

Traverse City Light and Power

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

Financial Statements

**For the Fiscal Year Ended
June 30, 2019**



Vredeveld Haefner LLC
CPAs and Consultants

TRAVERSE CITY LIGHT AND POWER

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

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INDEPENDENT AUDITORS' REPORT

December 4, 2019

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

Report on the Financial Statements

We have audited the accompanying financial statements of Traverse City Light and Power, a Component Unit of the City of Traverse City, Michigan, as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise Traverse City Light and Power's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Traverse City Light and Power as of June 30, 2019, and the changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 5 and the information on pages 31 through 36 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other information

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

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 4, 2019 on our consideration of Traverse City Light and Power's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Traverse City Light and Power's internal control over financial reporting and compliance.

Wredenold Haefner LLC

MANAGEMENT'S DISCUSSION AND ANALYSIS

TRAVERSE CITY LIGHT AND POWER

Management's Discussion and Analysis

As management of the *Traverse City Light and Power* (the "Department"), we offer readers of the Department's financial statements this narrative overview and analysis of the financial activities for the fiscal year ended June 30, 2019. We encourage readers to consider the information presented here in conjunction with additional information that is furnished in the financial statements and notes to the financial statements.

Overview of the Financial Statements

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

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

Financial Statements

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

Enterprise funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing electrical and dark fiber services to customers. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

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

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

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

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

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

The Department does not maintain any governmental funds.

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

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

The Department’s Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a government’s financial position. In the case of the Department, assets exceeded liabilities by \$75,246,297 at the close of the most recent fiscal year, June 30, 2019.

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

Traverse City Light and Power’s Net Position

Business-type Activities	June 30	
	2019	2018
Current and other assets	\$22,314,254	\$25,519,167
Capital assets	68,151,757	64,892,176
Total assets	90,466,011	90,411,343
Deferred outflows	4,108,177	3,585,046
Long-term liabilities outstanding	14,260,995	13,751,375
Other liabilities	3,538,363	4,033,894
Total liabilities	17,799,358	17,785,269
Deferred inflows	1,528,533	1,929,881
Net position		
Invested in capital assets	68,151,757	64,892,176
Unrestricted	7,094,540	9,389,063
Total net position	\$75,246,297	\$74,281,239

Traverse City Light and Power's Changes in Net Position

Business-type Activities	June 30	
	2019	2018
Operating revenue	\$34,611,240	\$35,190,195
Operating expenses	(33,400,527)	(31,979,692)
Nonoperating revenue (expense)	789,204	887,880
Special Item	(1,034,859)	-
Increase in net position	965,058	4,098,383
Net position – beginning of year, as restated	74,281,239	70,182,856
Net position – end of year	\$75,246,297	\$74,281,239

Business-type activities

The overall financial position of the Department remained strong in 2018-2019. There are no outstanding debt obligations except for the commitments through the power supply contracts with Michigan Public Power Agency (“MPPA”) to reimburse MPPA for operating and debt service costs relating to the Campbell, Belle River and Kalkaska generation plants.

Revenue

Overall, the Electric Fund’s revenues were over budget by approximately \$224,000. Electric operating revenues were under budget by \$756,000 relating to less consumption sold than what was budgeted in utility sales, other operating revenues exceeded budget related to conservative budgeting relating to MISO income and unforeseen customer jobs creating unanticipated revenue in the line item Merchandising and Jobbing. The change in fair market value of investments \$359,000 resulted in a increase this year as a result of the investment portfolio being comprised of bonds and bond prices increasing relating to interest rate environment at fiscal year end.

Expenses

In fiscal year 2018-19, Electric Funds operating expenses was over budget by approximately \$35,000. There were many fluctuations within the departments but overall the most significant related to payroll taxes and fringes. The pension system ended the reporting year with investment loss, which is amortized in the current year and the following four years.

Capital asset and debt administration

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

	June 30	
	2019	2018
Land and land improvements	\$ 1,105,070	\$ 1,079,419
Construction in progress	2,061,270	2,746,924
Buildings and improvements	5,833,125	5,687,649
Equipment and distribution system	90,520,655	85,962,387
Accumulated depreciation	(31,368,363)	(30,584,203)
Total	\$68,151,757	\$64,892,176

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

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

Economic Factors and Next Year's Budgets and Rates

Overall the budget remains similar to past years. A slight 1% increase in sales was budgeted based on load growth while taking into consideration the impacts of energy waste reduction. Additionally, a slight increase in purchase power costs are expected going from \$59.26 to \$60.77 per MWh, which will be passed on to the customer through the utility's variable power service cost recovery rate. The utility is continuing with an accelerated amortization schedule on the utility's unfunded pension liability to increase the overall pension funding percentage.

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, 2019

ASSETS	<u>Light and Power Fund</u>	<u>Fiber Fund</u>	<u>Business-type Activities Total</u>
Current assets			
Cash and cash equivalents	\$ 350,744	\$ 175,284	\$ 526,028
Receivables			
Customer, less allowances of \$330,690 for uncollectible accounts (Light and Power Fund)	3,290,846	90,448	3,381,294
Accrued interest	63,049	-	63,049
Taxes	5,992	-	5,992
Other	361,693	-	361,693
Inventories	1,490,542	15,202	1,505,744
Prepaid expenses	97,294	-	97,294
Total current assets	<u>5,660,160</u>	<u>280,934</u>	<u>5,941,094</u>
Non-current assets			
Investments	14,821,332	-	14,821,332
Accounts receivables	1,397,631	-	1,397,631
Long-term advances - due from primary government	154,197	-	154,197
Land and land improvements	1,105,070	-	1,105,070
Construction in progress	2,059,590	1,680	2,061,270
Capital assets being depreciated, net	63,804,061	1,181,356	64,985,417
Total non-current assets	<u>83,341,881</u>	<u>1,183,036</u>	<u>84,524,917</u>
Total assets	<u>89,002,041</u>	<u>1,463,970</u>	<u>90,466,011</u>
Deferred outflows			
Deferred outflows of resources - Pensions	3,518,243	-	3,518,243
Deferred outflows of resources - OPEB	589,934	-	589,934
Total deferred outflows of resources	<u>4,108,177</u>	<u>-</u>	<u>4,108,177</u>

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

TRAVERSE CITY LIGHT AND POWER

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

STATEMENT OF NET POSITION JUNE 30, 2019

LIABILITIES AND NET POSITION	Light and Power Fund	Fiber Fund	Business-type Activities Total
Current liabilities			
Accounts payable	\$ 2,097,217	\$ 48,312	\$ 2,145,529
Accrued expenses and other liabilities	1,143,367	20,422	1,163,789
Customer deposits	95,506	-	95,506
Compensated absences	24,474	-	24,474
Unearned revenue	-	14,815	14,815
Due to primary government	72,936	21,314	94,250
Total current liabilities	3,433,500	104,863	3,538,363
Long-term liabilities			
Compensated absences	156,056	1,577	157,633
Net pension liability	12,200,960	-	12,200,960
Net other post employment benefit liability	1,902,402	-	1,902,402
Total liabilities	17,692,918	106,440	17,799,358
Deferred inflows			
Deferred inflows of resources - Pensions	1,122,177	-	1,122,177
Deferred inflows of resources - OPEB	406,356	-	406,356
Total deferred inflows of resources	1,528,533	-	1,528,533
Net position			
Invested in capital assets	66,968,721	1,183,036	68,151,757
Unrestricted	6,920,046	174,494	7,094,540
Total net position	\$ 73,888,767	\$ 1,357,530	\$ 75,246,297

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, 2019

	Light and Power Fund	Fiber Fund	Business-type Activities Total
Operating revenues			
Charges for services	\$ 30,402,756	\$ 416,427	\$ 30,819,183
MISO income	3,272,858	-	3,272,858
Other	509,351	9,848	519,199
Total operating revenues	34,184,965	426,275	34,611,240
Operating expenses			
Purchase power	21,050,558	-	21,050,558
Distribution	4,330,572	-	4,330,572
Transmission	452,920	-	452,920
Customer accounting	627,151	-	627,151
Public service	457,008	-	457,008
Information systems	378,066	-	378,066
General administration	987,374	-	987,374
Fiber	-	240,945	240,945
WIFI	-	32,891	32,891
Other	69,139	743	69,882
City fee	1,725,314	21,314	1,746,628
Depreciation	2,879,750	146,782	3,026,532
Total operating expenses	32,957,852	442,675	33,400,527
Operating income (loss)	1,227,113	(16,400)	1,210,713
Nonoperating revenues (expenses)			
Rental income	141,099	-	141,099
Reimbursements	225,819	38,689	264,508
Interest income	268,607	326	268,933
Change in fair value of investments	359,434	-	359,434
Loss on sale of assets	(244,770)	-	(244,770)
Total nonoperating revenue	750,189	39,015	789,204
Income before transfers	1,977,302	22,615	1,999,917
Transfers			
Transfers in	175,000	-	175,000
Transfers out	-	(175,000)	(175,000)
Total transfers	175,000	(175,000)	-
Income before special item	2,152,302	(152,385)	1,999,917
Special Item	(1,034,859)	-	(1,034,859)
Change in net position	1,117,443	(152,385)	965,058
Net position, beginning of year	72,771,324	1,509,915	74,281,239
Net position, end of year	\$ 73,888,767	\$ 1,357,530	\$ 75,246,297

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, 2019

	Light and Power Fund	Fiber Fund	Business-type Activities Total
Cash flows from operating activities			
Cash received from customers	\$ 34,528,031	\$ 360,541	\$ 34,888,572
Cash payments to employees	(6,019,832)	(171,774)	(6,191,606)
Cash payments to suppliers for goods and services	(22,994,491)	(87,431)	(23,081,922)
Cash payments of City fee	(1,925,926)	(17,427)	(1,943,353)
Net cash provided by operating activities	3,587,782	83,909	3,671,691
Cash flows from noncapital financing activities			
Cash payments to primary government	(153,978)	-	(153,978)
Cash payments to/from other funds	175,553	(175,553)	-
Customer deposits paid	215	-	215
Rental income received	141,099	-	141,099
Reimbursements received	225,819	38,689	264,508
Net cash provided by (used in) noncapital financing activities	388,708	(136,864)	251,844
Cash flows from capital and related financing activities			
Purchase of capital assets	(7,554,212)	(11,528)	(7,565,740)
Cash flows from investing activities			
Purchase of investments	(617,792)	-	(617,792)
Interest	622,989	326	623,315
Net cash provided by investing activities	5,197	326	5,523
Net (decrease) in cash and cash equivalents	(3,572,525)	(64,157)	(3,636,682)
Cash and cash equivalents, beginning of year	3,923,269	239,441	4,162,710
Cash and cash equivalents, end of year	\$ 350,744	\$ 175,284	\$ 526,028

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, 2019

	Light and Power Fund	Fiber Fund	Business-type Activities Total
Cash flows from operating activities			
Operating income (loss)	\$ 1,227,113	\$ (16,400)	\$ 1,210,713
Adjustments to reconcile operating income to net cash provided by operating activities			
Depreciation	2,879,750	146,782	3,026,532
Changes in operating assets and liabilities which provided (used) cash			
Receivables	343,066	(65,734)	277,332
Inventories	84,669	(3,791)	80,878
Prepaid expenses	(1,477)	-	(1,477)
Deferred outflow	(523,131)	-	(523,131)
Accounts payable	(620,617)	14,456	(606,161)
Due to other governments	(200,612)	3,887	(196,725)
Accrued expenses and other liabilities	269,136	4,709	273,845
Compensated absences	(19,516)	-	(19,516)
Deferred inflow	(401,348)	-	(401,348)
Net pension liability	687,902	-	687,902
Other post employment liability	(137,153)	-	(137,153)
Net cash provided by operating activities	\$ 3,587,782	\$ 83,909	\$ 3,671,691

Non cash transaction: The cash flow includes the change in fair market value of investments in the amount of \$ 359,434.

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

TRAVERSE CITY LIGHT AND POWER

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

STATEMENT OF FIDUCIARY NET POSITION FIDUCIARY FUND JUNE 30, 2019

	Other Postemployment Benefit Funds
Assets	
Investments, at fair value	
MERS total market fund	\$ 2,722,645
Accounts receivable	889,291
	<hr/>
Total assets	3,611,936
	<hr/>
Net Position	
Held in trust for other postemployment benefits	\$ 3,611,936
	<hr/> <hr/>

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

TRAVERSE CITY LIGHT AND POWER

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

STATEMENT OF CHANGES IN FIDUCIARY NET POSITION FIDUCIARY FUND FOR THE YEAR ENDED JUNE 30, 2019

	Other Postemployment Benefit Funds
Additions	
Employer contributions	<u>\$ 175,757</u>
Investment earnings	
Net investment in fair value of investments	97,856
Investment advisor fees	<u>(5,561)</u>
Net investment earnings	<u>92,295</u>
Total additions	268,052
Net position held in trust, beginning of year	<u>3,343,884</u>
Net position held in trust, end of year	<u><u>\$ 3,611,936</u></u>

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

TRAVERSE CITY LIGHT AND POWER

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

NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

Under provisions of the City of Traverse City (the “City”) Charter, the Light and Power Board (the “Board”) was created having jurisdiction and control of *Traverse City Light and Power* (the “Department”). The Board consists of seven members (two of which are City Commissioners) and one ex-officio member (the City Manager). The Department’s annual budget is approved by the City Commission. The Department is required to pay 5% of its gross revenue annually to the City’s General Fund as a City fee. For fiscal 2019, the City fee was \$1,746,628.

Reporting Entity

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

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

Basis of Accounting

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

Cash and Cash Equivalents

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

Investments

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

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

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

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

Capital assets

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

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

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

TRAVERSE CITY LIGHT AND POWER

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

NOTES TO FINANCIAL STATEMENTS

Compensated Absences

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

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense) until then. The Department has items that qualify for reporting in this category related to the pension plan which is discussed in Note 6 and OPEB investments as discussed in Note 8.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows or resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The Department has items that qualify for reporting in this category related to the pension plan which is discussed in Note 6 and OPEB investments as discussed in Note 8.

Pensions

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

Operating Revenue versus Nonoperating Revenue

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Department are charges to customers for sales and services and "MISO" revenue. Operating expenses for the Department include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

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Funds

The Department reports the following major proprietary funds:

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

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

Restricted resources

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

2. CASH DEPOSITS AND INVESTMENTS

The Department's cash and cash equivalents, and investments at June 30, 2019 are composed of the following:

	<u>Enterprise Funds</u>	<u>Fiduciary Fund</u>	<u>Total</u>
Cash and cash equivalents	\$ 526,028	\$ -	\$ 526,028
Investments	14,821,332	2,722,645	17,543,977
	<u>\$15,347,360</u>	<u>\$2,722,645</u>	<u>\$18,070,005</u>

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

Deposits	\$ 1,990,979
Investments	13,356,381
OPEB - investments	<u>2,722,645</u>
Total	<u>\$18,070,005</u>

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

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

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The Department chooses to disclose its investments by specifically identifying each. As of June 30, 2019, the Department's Michigan CLASS investment and the U.S. Treasury notes are rated by Standard and Poor's and/or Moody's.

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

The Department had the following investments:

<u>Investment</u>	<u>Maturity</u>	<u>Fair Value</u>	<u>Rating</u>
US Treasury Note	02/15/2020	\$ 403,752	Aaa
FHLB Bond	10/12/2022	500,060	Aaa/AA+
FHLB Bond	07/26/2022	1,000,270	Aaa/AA+
FHLB Bond	05/17/2021	1,003,990	Aaa/AA+
FHLB Bond	08/24/2021	999,940	Aaa/AA+
FHLB Bond	12/14/2021	1,001,520	Aaa/AA+
FHLB Bond	02/28/2022	1,000,790	Aaa/AA+
FHLB Bond	03/29/2022	997,940	Aaa/AA+
FHLB Bond	06/22/2022	1,000,270	Aaa/AA+
FHLB Bond	08/24/2028	997,140	Aaa/AA+
FHLB Bond	07/25/2031	968,510	Aaa/AA+
FHLB Bond	08/15/2031	978,500	Aaa/AA+
FHLB Bond	02/26/2021	500,505	Aaa/AA+
FHLB Bond	10/12/2022	1,000,000	Aaa/AA+
FHLB Bond	04/27/2023	1,000,010	Aaa/AA+
Michigan CLASS	NA	<u>3,184</u>	AAAm
		<u>\$ 13,356,381</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.

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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 \$13,356,381 of investments at June 30, 2019, the Department has a custodial credit risk exposure of \$13,353,197 because the related securities are uninsured, unregistered and held by the government's brokerage firm which is also the counterparty for these particular securities. The Department's custodial credit risk exposure cannot be determined for the above Michigan CLASS investment pool because the Department does not own specifically identifiable securities.

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

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

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

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

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Investments in Entities that Calculate Net Asset Value per Share

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

	<u>Fair Value</u>	<u>Unfunded Commitments</u>	<u>Redemption Frequency, if Eligible</u>	<u>Redemption Notice Period</u>
Michigan Class	\$ 3,184	\$ -	-	-

3. CAPITAL ASSETS

At June 30, 2019, capital assets consist of the following:

	<u>Beginning Balance</u>	<u>Additions &Transfers</u>	<u>Deletions & Transfers</u>	<u>Ending Balance</u>
Capital assets not being depreciated				
Land and land improvements	\$1,079,419	\$ 25,651	\$ -	\$1,105,070
Construction in progress	2,746,924	7,628,052	8,313,706	2,061,270
Total capital assets not being depreciated	3,826,343	7,653,703	8,313,706	3,166,340
Capital assets being depreciated				
Buildings and improvements	5,687,649	193,915	48,439	5,833,125
Equipment and distribution system	83,588,829	8,021,980	3,473,560	88,137,249
Fiber System	1,871,695	9,848	-	1,881,543
WiFi System	501,863	-	-	501,863
Total capital assets being depreciated	91,650,036	8,225,743	3,521,999	96,353,780
Less accumulated depreciation for				
Buildings and improvements	1,983,831	173,727	32,121	2,125,437
Equipment and distribution system	27,545,104	2,706,020	2,210,248	28,040,876
Fiber System	879,652	96,610	-	976,262
WiFi System	175,616	50,172	-	225,788
Total accumulated depreciation	30,584,203	3,026,529	2,242,369	31,368,363
Total capital assets being depreciated, net	61,065,833	5,199,214	1,279,630	64,985,417
Total capital assets, net	\$64,892,176	\$12,852,917	\$9,593,336	\$68,151,757

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4. LONG-TERM LIABILITIES

Long-term debt at June 30, 2019, consists of the following:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Accrued compensated absences	<u>\$198,762</u>	<u>\$223,854</u>	<u>\$240,509</u>	<u>\$182,107</u>	<u>\$24,474</u>

5. POWER SUPPLY PURCHASE

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

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

For the year ended June 30, 2019, Traverse City Light and Power recognized expenses totaling \$17,597,873 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 2018 costs adjusted for inflation and calculated until the time of project's debt retirement. 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>
2020	\$ 6,410,867
2021	6,603,193
2022	6,801,289
2023	3,719,149
2024	3,830,724
2025-2027	12,195,595
	<u>\$39,560,817</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>
2020	\$ 2,290,010	\$ 644,817	\$ 2,934,827
2021	2,376,923	558,816	2,935,739
2022	1,909,168	469,061	2,378,229
2023	1,426,920	394,680	1,821,600
2024	1,499,025	323,334	1,822,359
2025-2027	4,967,655	504,925	5,472,580
	<u>\$ 14,469,701</u>	<u>\$2,895,633</u>	<u>\$17,365,334</u>

In December 2009, the Department entered into a 20-year purchase power agreement with Heritage Stoney Corners Wind Farm I, LLC to purchase up to 10 megawatts of electric energy and all associated renewable energy credits. For the year ended June 30, 2019, the Department recognized expenses totaling \$2,927,675 under this agreement.

In December 2014, the Department entered into a 20-year purchase power agreement with options to terminate on January 1, 2025 and January 1, 2030 upon ninety-day notice. The Agreement is with Heritage Sustainable Energy, LLC to purchase up to .6 MW of electric energy from the M-72 wind turbine. For the year ended June 30, 2019, the Department recognized expenses totaling \$25,398 under this agreement.

In August 2017, the Department amended the Heritage Sustainable Energy, LLC contract to purchase and additional 1MW of electric energy from the M-72 solar array. The contract has an option to expand the solar array to include an additional approximate 1 to 3 MW of solar energy. The contract will terminate December 31, 2038. For the year ended June 30, 2019 the Department recognized expenses totaling \$133,943 under this agreement.

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6. RETIREMENT PLAN

General Information about the Pension Plan

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

Benefits Provided

01 - Non Union – closed to new hires, linked to Division 11	
	2017 Valuation
Benefit Multiplier:	2.25% Multiplier (80% max)
Normal Retirement Age:	60
Vesting:	10 years
Early Retirement (Unreduced):	55/25
Early Retirement (Reduced):	50/25
	55/15
Final Average Compensation:	5 years
COLA for Current/Future Retirees:	2.50% (Non-Compound)
Member Contributions:	0%
Act 88:	No

10 - Union closed to new hires, linked to Division 12	
	2017 Valuation
Benefit Multiplier:	2.25% Multiplier (80% max)
Normal Retirement Age:	60
Vesting:	6 years
Early Retirement (Unreduced):	50/25
Early Retirement (Reduced):	55/15
Final Average Compensation:	5 years
COLA for Current/Future Retirees:	2.50% (Non-Compound)
Member Contributions:	0%
Act 88:	No

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

12 - Union hired after 7/1/2012, linked to Division 10	
	2017 Valuation
Benefit Multiplier:	1.5% Multiplier (80% max)
Normal Retirement Age:	60
Vesting:	6 years
Early Retirement (Unreduced):	55/25
Early Retirement (Reduced):	55/15 50/25
Final Average Compensation:	5 years
COLA for Future Retirees:	2.50% (Non-Compound)
Member Contributions:	0%
Act 88:	No

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

Employees covered by benefits terms. At the December 31, 2018 valuation date, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	60
Inactive employees entitled to but not yet receiving benefits	6
Active employees	<u>34</u>
	<u>100</u>

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

Employer minimum contributions range from 7.37 to 28.09% based on annual payroll for open divisions. One division that is closed to new employees has an annual employer contribution amount of \$64,833.

Net Pension Liability. The employer's Net Pension Liability was measured as of December 31, 2018, and the total pension liability used to calculate the Net Pension Liability was determined by an annual actuarial valuation as of that date.

Actuarial assumptions. The total pension liability in the December 31, 2018 annual actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation: 2.5%

Salary Increases: 3.75% in the long-term

Investment rate of return: 7.75%, net of administrative and investment expenses, including inflation.

Although no specific price inflation assumptions is used in this valuation, the long-term annual rate of true inflation implicit in the 3.75% base wage inflation is 2.5% annually.

Mortality rates used were based on RP-2014 Group Annuity Mortality Table of a 50% Male and a 50% Female blend. For disabled retirees, the rates were based on RP-2014 Disable Retiree Mortality Table of a 50% Male and a 50% Female blend.

The actuarial assumptions used in valuation were based on the results of the most recent actuarial experience study in 2015 that covered the period from December 31, 2008 through December 31, 2013.

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

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Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Global Equity	57.5%	5.02%
Global Fixed Income	20.0%	2.18%
Real Assets	12.5%	4.23%
Diversifying Strategies	10.0%	6.56%

Discount rate. The discount rate used to measure the total pension liability is 8% for 2018. The projection of cash flows used to determine the discount rate assumes that employer and employee contributions will be made at the rates agreed upon for employees and the actuarially determined rates for employers. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to pay all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Changes in Net Pension Liability

Calculating the Net Pension Liability			
Changes in Net Pension Liability	Increase (Decrease)		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability
Balances at 12/31/17	(a)	(b)	(a) – (b)
Changes for the Year	\$30,499,579	\$18,986,521	\$11,513,058
Service Cost	285,497	-	285,497
Interest on Total Pension Liability	2,370,497	-	2,370,497
Difference between expected and actual experience	(370,024)	-	(370,024)
Employer Contributions	-	2,395,423	(2,395,423)
Net investment loss	-	(760,557)	760,557
Benefit payments, including employee refunds	(2,021,640)	(2,021,640)	-
Administrative expense	-	(37,098)	37,098
Other	(300)	-	(300)
Net Changes	264,030	(423,872)	687,902
Balances as of 12/31/18	\$30,763,609	\$18,562,649	\$12,200,960

Sensitivity of the Net Position Liability to changes in the discount rate. The following presents the Net Pension Liability of the employer, calculated using the discount rate of 8.00%, as well as what the employer's Net Pension Liability would be using a discount rate that is 1 percentage point lower (7.00%) or 1% higher (9.00%) than the current rate.

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	1% Decrease (7.00%)	Current Discount Rate (8.00%)	1% Increase (9.00%)
Net Pension Liability at 12/31/18	\$12,200,960	\$12,200,960	\$12,200,960
Change in Net Pension Liability (NPL)	3,347,381	-	(2,829,001)
Calculated NPL for your Notes	\$15,548,341	\$12,200,960	\$ 9,371,959

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

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

For the year ended June 30, 2019 the employer recognized pension expense of \$ 2,036,057. The employer reported deferred outflows and inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Excess (Deficit) Investment Returns	\$2,141,600	(\$717,160)
Change in Experience	181,558	(405,017)
Contributions subsequent to the measurement date*	1,195,085	-
Total	\$3,518,243	\$(1,122,177)

*The amount reported as deferred outflows of resources resulting from contributions subsequent to the measurement date will be recognized as a reduction in the Net Pension Liability for the year ending 2020.

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

Year ended	
2020	\$ 364,911
2021	185,166
2022	192,316
2023	458,588
	\$1,200,981

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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. The employer provides for the administrative group a 100% match up to 6% of the employee's gross pay and for the union group contributes 6% if the employees' contributes 1.5% to the program. Plan provision and contribution requirements can only be amended by authorization of the Traverse City Light and Power Board. In the current fiscal year, the Department contributed \$194,908 and employees contributed \$226,411.

8. DEFINED CONTRIBUTION PLAN

Effective February 1, 2019, the Department eliminated the defined benefit pension plan for line workers hired after July 1, 2012, and replaced it with a MERS defined contribution plan. The employer contributes six percent of base wage only and there is no employee contribution requirement. The plan requires a one year vesting period. In the current fiscal year, the Department contributed \$9,219 to this plan.

9. POST-EMPLOYMENT BENEFITS

Plan Description. The Department maintains a single-employer defined benefit healthcare plan (the "Plan"). In addition to the retirement benefits described in Note 6, the Plan provides health insurance benefits to certain retirees and their beneficiaries, which are advance funded on a discretionary basis. The Plan is included as an other post-employment benefits trust fund in the Department's financial statements; a stand-alone financial report of the Plan has not been issued.

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

Membership of the Plan consisted of the following at the date of the latest actuarial valuation (June 30, 2018):

Active plan members	34
Retirees and beneficiaries receiving benefits	<u>38</u>
Total	<u>72</u>

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

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

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Net OPEB Liability. The total OPEB liability in the June 30, 2019 annual actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation: 2.50%

Salary Increases: 5.00%

Investment rate of return: 7.5%

Healthcare cost trend rates: 4.5 to 7.0% per year

Mortality rates used RP-2014 Combined Annuitant Mortality Table for males and females.

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

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

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
US Stocks	34.5%	7.0%
International Stocks	5.0%	8.0%
Emerging Market Stocks	5.0%	12.0%
U.S. Bonds	20.0%	6.0%
Global Bonds	15.0%	7.0%
Global Real Estate	7.0%	8.0%
Commodities	5.0%	8.0%
Private Equity	7.0%	12.0%
Cash	<u>1.5%</u>	.5%
Total	100.0%	

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

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

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

Changes in the Net OPEB Liability

Calculating the Net OPEB Liability			
	Increase (Decrease)		
	Total OPEB Liability (a)	Plan Fiduciary Net Position (b)	Net OPEB Liability (a)-(b)
Balances at 6/30/2018	\$5,383,439	\$3,343,884	\$2,039,555
Changes for the Year			
Service cost	3,363	-	3,363
Interest on total OPEB liability	390,609	-	390,609
Differences between expected and actual experience	-	(161,940)	161,940
Net investment income	-	78,435	(78,435)
Benefit payments, including employee refunds	(350,628)	-	(350,628)
Administrative expense	-	(5,561)	5,561
Other changes	87,555	357,118	(269,563)
Net changes	130,899	268,052	(137,153)
Balance as of 6/30/2019	\$5,514,338	\$3,611,936	\$1,902,402

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

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

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

	1% Decrease	Current Discount rate	1% Increase
Net OPEB liability	\$1,377,866	\$1,902,402	\$2,530,472
Plan fiduciary position as a percentage of the total OPEB liability	(27.57%)		33.01%

TRAVERSE CITY LIGHT AND POWER

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

NOTES TO FINANCIAL STATEMENTS

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

The following presents the net OPEB liability of the employer, calculated using the healthcare cost trend rate of 4.5%, as well as what the employer's net OPEB liability would be using a healthcare cost trend rate that is 1 percentage point lower or higher than the current rate.

	1% Decrease	Current healthcare cost trend rate	1% Increase
Net OPEB liability	\$2,539,679	\$1,902,402	\$1,362,522
Plan fiduciary position as a percentage of total OPEB liability	33.50%		(28.38%)

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

For the year ended June 30, 2019 the employer recognized OPEB expense of \$455,951. The employer reported deferred outflows and inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences in experience	\$ -	\$ 87,046
Changes in assumptions	445,478	25,794
Excess(deficit) investment returns	144,456	145,478
Other changes	-	148,038
Total	\$ 589,934	\$ 406,356

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

2020	\$135,441
2021	(21,606)
2022	37,356
2023	32,387
Total	\$183,578

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.

TRAVERSE CITY LIGHT AND POWER

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

NOTES TO FINANCIAL STATEMENTS

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. SUBSEQUENT EVENTS

At the June 11, 2019 board meeting, the Board approved executing a construction agreement with Fujitsu for a phase one Fiber To The Premises (FTTP) deployment in the amount of \$3,309,427. This contract was executed on August 9, 2019. At the same meeting, the Board approved executing an operation and maintenance agreement with Fujitsu for a phase one deployment in the amount of \$849,663. The project will be financed through an interfund loan from the Electric Fund.

At the May 14, 2019 meeting, the Board approved the Executive Director to negotiate an amended contract with Heritage Sustainable Energy, LLC to incorporate an additional 2MW of solar energy. The contract was executed on July 11, 2019 and has a contract cost of \$4,098,431 over the contract term of 22 years.

At the August 13, 2019 meeting the Board approved to forward a resolution of intent to the City Commission to establish a clean energy finance program in accordance with Public Act 408. This program allows customers to apply for loans to finance energy waste reduction or renewable energy projects and repay the loan through their utility bill. The Department will be applying for funding through the United States Department of Agriculture Rural Energy Savings Program to finance the program. The City Commission approved the resolution at their September 23, 2019 meeting.

13. DESIGNATIONS OF CASH

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

	<u>June 30, 2019</u>
Emergencies	\$ 100,056
Minimum Cash Reserve	<u>8,918,000</u>
Total	<u>\$9,018,056</u>

TRAVERSE CITY LIGHT AND POWER

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

NOTES TO FINANCIAL STATEMENTS

14. COMMITMENTS

The utility has agreements with the MPPA committing it to purchase of up to 2MW of renewable energy from Granger Electric of Michigan, LLC, .65MW of renewable energy from North American Natural Resources, Inc., and 3.6MW of all energy, capacity, and environmental attributes under the agreement for a development in the thumb area of Michigan. Additionally, through the MPPA Energy Service Committee, the utility has base energy bilateral contracts for the fiscal year beginning July 1, 2019 through December 31, 2022 in the amount of \$4,645,763, peak energy bilateral contracts for the fiscal year beginning July 1, 2019 through December 31, 2021 in the amount of \$3,350,622, and capacity transaction bilateral contracts for the fiscal year beginning July 1, 2019 through December 31, 2030 in the amount of \$4,010,100.

15. SPECIAL ITEM

During the fiscal year June 30, 2017, the Department obtained approval to move forward with the Advanced Metering Infrastructure Project. The main purpose of this project was to utilize the infrastructure and data as an internal tool to drive future internal business. This mainly relates to grid reliability projects and customer rate structures. This project is a significant technology change on how meter reads and data on consumption is obtained. The retirement of the old meters has been recorded as a special item because the event was in control of management but infrequent in nature.

REQUIRED SUPPLEMENTARY INFORMATION

TRAVERSE CITY LIGHT AND POWER

REQUIRED SUPPLEMENTARY INFORMATION
MERS DEFINED BENEFIT PENSION PLAN
SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS
FOR THE YEAR ENDED JUNE 30, 2019

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

Notes to Schedule

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

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

TRAVERSE CITY LIGHT AND POWER

**REQUIRED SUPPLEMENTARY INFORMATION
DEFINED BENEFIT PENSION PLAN
MERS SCHEDULE OF EMPLOYER CONTRIBUTIONS
FOR THE YEAR ENDED JUNE 30, 2019**

	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>
Actuarially determined contribution	\$ 770,572	\$ 891,939	\$ 944,388	\$ 1,110,648	\$ 1,113,276
Actual contribution	(770,572)	(891,939)	(2,202,960)	(2,356,392)	(2,428,720)
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (1,258,572)</u>	<u>\$ (1,245,744)</u>	<u>\$ (1,315,444)</u>
 Covered employee payroll	 \$ 2,880,960	 \$ 2,866,124	 \$ 2,862,491	 \$ 2,837,222	 \$ 2,680,970
 Contribution as a percentage of covered employee payroll	 26.75%	 31.12%	 32.99%	 39.15%	 41.53%
Notes to schedule					
Actuarial cost method	Entry Age				
Amortization method	Level percentage of payroll, open				
Remaining amortization period	25 years				
Asset valuation method	5 year smoothed (10 year smoothing 2014)				
Inflation	2.5% (3.5% 2014)				
Salary increases	3.75 to 14.5% (4.50% in 2014)				
Investment rate of return	7.75% (8.25% 2014)				
Retirement age	Varies depending on plan adoption				
Mortality	RP-2014 mortality tables of a 50% Male and 50% Female blend (50% female/50% male 1994 group annuity mortality table 2014)				

Note to Schedule

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

TRAVERSE CITY LIGHT AND POWER

**REQUIRED SUPPLEMENTARY INFORMATION
OTHER POST EMPLOYMENT BENEFIT TRUST FUND
SCHEDULE OF CHANGES IN NET OPEB LIABILITY AND RELATED RATIOS
FOR THE YEAR ENDED JUNE 30, 2019**

Total OPEB liability	2018	2019
Service cost	\$ 2,852	\$ 3,363
Interest	406,878	390,609
Differences between expected and actuarial experience	(269,497)	-
Changes in assumptions	28,187	-
Benefit payments, including refunds	(342,038)	(350,628)
Other changes	(38,996)	87,555
	(212,614)	130,899
Net change in total OPEB liability		
Total OPEB liability, beginning of year	5,596,053	5,383,439
Total OPEB liability, end of year	5,383,439	5,514,338
Plan fiduciary net position		
Contribution - employer	229,388	-
Net investment income	191,582	78,435
Differences between expected and actuarial experience	-	(161,940)
Other changes	-	357,118
Administrative expenses	(6,220)	(5,561)
	414,750	268,052
Net change in plan fiduciary net position		
Plan fiduciary net position, beginning of year	2,929,134	3,343,884
Plan fiduciary net position, end of year	3,343,884	3,611,936
Department's net OPEB liability	\$ 2,039,555	\$ 1,902,402
Plan fiduciary net position as a percent of total OPEB liability	62.11%	65.50%
Covered employee payroll	\$ 2,837,222	\$ 2,680,970
Department's net OPEB liability as a percent of covered employee payroll	71.89%	70.96%

Notes to Schedule

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

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

TRAVERSE CITY LIGHT AND POWER

**REQUIRED SUPPLEMENTARY INFORMATION
OTHER POST EMPLOYMENT BENEFIT TRUST FUND
SCHEDULE OF NET OPEB LIABILITY, FIDUCIARY NET POSITION AND RELATED RATIOS
FOR THE YEAR ENDED JUNE 30, 2019**

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

Note to Schedule

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

TRAVERSE CITY LIGHT AND POWER

**REQUIRED SUPPLEMENTARY INFORMATION
OTHER POSTEMPLOYMENT BENEFIT TRUST FUND
SCHEDULE OF CONTRIBUTIONS
FOR THE YEAR ENDED JUNE 30, 2019**

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

Notes to Schedule

Actuarial cost method	Entry Age Normal
Amortization method	Straight line
Remaining amortization period	2.11 years
Asset valuation method	Market Value
Inflation	2.50%
Salary increases	5.00%
Investment rate of return	7.50%
Retirement age	Varies depending on retirement plan
Mortality	RP-2014 Combined Annuitant Mortality Table for males and females
 Health Care Trend rates	 4.0 - 7.0%

Note to Schedule

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

TRAVERSE CITY LIGHT AND POWER
REQUIRED SUPPLEMENTARY INFORMATION
OTHER POSTEMPLOYMENT BENEFIT TRUST FUND
SCHEDULE OF INVESTMENT RETURNS
FOR THE YEAR ENDED JUNE 30, 2019

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

Note to Schedule

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

OTHER SUPPLEMENTARY INFORMATION

TRAVERSE CITY LIGHT AND POWER

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

SCHEDULE OF CAPITAL ASSETS AND DEPRECIATION (UNAUDITED) LIGHT AND POWER FUND FOR THE YEAR ENDED JUNE 30, 2019

	Capital Assets - Cost			Balance at June 30, 2019
	Balance at June 30, 2018	Additions/ Transfers	Deletions/ Transfers	
Land and land improvements				
Land	\$ 1,073,535	\$ -	\$ -	\$ 1,073,535
Land improvements	5,884	25,651	-	31,535
Total land and land improvements	1,079,419	25,651	-	1,105,070
Buildings and improvements				
Distribution plant	5,528,268	187,470	48,439	5,667,299
Office structures	97,149	-	-	97,149
Other buildings	62,232	6,445	-	68,677
Total buildings and improvements	5,687,649	193,915	48,439	5,833,125
Equipment and distribution system				
Union St. Dam	24,010	-	-	24,010
Keystone plant	390	-	-	390
Wind generation unit	20,850	-	-	20,850
Transmission and distribution	81,810,583	7,851,288	3,473,560	86,188,311
General	1,732,996	170,692	-	1,903,688
Total equipment and distribution system	83,588,829	8,021,980	3,473,560	88,137,249
Construction in progress	2,746,924	7,616,524	8,303,858	2,059,590
Total	\$ 93,102,821	\$ 15,858,070	\$ 11,825,857	\$ 97,135,034

Balance at June 30, 2018	Accumulated Depreciation		Balance at June 30, 2019	Capital Assets - Net
	Current Depreciation	Deletions		Balance at June 30, 2019
\$ -	\$ -	\$ -	\$ -	\$ 1,073,535
-	-	-	-	31,535
-	-	-	-	1,105,070
1,950,174	170,537	32,121	2,088,590	3,578,709
14,958	1,226	-	16,184	80,965
18,699	1,964	-	20,663	48,014
1,983,831	173,727	32,121	2,125,437	3,707,688
24,010	-	-	24,010	-
390	-	-	390	-
2,814	625	-	3,439	17,411
26,700,063	2,522,434	2,210,248	27,012,249	59,176,062
817,827	182,961	-	1,000,788	902,900
27,545,104	2,706,020	2,210,248	28,040,876	60,096,373
-	-	-	-	2,059,590
\$ 29,528,935	\$ 2,879,747	\$ 2,242,369	\$ 30,166,313	\$ 66,968,721

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, 2019**

	Capital Assets - Cost			Balance at June 30, 2019
	Balance at June 30, 2018	Additions/ Transfers	Deletions/ Transfers	
Equipment and distribution system				
Overhead	\$ 1,104,684	\$ -	\$ -	\$ 1,104,684
Underground	298,380	9,848	-	308,228
Termination boxes	367,282	-	-	367,282
Wireless equipment	51,725	-	-	51,725
WIFI system	501,863	-	-	501,863
Other property	49,624	-	-	49,624
Total equipment and distribution system	2,373,558	9,848	-	2,383,406
Construction in progress	-	11,528	9,848	1,680
Total	\$ 2,373,558	\$ 21,376	\$ 9,848	\$ 2,385,086

Balance at June 30, 2018	Accumulated Depreciation		Balance at June 30, 2019	Capital Assets
	Current Depreciation	Deletions		- Net Balance at June 30, 2019
\$ 509,964	\$ 55,582	\$ -	\$ 565,546	\$ 539,138
123,709	15,165	-	138,874	169,354
176,619	18,364	-	194,983	172,299
25,860	2,586	-	28,446	23,279
175,616	50,172	-	225,788	276,075
43,500	4,913	-	48,413	1,211
1,055,268	146,782	-	1,202,050	1,181,356
-	-	-	-	1,680
\$ 1,055,268	\$ 146,782	\$ -	\$ 1,202,050	\$ 1,183,036

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, 2019

	<u>Amended Budget</u>	<u>Actual</u>	<u>Positive (Negative) Variance</u>
Operating revenues - sales			
Residential	\$ 6,035,000	\$ 5,943,504	\$ (91,496)
Commercial	14,800,000	14,682,997	(117,003)
Industrial	9,670,000	9,106,566	(563,434)
Public authority	285,000	299,381	14,381
Street lighting	225,000	231,650	6,650
Green energy	-	15,037	15,037
Yard lights	144,000	123,621	(20,379)
Total operating revenues - sales	<u>31,159,000</u>	<u>30,402,756</u>	<u>(756,244)</u>
Other operating revenues			
Forfeited discounts	50,000	54,900	4,900
Merchandise and jobbing	73,500	288,163	214,663
Sale of scrap	50,000	75,547	25,547
Recovery of bad debts	200	-	(200)
MISO income	2,800,000	3,272,858	472,858
Miscellaneous	39,000	90,741	51,741
Total other operating revenues	<u>3,012,700</u>	<u>3,782,209</u>	<u>769,509</u>
Nonoperating revenues			
Rental income	53,400	57,336	3,936
Pole rental income	81,000	83,763	2,763
Reimbursements	150,000	225,819	75,819
Interest income	250,000	268,607	18,607
Change in fair market value of investments	-	359,434	359,434
Gain/(Loss) on sale of assets	5,000	(244,770)	(249,770)
Total nonoperating revenues	<u>539,400</u>	<u>750,189</u>	<u>210,789</u>
Total revenues	<u>34,711,100</u>	<u>34,935,154</u>	<u>224,054</u>

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, 2019

	<u>Amended Budget</u>	<u>Actual</u>	<u>Positive (Negative) Variance</u>
Purchase power expense			
Salaries and wages	\$ 12,500	\$ 12,274	\$ 226
Payroll taxes and fringes	107,500	201,969	(94,469)
Purchased power	20,847,600	20,684,889	162,711
Trap and transfer	250	-	250
Union street fish ladder	250	-	250
Professional and contractual	93,500	120,926	(27,426)
Professional development	1,500	953	547
Operation supplies	5,775	6,956	(1,181)
Communications	300	212	88
Safety	3,500	3,388	112
Transportation	7,500	5,492	2,008
Equipment rental	18,000	13,417	4,583
Miscellaneous	-	82	(82)
	<u>21,098,175</u>	<u>21,050,558</u>	<u>47,617</u>
Total purchase power expenses			

Continued

TRAVERSE CITY LIGHT AND POWER

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

SCHEDULE OF REVENUES AND EXPENSES - BUDGET AND ACTUAL (UNAUDITED) LIGHT AND POWER FUND FOR THE YEAR ENDED JUNE 30, 2019

	Amended Budget	Actual	Positive (Negative) Variance
Distribution expense			
Salaries and wages	\$ 1,458,550	\$ 1,287,993	\$ 170,557
Payroll taxes and fringes	1,528,400	1,631,378	(102,978)
Substation	150,000	142,264	7,736
Overhead lines	217,700	211,677	6,023
Underground lines	30,000	18,945	11,055
Storm work	50,000	359	49,641
Customer installation	-	59,398	(59,398)
Electric meters	4,000	158,780	(154,780)
Street lighting	230,000	256,938	(26,938)
Traffic signals	5,000	12,983	(7,983)
Plant and structures	75,000	110,053	(35,053)
Load and dispatching contractual services	34,100	33,228	872
Professional services	82,000	19,750	62,250
Professional development	55,000	66,214	(11,214)
Operation supplies	88,500	119,470	(30,970)
Utilities	154,200	105,985	48,215
Safety	35,000	27,831	7,169
Transportation	32,000	27,801	4,199
Equipment rental	69,000	63,736	5,264
Inventory adjustment	10,000	(35,319)	45,319
Miscellaneous	11,500	11,108	392
	4,319,950	4,330,572	(10,622)
Total distribution expense			
Transmission expense			
Salaries and wages	239,000	217,978	21,022
Substation	82,000	49,602	32,398
Overhead lines	25,000	17,401	7,599
MISO	41,000	34,767	6,233
Load and dispatching	14,400	12,735	1,665
Equipment rental	1,000	2,565	(1,565)
Inventory adjustment	-	35,587	(35,587)
Miscellaneous	69,000	82,285	(13,285)
	471,400	452,920	18,480
Total transmission expense			

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, 2019

	<u>Amended Budget</u>	<u>Actual</u>	<u>Positive (Negative) Variance</u>
Customer accounting expense			
Salaries and wages	\$ 159,000	\$ 152,231	\$ 6,769
Meter reading	88,500	81,364	7,136
Payroll taxes and fringes	133,600	235,570	(101,970)
Office supplies	4,200	4,711	(511)
Postage	30,000	25,975	4,025
Communications	-	21,000	(21,000)
Stationary and printing	1,000	505	495
Professional and contractual	24,000	48,806	(24,806)
Uncollectible accounts	5,000	7,946	(2,946)
Collection expense	4,000	2,467	1,533
Data processing	20,000	29,689	(9,689)
Professional development	2,500	782	1,718
Transportation	4,200	2,153	2,047
Equipment rental	16,500	9,746	6,754
Miscellaneous	8,500	4,206	4,294
Total customer accounting expense	<u>501,000</u>	<u>627,151</u>	<u>(126,151)</u>
Public service expense			
Salaries and wages	60,000	50,345	9,655
Payroll taxes and fringes	27,100	24,020	3,080
Office supplies	1,000	152	848
Communications	-	659	(659)
Public service information	481,200	381,832	99,368
Total public service expense	<u>569,300</u>	<u>457,008</u>	<u>112,292</u>

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, 2019

	<u>Amended Budget</u>	<u>Actual</u>	<u>Positive (Negative) Variance</u>
Information Systems			
Salaries	\$ 142,000	\$ 115,703	\$ 26,297
Payroll taxes and fringes	128,800	115,447	13,353
Professional development	5,500	420	5,080
Professional and contractual	50,000	16,865	33,135
Office supplies	1,000	549	451
Operation supplies	10,100	3,971	6,129
Communication	2,000	8,378	(6,378)
Software	121,250	98,974	22,276
Hardware	20,000	17,417	2,583
Uniforms	-	197	(197)
Miscellaneous	-	145	(145)
	<u>480,650</u>	<u>378,066</u>	<u>102,584</u>
Total information systems			

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, 2019

	<u>Amended Budget</u>	<u>Actual</u>	<u>Positive (Negative) Variance</u>
General administration expense			
Salaries	\$ 401,100	\$ 394,566	\$ 6,534
Payroll taxes and fringes	305,600	385,825	(80,225)
Professional development	19,500	7,117	12,383
Professional and contractual	76,500	56,870	19,630
Office supplies	7,000	7,591	(591)
Fees and per diems	71,700	64,799	6,901
Special services	7,000	10,487	(3,487)
Legal fees	75,000	50,300	24,700
Utilities	6,000	4,230	1,770
Printing and publishing	5,000	4,549	451
Transportation	1,500	240	1,260
Miscellaneous	6,000	800	5,200
Total general administration expense	<u>981,900</u>	<u>987,374</u>	<u>(5,474)</u>
Other expenses			
Insurance - general	87,625	69,139	18,486
City fee	1,712,200	1,725,314	(13,114)
Depreciation	2,700,000	2,879,750	(179,750)
Total other expenses	<u>4,499,825</u>	<u>4,674,203</u>	<u>(174,378)</u>
Total operating expenses	<u>32,922,200</u>	<u>32,957,852</u>	<u>35,652</u>
Transfers			
Transfer in	175,000	175,000	-
Special item	<u>(725,000)</u>	<u>(1,034,859)</u>	<u>(309,859)</u>
Change in net position	<u>\$ 1,238,900</u>	<u>\$ 1,117,443</u>	<u>\$ (121,457)</u>

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, 2019

	Amended Budget	Actual	Positive (Negative) Variance
Operating revenues - sales			
Charges for services	\$ 458,000	\$ 416,427	\$ (41,573)
Merchandising and jobbing	-	9,848	9,848
Total operating revenues	458,000	426,275	(31,725)
Non-operating revenues			
Reimbursements	177,800	38,689	(139,111)
Interest income	1,130	326	(804)
Total non-operating revenues	178,930	39,015	(139,915)
Total revenues	636,930	465,290	(171,640)
Fiber expenses			
Salaries and wages	64,900	71,360	(6,460)
Payroll taxes and fringes	70,250	93,637	(23,387)
Operation supplies	2,000	1,855	145
Software and hardware	5,750	-	5,750
Professional and contractual	46,750	46,594	156
Professional development	2,500	4,333	(1,833)
Transportation	10,000	10,843	(843)
Pole attachment fees	-	11,484	(11,484)
Repair and Maintenance	16,000	-	16,000
Miscellaneous	100	839	(739)
Total fiber expenses	218,250	240,945	(22,695)
WIFI expenses			
Operation and maintenance	32,100	32,891	(791)
Other expenses			
Insurance and bonds	1,000	743	257
City fee	23,000	21,314	1,686
Depreciation	146,000	146,782	(782)
Total other expenses	170,000	168,839	1,161
Total operating expenses	420,350	442,675	(22,325)
Transfers			
Transfers out	175,000	175,000	-
Change in net position	\$ 41,580	\$ (152,385)	\$ (149,315)

INTERNAL CONTROL AND COMPLIANCE



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

December 4, 2019

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Traverse City Light and Power, a Component Unit of the City of Traverse City, Michigan, as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise Traverse City Light and Power's basic financial statements, and have issued our report thereon dated December 4, 2019.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

Orederold Haefner LLC