

**Traverse City Light and Power**

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

**Financial Statements**

**For the Fiscal Year Ended  
June 30, 2013**

# TRAVERSE CITY LIGHT AND POWER

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

## TABLE OF CONTENTS

---

	<u>PAGE</u>
<b>Independent Auditor's Report</b>	1-2
<b>Management's Discussion and Analysis</b>	3-5
<b>Financial Statements for the Year Ended June 30, 2013</b>	
Statement of Net Position	6
Statement of Revenues, Expenses and Changes in Net Position	7
Statement of Cash Flows	8
Notes to Financial Statements	9-19
<b>Supplementary Information (unaudited)</b>	
Schedule of Capital Assets and Depreciation	20-21
Schedule of Revenues and Expenses - Budget and Actual	22-27
<b>Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i></b>	28-29

Principals

Dale J. Abraham, CPA  
Michael T. Gaffney, CPA  
Steven R. Kirinovic, CPA  
Aaron M. Stevens, CPA  
Eric J. Glashouwer, CPA  
Alan D. Panter, CPA  
William I. Tucker IV, CPA



3511 Coolidge Road  
Suite 100  
East Lansing, MI 48823  
(517) 351-6836  
FAX: (517) 351-6837

INDEPENDENT AUDITOR'S REPORT

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

**Report on the Financial Statements**

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, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Department's basic financial statements as listed in the table of contents.

***Management's Responsibility for the Financial Statements***

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

***Auditor's Responsibility***

Our responsibility is to express 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 from material misstatement.

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

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

## **Opinions**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and each major fund of Traverse City Light and Power, as of June 30, 2013, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Changes in Accounting Principles**

As discussed in Note 13, the Department implemented GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, and GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, during the year. As a result of this implementation, the format and reporting of the financial statements has changed to reflect the required components of GASB Statements No. 63 and 65, as applicable. Our opinions are not modified with respect to these matters.

## **Other Matters**

### *Required Supplementary Information*

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

### *Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Department's basic financial statements. The supplementary information, as identified in the table of contents, is presented for purposes of additional analysis and is not a required part of the financial statements.

The supplementary information has 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 it.

## **Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated December 20, 2013, on our consideration of the Department's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Department's internal control over financial reporting and compliance.

*Abraham & Gaffney, P.C.*

ABRAHAM & GAFFNEY, P.C.  
Certified Public Accountants

December 20, 2013

## **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, 2013. 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 and dark fiber services to customers. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

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

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

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

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

The Department does not maintain any governmental 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 position may serve over time as a useful indicator of a government’s financial position. In the case of the Department, assets exceeded liabilities by approximately \$71,000,000 at the close of the most recent fiscal year, June 30, 2013.

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

#### Traverse City Light and Power’s Net Position

	<u>June 30</u>	
	<u>2013</u>	<u>2012</u>
<b>Business-type Activities</b>		
Current and other assets	\$ 28,526,978	\$ 35,190,798
Capital assets	<u>45,398,449</u>	<u>41,112,747</u>
Total assets	73,925,427	76,303,545
Long-term liabilities outstanding	216,923	279,430
Other liabilities	<u>2,863,014</u>	<u>2,667,465</u>
Total liabilities	<u>3,079,937</u>	<u>2,946,895</u>
Net position		
Invested in capital assets	45,398,449	41,112,747
Unrestricted	<u>25,447,041</u>	<u>32,243,903</u>
<b>Total net position</b>	<b><u>\$ 70,845,490</u></b>	<b><u>\$ 73,356,650</u></b>

#### Traverse City Light and Power’s Changes in Net Position

	<u>June 30</u>	
	<u>2013</u>	<u>2012</u>
<b>Business-type Activities</b>		
Operating revenue	\$ 32,017,694	\$ 32,028,292
Operating expenses	(34,474,615)	(31,944,507)
Nonoperating revenue (expenses) – net	<u>(54,239)</u>	<u>695,598</u>
Increase (decrease) in net position	(2,511,160)	779,383
Net position – beginning of year	<u>73,356,650</u>	<u>72,577,267</u>
<b>Net position – end of year</b>	<b><u>\$ 70,845,490</u></b>	<b><u>\$ 73,356,650</u></b>

## Business-type activities

The overall financial position of the Department remained strong in 2012-2013. 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

Overall revenues remained relatively stable to prior year except for interest income and change in fair value of investments decreased approximately \$700,000. This decrease is attributed to the climbing interest rate environment on long-term bonds.

## Expenses

In fiscal year 2012-2013, operating expenses increased approximately \$2,530,000 from fiscal year 2011-2012 due in large part to increased power supply costs and the \$1,000,000 contribution made to the City for the Clinch Park Revitalization Project.

## Capital asset and debt administration

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

	<u>June 30</u>	
	<u>2013</u>	<u>2012</u>
Land and land improvements	\$ 1,309,430	\$ 1,309,430
Construction in progress	4,521,877	685,751
Buildings and improvements	4,430,975	4,411,485
Equipment and distribution system	57,931,757	55,751,137
Accumulated depreciation	<u>(22,795,590)</u>	<u>(21,045,056)</u>
<b>Total</b>	<b><u>\$ 45,398,449</u></b>	<b><u>\$ 41,112,747</u></b>

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 power supply needs and legislation requiring 10% renewable energy generation by 2015 will impact the Department. Due to the uncertainty of the local and state economy, the Department maintained a status quo budget in 2013-2014 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 Karla Myers-Beman, Controller, Traverse City Light and Power, 1131 Hastings Street, Traverse City, MI 49686.



# **FINANCIAL STATEMENTS**

# TRAVERSE CITY LIGHT AND POWER

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

## STATEMENT OF NET POSITION

JUNE 30, 2013

ASSETS	<u>Light and Power Fund</u>	<u>Fiber Fund</u>	<u>Total</u>
<b>Current assets</b>			
Cash and cash equivalents	\$ 672,795	\$ 226,597	\$ 899,392
Investments	21,174,273	-	21,174,273
Receivables			
Customer, less allowances of \$263,054 for uncollectible accounts (Light and Power Fund)	3,378,096	-	3,378,096
Accrued interest	66,398	-	66,398
Other	145,806	-	145,806
Inventories	1,748,872	-	1,748,872
Prepaid expenses	8,467	-	8,467
<b>Total current assets</b>	<b><u>27,194,707</u></b>	<b><u>226,597</u></b>	<b><u>27,421,304</u></b>
<b>Non-current assets</b>			
Other postemployment benefit asset	719,676	-	719,676
Long-term advances - due from primary government	385,998	-	385,998
Land and land improvements	1,309,430	-	1,309,430
Construction in progress	4,453,223	68,654	4,521,877
Capital assets being depreciated, net	38,278,709	1,288,433	39,567,142
<b>Total non-current assets</b>	<b><u>45,147,036</u></b>	<b><u>1,357,087</u></b>	<b><u>46,504,123</u></b>
<b>Total assets</b>	<b><u>72,341,743</u></b>	<b><u>1,583,684</u></b>	<b><u>73,925,427</u></b>

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

# TRAVERSE CITY LIGHT AND POWER

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

## STATEMENT OF NET POSITION JUNE 30, 2013

---

LIABILITIES AND NET POSITION	Light and Power Fund	Fiber Fund	Total
<b>Current liabilities</b>			
Accounts payable	\$ 2,107,846	\$ 285	\$ 2,108,131
Accrued expenses and other liabilities	437,070	-	437,070
Customer deposits	120,919	-	120,919
Unearned revenue	-	13,200	13,200
Compensated absences	13,426	-	13,426
Due to primary government	159,866	10,402	170,268
<b>Total current liabilities</b>	<b>2,839,127</b>	<b>23,887</b>	<b>2,863,014</b>
<b>Long-term liabilities</b>			
Compensated absences	216,923	-	216,923
<b>Total liabilities</b>	<b>3,056,050</b>	<b>23,887</b>	<b>3,079,937</b>
<b>Net position</b>			
Invested in capital assets	44,041,362	1,357,087	45,398,449
Unrestricted	25,244,331	202,710	25,447,041
<b>Total net position</b>	<b>\$ 69,285,693</b>	<b>\$ 1,559,797</b>	<b>\$ 70,845,490</b>

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

## TRAVERSE CITY LIGHT AND POWER

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

### STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION FOR THE YEAR ENDED JUNE 30, 2013

	Light and Power Fund	Fiber Fund	Total
<b>Operating revenues</b>			
Charges for services	\$ 29,254,414	\$ 208,030	\$ 29,462,444
MISO income	2,353,289	-	2,353,289
Other	201,961	-	201,961
<b>Total operating revenues</b>	<b>31,809,664</b>	<b>208,030</b>	<b>32,017,694</b>
<b>Operating expenses</b>			
Generation	23,783,427	-	23,783,427
Distribution	3,493,024	-	3,493,024
Transmission	366,978	-	366,978
Customer accounting	516,919	-	516,919
Public service	689,992	-	689,992
Community investment	1,000,000	-	1,000,000
General administration	959,602	-	959,602
Fiber	-	31,915	31,915
Other	55,453	925	56,378
City fee	1,599,866	10,402	1,610,268
Depreciation	1,878,890	87,222	1,966,112
<b>Total operating expenses</b>	<b>34,344,151</b>	<b>130,464</b>	<b>34,474,615</b>
<b>Operating income (loss)</b>	<b>(2,534,487)</b>	<b>77,566</b>	<b>(2,456,921)</b>
<b>Nonoperating revenues (expenses)</b>			
Rental income	65,228	-	65,228
Reimbursements	163,980	6,431	170,411
Interest income	207,276	-	207,276
Change in fair value of investments	(492,821)	-	(492,821)
Loss on disposal of asset	(4,333)	-	(4,333)
<b>Total nonoperating revenue (expenses) - net</b>	<b>(60,670)</b>	<b>6,431</b>	<b>(54,239)</b>
Change in net position	(2,595,157)	83,997	(2,511,160)
Net position, beginning of year	71,880,850	1,475,800	73,356,650
<b>Net position, end of year</b>	<b>\$ 69,285,693</b>	<b>\$ 1,559,797</b>	<b>\$ 70,845,490</b>

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

# TRAVERSE CITY LIGHT AND POWER

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

## STATEMENT OF CASH FLOWS FOR THE YEAR ENDED JUNE 30, 2013

	<b>Light and Power Fund</b>	<b>Fiber Fund</b>	<b>Total</b>
<b>Cash flows from operating activities</b>			
Cash received from customers	\$ 31,921,227	\$ 225,352	\$ 32,146,579
Cash payments to employees	(4,974,807)	(26,189)	(5,000,996)
Cash payments to suppliers for goods and service	(25,964,305)	(14,194)	(25,978,499)
Cash payments of City fee	(1,598,157)	(9,691)	(1,607,848)
<b>Net cash (used in) provided by operating activities</b>	<b>(616,042)</b>	<b>175,278</b>	<b>(440,764)</b>
<b>Cash flows from noncapital financing activities</b>			
Cash payments from primary government	81,730	-	81,730
Customer deposits paid	(2,427)	-	(2,427)
Rental income received	65,228	-	65,228
Reimbursements received	163,980	6,431	170,411
<b>Net cash provided by noncapital financing activities</b>	<b>308,511</b>	<b>6,431</b>	<b>314,942</b>
<b>Cash flows from capital and related financing activities</b>			
Purchase of capital assets	(6,249,017)	(7,130)	(6,256,147)
<b>Cash flows from investing activities</b>			
Purchase of investments	(2,723,831)	-	(2,723,831)
Interest and dividends	(315,284)	-	(315,284)
<b>Net cash used in investing activities</b>	<b>(3,039,115)</b>	<b>-</b>	<b>(3,039,115)</b>
Net increase (decrease) in cash and cash equivalents	(9,595,663)	174,579	(9,421,084)
Cash and cash equivalents, beginning of year	10,268,458	52,018	10,320,476
<b>Cash and cash equivalents, end of year</b>	<b>\$ 672,795</b>	<b>\$ 226,597</b>	<b>\$ 899,392</b>

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

# TRAVERSE CITY LIGHT AND POWER

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

## STATEMENT OF CASH FLOWS FOR THE YEAR ENDED JUNE 30, 2013

	<b>Light and Power Fund</b>	<b>Fiber Fund</b>	<b>Total</b>
<b>Cash flows from operating activities</b>			
Operating (loss) income	\$ (2,534,487)	\$ 77,566	\$ (2,456,921)
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation	1,878,890	87,222	1,966,112
Changes in operating assets and liabilities which provided (used) cash:			
Receivables	141,580	16,222	157,802
Inventories	(47,410)	-	(47,410)
Prepaid expenses	15,698	-	15,698
Accounts payable	162,963	(7,543)	155,420
Due to other governments	1,709	711	2,420
Accrued expenses and other liabilities	25,610	-	25,610
Compensated absences	(49,081)	-	(49,081)
Unearned revenue	-	1,100	1,100
Other postemployment benefit asse	(211,514)	-	(211,514)
<b>Net cash (used in) provided by operating activities</b>	<b>\$ (616,042)</b>	<b>\$ 175,278</b>	<b>\$ (440,764)</b>

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

**(This page left intentionally blank)**

# 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 2013, the city fee was \$1,610,268.

#### Reporting Entity

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

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

#### Basis of Accounting

The Department uses the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned, and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

#### Cash and Cash Equivalents

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

#### Investments

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

State statutes authorize the Department to invest in:

- a. Bonds, securities, other obligations and repurchase agreements of the United States or an agency or instrumentality of the United States.
- b. Certificates of deposit, savings accounts, deposit accounts, or depository receipts of a qualified financial institution.



# TRAVERSE CITY LIGHT AND POWER

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

## NOTES TO FINANCIAL STATEMENTS

---

- c. Commercial paper rated at the time of purchase within the two highest classifications established by not less than two standard rating services and that matures not more than 270 days after the date of purchase.
- d. Bankers acceptances of United States banks.
- e. Obligations of the State of Michigan and its political subdivisions that at the time of purchase are rated as investment grade by at least one standard rating service.
- f. Mutual funds registered under the Investment Company Act of 1940 with the authority to purchase only investment vehicles that are legal for direct investment by a public corporation.
- g. External investment pools as authorized by Public Act 20, as amended.
- h. Long-term or perpetual trust funds consisting of money and royalties or money derived from oil and gas exploration on property or mineral rights owned by the Department has the same authority to invest the assets as is authorized by Public Act 314, as amended.

### **Receivables**

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

### **Inventories**

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

### **Prepaid Expenses**

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

### **Capital assets**

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

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

	<u>Years</u>
Generation plant	33-50
Transmission and distribution plant	30-50
General plant	10-50

# TRAVERSE CITY LIGHT AND POWER

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

## NOTES TO FINANCIAL STATEMENTS

---

### Compensated Absences

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

### 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.

### 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.

# TRAVERSE CITY LIGHT AND POWER

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

## NOTES TO FINANCIAL STATEMENTS

---

### 2. CASH DEPOSITS AND INVESTMENTS

The Department's cash and cash equivalents, and investments at June 30, 2013 are composed of the following:

	<u>Cash and cash equivalents</u>	<u>Investments</u>	<u>Totals</u>
Deposits	\$ 899,392	\$ 7,603,314	\$ 8,502,706
Investments	<u>-</u>	<u>13,570,959</u>	<u>13,570,959</u>
<b>Total</b>	<b><u>\$ 899,392</u></b>	<b><u>\$ 21,174,273</u></b>	<b><u>\$ 22,073,665</u></b>

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, 2013, 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	09/30/2013	\$ 100,750	AA+
US Treasury note	09/30/2014	1,026,800	AA+
US Treasury note	12/31/2014	1,035,470	AA+
US Treasury note	12/05/2016	494,590	AA+
US Treasury note	12/31/2016	973,899	AA+
US Treasury note	10/30/2017	495,305	AA+
US Treasury note	06/30/2018	524,065	AA+
US Treasury note	02/15/2020	446,220	AA+
US Treasury note	02/06/2023	1,454,265	AA+
US Treasury note	03/13/2023	686,126	AA+
US Treasury note	03/20/2023	477,395	AA+
US Treasury note	03/21/2023	947,610	AA+
US Treasury note	08/27/2027	920,220	AA+
US Treasury note	10/29/2027	665,623	AA+
US Treasury note	01/25/2028	933,170	AA+
US Treasury note	02/14/2028	464,790	AA+
MPPA Investments Pool	Various	1,921,638	Unrated
Michigan CLASS	N/A	<u>3,023</u>	AAAm
		<b><u>\$ 13,570,959</u></b>	

### 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.

# TRAVERSE CITY LIGHT AND POWER

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

## NOTES TO FINANCIAL STATEMENTS

*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 \$13,570,959 of investments at June 30, 2013, the Department has a custodial credit risk exposure of \$11,646,298 because the related securities are uninsured, unregistered and held by the government’s brokerage firm which is also the counterparty for these particular securities. Of the above investment pools the Department’s custodial credit risk exposure cannot be determined because the Department does not own specifically identifiable securities.

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

### 3. CAPITAL ASSETS

At June 30, 2013, capital assets consist of the following:

	<b>Beginning Balance</b>	<b>Increases &amp; Transfers</b>	<b>Decreases &amp; Transfers</b>	<b>Ending Balance</b>
Capital assets not being depreciated				
Land and land improvements	\$ 1,309,430	\$ -	\$ -	\$ 1,309,430
Construction in progress	685,751	6,161,673	2,325,547	4,521,877
Total capital assets not being depreciated	1,995,181	6,161,673	2,325,547	5,831,307
Capital assets being depreciated				
Buildings and improvements	4,411,485	25,815	6,325	4,430,975
Equipment and distribution system	54,056,326	2,383,298	213,586	56,226,038
Fiber system	1,694,811	10,908	-	1,705,719
Total capital assets being depreciated	60,162,622	2,420,021	219,911	62,362,732
Less accumulated depreciation for				
Buildings and improvements	1,104,368	132,732	1,991	1,235,109
Equipment and distribution system	19,610,624	1,746,158	213,587	21,143,195
Fiber system	330,064	87,222	-	417,286
Total accumulated depreciation	21,045,056	1,966,112	215,578	22,795,590
Total capital assets being depreciated, net	39,117,566	453,909	4,333	39,567,142
<b>Total capital assets, net</b>	<b>\$ 41,112,747</b>	<b>\$ 6,615,582</b>	<b>\$ 2,329,880</b>	<b>\$45,398,449</b>

# TRAVERSE CITY LIGHT AND POWER

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

## NOTES TO FINANCIAL STATEMENTS

---

### 4. LONG-TERM LIABILITIES

Long-term debt at June 30, 2013, consists of the following:

	<u>Balance</u> <u>07/01/12</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>06/30/13</u>	<u>Due</u> <u>Within</u> <u>One Year</u>
Accrued compensated absences	\$ 279,430	\$ 250,332	\$ 299,413	\$230,349	\$ 13,426

### 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 megawatts of electric energy up to a maximum of 45 megawatts to replace its deficient energy needs from the expired agreement with MPPA power pool. 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, 2013, the Department recognized expenses totaling \$7,424,527.

The Department, along with other Michigan municipal utilities, is a member of the Michigan Public Power Agency (“MPPA”). The agency was formed to acquire interest in certain electric generating plants and related transmission lines to service its members. MPPA has acquired a 4.8% undivided interest in the Consumers Energy Campbell 3 plant, an 37.22% undivided interest in the Detroit Edison Belle River project, and 100% undivided interest in the Kalkaska Combustion Turbine project.

In 1983, the Department entered into a 35-year power supply and project support contract with MPPA. Under the agreement, the Department will purchase 26.35% of the energy generated by MPPA’s 4.8% interest in the Campbell 3 plant and 4.53% of the energy generated by MPPA’s 37.22% interest in the Belle River plant. In 2002, the Department entered into a 25-year power supply and project support contract with MPPA. Under the agreement, the Department will purchase 75.9% of the energy generated by MPPA’s 100% interest in the Kalkaska Combustion Turbine. In 2009, the Department entered into a power supply contract with MPPA. Under the agreement, the Department will purchase 8.13% of the energy generated in the MPPA’s renewable energy contract with Grainger Electric of Michigan, LLC.

For the year ended June 30, 2013, Traverse City Light and Power recognized expenses totaling \$13,582,233 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.

# TRAVERSE CITY LIGHT AND POWER

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

## NOTES TO FINANCIAL STATEMENTS

---

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 2012 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>
2014	\$ 8,686,664
2015	8,947,264
2016	9,215,682
2017	6,188,790
2018	6,374,453
2019-2023	19,347,029
2024-2027	<u>17,673,783</u>
	<b><u>\$ 76,433,665</u></b>

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>
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	2,302,988	766,294	3,069,282
2019-2023	6,497,039	2,622,725	9,119,764
2024-2027	<u>6,466,680</u>	<u>828,259</u>	<u>7,294,939</u>
	<b><u>\$ 25,775,886</u></b>	<b><u>\$ 8,589,117</u></b>	<b><u>\$ 34,365,003</u></b>

The MPPA and its member utilities were over-charged on their power sales contract agreements by Detroit Edison. 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 \$1,921,638 as of June 30, 2013.

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, 2013, the Department recognized expenses totaling \$2,782,535.

# TRAVERSE CITY LIGHT AND POWER

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

## NOTES TO FINANCIAL STATEMENTS

---

### 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, 2013, was \$711,454. The required disclosures related to the plan are provided in the City's financial statements.

### 7. DEFERRED COMPENSATION

The Department participated in the City's Deferred Compensation Plan created in accordance with the Internal Revenue Code Section 457. The City has ICMA Retirement Corporation and Mass Mutual as administrators for the Plan. Participants may contribute zero to six percent of covered payroll based on the employee's employment or labor union contract. Plan provision and contribution requirements can only be amended by authorization of the City Commission. In the current fiscal year, the Department contributed \$161,226 and employees contributed \$234,588.

### 8. POSTEMPLOYMENT BENEFITS

In addition to the pension benefits described above, the Department provides post-retirement health insurance benefits 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 \$211,514 for 34 participants in fiscal year 2012-2013.

The Department participates in the City's Municipal Employees' Retirement System retiree health funding vehicle that covers substantially all employees. Annual contributions to the plan are based on actuarial studies performed bi-annually. The Department's contribution to the plan for the fiscal year ended June 30, 2013, was \$284,110. The postemployment benefit asset for the current year is \$719,676. The required disclosures related to the plan are provided in the City's financial statements.

### 9. COMMITMENTS

In September 1994, the Department purchased the distribution facilities located within the City of Traverse City from Consumers Power Company ("Consumers") for \$840,000. The purchase was made in connection with the settlement of litigation initiated by the Department against Consumers. The purchase was completed under the auspices of the Michigan Public Service Commission and approved by the Department'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.



# TRAVERSE CITY LIGHT AND POWER

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

## NOTES TO FINANCIAL STATEMENTS

---

### 10. CONTINGENCIES

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

### 11. 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.

### 12. DESIGNATIONS OF NET POSITION

The following are designations of net position established by the Board and City Charter:

	<b>June 30, 2013</b>
Emergencies	\$ 100,056
Uninsured claims	4,504,133
Capital expansion	<u>12,100,000</u>
<b>Total</b>	<b><u>\$16,704,189</u></b>

### 13. CHANGE IN ACCOUNTING PRINCIPLES

GASB Statement No. 63, Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position, and GASB Statement No. 65, Items Previously Reported as Assets and Liabilities, were implemented during the current year. These statements incorporate deferred outflows of resources and deferred inflows of resources, as defined by GASB Concepts Statement No. 4, into the definitions of the required components of the residual measure of net position, formerly net assets and fund balance, when applicable.

# TRAVERSE CITY LIGHT AND POWER

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

## NOTES TO FINANCIAL STATEMENTS

---

### 14. GASB PRONOUNCEMENTS

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.

\* \* \* \* \*

## **SUPPLEMENTARY INFORMATION**

## TRAVERSE CITY LIGHT AND POWER

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

### SCHEDULE OF CAPITAL ASSETS AND DEPRECIATION (UNAUDITED) LIGHT AND POWER FUND FOR THE YEAR ENDED JUNE 30, 2013

	Capital Assets - Cost			Balance at June 30, 2013
	Balance at June 30, 2012	Additions/ Transfers	Deletions/ Transfers	
Land and land improvements				
Land	\$ 979,304	\$ -	\$ -	\$ 979,304
Land - coal dock	248,023	-	-	248,023
Land improvements	82,103	-	-	82,103
<b>Total land and land improvements</b>	<b>1,309,430</b>	<b>-</b>	<b>-</b>	<b>1,309,430</b>
Buildings and improvements				
Distribution plant	4,321,339	25,815	6,325	4,340,829
Office structures	40,878	-	-	40,878
Other buildings	49,268	-	-	49,268
<b>Total buildings and improvements</b>	<b>4,411,485</b>	<b>25,815</b>	<b>6,325</b>	<b>4,430,975</b>
Equipment and distribution system				
Union St. Dam	24,010	-	-	24,010
Keystone plant	390	-	-	390
Wind generation unit	785,616	-	-	785,616
Transmission and distribution	52,245,084	2,336,887	115,465	54,466,506
General	1,001,226	46,411	98,121	949,516
<b>Total equipment and distribution system</b>	<b>54,056,326</b>	<b>2,383,298</b>	<b>213,586</b>	<b>56,226,038</b>
<b>Construction in progress</b>	<b>613,319</b>	<b>6,154,543</b>	<b>2,314,639</b>	<b>4,453,223</b>
<b>Total</b>	<b>\$ 60,390,560</b>	<b>\$ 8,563,656</b>	<b>\$ 2,534,550</b>	<b>\$ 66,419,666</b>

<u>Balance at June 30, 2012</u>	<u>Accumulated Depreciation</u>		<u>Balance at June 30, 2013</u>	<u>Capital Assets - Net</u>
	<u>Current Depreciation</u>	<u>Deletions</u>		<u>Balance at June 30, 2013</u>
\$ -	\$ -	\$ -	\$ -	\$ 979,304
-	-	-	-	248,023
-	-	-	-	82,103
-	-	-	-	<b>1,309,430</b>
1,088,637	129,882	1,991	1,216,528	3,124,301
7,602	1,226	-	8,828	32,050
8,129	1,624	-	9,753	39,515
<b>1,104,368</b>	<b>132,732</b>	<b>1,991</b>	<b>1,235,109</b>	<b>3,195,866</b>
20,590	720	-	21,310	2,700
349	12	-	361	29
379,746	23,569	-	403,315	382,301
18,853,266	1,618,576	115,466	20,356,376	34,110,130
356,673	103,281	98,121	361,833	587,683
<b>19,610,624</b>	<b>1,746,158</b>	<b>213,587</b>	<b>21,143,195</b>	<b>35,082,843</b>
-	-	-	-	<b>4,453,223</b>
<b>\$ 20,714,992</b>	<b>\$ 1,878,890</b>	<b>\$ 215,578</b>	<b>\$ 22,378,304</b>	<b>\$ 44,041,362</b>

# TRAVERSE CITY LIGHT AND POWER

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

## SCHEDULE OF CAPITAL ASSETS AND DEPRECIATION (UNAUDITED) FIBER FUND FOR THE YEAR ENDED JUNE 30, 2013

---

	Capital Assets - Cost			Balance at June 30, 2013
	Balance at June 30, 2012	Additions/ Transfers	Deletions/ Transfers	
<b>Equipment and distribution system</b>				
Overhead	\$ 1,016,646	\$ -	\$ -	\$ 1,016,646
Underground	235,870	10,908	-	246,778
Termination boxes	346,392	-	-	346,392
Wireless equipment	51,725	-	-	51,725
Other property	44,178	-	-	44,178
<b>Total equipment and distribution system</b>	<b>1,694,811</b>	<b>10,908</b>	<b>-</b>	<b>1,705,719</b>
<b>Construction in progress</b>	<b>72,432</b>	<b>7,130</b>	<b>10,908</b>	<b>68,654</b>
<b>Total</b>	<b>\$ 1,767,243</b>	<b>\$ 18,038</b>	<b>\$ 10,908</b>	<b>\$ 1,774,373</b>

<b>Balance at June 30, 2012</b>	<b>Accumulated Depreciation</b>		<b>Balance at June 30, 2013</b>	<b>Capital Assets - Net</b>
	<b>Current Depreciation</b>	<b>Deletions</b>		<b>Balance at June 30, 2013</b>
\$ 192,538	\$ 50,833	\$ -	\$ 243,371	\$ 773,275
43,830	12,066	-	55,896	190,882
67,759	17,320	-	85,079	261,313
10,344	2,586	-	12,930	38,795
15,593	4,417	-	20,010	24,168
<b>330,064</b>	<b>87,222</b>	<b>-</b>	<b>417,286</b>	<b>1,288,433</b>
-	-	-	-	<b>68,654</b>
<b>\$ 330,064</b>	<b>\$ 87,222</b>	<b>\$ -</b>	<b>\$ 417,286</b>	<b>\$ 1,357,087</b>

# TRAVERSE CITY LIGHT AND POWER

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

## SCHEDULE OF REVENUES AND EXPENSES - BUDGET AND ACTUAL (UNAUDITED) LIGHT AND POWER FUND FOR THE YEAR ENDED JUNE 30, 2013

	Amended Budget	Actual	Positive (Negative) Variance
<b>Operating revenues - sales</b>			
Residential	\$ 5,380,000	\$ 5,543,163	\$ 163,163
Commercial	14,130,000	14,143,835	13,835
Industrial	9,205,000	9,020,921	(184,079)
Public authority	220,100	274,590	54,490
Street lighting	195,000	194,708	(292)
Yard lights	78,400	77,197	(1,203)
	<b>29,208,500</b>	<b>29,254,414</b>	<b>45,914</b>
<b>Total operating revenues - sales</b>			
<b>Other operating revenues</b>			
Forfeited discounts	51,500	56,978	5,478
Merchandise and jobbing	75,000	40,647	(34,353)
Sale of scrap	18,000	50,958	32,958
Recovery of bad debts	-	108	108
MISO income	2,142,000	2,353,289	211,289
Miscellaneous	15,500	53,270	37,770
	<b>2,302,000</b>	<b>2,555,250</b>	<b>253,250</b>
<b>Total other operating revenues</b>			
<b>Nonoperating revenues</b>			
Rental income	43,000	23,635	(19,365)
Pole rental income	34,500	41,593	7,093
Reimbursements	100,000	163,980	63,980
Interest income	180,000	207,276	27,276
Change in fair market value of investments	-	(492,821)	(492,821)
	<b>357,500</b>	<b>(56,337)</b>	<b>(413,837)</b>
<b>Total nonoperating revenues</b>			
<b>Total revenues</b>	<b>31,868,000</b>	<b>31,753,327</b>	<b>(114,673)</b>



# TRAVERSE CITY LIGHT AND POWER

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

## SCHEDULE OF REVENUES AND EXPENSES - BUDGET AND ACTUAL (UNAUDITED) LIGHT AND POWER FUND FOR THE YEAR ENDED JUNE 30, 2013

---

	<u>Amended Budget</u>	<u>Actual</u>	<u>Positive (Negative) Variance</u>
<b>Generation expense</b>			
Wind generator - M-72 Traverse	\$ 15,000	\$ 100,009	\$ (85,009)
Purchased power	21,420,000	23,604,543	(2,184,543)
Coal dock	5,000	13,895	(8,895)
Trap and transfer	1,000	117	883
Union street fish ladder	250	178	72
Professional development	2,500	3,521	(1,021)
Operation supplies	52,100	47,507	4,593
Communications	400	307	93
Safety	8,000	13,350	(5,350)
Miscellaneous	500	-	500
	<u>21,504,750</u>	<u>23,783,427</u>	<u>(2,278,677)</u>
<b>Total generation expenses</b>			

Continued

# TRAVERSE CITY LIGHT AND POWER

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

## SCHEDULE OF REVENUES AND EXPENSES - BUDGET AND ACTUAL (UNAUDITED) LIGHT AND POWER FUND FOR THE YEAR ENDED JUNE 30, 2013

	<u>Amended Budget</u>	<u>Actual</u>	<u>Positive (Negative) Variance</u>
<b>Distribution expense</b>			
Supervision and engineering	\$ 600,000	\$ 902,966	\$ (302,966)
Substation	207,000	173,653	33,347
Overhead lines	550,000	423,695	126,305
Load and dispatching	575,000	466,850	108,150
Underground lines	300,000	217,598	82,402
Customer installations	35,000	15,822	19,178
Electric meters	224,500	234,173	(9,673)
Street lighting	290,000	288,451	1,549
Plant and structures	205,000	219,019	(14,019)
Shop labor	191,000	142,129	48,871
Professional development	85,000	95,301	(10,301)
Operation supplies	100,600	127,081	(26,481)
Utilities	72,500	102,623	(30,123)
Safety	65,000	78,917	(13,917)
Miscellaneous	4,500	4,746	(246)
<b>Total distribution expense</b>	<b><u>3,505,100</u></b>	<b><u>3,493,024</u></b>	<b><u>12,076</u></b>
<b>Transmission expense</b>			
Supervision and engineering	28,350	165,659	(137,309)
Substation	37,500	27,693	9,807
Overhead lines	10,000	1,726	8,274
Load and dispatching	59,500	91,350	(31,850)
MISO	23,000	25,154	(2,154)
Miscellaneous	40,000	55,396	(15,396)
<b>Total transmission expense</b>	<b><u>198,350</u></b>	<b><u>366,978</u></b>	<b><u>(168,628)</u></b>

Continued

## TRAVERSE CITY LIGHT AND POWER

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

### SCHEDULE OF REVENUES AND EXPENSES - BUDGET AND ACTUAL (UNAUDITED) LIGHT AND POWER FUND FOR THE YEAR ENDED JUNE 30, 2013

	<u>Amended Budget</u>	<u>Actual</u>	<u>Positive (Negative) Variance</u>
<b>Customer accounting expense</b>			
Salaries	\$ 176,500	\$ 165,986	\$ 10,514
Meter reading	90,500	82,411	8,089
Payroll taxes and fringes	137,200	127,035	10,165
Office supplies	5,200	2,483	2,717
Postage	38,000	29,542	8,458
Stationary and printing	7,000	3,524	3,476
Equipment rental	10,500	8,001	2,499
Professional and contractual	23,400	39,467	(16,067)
Uncollectible accounts	25,000	27,856	(2,856)
Collection expense	500	1,573	(1,073)
Data processing	22,500	18,769	3,731
Professional development	2,500	1,374	1,126
Miscellaneous	11,200	8,898	2,302
<b>Total customer accounting expense</b>	<b>550,000</b>	<b>516,919</b>	<b>33,081</b>
<b>Public service expense</b>			
Public service information	1,049,350	689,992	359,358
<b>Total public service expense</b>	<b>1,049,350</b>	<b>689,992</b>	<b>359,358</b>
<b>Community investment expense</b>			
Community investment	1,000,000	1,000,000	-
<b>Total community investment expense</b>	<b>1,000,000</b>	<b>1,000,000</b>	<b>-</b>

Continued

## TRAVERSE CITY LIGHT AND POWER

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

### SCHEDULE OF REVENUES AND EXPENSES - BUDGET AND ACTUAL (UNAUDITED) LIGHT AND POWER FUND FOR THE YEAR ENDED JUNE 30, 2013

	<u>Amended Budget</u>	<u>Actual</u>	<u>Positive (Negative) Variance</u>
<b>General administration expense</b>			
Salaries	\$ 665,000	\$ 461,899	\$ 203,101
Payroll taxes and fringes	182,750	163,923	18,827
Professional development	22,450	6,081	16,369
Professional and contractual	130,000	167,648	(37,648)
Office supplies	9,050	11,427	(2,377)
Fees and per diems	63,500	59,855	3,645
Special services	7,500	4,947	2,553
Legal fees	50,000	66,541	(16,541)
Utilities	8,000	7,144	856
Printing and publishing	3,500	6,034	(2,534)
Miscellaneous	3,500	4,103	(603)
<b>Total general administration expense</b>	<b><u>1,145,250</u></b>	<b><u>959,602</u></b>	<b><u>185,648</u></b>
<b>Other expenses</b>			
Insurance - general	66,500	55,453	11,047
City fee	1,578,200	1,599,866	(21,666)
Depreciation	1,875,000	1,878,890	(3,890)
Loss on disposal of capital asset	-	4,333	(4,333)
<b>Total other expenses</b>	<b><u>3,519,700</u></b>	<b><u>3,538,542</u></b>	<b><u>(18,842)</u></b>
<b>Total expenses</b>	<b><u>32,472,500</u></b>	<b><u>34,348,484</u></b>	<b><u>1,875,984</u></b>
<b>Change in net position</b>	<b><u>\$ (604,500)</u></b>	<b><u>\$ (2,595,157)</u></b>	<b><u>\$ (1,990,657)</u></b>

# TRAVERSE CITY LIGHT AND POWER

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

## SCHEDULE OF REVENUES AND EXPENSES - BUDGET AND ACTUAL (UNAUDITED) FIBER FUND FOR THE YEAR ENDED JUNE 30, 2013

	<u>Amended Budget</u>	<u>Actual</u>	<u>Positive (Negative) Variance</u>
<b>Operating revenues - sales</b>			
Other sales	\$ 251,500	\$ 208,030	\$ (43,470)
<b>Non-operating revenues</b>			
Reimbursements	75,900	6,431	(69,469)
<b>Total revenues</b>	<u>327,400</u>	<u>214,461</u>	<u>(112,939)</u>
<b>Fiber expenses</b>			
Supervision and engineering	69,400	13,858	55,542
Overhead	4,000	8,094	(4,094)
Underground	2,000	832	1,168
Termination boxes	80,400	5,096	75,304
Customer installations	5,600	1,762	3,838
Professional development	500	2,238	(1,738)
Miscellaneous	650	35	615
<b>Total fiber expenses</b>	<u>162,550</u>	<u>31,915</u>	<u>130,635</u>
<b>Other expenses</b>			
Insurance and bonds	1,450	925	525
City fee	12,600	10,402	2,198
Depreciation	99,800	87,222	12,578
<b>Total other expenses</b>	<u>113,850</u>	<u>98,549</u>	<u>15,301</u>
<b>Total expenses</b>	<u>276,400</u>	<u>130,464</u>	<u>145,936</u>
<b>Change in net position</b>	<u>\$ 51,000</u>	<u>\$ 83,997</u>	<u>\$ 32,997</u>

## **INTERNAL CONTROL AND COMPLIANCE**

## Principals

Dale J. Abraham, CPA  
Michael T. Gaffney, CPA  
Steven R. Kirinovic, CPA  
Aaron M. Stevens, CPA  
Eric J. Glashouwer, CPA  
Alan D. Panter, CPA  
William I. Tucker IV, CPA



3511 Coolidge Road  
Suite 100  
East Lansing, MI 48823  
(517) 351-6836  
FAX: (517) 351-6837

### INDEPENDENT AUDITOR'S 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*

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

We have audited, in accordance with the auditing standards general in the United States of America and the standards applicable to financial audits contained in *Governmental Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the business-type activities and each major fund of the Traverse City Light and Power (the Department), a component unit of the City of Traverse City, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Department's basic financial statements and have issued our report thereon dated December 20, 2013.

#### **Internal Control Over Financial Reporting**

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

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

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

#### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether 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*.

## **Purpose of this Report**

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

*Abraham & Gaffney, P.C.*

ABRAHAM & GAFFNEY, P.C.  
Certified Public Accountants

December 20, 2013