Power Agency (MPPA)** – 17 members
 - Michigan South Central Power Agency (MSCPA)** – 5 members
 - Wisconsin Public Power Inc. (WPPI Energy)**
 - 6 MI municipal members in Upper Peninsula



Michigan Public Power Agency

- 17 member systems (16 in MI lower peninsula)
- Members supply about 5.6 billion KWh annually to retail customers (about 74% of all MI municipal sales)
- Peak member demand of approximately 1,200 MW
- LBWL represents about 39% of MPPA member retail load



Michigan Public Power Agency

- MPPA is a “Project” based JAA

Member utilities can choose to participate in each Agency project or service committee independently

- MPPA primary generation projects:

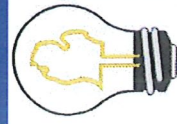
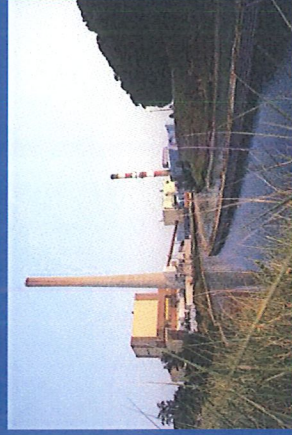
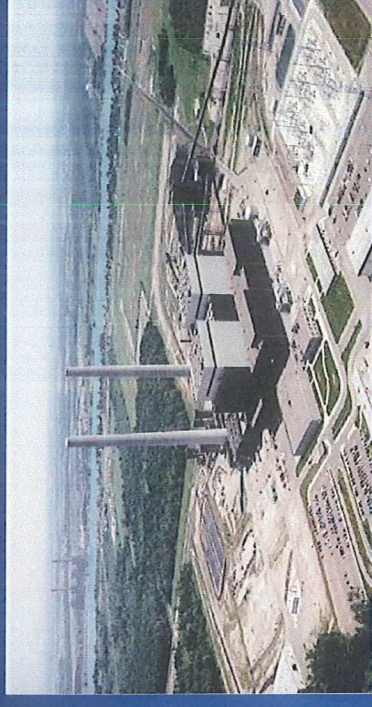
CECO Campbell #3 (40 MW) – 10 members

DTE Belle River (232 MW) – 11 members

MPPA Kalkaska CT (50 MW) – 5 members

Landfill Gas (phased 23 MW) – 14 members

AFEC (35 MW) – 13 members



Michigan Public Power Agency

Michigan Public Power Agency

- Member Owned Generation:



Coal (773 MW of which 493 @ LBWL)

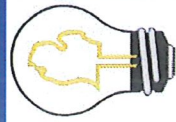
Natural Gas/Oil (288 MW)

Renewables (20 MW)

- Scheduling/Dispatch/Market Participation Services:

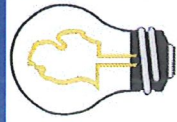
Energy Services Project – 14 members

Dispatch Services Project – 1 members (likely to join ESP)



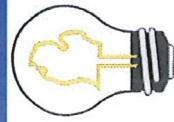
Michigan Public Power Agency

- Other Projects/Service Committees (SC):
 - Transmission Project – 13 members
 - NERC Compliance Support SC – 15 members
 - Base Resource Study SC – 11 members
 - Combine Cycle Study SC – 9 members
 - Renewable Resources Study SC – 12 members
 - Renewable Energy Planning SC – 15 members
 - Energy Efficiency SC – 23 participants (incl. non-members)
 - MIREC Support SC – 15 members



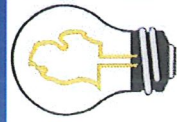
- MPPA's Core Purpose

To create opportunities for joint action that enable Michigan's local public power utilities to successfully provide reliable, cost effective and environmentally responsible electric utility service



Michigan Public Power Agency

- MPPA looks at blending each of its member's existing internal and jointly-owned resources and individual system energy and capacity requirements with those of other members in mutually beneficial relationships and then proposes and recommends short-term and mid-term power purchases and/or long-term project development or PPA opportunities that meet our members' needs



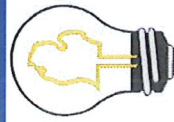
MPPA's Future Power Supply Needs

- MPPA is also evaluating longer term projects within its committee structure

Base Resource Study SC

Combined Cycle Study SC

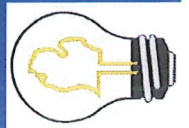
Renewable Resources SC



Questions?

David Walters
General Manager and CEO
Michigan Public Power Agency

dwalters@mpower.org




Michigan Public Power Agency



TRAVERSE CITY
LIGHT & POWER

To: Light & Power Board
From: Tim Arends, *Interim* Executive Director/Controller
Date: January 16, 2013
Subject: APPA's Reliable Public Power Provider Awarded to TCL&P



In keeping with the Board's Strategic Goal "Ensure employee and public safety", staff applied for the Reliable Public Power Provider Award Program (RP3) in October 2012. RP3 is the American Public Power Association's (APPA) program to encourage public power systems to demonstrate basic proficiency in four important disciplines: **reliability**, **safety**, **workforce development**, and **system improvement**. Along with the application, each utility is required to submit supporting documentation demonstrating its commitment to a safe and reliable delivery of services in the above four areas. Applications were reviewed by the RP3 Review Panel comprised of eight officers from four APPA committees (HR, Safety, Transmission & Distribution and System Planning) along with seven members nominated by APPA's Chairperson of the Board of Directors whom represent small, medium and large utility systems.

Of the nation's more than 2,000 public power utilities, 154 have earned RP3 recognition from APPA for providing its customers with the highest degree of reliable and safe electric service; TCL&P is proud to have earned this designation from APPA. This award was achievable only through the hard work and dedication of the staff and employees of TCL&P. TCL&P will receive official recognition for their efforts at the 2013 Engineering and Operations Technical Conference on March 24-27 in Kissimmee, FL.

The RP3 designation is valid from May 1, 2013 to April 30, 2015. In September 2015 staff plans to re-apply in order to maintain this prestigious designation by APPA. Along with the RP3 designation, TCL&P received valuable feedback from the Review Panel that will provide ideas for improving TCL&P's continued effort to enhance the utility's goal of providing safe, reliable, low cost electricity.



RP3 Final Summary Report

Utility Name

Traverse City Light & Power

Rod Solak
Line Superintendent
1131 Hastings Street
MI 49686
231-932-4554 rsolak@tclp.org

Dear Rod Solak:

Congratulations on receiving the Reliable Public Power Provider (RP3) designation! The Reliable Public Power Provider (RP3) program Review Panel has completed its final review of your 2012 RP3 application. In the attached RP3 Final Summary Report, you will find your overall application score, point breakdown for each of the four sections, and brief comments.

The RP3 Final Summary Report is intended to provide your utility with valuable feedback from the extensive review process undertaken. We encourage you to discuss these results with others at your utility. For most utilities, this review and discussion period is the most valuable part of the program as it helps you become a stronger public power system for your customers, employees, and community. Please note that all questions will not receive comments, only those where the Panel deemed necessary to help you improve or recognize best practices.

Please join us in Kissimmee, Florida to receive official recognition at the 2013 Engineering and Operations Technical Conference on March 24-27. You may register to attend the conference and make hotel reservations by visiting PublicPower.org/EandO. Any press release about your recognition must be embargoed until Monday, March 25. The RP3 designation period for your application is May 1, 2013 to April 30, 2015 and you will need to re-apply by September 30, 2015.

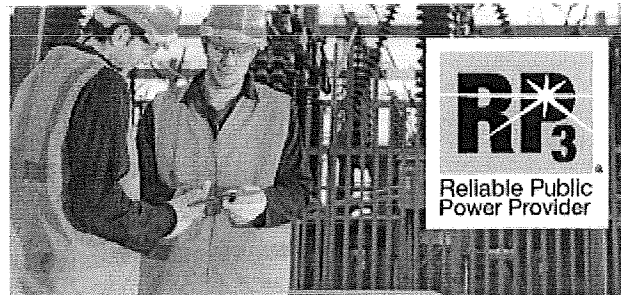
If you would like to discuss individual questions or comments in detail, please feel free to e-mail the APPA Engineering Services Staff at RP3@PublicPower.org to set up a conference call time. Once again, congratulations, to you and your utility for earning the RP3 designation!

Sincerely,

Michael J. Hyland, PE
Senior Vice President, Engineering Services
American Public Power Association

Reliable Public Power Provider (RP3[®]) Program Criteria

The RP3 program designates four specific areas to measure a utility's adequacy in providing system proficiency. Each of the following four sections represents 25% of the total points required: Reliability, Safety, Work Force Development, and System Improvement. An overview of each section is provided below.



RP3 Criteria

Criteria within each designated area are based upon sound business practices and a utility-wide commitment to a safe and reliable delivery of service. The [RP3 procedure Manual](#) provides in-depth explanations of the requirements for each area.

Reliability

The term "reliable" is defined by Webster's Dictionary as an adjective that means: can be relied on; dependable; trustworthy; and worthy of confidence. Although these are all true in context, reliability of an electric system goes deeper than just defining the results that are evident through reliable day-to-day service. Key elements of the Reliability section include reliability indices, a mutual aid agreement, a system-wide disaster management plan (emergency response plan), and both cyber and physical security.

Safety

Workers safety starts with the utility's safety program. A culture of safety must be created. This commitment to safety must begin with top management and include safety in all aspects of operations from generation to line work, and all utility services in between. Benchmarking of safety statistics by tracking industry-accepted OSHA incident rates, along with focusing on frontline workers, is crucial to the delivery of safe and reliable electricity. In the RP3 program, each utility must prove that it uses an accepted safety manual and follows safe work practices, among other requirements,

Workforce Development

Training employees, whether through traditional avenues such as workshops and college courses or through in-house programs, demonstrates that a utility values its workforce. However, education alone is only one of the important considerations a utility should embrace when developing and maintaining a sound work force. This section intends to cover this broader scope of work force development. Utilities benefit from providing opportunities for staff to network with other utility representatives throughout the nation and encourage them to get involved in the national perspective of utility relations. Utility staff knowledge increases through membership in state, regional, and nationally focused committees, as well as attendance in conferences and training. RP3 applicants must demonstrate that their utility staff attend applicable industry conferences and workshops, are provided education and career development opportunities are active either directly or indirectly on industry committees, and that the utility has engaged in work force development and succession planning initiatives.

System Improvement

Stewardship of utility assets is essential to ensuring long term system reliability and performance. Keeping an electric utility well maintained and up-to-date by mandating an improvement program that includes both an eye on the future through research and development (R&D) and a commitment to system betterment programs can help utilities provide reliable services in the future. Important items in this section include demonstrating that your utility participates in a national, regional, or local R&D program, involvement in energy efficiency or conservation programs, descriptions of system planning and betterment projects to maintain your system's integrity and efficiency.

Becoming a Reliable Public Power Provider

By completing the application checklists and providing the requested documentation and applications fee, participating utilities may be recognized as Gold, Platinum or Diamond Reliable Public Power Provider. The Diamond designation is awarded to the utility if it successfully meets 100% of the defined criteria. The Platinum designation is awarded if the utility meets 90-99% of the criteria. The Gold designation is awarded if the utility meets 80-89% of the RP3 Program criteria. An RP3 designative is valid for a two year period; therefore, utilities that wish to maintain their RP3 status must re-apply every other year. The intent of the re-application process is to ensure RP3 utilities are consistently striving to improve the quality of their system based on the four criteria covered in the application.

From the Office of the Fire Marshal

The City of Traverse City
Fire Department



Station 01, 500 West Front Street, Traverse City MI 49684
(231) 922-4930 Ext. 3

Dec.29, 2013

Tim Arends, Interim Director
Traverse City Light and Power
1131 Hastings St.
Traverse City, MI 49686

RE: 2012 Fire Prevention Month Open House

Mr. Arends;

The City of Traverse City Fire Department would like to thank you and your organization for it's participation in our annual Fire Prevention Month Open House. Over the years your organization has continually provided a high-quality, and very informative electrical safety program. Your program continues to elicit some of the most favorable comments from the visitors to our department.

In specific, I would like to acknowledge two of your associates, Mr. Corey Schictel, and Mr. Josh Patzer for their efforts at this years event. Though the day of the open house was very dreary due to the inclimate weather, and our attendance was down, these two gentlemen put on a wonderful presentation that was appreciated by all who attended.

Again, we would like to thank you for your continued participation and support to our program.

Sincerely,

A handwritten signature in black ink, appearing to read "Mike Sheets". The signature is fluid and cursive, written over a light blue horizontal line.

Capt. Mike Sheets
Fire Marshal
City of Traverse City Fire Department