

**Traverse City Light and Power**

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

**Financial Statements**

**For the Fiscal Year Ended  
June 30, 2014**

# TRAVERSE CITY LIGHT AND POWER

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

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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, 2014, 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. 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, 2014, 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.

## **Other Matters**

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and MERS Pension Plan Schedule of Funding Progress, 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 in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

*Abraham & Gaffney, P.C.*

ABRAHAM & GAFFNEY, P.C.  
Certified Public Accountants

December 22, 2014

## **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, 2014. 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 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 approximately \$75,000,000 at the close of the most recent fiscal year, June 30, 2014.

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>2014</u>	<u>2013</u>
<b>Business-type Activities</b>		
Current and other assets	\$ 29,089,992	\$ 28,526,978
Capital assets	<u>49,086,351</u>	<u>45,398,449</u>
Total assets	78,176,343	73,925,427
Long-term liabilities outstanding	163,859	216,923
Other liabilities	<u>3,104,564</u>	<u>2,863,014</u>
Total liabilities	<u>3,268,423</u>	<u>3,079,937</u>
Net position		
Invested in capital assets	49,086,351	45,398,449
Unrestricted	<u>25,821,569</u>	<u>25,447,041</u>
<b>Total net position</b>	<b><u>\$ 74,907,920</u></b>	<b><u>\$ 70,845,490</u></b>

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

	<u>June 30</u>	
	<u>2014</u>	<u>2013</u>
<b>Business-type Activities</b>		
Operating revenue	\$ 35,521,246	\$ 32,017,694
Operating expenses	(32,629,767)	(34,474,615)
Nonoperating revenue	<u>1,170,951</u>	<u>(54,239)</u>
Increase (decrease) in net position	4,062,430	(2,511,160)
Net position – beginning of year	<u>70,845,490</u>	<u>73,356,650</u>
<b>Net position – end of year</b>	<b><u>\$ 74,907,920</u></b>	<b><u>\$ 70,845,490</u></b>

## Business-type activities

The overall financial position of the Department remained strong in 2013-2014. 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 debt service costs relating to the Campbell, Belle River and Kalkaska Combustion Turbine generation plants.

## Revenue

Overall revenues increased, specifically, operating revenues were higher because the Board lifted the power service cost recovery cap in October 2013. Reimbursements increased over prior year from funds received from Consumers Energy relating to the Parsons Road Transmission Line Capital Project.

## Expenses

In fiscal year 2013-14, operating expenses decreased approximately \$1,850,000 from fiscal year 2012-13 due in large part to excess power supply sold into Midwest Independent System Operator (“MISO”) market, positions not being filled in the current year and the \$1,000,000 contribution made to the City for the Clinch Park Revitalization Project in the prior year.

## Capital asset and debt administration

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

	<u>June 30</u>	
	<u>2014</u>	<u>2013</u>
Land and land improvements	\$ 1,395,691	\$ 1,309,430
Construction in progress	1,785,733	4,521,877
Buildings and improvements	4,487,246	4,430,975
Equipment and distribution system	66,047,946	57,931,757
Accumulated depreciation	<u>(24,630,265)</u>	<u>(22,795,590)</u>
<b>Total</b>	<b><u>\$ 49,086,351</u></b>	<b><u>\$ 45,398,449</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

An overall base rate increase of 1.5% was budgeted for fiscal year 2014-15 with planned small inflationary increases every other year. Power supply costs and renewable energy requirements will impact the Department’s future overall rate increases.

## 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, 2014

ASSETS	<u>Light and Power Fund</u>	<u>Fiber Fund</u>	<u>Total</u>
<b>Current assets</b>			
Cash and cash equivalents	\$ 5,239,576	\$ 278,447	\$ 5,518,023
Investments	15,852,407	-	15,852,407
Receivables			
Customer, less allowances of \$279,103 for uncollectible accounts (Light and Power Fund)	3,728,260	4,230	3,732,490
Accrued interest	56,287	-	56,287
Taxes	2,156	-	2,156
Other	698,039	-	698,039
Inventories	1,990,709	-	1,990,709
Prepaid expenses	5,600	-	5,600
<b>Total current assets</b>	<b><u>27,573,034</u></b>	<b><u>282,677</u></b>	<b><u>27,855,711</u></b>
<b>Non-current assets</b>			
Other postemployment benefit asset	928,445	-	928,445
Long-term advances - due from primary government	305,836	-	305,836
Land and land improvements	1,395,691	-	1,395,691
Construction in progress	1,712,092	73,641	1,785,733
Capital assets being depreciated, net	44,643,067	1,261,860	45,904,927
<b>Total non-current assets</b>	<b><u>48,985,131</u></b>	<b><u>1,335,501</u></b>	<b><u>50,320,632</u></b>
<b>Total assets</b>	<b><u>76,558,165</u></b>	<b><u>1,618,178</u></b>	<b><u>78,176,343</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, 2014

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LIABILITIES AND NET POSITION	Light and Power Fund	Fiber Fund	Total
<b>Current liabilities</b>			
Accounts payable	\$ 1,987,395	\$ 150	\$ 1,987,545
Accrued expenses and other liabilities	749,019	-	749,019
Customer deposits	99,849	-	99,849
Unearned revenue	20,570	14,270	34,840
Compensated absences	5,996	-	5,996
Due to primary government	215,851	11,464	227,315
	<hr/>	<hr/>	<hr/>
<b>Total current liabilities</b>	<b>3,078,680</b>	<b>25,884</b>	<b>3,104,564</b>
<b>Long-term liabilities</b>			
Compensated absences	162,633	1,226	163,859
	<hr/>	<hr/>	<hr/>
<b>Total liabilities</b>	<b>3,241,313</b>	<b>27,110</b>	<b>3,268,423</b>
	<hr/>	<hr/>	<hr/>
<b>Net position</b>			
Invested in capital assets	47,750,850	1,335,501	49,086,351
Unrestricted	25,566,002	255,567	25,821,569
	<hr/>	<hr/>	<hr/>
<b>Total net position</b>	<b>\$ 73,316,852</b>	<b>\$ 1,591,068</b>	<b>\$ 74,907,920</b>
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The accompanying notes are an integral part of these financial statements.

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## 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, 2014

	Light and Power Fund	Fiber Fund	Total
<b>Operating revenues</b>			
Charges for services	\$ 32,516,825	\$ 229,120	\$ 32,745,945
MISO income	2,600,847	-	2,600,847
Other	174,454	-	174,454
<b>Total operating revenues</b>	<b>35,292,126</b>	<b>229,120</b>	<b>35,521,246</b>
<b>Operating expenses</b>			
Generation	23,219,126	-	23,219,126
Distribution	3,355,752	-	3,355,752
Transmission	299,449	-	299,449
Customer accounting	479,851	-	479,851
Public service	440,260	-	440,260
General administration	753,148	-	753,148
Fiber	-	117,280	117,280
Other	59,502	791	60,293
City fee	1,775,851	11,464	1,787,315
Depreciation	2,027,184	90,109	2,117,293
<b>Total operating expenses</b>	<b>32,410,123</b>	<b>219,644</b>	<b>32,629,767</b>
<b>Operating income</b>	<b>2,882,003</b>	<b>9,476</b>	<b>2,891,479</b>
<b>Nonoperating revenues</b>			
Rental income	83,213	-	83,213
Reimbursements	616,140	21,628	637,768
Interest income	342,422	167	342,589
Change in fair value of investments	60,450	-	60,450
Gain on sale of assets	46,931	-	46,931
<b>Total nonoperating revenue</b>	<b>1,149,156</b>	<b>21,795</b>	<b>1,170,951</b>
Change in net position	4,031,159	31,271	4,062,430
Net position, beginning of year	69,285,693	1,559,797	70,845,490
<b>Net position, end of year</b>	<b>\$ 73,316,852</b>	<b>\$ 1,591,068</b>	<b>\$ 74,907,920</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, 2014

	<b>Light and Power Fund</b>	<b>Fiber Fund</b>	<b>Total</b>
<b>Cash flows from operating activities</b>			
Cash received from customers	\$ 34,410,730	\$ 225,960	\$ 34,636,690
Cash payments to employees	(4,088,286)	(96,369)	(4,184,655)
Cash payments to suppliers for goods and services	(24,839,350)	(20,611)	(24,859,961)
Cash payments of City fee	(1,719,866)	(10,402)	(1,730,268)
<b>Net cash provided by operating activities</b>	<b>3,763,228</b>	<b>98,578</b>	<b>3,861,806</b>
<b>Cash flows from noncapital financing activities</b>			
Cash payments from primary government	80,162	-	80,162
Customer deposits paid	(21,070)	-	(21,070)
Rental income received	83,213	-	83,213
Reimbursements received	616,140	21,628	637,768
<b>Net cash provided by noncapital financing activities</b>	<b>758,445</b>	<b>21,628</b>	<b>780,073</b>
<b>Cash flows from capital and related financing activities</b>			
Proceeds from sale of capital assets	55,568	-	55,568
Purchase of capital assets	(5,745,312)	(68,523)	(5,813,835)
<b>Net cash (used in) capital and related financing activities</b>	<b>(5,689,744)</b>	<b>(68,523)</b>	<b>(5,758,267)</b>
<b>Cash flows from investing activities</b>			
Purchase of investments	5,321,869	-	5,321,869
Interest and dividends	412,983	167	413,150
<b>Net cash provided by investing activities</b>	<b>5,734,852</b>	<b>167</b>	<b>5,735,019</b>
Net increase in cash and cash equivalents	4,566,781	51,850	4,618,631
Cash and cash equivalents, beginning of year	672,795	226,597	899,392
<b>Cash and cash equivalents, end of year</b>	<b>\$ 5,239,576</b>	<b>\$ 278,447</b>	<b>\$ 5,518,023</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, 2014

	<u>Light and Power Fund</u>	<u>Fiber Fund</u>	<u>Total</u>
<b>Cash flows from operating activities</b>			
Operating income	\$ 2,882,003	\$ 9,476	\$ 2,891,479
Adjustments to reconcile operating income to net cash provided by operating activities			
Depreciation	2,027,184	90,109	2,117,293
Changes in operating assets and liabilities which provided (used) cash			
Receivables	(904,553)	(4,230)	(908,783)
Inventories	(241,837)	-	(241,837)
Prepaid expenses	2,867	-	2,867
Accounts payable	(120,451)	(135)	(120,586)
Due to other governments	55,985	1,062	57,047
Accrued expenses and other liabilities	311,949	-	311,949
Compensated absences	(61,720)	1,226	(60,494)
Unearned revenue	20,570	1,070	21,640
Other postemployment benefit asset	(208,769)	-	(208,769)
<b>Net cash provided by operating activities</b>	<u><u>\$ 3,763,228</u></u>	<u><u>\$ 98,578</u></u>	<u><u>\$ 3,861,806</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

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### 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 2014, the city fee was \$1,787,315.

#### 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

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- 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>
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

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### 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 "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

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### 2. CASH DEPOSITS AND INVESTMENTS

The Department's cash and cash equivalents, and investments at June 30, 2014 are composed of the following:

	<u>Cash and cash equivalents</u>	<u>Investments</u>	<u>Totals</u>
Deposits	\$ 5,518,023	\$ 1,985,115	\$ 7,503,138
Investments	<u>-</u>	<u>13,867,292</u>	<u>13,867,292</u>
<b>Total</b>	<b><u>\$ 5,518,023</u></b>	<b><u>\$15,852,407</u></b>	<b><u>\$21,370,430</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, 2014, the Department's Michigan CLASS investment and the U.S. Treasury notes are 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	09/30/2014	\$ 1,005,700	AA+
US Treasury note	12/31/2014	1,012,620	AA+
US Treasury note	12/05/2016	498,840	AA+
US Treasury note	12/31/2016	957,654	AA+
US Treasury note	10/30/2017	500,200	AA+
US Treasury note	06/30/2018	521,135	AA+
US Treasury note	04/30/2019	300,312	AA+
US Treasury note	02/15/2020	439,968	AA+
US Treasury note	02/06/2023	1,490,370	AA+
US Treasury note	03/13/2023	699,265	AA+
US Treasury note	03/20/2023	485,430	AA+
US Treasury note	03/21/2023	967,190	AA+
US Treasury note	08/27/2027	931,500	AA+
US Treasury note	10/29/2027	681,422	AA+
US Treasury note	01/25/2028	942,330	AA+
US Treasury note	02/14/2028	469,435	AA+
MPPA Investments Pool	Various	1,960,897	Unrated
Michigan CLASS	N/A	<u>3,024</u>	AAAm
		<b><u>\$ 13,867,292</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 \$13,867,292 of investments at June 30, 2014, the Department has a custodial credit risk exposure of \$11,903,371 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, 2014, capital assets consist of the following:

	<b>Beginning Balance</b>	<b>Additions &amp; Transfers</b>	<b>Deletions &amp; Transfers</b>	<b>Ending Balance</b>
Capital assets not being depreciated				
Land and land improvements	\$ 1,309,430	\$ 86,261	\$ -	\$ 1,395,691
Construction in progress	<u>4,521,877</u>	<u>4,301,081</u>	<u>7,037,225</u>	<u>1,785,733</u>
Total capital assets not being depreciated	<u>5,831,307</u>	<u>4,387,342</u>	<u>7,037,225</u>	<u>3,181,424</u>
Capital assets being depreciated				
Buildings and improvements	4,430,975	56,271	-	4,487,246
Equipment and distribution system	56,226,038	8,343,911	291,258	64,278,691
Fiber system	<u>1,705,719</u>	<u>63,536</u>	<u>-</u>	<u>1,769,255</u>
Total capital assets being depreciated	<u>62,362,732</u>	<u>8,463,718</u>	<u>291,258</u>	<u>70,535,192</u>
Less accumulated depreciation for				
Buildings and improvements	1,235,109	133,817	-	1,368,926
Equipment and distribution system	21,143,195	1,893,367	282,618	22,753,944
Fiber system	<u>417,286</u>	<u>90,109</u>	<u>-</u>	<u>507,395</u>
Total accumulated depreciation	<u>22,795,590</u>	<u>2,117,293</u>	<u>282,618</u>	<u>24,630,265</u>
Total capital assets being depreciated, net	<u>39,567,142</u>	<u>6,346,425</u>	<u>8,640</u>	<u>45,904,927</u>
<b>Total capital assets, net</b>	<b><u>\$45,398,449</u></b>	<b><u>\$10,733,767</u></b>	<b><u>\$ 7,045,865</u></b>	<b><u>\$49,086,351</u></b>

# TRAVERSE CITY LIGHT AND POWER

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

## NOTES TO FINANCIAL STATEMENTS

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### 4. LONG-TERM LIABILITIES

Long-term debt at June 30, 2014, consists of the following:

	<u>Balance</u> <u>07/01/13</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>06/30/14</u>	<u>Due</u> <u>Within</u> <u>One Year</u>
Accrued compensated absences	\$ 230,349	\$ 208,098	\$ 268,592	\$ 169,855	\$ 5,996

### 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 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, 2014, the Department recognized expenses totaling \$6,079,198.

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 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 TCL&P for firm priced energy supply during more volatile months.

For the year ended June 30, 2014, Traverse City Light and Power recognized expenses totaling \$14,045,658 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

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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 2013 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>
2015	\$ 7,876,795
2016	8,113,098
2017	5,245,694
2018	5,403,065
2019	2,993,291
2020-2024	16,368,542
2025-2027	<u>11,047,328</u>
	<b><u>\$ 57,047,813</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>
2015	\$ 2,773,172	\$ 1,307,908	\$ 4,081,080
2016	2,871,939	1,166,712	4,038,651
2017	3,160,421	1,020,444	4,180,865
2018	3,300,335	880,189	4,180,524
2019	2,197,513	739,091	2,936,604
2020-2024	10,023,774	2,427,396	12,451,170
2025-2027	<u>4,967,655</u>	<u>504,925</u>	<u>5,472,580</u>
	<b><u>\$ 29,294,809</u></b>	<b><u>\$ 8,046,665</u></b>	<b><u>\$ 37,341,474</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 \$1,960,897 as of June 30, 2014.

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, 2014, the Department recognized expenses totaling \$2,890,566.

# TRAVERSE CITY LIGHT AND POWER

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

## NOTES TO FINANCIAL STATEMENTS

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### 6. RETIREMENT PLAN

#### Municipal Employees Retirement System (MERS)

##### Plan Description

The Department's defined benefit pension plan provides retirement and disability benefits, annual cost-of-living adjustments and death benefits to plan members and beneficiaries. The Department participates in the Municipal Employees Retirement System of Michigan (MERS), an agent multiple-employer plan administered by the MERS Retirement Board. Act No. 427 of the Public Acts of 1984, as amended, establishes and amends the benefit provisions of the participants in MERS. The Municipal Employees Retirement System of Michigan issues a publicly available financial report that includes financial statements and required supplementary information for MERS. That report may be obtained by writing to the Municipal Employees Retirement System of Michigan, 1134 Municipal Way, Lansing, MI 48917 or by calling (800) 767-6377.

##### Funding Policy

The Department is required to contribute at an actuarially determined rate; the current rate ranges from 7.34% to 21.26% of annual covered payroll depending on the class of employee. Employees are not required to contribute to the Plan. The contribution requirements of the Department are established and may be amended by the Retirement Board of MERS.

##### Annual Pension Cost

For the year ended June 30, 2014 the Department's annual pension cost of \$726,200 for MERS was equal to the Department's required and actual contributions.

#### Three-year Trend Information

<u>Fiscal Year Ending</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
6/30/12	\$733,048	100%	\$ -
6/30/13	711,454	100%	-
6/30/14	726,200	100%	-

The required contribution was determined as part of the December 31, 2011 actuarial valuation using the entry age actuarial cost method. The actuarial assumptions included (a) a rate of return on the investment of present and future assets of 8.0%, (b) projected salary increases of 4.5% per year, compounded annually, attributable to inflation and (c) additional projected salary increases of 0.0% to 13.00% per year, depending on age, attributable to seniority/merit. The actuarial value of MERS assets was determined on the basis of a valuation method that assumes the fund earns the expected rate of return, and includes an adjustment to reflect fair value. The difference in investment income between expected return and market return is based on a ten year smoothed value of assets. The Department's unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at December 31, 2013, the date of the last actuarial valuation, was 25 years.

# TRAVERSE CITY LIGHT AND POWER

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

## NOTES TO FINANCIAL STATEMENTS

### Funded Status and Funding Progress

#### Schedule of Funding Progress

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets (a)</u>	<u>Actuarial Liability (AAL) Entry Age (b)</u>	<u>Unfunded AAL (UAAL) (b-a)</u>	<u>Funded Ratio (a/b)</u>	<u>Covered Payroll (c)</u>	<u>UAAL as a Percentage of Payroll ((b-a)/c)</u>
12/31/13	\$ 17,112,101	\$ 26,572,254	\$ 9,460,153	64%	\$ 2,664,788	355%

Additional required supplementary information regarding MERS pension plan is reported in the supplemental information portion of the financial statements. The required schedule of funding progress immediately following the notes to the financial statements presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities of benefits.

#### 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 Traverse City Light and Power Board. In the current fiscal year, the Department contributed \$147,277 and employees contributed \$204,252.

#### 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 \$208,769 for 34 participants in fiscal year 2013-2014.

The Department participates in the City's MERS 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 required contribution to the Plan for the fiscal year ended June 30, 2014, was \$264,231. The postemployment benefit asset for the current year is \$928,445. 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.

# TRAVERSE CITY LIGHT AND POWER

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

## NOTES TO FINANCIAL STATEMENTS

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### Property

During fiscal year 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.

### Contracts

During fiscal year 2013-14, the Board entered into an agreement with ABB Kuhlman for the purchase of two transformers for the South Substation Capital Project on LaFranier Road. The contract amount awarded was \$980,900. Additionally, the Board entered into contracts with CC Power for electrical cable and equipment installation, Kent Power for construction of the South Substation and Power Line Supply for the materials relating to the South Substation Capital Project. The costs of these contracts are \$383,545, \$1,304,760 and \$799,319, respectively. The contracts were not fulfilled until after fiscal year end.

During fiscal year 2013-14, the Board entered into an agreement with Aspen Wireless for the construction and operation of the WIFI system located within Traverse City's Downtown Development Authority area. The cost of the contracts are \$381,720 and \$9,600 per year, respectively. Additionally, the Board entered into an agreement with the Downtown Development Authority for the reimbursement of the capital expenditures and operational costs relating to the project. Construction of the WIFI system began after fiscal year end.

## 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.

# TRAVERSE CITY LIGHT AND POWER

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

## NOTES TO FINANCIAL STATEMENTS

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### 12. DESIGNATIONS OF NET POSITION

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

	<u>June 30, 2014</u>
Emergencies	\$ 100,056
Minimum Cash Reserve	<u>9,125,000</u>
<b>Total</b>	<b><u>\$ 9,225,056</u></b>

### 13. RELATED PARTY TRANSACTION

The Board entered into a contract with Spence Brothers, which is partially owned and operated by a member of the Board. The contract fee is \$39,600. As of fiscal year end the Department had remitted the full amount. The Board member abstained in all votes relating to the agreement between Spence Brothers and the Department.

### 14. SUBSEQUENT EVENT

On December 10, 2013, the Board approved to retire the wind turbine located on M-72. Subsequently, management issued request for proposals for purchase of the wind turbine. One bid was submitted from Heritage Sustainable Energy LLC. On August 12, 2014, the Board accepted a counterproposal offer from Heritage Sustainable Energy LLC to purchase the wind turbine in the amount of \$1,100 with two stages of contingencies to be accepted within 120 days of the acceptance offer. These stages were completed and transfer of the wind turbine occurred on December 3, 2014.

### 15. 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.

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## **SUPPLEMENTARY INFORMATION**

**CITY OF TRAVERSE CITY**  
**Required Supplementary Information**  
**MERS Pension Plan**  
**Schedule of Funding Progress**

Actuarial valuation date	Actuarial value of assets (a)	Actuarial Accrued Liability (AAL) -Entry Age (b)	Unfunded AAL (b - a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered payroll (b - a) / c
12/31/2011	\$ 16,908,546	\$ 24,854,814	\$ 7,946,268	68.0%	\$ 2,938,989	270.0%
12/31/2012	16,940,927	25,730,036	8,789,109	65.8	2,937,971	299.0
12/31/2013	17,112,101	26,572,254	9,460,153	64.4	2,664,788	355.0

**SCHEDULE OF EMPLOYER CONTRIBUTIONS**

Year ended/valuation June 30	Annual Required Contribution	Percentage Contributed
2011 / 2012	\$ 733,048	100%
2012 / 2013	711,454	100
2013 / 2014	726,200	100

**SUMMARY OF ACTUARIAL METHODS AND ASSUMPTIONS**

The information presented in the required supplementary schedules was determined as part of the actuarial valuations at the date indicated. Additional information as of the latest actuarial valuation follows:

Valuation date	December 31, 2013
Actuarial cost method	Entry age normal cost method
Amortization method	Level percent
Remaining amortization period	25 years
Asset valuation method	10 year smoothed market
Actuarial assumptions	
Investment rate of return	8.00%
Projected salary increases	4.5-13%

## 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, 2014

	Capital Assets - Cost			Balance at June 30, 2014
	Balance at June 30, 2013	Additions/ Transfers	Deletions/ Transfers	
Land and land improvements				
Land	\$ 979,304	\$ 86,261	\$ -	\$ 1,065,565
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>86,261</b>	<b>-</b>	<b>1,395,691</b>
Buildings and improvements				
Distribution plant	4,340,829	-	-	4,340,829
Office structures	40,878	56,271	-	97,149
Other buildings	49,268	-	-	49,268
<b>Total buildings and improvements</b>	<b>4,430,975</b>	<b>56,271</b>	<b>-</b>	<b>4,487,246</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	54,466,506	8,328,780	287,568	62,507,718
General	949,516	15,131	3,690	960,957
<b>Total equipment and distribution system</b>	<b>56,226,038</b>	<b>8,343,911</b>	<b>291,258</b>	<b>64,278,691</b>
<b>Construction in progress</b>	<b>4,453,223</b>	<b>4,232,558</b>	<b>6,973,689</b>	<b>1,712,092</b>
<b>Total</b>	<b>\$ 66,419,666</b>	<b>\$ 12,719,001</b>	<b>\$ 7,264,947</b>	<b>\$ 71,873,720</b>

Balance at June 30, 2013	Accumulated Depreciation		Balance at June 30, 2014	Capital Assets - Net
	Current Depreciation	Deletions		Balance at June 30, 2014
\$ -	\$ -	\$ -	\$ -	\$ 1,065,565
-	-	-	-	248,023
-	-	-	-	82,103
-	-	-	-	<b>1,395,691</b>
1,216,528	130,967	-	1,347,495	2,993,334
8,828	1,226	-	10,054	87,095
9,753	1,624	-	11,377	37,891
<b>1,235,109</b>	<b>133,817</b>	<b>-</b>	<b>1,368,926</b>	<b>3,118,320</b>
21,310	720	-	22,030	1,980
361	12	-	373	17
403,315	23,881	-	427,196	358,420
20,356,376	1,767,718	279,681	21,844,413	40,663,305
361,833	101,036	2,937	459,932	501,025
<b>21,143,195</b>	<b>1,893,367</b>	<b>282,618</b>	<b>22,753,944</b>	<b>41,524,747</b>
-	-	-	-	<b>1,712,092</b>
<b>\$ 22,378,304</b>	<b>\$ 2,027,184</b>	<b>\$ 282,618</b>	<b>\$ 24,122,870</b>	<b>\$ 47,750,850</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, 2014**

	Capital Assets - Cost			Balance at June 30, 2014
	Balance at June 30, 2013	Additions/ Transfers	Deletions/ Transfers	
<b>Equipment and distribution system</b>				
Overhead	\$ 1,016,646	\$ 32,460	\$ -	\$ 1,049,106
Underground	246,778	11,585	-	258,363
Termination boxes	346,392	19,491	-	365,883
Wireless equipment	51,725	-	-	51,725
Other property	44,178	-	-	44,178
<b>Total equipment and distribution system</b>	<b>1,705,719</b>	<b>63,536</b>	<b>-</b>	<b>1,769,255</b>
<b>Construction in progress</b>	<b>68,654</b>	<b>68,523</b>	<b>63,536</b>	<b>73,641</b>
<b>Total</b>	<b>\$ 1,774,373</b>	<b>\$ 132,059</b>	<b>\$ 63,536</b>	<b>\$ 1,842,896</b>

<b>Balance at June 30, 2013</b>	<b>Accumulated Depreciation</b>		<b>Balance at June 30, 2014</b>	<b>Capital Assets - Net</b>
	<b>Current Depreciation</b>	<b>Deletions</b>		<b>Balance at June 30, 2014</b>
\$ 243,371	\$ 52,456	\$ -	\$ 295,827	\$ 753,279
55,896	12,356	-	68,252	190,111
85,079	18,294	-	103,373	262,510
12,930	2,586	-	15,516	36,209
20,010	4,417	-	24,427	19,751
<b>417,286</b>	<b>90,109</b>	<b>-</b>	<b>507,395</b>	<b>1,261,860</b>
-	-	-	-	<b>73,641</b>
<b>\$ 417,286</b>	<b>\$ 90,109</b>	<b>\$ -</b>	<b>\$ 507,395</b>	<b>\$ 1,335,501</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, 2014

	<u>Amended Budget</u>	<u>Actual</u>	<u>Positive (Negative) Variance</u>
<b>Operating revenues - sales</b>			
Residential	\$ 5,675,000	\$ 6,382,044	\$ 707,044
Commercial	14,425,000	15,612,427	1,187,427
Industrial	9,325,000	9,950,825	625,825
Public authority	280,000	296,800	16,800
Street lighting	190,000	195,178	5,178
Yard lights	76,000	79,551	3,551
<b>Total operating revenues - sales</b>	<b><u>29,971,000</u></b>	<b><u>32,516,825</u></b>	<b><u>2,545,825</u></b>
<b>Other operating revenues</b>			
Forfeited discounts	58,000	57,695	(305)
Merchandise and jobbing	65,000	43,443	(21,557)
Sale of scrap	35,000	34,332	(668)
Recovery of bad debts	-	188	188
MISO income	2,500,000	2,600,847	100,847
Miscellaneous	46,000	38,796	(7,204)
<b>Total other operating revenues</b>	<b><u>2,704,000</u></b>	<b><u>2,775,301</u></b>	<b><u>71,301</u></b>
<b>Nonoperating revenues</b>			
Rental income	44,250	47,282	3,032
Pole rental income	35,800	35,931	131
Reimbursements	150,000	616,140	466,140
Interest income	200,000	342,422	142,422
Change in fair market value of investments	-	60,450	60,450
Gain on sale of assets	-	46,931	46,931
<b>Total nonoperating revenues</b>	<b><u>430,050</u></b>	<b><u>1,149,156</u></b>	<b><u>719,106</u></b>
<b>Total revenues</b>	<b><u>33,105,050</u></b>	<b><u>36,441,282</u></b>	<b><u>3,336,232</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) LIGHT AND POWER FUND FOR THE YEAR ENDED JUNE 30, 2014

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	<u>Amended Budget</u>	<u>Actual</u>	<u>Positive (Negative) Variance</u>
<b>Generation expense</b>			
Wind generator - M-72 Traverse	\$ 25,000	\$ 16,148	\$ 8,852
Purchased power	22,688,000	23,015,422	(327,422)
Coal dock	11,800	8,075	3,725
Trap and transfer	250	74	176
Union street fish ladder	250	-	250
Professional and contractual	23,000	174,219	(151,219)
Professional development	2,300	1,311	989
Operation supplies	1,300	691	609
Communications	500	421	79
Safety	13,600	2,765	10,835
	<u>22,766,000</u>	<u>23,219,126</u>	<u>(453,126)</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, 2014

	Amended Budget	Actual	Positive (Negative) Variance
<b>Distribution expense</b>			
Supervision and engineering	\$ 867,000	\$ 618,832	\$ 248,168
Substation	184,000	109,084	74,916
Overhead lines	459,000	418,792	40,208
Load and dispatching	408,000	455,550	(47,550)
Underground lines	184,000	229,128	(45,128)
Storm work	34,200	118,025	(83,825)
Customer installations	15,700	21,334	(5,634)
Electric meters	45,400	76,602	(31,202)
Street lighting	222,900	317,487	(94,587)
Traffic signals	197,900	122,135	75,765
Plant and structures	257,000	249,074	7,926
Shop labor	147,900	152,496	(4,596)
Professional services	37,400	37,048	352
Professional development	86,700	138,936	(52,236)
Operation supplies	83,400	62,320	21,080
Utilities	143,300	137,439	5,861
Safety	90,000	79,753	10,247
Miscellaneous	6,200	11,717	(5,517)
<b>Total distribution expense</b>	<b>3,470,000</b>	<b>3,355,752</b>	<b>114,248</b>
<b>Transmission expense</b>			
Supervision and engineering	193,000	109,335	83,665
Substation	42,000	8,646	33,354
Overhead lines	5,200	(1,007)	6,207
Load and dispatching	97,000	84,001	12,999
MISO	24,000	25,425	(1,425)
Miscellaneous	59,700	73,049	(13,349)
<b>Total transmission expense</b>	<b>420,900</b>	<b>299,449</b>	<b>121,451</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, 2014

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	<u>Amended Budget</u>	<u>Actual</u>	<u>Positive (Negative) Variance</u>
<b>Customer accounting expense</b>			
Salaries	\$ 164,000	\$ 152,732	\$ 11,268
Meter reading	128,000	84,537	43,463
Payroll taxes and fringes	138,200	132,343	5,857
Office supplies	4,000	2,563	1,437
Postage	30,000	28,332	1,668
Stationary and printing	4,600	2,040	2,560
Equipment rental	9,200	6,904	2,296
Professional and contractual	36,500	10,805	25,695
Uncollectible accounts	17,350	29,816	(12,466)
Collection expense	1,500	595	905
Data processing	26,500	20,718	5,782
Professional development	2,500	610	1,890
Miscellaneous	11,050	7,856	3,194
	<u>573,400</u>	<u>479,851</u>	<u>93,549</u>
<b>Total customer accounting expense</b>			
	<u>573,400</u>	<u>479,851</u>	<u>93,549</u>
<b>Public service expense</b>			
Public service information	1,027,750	440,260	587,490
	<u>1,027,750</u>	<u>440,260</u>	<u>587,490</u>
<b>Total public service expense</b>			
	<u>1,027,750</u>	<u>440,260</u>	<u>587,490</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, 2014

	<u>Amended Budget</u>	<u>Actual</u>	<u>Positive (Negative) Variance</u>
<b>General administration expense</b>			
Salaries	\$ 625,000	\$ 294,004	\$ 330,996
Payroll taxes and fringes	200,000	133,115	66,885
Professional development	20,000	15,232	4,768
Professional and contractual	150,000	141,522	8,478
Office supplies	8,750	11,177	(2,427)
Fees and per diems	59,850	76,040	(16,190)
Special services	5,000	9,129	(4,129)
Legal fees	74,300	53,312	20,988
Utilities	6,850	12,636	(5,786)
Printing and publishing	7,000	4,798	2,202
Miscellaneous	7,200	2,183	5,017
<b>Total general administration expense</b>	<u><b>1,163,950</b></u>	<u><b>753,148</b></u>	<u><b>410,802</b></u>
<b>Other expenses</b>			
Insurance - general	66,350	59,502	6,848
City fee	1,634,700	1,775,851	(141,151)
Depreciation	1,982,000	2,027,184	(45,184)
<b>Total other expenses</b>	<u><b>3,683,050</b></u>	<u><b>3,862,537</b></u>	<u><b>(179,487)</b></u>
<b>Total expenses</b>	<u><b>33,105,050</b></u>	<u><b>32,410,123</b></u>	<u><b>(694,927)</b></u>
<b>Change in net position</b>	<u><u><b>\$ -</b></u></u>	<u><u><b>\$ 4,031,159</b></u></u>	<u><u><b>\$ 4,031,159</b></u></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, 2014

	<u>Amended Budget</u>	<u>Actual</u>	<u>Positive (Negative) Variance</u>
<b>Operating revenues - sales</b>			
Other sales	\$ 229,000	\$ 229,120	\$ 120
<b>Non-operating revenues</b>			
Reimbursements	18,000	21,628	3,628
Interest income	-	167	167
<b>Total non-operating revenues</b>	<u>18,000</u>	<u>21,795</u>	<u>3,795</u>
<b>Total revenues</b>	<u>247,000</u>	<u>250,915</u>	<u>3,915</u>
<b>Fiber expenses</b>			
Supervision and engineering	43,000	66,987	(23,987)
Overhead	10,700	13,848	(3,148)
Underground	5,300	5,674	(374)
Termination boxes	16,500	23,834	(7,334)
Customer installations	6,500	2,187	4,313
Professional development	2,150	-	2,150
Miscellaneous	650	4,750	(4,100)
<b>Total fiber expenses</b>	<u>84,800</u>	<u>117,280</u>	<u>(32,480)</u>
<b>Other expenses</b>			
Insurance and bonds	1,000	791	209
City fee	10,100	11,464	(1,364)
Depreciation	87,600	90,109	(2,509)
<b>Total other expenses</b>	<u>98,700</u>	<u>102,364</u>	<u>(3,664)</u>
<b>Total expenses</b>	<u>183,500</u>	<u>219,644</u>	<u>(36,144)</u>
<b>Change in net position</b>	<u>\$ 63,500</u>	<u>\$ 31,271</u>	<u>\$ (32,229)</u>