

# **Traverse City Light and Power**

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

## **Financial Statements**

**For the Fiscal Year Ended  
June 30, 2021**



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 20, 2021

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, 2021, 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

#### Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Traverse City Light and Power as of June 30, 2021, 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 6 and the information on pages 32 through 37 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 20, 2021 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 the effectiveness of 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.

*Uredexold Haefner LLC*

## **REQUIRED SUPPLEMENTARY INFORMATION**

# 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, 2021. 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, lit 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, lit 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 *required 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 \$81,540,276 at the close of the most recent fiscal year, June 30, 2021.

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

<b>Business-type Activities</b>	<b>June 30</b>	
	<b>2021</b>	<b>2020</b>
Current and other assets	\$21,959,335	\$22,732,827
Capital assets	74,429,999	71,152,266
<b>Total assets</b>	<b>96,389,334</b>	<b>93,885,093</b>
Deferred outflows	3,531,687	3,674,549
Long-term liabilities outstanding	12,896,101	14,057,856
Other liabilities	2,489,977	3,545,208
<b>Total liabilities</b>	<b>15,386,078</b>	<b>17,603,064</b>
Deferred inflows	2,994,667	1,899,048
Net position		
Invested in capital assets	71,750,404	69,537,891
Unrestricted	9,789,872	8,519,639
<b>Total net position</b>	<b>\$81,540,276</b>	<b>\$78,057,530</b>

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

<b>Business-type Activities</b>	<b>June 30</b>	
	<b>2021</b>	<b>2020</b>
Operating revenue	\$32,979,228	\$33,404,981
Operating expenses	(30,989,627)	(30,630,857)
Nonoperating revenue (expense)	134,241	557,213
Special item	1,358,904	-
Increase in net position	3,482,746	3,331,337
Net position – beginning of year	78,057,530	74,726,193
<b>Net position – end of year</b>	<b>\$81,540,276</b>	<b>\$78,057,530</b>

**Business-type activities**

The overall financial position of the Department remained strong in 2020-2021. Only outstanding debt obligation is Notes Payable to United States Department of Agriculture paid back by ratepayers through their monthly utility bill for financed energy efficiency projects. Additionally, there are commitments through the power supply contracts with Michigan Public Power Agency (“MPPA”) to reimburse MPPA for operating and/or debt service costs relating to the Campbell, Belle River and Kalkaska generation plants.

**Revenue**

Overall, the Electric Fund’s revenues were under budget by approximately \$3,086,728. Electric operating revenues were under budget by \$2,824,928 relating to less kilowatt hours sold than what was budgeted which was caused by the COVID-19 pandemic.

**Expenses**

In fiscal year 2020-21, Electric Funds operating expenses was under budget by approximately \$3,631,656. The largest line item under budget is Purchase Power costs in the amount of \$2,305,166 because of less kilowatt hours sold which was caused by the COVID-19 pandemic. Additionally, salaries and wages along with equipment rental are under budget due to more than anticipated capital work.



## Capital asset and debt administration

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

	June 30	
	2021	2020
Land and land improvements	\$1,071,410	\$1,071,410
Construction in progress	453,875	3,671,515
Buildings and improvements	5,851,973	5,836,798
Equipment and distribution system	102,847,238	94,188,326
	110,224,496	104,768,049
Accumulated depreciation	(35,794,497)	(33,615,783)
<b>Total</b>	<b>\$74,429,999</b>	<b>\$71,152,266</b>

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

### Traverse City Light and Power Notes Payable

	June 30	
	2021	2020
Notes payable	\$ 42,956	\$ -

Additional information about notes payable is provided in Note 5 to the financial statements.

## Economic Factors and Next Year's Budgets and Rates

Overall, the budget remains similar to past years. A rate increase of 2.5% was budgeted to be effective July 1, 2021. In addition to this rate increase, a slight 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 \$57.81 to \$60.11 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. The Fiber Fund budget incorporates the deployment of both Phase 1 and Phase 1.1 Smart Grid Expansion/Fiber to the Premise Project to the utility's commercial and residential areas located in these designated areas.

## 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, 2021

ASSETS	Light and Power Fund	Fiber Fund	Business-type Activities Total
<b>Current assets</b>			
Cash and cash equivalents	\$ 1,605,528	\$ -	\$ 1,605,528
Receivables			
Customer, less allowances of \$380,252			
for uncollectible accounts (Light and Power Fund)	3,517,678	80,439	3,598,117
Accrued interest	14,730	-	14,730
Taxes	1,744	-	1,744
Other	409,910	-	409,910
Due from state	17,710	-	17,710
Due from federal government	6,924	-	6,924
Inventories	1,443,244	8,928	1,452,172
Prepaid expenses	196,153	15,562	211,715
<b>Total current assets</b>	<b>7,213,621</b>	<b>104,929</b>	<b>7,318,550</b>
<b>Non-current assets</b>			
Investments	10,327,950	-	10,327,950
Accounts receivables	1,453,772	-	1,453,772
Long-term advances - Due from Fiber Fund	2,679,595	-	2,679,595
Long-term advances - Due from Primary Government	166,796	-	166,796
Other post employment benefit asset	12,672	-	12,672
Land and land improvements	1,071,410	-	1,071,410
Construction in progress	452,476	1,399	453,875
Capital assets being depreciated, net	68,255,229	4,649,485	72,904,714
<b>Total non-current assets</b>	<b>84,419,900</b>	<b>4,650,884</b>	<b>89,070,784</b>
<b>Total assets</b>	<b>91,633,521</b>	<b>4,755,813</b>	<b>96,389,334</b>
<b>Deferred outflows</b>			
Deferred outflows of resources - Pensions	3,338,287	-	3,338,287
Deferred outflows of resources - OPEB	193,400	-	193,400
<b>Total deferred outflows of resources</b>	<b>3,531,687</b>	<b>-</b>	<b>3,531,687</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, 2021

LIABILITIES AND NET POSITION	Light and Power Fund	Fiber Fund	Business-type Activities Total
<b>Current liabilities</b>			
Accounts payable	\$ 1,679,512	\$ 230,041	\$ 1,909,553
Accrued expenses and other liabilities	223,796	30,631	254,427
Customer deposits	96,771	-	96,771
Accrued interest payable	-	14,453	14,453
Compensated absences	37,891	-	37,891
Unearned revenue	-	11,206	11,206
Notes payable	5,676	-	5,676
Due to other funds - Industrial Park Fund	-	160,000	160,000
<b>Total current liabilities</b>	<b>2,043,646</b>	<b>446,331</b>	<b>2,489,977</b>
<b>Long-term liabilities</b>			
Compensated absences	186,207	6,854	193,061
Long term advances - Due to Electric Fund	-	2,679,595	2,679,595
Long term advances - Due to Industrial Park Fund	-	640,000	640,000
Notes payable	42,956	-	42,956
Net pension liability	9,340,489	-	9,340,489
<b>Total liabilities</b>	<b>11,613,298</b>	<b>3,772,780</b>	<b>15,386,078</b>
<b>Deferred inflows</b>			
Deferred inflows of resources - Pensions	2,070,416	-	2,070,416
Deferred inflows of resources - OPEB	924,251	-	924,251
<b>Total deferred inflows of resources</b>	<b>2,994,667</b>	<b>-</b>	<b>2,994,667</b>
<b>Net position</b>			
Invested in capital assets	69,779,115	1,171,289	71,750,404
Unrestricted	10,778,128	(188,256)	9,789,872
<b>Total net position</b>	<b>\$ 80,557,243</b>	<b>\$ 983,033</b>	<b>\$ 81,540,276</b>

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

## TRAVERSE CITY LIGHT AND POWER

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

### STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION FOR THE YEAR ENDED JUNE 30, 2021

	Light and Power Fund	Fiber Fund	Business-type Activities Total
<b>Operating revenues</b>			
Charges for services	\$ 28,899,072	\$ 613,506	\$ 29,512,578
MISO income	2,987,027	-	2,987,027
Other	479,623	-	479,623
<b>Total operating revenues</b>	<b>32,365,722</b>	<b>613,506</b>	<b>32,979,228</b>
<b>Operating expenses</b>			
Purchase power	19,033,157	-	19,033,157
Distribution	3,325,919	-	3,325,919
Transmission	599,990	-	599,990
Customer accounting	636,985	-	636,985
Public service	496,783	-	496,783
Information systems	268,799	-	268,799
General administration	856,683	-	856,683
Fiber	-	645,168	645,168
WIFI	-	33,237	33,237
Other	74,571	1,822	76,393
City fee	1,614,472	30,675	1,645,147
Depreciation	3,139,265	232,101	3,371,366
<b>Total operating expenses</b>	<b>30,046,624</b>	<b>943,003</b>	<b>30,989,627</b>
<b>Operating income (loss)</b>	<b>2,319,098</b>	<b>(329,497)</b>	<b>1,989,601</b>
<b>Nonoperating revenues (expenses)</b>			
State grant	17,710	-	17,710
Rental income	143,372	-	143,372
Reimbursements	221,276	20,444	241,720
Interest income	77,447	-	77,447
Change in fair value of investments	(181,288)	-	(181,288)
Interest expense	-	(14,453)	(14,453)
Loss on sale of assets	(150,267)	-	(150,267)
<b>Total nonoperating revenue</b>	<b>128,250</b>	<b>5,991</b>	<b>134,241</b>
<b>Income (loss) before special item</b>	<b>2,447,348</b>	<b>(323,506)</b>	<b>2,123,842</b>
Special item	1,358,904	-	1,358,904
Change in net position	3,806,252	(323,506)	3,482,746
Net position, beginning of year	76,750,991	1,306,539	78,057,530
<b>Net position, end of year</b>	<b>\$ 80,557,243</b>	<b>\$ 983,033</b>	<b>\$ 81,540,276</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, 2021

	Light and Power Fund	Fiber Fund	Business-type Activities Total
<b>Cash flows from operating activities</b>			
Cash received from customers	\$ 32,048,569	\$ 539,253	\$ 32,587,822
Cash payments to employees	(5,740,392)	(59,344)	(5,799,736)
Cash payments to suppliers for goods and services	(21,768,771)	(848,119)	(22,616,890)
Cash payments of City fee	(1,614,472)	(30,675)	(1,645,147)
<b>Net cash provided by (used in) operating activities</b>	<b>2,924,934</b>	<b>(398,885)</b>	<b>2,526,049</b>
<b>Cash flows from noncapital financing activities</b>			
Customer deposits paid	4,340	-	4,340
Rental income received	143,372	-	143,372
Reimbursements received	221,276	20,444	241,720
<b>Net cash provided by noncapital financing activities</b>	<b>368,988</b>	<b>20,444</b>	<b>389,432</b>
<b>Cash flows from capital and related financing activities</b>			
Interfund loans	(1,531,192)	2,326,417	795,225
Cash received from federal government	41,707	-	41,707
Purchase of capital assets	(4,699,736)	(2,099,630)	(6,799,366)
Special item	1,358,904	-	1,358,904
<b>Net cash provided by (used in) capital financing activities</b>	<b>(4,830,317)</b>	<b>226,787</b>	<b>(4,603,530)</b>
<b>Cash flows from investing activities</b>			
Sale of investments	665,605	-	665,605
Interest	(97,688)	-	(97,688)
<b>Net cash provided by investing activities</b>	<b>567,917</b>	<b>-</b>	<b>567,917</b>
Net decrease in cash and cash equivalents	(968,478)	(151,654)	(1,120,132)
Cash and cash equivalents, beginning of year	2,574,006	151,654	2,725,660
<b>Cash and cash equivalents, end of year</b>	<b>\$ 1,605,528</b>	<b>\$ -</b>	<b>\$ 1,605,528</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, 2021

	Light and Power Fund	Fiber Fund	Business-type Activities Total
<b>Cash flows from operating activities</b>			
Operating income (loss)	\$ 2,319,098	\$ (329,497)	\$ 1,989,601
Adjustments to reconcile operating income to net cash provided by operating activities			
Depreciation	3,139,265	232,101	3,371,366
Changes in operating assets and liabilities which provided (used) cash			
Receivables	(294,286)	(74,529)	(368,815)
Inventories	48,644	-	48,644
Prepaid expenses	(68,228)	(15,562)	(83,790)
Deferred outflow	142,862	-	142,862
Accounts payable	(546,382)	(221,776)	(768,158)
Accrued expenses and other liabilities	12,168	10,102	22,270
Unearned revenue	(22,867)	276	(22,591)
Compensated absences	8,382	-	8,382
Deferred inflow/outflow	1,095,619	-	1,095,619
Net pension liability	(1,718,505)	-	(1,718,505)
Other post employment liability	(1,190,836)	-	(1,190,836)
<b>Net cash provided by (used in) operating activities</b>	<b>\$ 2,924,934</b>	<b>\$ (398,885)</b>	<b>\$ 2,526,049</b>

**Non cash transaction:** The cash flow includes the change in fair market value of investments in the amount of \$181,228.

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, 2021

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	<b>Other Post employment Benefit Funds</b>
<b>Assets</b>	
Investments, at fair value	
MERS total market fund	\$ 5,005,497
Accounts receivable	30,770
	<hr/>
<b>Total assets</b>	<b>5,036,267</b>
	<hr/>
<b>Net Position</b>	
Held in trust for other post employment benefits	<b>\$ 5,036,267</b>
	<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, 2021

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	<u>Other Post employment Benefit Funds</u>
<b>Additions</b>	
<b>Employer contributions</b>	<u>\$          138,418</u>
Investment earnings	
Interest and dividend income	1,069,593
Investment advisor fees	<u>(7,872)</u>
<b>Net investment earnings</b>	<u>1,061,721</u>
<b>Total additions</b>	<b>1,200,139</b>
<b>Net position held in trust, beginning of year</b>	<u>3,836,128</u>
<b>Net position held in trust, end of year</b>	<u><u>\$          5,036,267</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 2021, the City fee was \$1,645,147.

#### 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

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## 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. The other post employment benefits trust fund may also invest in corporate debt and equity securities.

### Receivables/Payables

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

Transactions between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either due to/from other funds (i.e. the current portion of interfund loans) or advance to/from other funds (i.e. the non-current portion of interfund loans). All other outstanding balances between funds are reported as due to/from other funds. Any residual balances outstanding between the funds are reported in the Statement of Net Position.

### 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

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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.

### 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 7 and the OPEB plan as discussed in Note 10.

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 7 and the OPEB plan as discussed in Note 10.

### 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.

# TRAVERSE CITY LIGHT AND POWER

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## NOTES TO FINANCIAL STATEMENTS

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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, 2021 are composed of the following:

	<u>Enterprise Funds</u>	<u>Fiduciary Fund</u>	<u>Total</u>
Cash and cash equivalents	\$ 1,605,528	\$ -	\$ 1,605,528
Investments	10,327,950	5,005,497	15,333,447
<b>Total</b>	<b>\$11,933,478</b>	<b>\$5,005,497</b>	<b>\$16,938,975</b>

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

Deposits	\$ 3,110,288
Investments	8,823,190
OPEB - investments	5,005,497
<b>Total</b>	<b>\$16,938,975</b>

Deposits consist of various interest-bearing cash accounts and certificates of deposit, held by the City of Traverse City Treasurer.

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.

# TRAVERSE CITY LIGHT AND POWER

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## NOTES TO FINANCIAL STATEMENTS

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The Department chooses to disclose its investments by specifically identifying each. As of June 30, 2021, 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 post employment 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 post employment 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>
FHLB Bond	06/30/2025	\$ 990,550	Aaa/AA+
FHLB Bond	10/29/2025	1,972,620	Aaa/AA+
FFCB Bond	01/22/2027	1,959,040	Aaa/AA+
FFCB Bond	04/27/2027	991,050	Aaa/AA+
FHLB Bond	06/04/2027	991,130	Aaa/AA+
FHLB Bond	10/29/2030	1,915,560	Aaa/AA+
Michigan CLASS	NA	<u>3,240</u>	AAAm
		<u>\$ 8,823,190</u>	

### Investment and deposit risk

*Interest Rate Risk.* State law limits the allowable investments and the maturities of some of the allowable investments as identified in Note 1. The Department's investment policy does not have specific limits in excess of state law on investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. The maturity dates for each investment are identified above for investments held at year-end.

*Credit Risk.* State law limits investments to specific government securities, certificates of deposits and bank accounts with qualified financial institutions, commercial paper with specific maximum maturities and ratings when purchased, bankers acceptances of specific financial institutions, qualified mutual funds and qualified external investment pools as identified above. The Department's investment policy does not have specific limits in excess of state law on investment credit risk. The ratings for each investment are identified above for investments held at year end.

*Custodial Credit Risk – Deposits.* Custodial credit risk is the risk that in the event of a bank failure, the Department's deposits may not be returned. State law does not require and the Department does not have a policy for deposit custodial credit risk. The insured and uninsured bank balances for the Department deposits are not available as these deposits are held in pools with other City funds.

# TRAVERSE CITY LIGHT AND POWER

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## NOTES TO FINANCIAL STATEMENTS

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*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 \$8,823,190 of investments at June 30, 2021, the Department has a custodial credit risk exposure of \$8,819,950 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, FFCB Bonds 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)

### **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>
Michigan Class	<u>\$ 3,240</u>

## TRAVERSE CITY LIGHT AND POWER

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

### NOTES TO FINANCIAL STATEMENTS

#### 3. CAPITAL ASSETS

At June 30, 2021, 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	\$1,071,410	\$ -	\$ -	\$1,071,410
Construction in progress	3,671,515	4,199,720	7,417,360	453,875
Total capital assets not being depreciated	4,742,925	4,199,720	7,417,360	1,525,285
Capital assets being depreciated				
Buildings and improvements	5,836,798	15,175	-	5,851,973
Equipment and distribution system	91,804,920	6,154,508	1,342,919	96,616,509
Fiber System	1,881,543	3,847,323	-	5,728,866
WiFi System	501,863	-	-	501,863
Total capital assets being depreciated	100,025,124	10,017,006	1,342,919	108,699,211
Less accumulated depreciation for				
Buildings and improvement	2,302,032	176,879	-	2,478,911
Equipment and distribution system	29,964,608	2,962,386	1,192,652	31,734,342
Fiber System	1,073,167	181,915	-	1,255,082
WiFi System	275,976	50,186	-	326,162
Total accumulated depreciation	33,615,783	3,371,366	1,192,652	35,794,497
Total capital assets being depreciated, net	66,409,341	6,645,640	150,267	72,904,714
<b>Total capital assets, net</b>	<b>\$71,152,266</b>	<b>\$10,845,360</b>	<b>\$7,567,627</b>	<b>\$74,429,999</b>

#### 4. INTERFUND RECEIVABLES AND PAYABLES

<b>Fund</b>	<b>Interfund Receivables</b>	<b>Fund</b>	<b>Interfund Payables</b>
Light & Power	\$ <u>2,679,595</u>	Fiber	\$ <u>2,679,595</u>

Interfund receivables and payables are established to cover financing of the Smart Grid/Fiber to the Premise project and negative cash balance.



# TRAVERSE CITY LIGHT AND POWER

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## NOTES TO FINANCIAL STATEMENTS

### 5. LONG-TERM LIABILITIES

Long-term debt at June 30, 2021, 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	\$217,404	\$246,951	\$233,403	\$230,952	\$37,891
Notes Payable	-	48,985	353	48,632	5,676
<b>Total</b>	<b>\$217,404</b>	<b>\$295,936</b>	<b>\$233,756</b>	<b>\$279,584</b>	<b>\$43,567</b>

#### Notes Payable

The City of Traverse City executed a note agreement with the United States Department of Agriculture (USDA) for \$1,800,000, along with an intergovernmental agreement with TCLP providing for all costs of the program and repayment of the USDA loan to be paid with TCL&P funds. The purpose of this loan is for zero percent financing for a term of ten years for an On-Bill Financing Program. TCL&P grants funds to the City's ratepayers for energy efficiency improvements and renewable energy projects at an interest rate of 3% in accordance with the Traverse City Light & Power Work Plan. The Plan was approved by the City Commission and authorized by the Municipal Utility Residential Clean Energy Program Act MCL 460.961.

### 6. 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. In 2017, the

# TRAVERSE CITY LIGHT AND POWER

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## NOTES TO FINANCIAL STATEMENTS

Department entered into a commitment with MPPA for 5.80% of energy generated from the Pegasus Wind Farm.

For the year ended June 30, 2021, Traverse City Light and Power recognized expenses totaling \$15,507,144 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.

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 2020 costs adjusted for inflation and calculated until the time of project's estimated retirement date or debt retirement.

The total estimated future operating costs, which do not include the annual debt payments, are as follows:

<b>Year Ended December 31</b>	<b>Operating Costs</b>
2022	\$6,796,132
2023	7,000,016
2024	7,210,017
2025	7,426,317
2026	4,610,469
2027-2028	6,914,331
<b>Total</b>	<b>\$39,957,282</b>

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

<b>Year Ended December 31</b>	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
2022	\$ 2,038,198	\$ 151,523	\$ 2,189,721
2023	1,525,590	104,379	1,629,969
2024	1,548,360	84,089	1,632,449
2025	1,571,130	63,496	1,634,626
2026	1,590,105	42,600	1,632,705
2027	1,612,875	21,451	1,634,326
<b>Total</b>	<b>\$ 9,886,258</b>	<b>\$467,538</b>	<b>\$10,353,796</b>

As of December 31, 2020, MPPA has two projects that have identified asset retirement obligations. Campbell project in the amount of \$1,236,926 with TCLP share at \$59,372 and Belle River in the amount of \$153,096 with TCLP share at \$28,476.

# TRAVERSE CITY LIGHT AND POWER

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## NOTES TO FINANCIAL STATEMENTS

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In December 2009, the Department entered into a 20-year purchase power agreement with Heritage Stoney Corners Wind Farm I, LLC which was subsequently sold in 2020 to DTE to purchase up to 10 megawatts of electric energy and all associated renewable energy credits. For the year ended June 30, 2021, the Department recognized expenses totaling \$2,978,543 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, 2021, the Department recognized expenses totaling \$18,288 under this agreement.

In August 2017, the Department amended the Heritage Sustainable Energy, LLC contract to purchase an additional 1MW of electric energy from the M-72 solar array. It was amended again on July 11, 2019 to include an additional 2MW of electric energy through an expansion of the M-72 1MW solar array. The contract will terminate December 31, 2038. For the year ended June 30, 2021 the Department recognized expenses totaling \$286,939 under this agreement.

### 7. 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](http://www.mersofmich.com).

#### **Benefits Provided**

<b>01 - Non Union – closed to new hires, linked to Division 11</b>	
	<b>2020 Valuation</b>
<b>Benefit Multiplier:</b>	2.25% Multiplier (80% max)
<b>Normal Retirement Age:</b>	60
<b>Vesting:</b>	10 years
<b>Early Retirement (Unreduced):</b>	55/25
<b>Early Retirement (Reduced):</b>	50/25
	55/15
<b>Final Average Compensation:</b>	5 years
<b>COLA for Current/Future Retirees:</b>	2.50% (Non-Compound)
<b>Member Contributions:</b>	0%
<b>Act 88:</b>	No

# TRAVERSE CITY LIGHT AND POWER

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## NOTES TO FINANCIAL STATEMENTS

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<b>10 - Union closed to new hires, linked to Division 12</b>	
	<b>2020 Valuation</b>
<b>Benefit Multiplier:</b>	2.25% Multiplier (80% max)
<b>Normal Retirement Age:</b>	60
<b>Vesting:</b>	6 years
<b>Early Retirement (Unreduced):</b>	50/25
<b>Early Retirement (Reduced):</b>	55/15
<b>Final Average Compensation:</b>	5 years
<b>COLA for Current/Future Retirees:</b>	2.50% (Non-Compound)
<b>Member Contributions:</b>	0%
<b>Act 88:</b>	No

<b>11 - Non-union hired after 7/1/2017, linked to Division 01</b>	
	<b>2020 Valuation</b>
<b>Benefit Multiplier:</b>	1.5% Multiplier (80% max)
<b>Normal Retirement Age:</b>	60
<b>Vesting:</b>	6 years
<b>Early Retirement (Unreduced):</b>	55/25
<b>Early Retirement (Reduced):</b>	55/15
	50/25
<b>Final Average Compensation:</b>	5 years
<b>COLA for Future Retirees:</b>	2.50% (Non-Compound)
<b>Member Contributions:</b>	0%
<b>Act 88:</b>	No

<b>12 - Union hired after 7/1/2012, linked to Division 10</b>	
	<b>2020 Valuation</b>
<b>Benefit Multiplier:</b>	1.5% Multiplier (80% max)
<b>Normal Retirement Age:</b>	60
<b>Vesting:</b>	6 years
<b>Early Retirement (Unreduced):</b>	55/25
<b>Early Retirement (Reduced):</b>	55/15
	50/25
<b>Final Average Compensation:</b>	5 years
<b>COLA for Future Retirees:</b>	2.50% (Non-Compound)
<b>Member Contributions:</b>	0%
<b>Act 88:</b>	No

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13 - Union lineworkers pre 7/1/2012, closed to new hires	
	<b>2020 Valuation</b>
<b>Benefit Multiplier:</b>	2.25% Multiplier (80% max)
<b>Normal Retirement Age:</b>	60
<b>Vesting:</b>	6 years
<b>Early Retirement (Unreduced):</b>	50/25
<b>Early Retirement (Reduced):</b>	55/15
<b>Final Average Compensation:</b>	5 years
<b>COLA for Future Retirees:</b>	2.50% (Non-Compound)
<b>Member Contributions:</b>	0%
<b>DC Plan for New Hires:</b>	2/1/2019
<b>Act 88:</b>	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, 2020 valuation date, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	62
Inactive employees entitled to but not yet receiving benefits	7
Active employees	<u>27</u>
	<u><u>96</u></u>

**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 7.96 to 9.11% based on annual payroll for open divisions. There are two divisions that are closed to new employees that require an annual employer contribution amount of \$46,811 and \$139,764.

**Net Pension Liability.** The employer's Net Pension Liability was measured as of December 31, 2020, 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, 2020 annual actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation: 2.5%

# TRAVERSE CITY LIGHT AND POWER

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## NOTES TO FINANCIAL STATEMENTS

Salary Increases: 3.00% in the long-term

Investment rate of return: 7.35%, net of administrative and investment expenses, including inflation.

Mortality rates used were based on RP-2014 Group Annuity Mortality Tables, with rates multiplied by 105%, RP 2014 Employee Mortality Tables, and RP 2014 Juvenile Mortality Tables of a 50% Male and a 50% Female blend. For disabled retirees, the rates were based on RP-2014 Disabled Retiree Mortality Table of a 50% Male and a 50% Female blend.

The actuarial assumptions used in the valuation were based on the results of the most recent actuarial experience study in 2020.

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:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return	Expected Money Weighted Rate of Return
Global Equity	60.0%	7.75%	3.15%
Global Fixed Income	20.0%	3.75%	.25%
Real Assets	20.0%	9.75%	1.45%
Inflation			2.50%
Administrative fee			.25%
Investment rate of return			<b>7.60%</b>

**Discount rate.** The discount rate used to measure the total pension liability is 7.6%. 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.

# TRAVERSE CITY LIGHT AND POWER

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## NOTES TO FINANCIAL STATEMENTS

### Changes in Net Pension Liability

Calculating the Net Pension Liability			
Changes in Net Pension Liability	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) – (b)
<b>Balances at 12/31/19</b>			
<b>Changes for the Year</b>	\$32,383,476	\$21,324,482	\$11,058,994
Service Cost	261,413	-	261,413
Interest on Total Pension Liability	2,386,190	-	2,386,190
Difference between expected and actual experience	316,198	-	316,198
Changes in assumption	845,524	-	845,524
Employer contributions	-	2,471,829	(2,471,829)
Net investment income	-	3,099,212	(3,099,212)
Benefit payments, including employee refunds	(2,233,905)	(2,233,905)	-
Administrative expense	-	(43,211)	43,211
Other	-	-	-
<b>Net Changes</b>	1,575,420	3,293,925	(1,718,505)
<b>Balances as of 12/31/20</b>	<b>\$33,958,896</b>	<b>\$24,618,407</b>	<b>\$9,340,489</b>

**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 7.60%, as well as what the employer's Net Pension Liability would be using a discount rate that is 1 percentage point lower (6.60%) or 1% higher (8.60%) than the current rate.

	1% Decrease	Current Discount Rate	1% Increase
Net Pension Liability at 12/31/20	\$9,340,489	\$9,340,489	\$9,340,489
Change in Net Pension Liability (NPL)	3,876,258	-	(3,244,231)
<b>Calculated NPL</b>	\$13,216,747	\$9,340,489	\$6,096,258

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.

# TRAVERSE CITY LIGHT AND POWER

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

## NOTES TO FINANCIAL STATEMENTS

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

For the year ended June 30, 2021 the employer recognized pension and amortization expense of \$1,497,465. 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	\$ 917,178	\$(1,973,872)
Change in Experience	210,799	(96,544)
Change in Assumption	931,982	-
Contributions subsequent to the measurement date*	1,278,328	-
Total	\$3,338,287	\$(2,070,416)

\*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 2022.

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

Year ended	
2022	\$ 441,859
2023	343,872
2024	(501,958)
2025	(294,230)
	<u>\$ (10,457)</u>

### 8. 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 contribute 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 \$226,204 and employees contributed \$230,562.



# TRAVERSE CITY LIGHT AND POWER

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

## NOTES TO FINANCIAL STATEMENTS

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### 9. 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 \$41,875 to this plan.

### 10. 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 7, 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 another 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. Effective July 1, 2021, for all new hires, no retiree hospital-medical-surgical insurance coverage will be provided.

Membership of the Plan consisted of the following at the date of the latest actuarial valuation (June 30, 2020):

Active plan members	26
Retirees and beneficiaries receiving benefits	<u>45</u>
Total	<u><u>71</u></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.

# TRAVERSE CITY LIGHT AND POWER

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

## NOTES TO FINANCIAL STATEMENTS

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**Net OPEB Liability.** The total OPEB liability in the June 30, 2021 annual actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation: 2.25%

Salary Increases: 2.50%

Investment rate of return: 7.5%

Healthcare cost trend rates: -10.51% to 6.50% per year

Mortality rates used MP-2019 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:

<b>Asset Class</b>	<b>Target Allocation</b>	<b>Long-Term Expected Real Rate of Return</b>
Global Equity	60%	7.75%
Global Fixed Income	20%	3.75%
Private Investments	20%	9.75%
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.

**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 Department 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.

# TRAVERSE CITY LIGHT AND POWER

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

## NOTES TO FINANCIAL STATEMENTS

### Changes in the Net OPEB Liability

Calculating the Net OPEB Liability (Asset)			
Increase (Decrease)			
	Total OPEB Liability (a)	Plan Fiduciary Net Position (b)	Net OPEB Liability (a)-(b)
<b>Balances at 6/30/2020</b>	\$5,014,292	\$3,836,128	\$1,178,164
<b>Changes for the Year</b>			
Service cost	24,167	-	24,167
Interest on total OPEB liability	361,942	-	361,942
Employer Contributions	-	515,225	(515,225)
Net investment income	-	1,061,720	(1,061,720)
Benefit payments, including employee refunds	(376,806)	(376,806)	-
<b>Net changes</b>	9,303	1,200,139	(1,190,836)
<b>Balance as of 6/30/2021</b>	<b><u>\$5,023,595</u></b>	<b><u>\$5,036,267</u></b>	<b><u>(\$ 12,672)</u></b>

### 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	\$513,467	(\$12,672)	(\$446,987)

### 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 -10.51% to 6.5%, 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 OBEB liability	(\$525,534)	(\$12,672)	\$608,477

# TRAVERSE CITY LIGHT AND POWER

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

## NOTES TO FINANCIAL STATEMENTS

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

For the year ended June 30, 2021 the employer recognized OPEB expense of \$(95,887). 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	\$ -	\$ 57,508
Changes in assumptions	-	247,534
Excess (deficit) investment returns	193,400	619,209
Total	\$193,400	\$924,251

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

2022	\$ (200,771)
2023	(205,739)
2024	(169,540)
2025	<u>(154,801)</u>
Total	<u>\$ (730,851)</u>

### 11. 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.

### 12. 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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### 13. DESIGNATIONS OF CASH

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

	<u>June 30, 2021</u>
Emergencies	\$ 100,056
Minimum Cash Reserve	<u>8,704,000</u>
<b>Total</b>	<b><u>\$8,804,056</u></b>

### 14. COMMITMENTS

The utility has agreements with the MPPA committing it to purchase of up to 2MW of landfill renewable energy from Granger Electric of Michigan, LLC, .65MW of landfill renewable energy from North American Natural Resources, Inc., and 49.6 MW of all energy, capacity, and environmental attributes for solar renewable energy located in Michigan and 3.6 MW of all energy, capacity, and environmental attributes for wind renewable energy located in Michigan. Additionally, through the MPPA Energy Service Committee, the utility has base energy bilateral contracts for the fiscal year beginning July 1, 2021 through December 31, 2022 in the amount of \$1,849,372, and capacity transaction bilateral contracts for the fiscal year beginning July 1, 2021 through December 31, 2030 in the amount of \$2,694,045.

### 15. SPECIAL ITEM

MPPA refinanced their bonds related to the Kalkaska Combustion Turbine and the bond covenants related to debt reserve requirements were released. The MPPA Board approved returning the debt reserve funds to the corresponding project members based on their entitlement share.

### 16. UPCOMING PRONOUNCEMENTS

GASB has approved Statement No. 87 *Leases*, Statement No. 97 *Certain Component Unit Criteria*, and *Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans – an amendment of GASB Statements No. 14 and No. 84*, and a *supersession of GASB Statement No. 32*.

The statements listed above through Statement No. 93 had their required effective dates postponed by one year with the issuance of Statement No. 95, *Postponement of Effective Dates of Certain Authoritative Guidance*, with the exception of Statement No. 87 which was postponed by one and a half years.

## **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, 2021

	December 31,						
	2014	2015	2016	2017	2018	2019	2020
<b>Total pension liability</b>							
Service cost	\$ 313,020	\$ 295,317	\$ 300,475	\$ 310,387	\$ 285,497	\$ 264,001	\$ 261,413
Interest	2,083,781	2,142,935	2,276,465	2,292,239	2,370,497	2,386,419	2,386,190
Differences between expected and actuarial experience	-	363,835	(509,997)	363,115	(370,024)	(12,114)	316,198
Changes in assumptions	-	1,444,054	-	-	-	1,104,897	845,524
Benefit payments, including refunds	(1,626,244)	(1,715,604)	(1,818,642)	(1,930,810)	(2,021,640)	(2,130,738)	(2,233,905)
Other changes	-	(759)	-	1,448	(300)	7,402	-
Net change in total pension liability	770,557	2,529,778	248,301	1,036,379	264,030	1,619,867	1,575,420
Total pension liability, beginning of year	25,914,564	26,685,121	29,214,899	29,463,200	30,499,579	30,763,609	32,383,476
<b>Total pension liability, end of year</b>	<b>26,685,121</b>	<b>29,214,899</b>	<b>29,463,200</b>	<b>30,499,579</b>	<b>30,763,609</b>	<b>32,383,476</b>	<b>33,958,896</b>
<b>Plan fiduciary net position</b>							
Contribution - employer	773,230	858,331	1,564,302	2,253,396	2,395,423	2,403,450	2,471,829
Net investment income (loss)	1,000,478	(234,339)	1,686,136	2,200,228	(760,557)	2,532,810	3,099,212
Administrative expenses	(36,578)	(34,767)	(33,363)	(34,750)	(37,098)	(43,690)	(43,211)
Benefit payments, including refunds	(1,626,244)	(1,715,604)	(1,818,642)	(1,930,809)	(2,021,640)	(2,130,737)	(2,233,905)
Net change in plan fiduciary net position	110,886	(1,126,379)	1,398,433	2,488,065	(423,872)	2,761,833	3,293,925
Plan fiduciary net position, beginning of year	16,115,516	16,226,402	15,100,023	16,498,456	18,986,521	18,562,649	21,324,482
<b>Plan fiduciary net position, end of year</b>	<b>16,226,402</b>	<b>15,100,023</b>	<b>16,498,456</b>	<b>18,986,521</b>	<b>18,562,649</b>	<b>21,324,482</b>	<b>24,618,407</b>
<b>Department's net pension liability</b>	<b>\$ 10,458,719</b>	<b>\$ 14,114,876</b>	<b>\$ 12,964,744</b>	<b>\$ 11,513,058</b>	<b>\$ 12,200,960</b>	<b>\$ 11,058,994</b>	<b>\$ 9,340,489</b>
Plan fiduciary net position as a percent of total pension liability	60.81%	51.69%	56.00%	62.25%	60.34%	65.85%	72.49%
Covered employee payroll	\$ 2,862,491	\$ 2,736,729	\$ 2,728,607	\$ 2,883,420	\$ 2,679,680	\$ 2,412,833	\$ 2,369,118
Department's net pension liability as a percent of covered employee payroll	365.37%	515.76%	475.14%	399.28%	455.31%	458.34%	394.26%

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, 2021**

	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>
Actuarially determined contribution	\$ 770,572	\$ 891,939	\$ 944,388	\$ 1,110,648	\$ 1,113,276	\$ 2,382,248	\$ 2,556,504
Actual contribution	(770,572)	(891,939)	(2,202,960)	(2,356,392)	(2,428,720)	(2,382,248)	(2,556,504)
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (1,258,572)</u>	<u>\$ (1,245,744)</u>	<u>\$ (1,315,444)</u>	<u>\$ -</u>	<u>\$ -</u>
Covered employee payroll	\$ 2,880,960	\$ 2,866,124	\$ 2,862,491	\$ 2,837,222	\$ 2,680,970	\$ 2,412,833	\$ 2,369,118
Contribution as a percentage of covered employee payroll	26.75%	31.12%	32.99%	39.15%	41.53%	98.73%	107.91%
Notes to schedule							
Actuarial cost method	Entry Age						
Amortization method	Level percentage of payroll, open						
Remaining amortization period	15 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	7.35% (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, 2021**

	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>
<b>Total OPEB liability</b>				
Service cost	\$ 2,852	\$ 3,363	\$ 3,615	\$ 24,167
Interest	406,878	390,609	400,451	361,942
Differences between expected and actuarial experience	(269,497)	-	(104,468)	-
Changes in assumptions	28,187	-	(449,662)	-
Benefit payments, including refunds	(342,038)	(350,628)	(349,982)	(376,806)
Other changes	(38,996)	87,555	-	-
Net change in total OPEB liability	(212,614)	130,899	(500,046)	9,303
Total OPEB liability, beginning of year	5,596,053	5,383,439	5,514,338	5,014,292
<b>Total OPEB liability, end of year</b>	<b>5,383,439</b>	<b>5,514,338</b>	<b>5,014,292</b>	<b>5,023,595</b>
<b>Plan fiduciary net position</b>				
Contribution - employer	229,388	-	514,424	515,225
Net investment income	191,582	78,435	64,798	1,061,721
Differences between expected and actuarial experience	-	(161,940)	-	-
Benefit payments	-	-	(349,982)	(376,807)
Other changes	-	357,118	-	-
Administrative expenses	(6,221)	(5,561)	(5,048)	-
Net change in plan fiduciary net position	414,749	268,052	224,192	1,200,139
Plan fiduciary net position, beginning of year	2,929,135	3,343,884	3,611,936	3,836,128
<b>Plan fiduciary net position, end of year</b>	<b>3,343,884</b>	<b>3,611,936</b>	<b>3,836,128</b>	<b>5,036,267</b>
<b>Department's net OPEB (asset)/liability</b>	<b>\$ 2,039,555</b>	<b>\$ 1,902,402</b>	<b>\$ 1,178,164</b>	<b>\$ (12,672)</b>
Plan fiduciary net position as a percent of total OPEB liability	62.11%	65.50%	76.50%	100.25%
Covered employee payroll	\$ 2,837,222	\$ 2,680,970	\$ 2,198,312	\$ 2,334,263
Department's net OPEB liability as a percent of covered employee payroll	71.89%	70.96%	53.59%	-0.54%

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, 2021**

	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>
Total OPEB liability	\$ 5,596,053	\$ 5,383,439	\$ 5,514,338	\$ 5,014,292	\$ 5,023,595
OPEB fiduciary net position	2,929,135	3,343,884	3,611,936	3,836,128	5,036,267
Net OPEB liability	<u>2,666,918</u>	<u>2,039,555</u>	<u>1,902,402</u>	<u>1,178,164</u>	<u>(12,672)</u>
OPEB fiduciary net position as a % of total					
OPEB liability	52.34%	62.11%	65.50%	76.50%	100.25%
Covered employee payroll	\$ 2,862,491	2,837,222	2,680,970	2,198,312	2,334,263
NET OPEB liability as a percentage of covered employee payroll	93.17%	71.89%	70.96%	53.59%	-0.54%

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 CONTRIBUTIONS**  
**FOR THE YEAR ENDED JUNE 30, 2021**

	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>
Actuarially determined contribution	\$ 229,556	\$ 175,757	\$ 175,757	\$ 164,442	\$ 138,418
Actual contribution	229,556	229,388	175,757	164,442	138,418
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ (53,631)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered employee payroll	\$ 2,862,491	\$ 2,837,222	\$ 2,680,970	\$ 2,198,312	\$ 2,334,263
Contribution as a percentage of covered employee payroll	8.02%	6.19%	6.56%	7.48%	5.93%

Notes to Schedule

Actuarial cost method	Entry Age Normal
Amortization method	Straight Line
Remaining amortization period	4.45
Asset valuation method	Market Value
Inflation	2.25%
Salary increases	2.50%
Investment rate of return	7.50%
Retirement age	Varies depending on retirement plan
Mortality	MP-2019 Combined Annuitant Mortality Table for males and females
Health Care Trend rates	-10.51 to 6.50%

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 INVESTMENT RETURNS**  
**FOR THE YEAR ENDED JUNE 30, 2021**

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	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>
Annual money-weighted rate of return, net of investment expense	20.50%	5.90%	2.60%	1.83%	24.10%

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, 2021

	Capital Assets - Cost			Balance at June 30, 2021
	Balance at June 30, 2020	Additions/ Transfers	Deletions/ Transfers	
Land and land improvements				
Land	\$ 1,033,770	\$ -	\$ -	\$ 1,033,770
Land improvements	37,640	-	-	37,640
<b>Total land and land improvements</b>	<b>1,071,410</b>	<b>-</b>	<b>-</b>	<b>1,071,410</b>
Buildings and improvements				
Service center	5,670,972	15,175	-	5,686,147
Office structures	97,149	-	-	97,149
Other buildings	68,677	-	-	68,677
<b>Total buildings and improvements</b>	<b>5,836,798</b>	<b>15,175</b>	<b>-</b>	<b>5,851,973</b>
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	89,835,583	6,063,198	1,342,919	94,555,862
General	1,924,087	91,310	-	2,015,397
<b>Total equipment and distribution system</b>	<b>91,804,920</b>	<b>6,154,508</b>	<b>1,342,919</b>	<b>96,616,509</b>
<b>Construction in progress</b>	<b>1,922,423</b>	<b>2,102,948</b>	<b>3,572,895</b>	<b>452,476</b>
<b>Total</b>	<b>\$ 100,635,551</b>	<b>\$ 8,272,631</b>	<b>\$ 4,915,814</b>	<b>\$ 103,992,368</b>

Balance at June 30, 2020	Accumulated Depreciation		Balance at June 30, 2021	Capital Assets - Net
	Current Depreciation	Deletions		Balance at June 30, 2021
\$ -	\$ -	\$ -	\$ -	\$ 1,033,770
-	-	-	-	37,640
-	-	-	-	<b>1,071,410</b>
2,261,995	173,689	-	2,435,684	3,250,463
17,410	1,226	-	18,636	78,513
22,627	1,964	-	24,591	44,086
<b>2,302,032</b>	<b>176,879</b>	-	<b>2,478,911</b>	<b>3,373,062</b>
24,010	-	-	24,010	-
390	-	-	390	-
4,065	626	-	4,691	16,159
28,751,785	2,833,119	1,192,652	30,392,252	64,163,610
1,184,358	128,641	-	1,312,999	702,398
<b>29,964,608</b>	<b>2,962,386</b>	<b>1,192,652</b>	<b>31,734,342</b>	<b>64,882,167</b>
-	-	-	-	<b>452,476</b>
<b>\$ 32,266,640</b>	<b>\$ 3,139,265</b>	<b>\$ 1,192,652</b>	<b>\$ 34,213,253</b>	<b>\$ 69,779,115</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, 2021

	Capital Assets - Cost			Balance at June 30, 2021
	Balance at June 30, 2020	Additions/ Transfers	Deletions/ Transfers	
<b>Equipment and distribution system</b>				
Overhead	\$ 1,104,684	\$ 984,210	\$ -	\$ 2,088,894
Underground	308,228	1,723,462	-	2,031,690
Termination boxes	367,282	394,013	-	761,295
Wireless equipment	51,725	-	-	51,725
WIFI system	501,863	-	-	501,863
Customer services	-	325,016	-	325,016
Data center	-	346,854	-	346,854
Equipment	-	73,768	-	73,768
Other property	49,624	-	-	49,624
<b>Total equipment and distribution system</b>	<b>2,383,406</b>	<b>3,847,323</b>	<b>-</b>	<b>6,230,729</b>
<b>Construction in progress</b>	<b>1,749,092</b>	<b>2,096,772</b>	<b>3,844,465</b>	<b>1,399</b>
<b>Total</b>	<b>\$ 4,132,498</b>	<b>\$ 5,944,095</b>	<b>\$ 3,844,465</b>	<b>\$ 6,232,128</b>



	Accumulated Depreciation			Balance at June 30, 2021	Capital Assets - Net
	Balance at June 30, 2020	Current Depreciation	Deletions		Balance at June 30, 2021
\$ 621,128	\$ 80,187	\$ -	\$ 701,315	\$ 1,387,579	
154,285	58,498	-	212,783	1,818,907	
213,347	28,214	-	241,561	519,734	
31,032	2,586	-	33,618	18,107	
275,976	50,186	-	326,162	175,701	
-	8,125	-	8,125	316,891	
-	8,671	-	8,671	338,183	
-	1,845	-	1,845	71,923	
53,375	(6,211)	-	47,164	2,460	
<b>1,349,143</b>	<b>232,101</b>	<b>-</b>	<b>1,581,244</b>	<b>4,649,485</b>	
-	-	-	-	<b>1,399</b>	
<b>\$ 1,349,143</b>	<b>\$ 232,101</b>	<b>\$ -</b>	<b>\$ 1,581,244</b>	<b>\$ 4,650,884</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, 2021

	Amended Budget	Actual	Positive (Negative) Variance
<b>Operating revenues - sales</b>			
Residential	\$ 6,250,000	\$ 6,280,942	\$ 30,942
Commercial	15,275,000	13,174,132	(2,100,868)
Industrial	9,500,000	8,700,704	(799,296)
Public authority	329,000	300,625	(28,375)
Street lighting	225,000	238,959	13,959
Green energy	20,000	91,464	71,464
Yard lights	125,000	112,246	(12,754)
<b>Total operating revenues - sales</b>	<b>31,724,000</b>	<b>28,899,072</b>	<b>(2,824,928)</b>
<b>Other operating revenues</b>			
Forfeited discounts	55,000	40,703	(14,297)
Merchandise and jobbing	140,000	252,661	112,661
Sale of scrap	20,000	23,548	3,548
MISO income	3,200,000	2,987,027	(212,973)
Miscellaneous	40,500	162,711	122,211
<b>Total other operating revenues</b>	<b>3,455,500</b>	<b>3,466,650</b>	<b>11,150</b>
<b>Nonoperating revenues</b>			
State grant	-	17,710	17,710
Rental income	57,500	58,288	788
Pole rental income	61,700	85,084	23,384
Reimbursements	82,000	221,276	139,276
Interest income	200,000	77,447	(122,553)
Change in fair market value of investments	-	(181,288)	(181,288)
Gain/(Loss) on sale of assets	-	(150,267)	(150,267)
<b>Total nonoperating revenues</b>	<b>401,200</b>	<b>128,250</b>	<b>(272,950)</b>
<b>Total revenues</b>	<b>35,580,700</b>	<b>32,493,972</b>	<b>(3,086,728)</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, 2021

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	<u>Amended Budget</u>	<u>Actual</u>	<u>Positive (Negative) Variance</u>
<b>Purchase power expense</b>			
Salaries and wages	\$ 91,300	\$ 17,964	\$ 73,336
Payroll taxes and fringes	(19,600)	103,431	(123,031)
Purchased power	21,096,080	18,790,914	2,305,166
Professional and contractual	136,000	101,331	34,669
Professional development	3,000	-	3,000
Operation supplies	3,600	2,861	739
Communications	300	156	144
Safety	3,900	3,076	824
Transportation	6,000	6,155	(155)
Equipment rental	20,000	7,081	12,919
Miscellaneous	500	188	312
	<u>21,341,080</u>	<u>19,033,157</u>	<u>2,307,923</u>
<b>Total purchase power 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, 2021

	Amended Budget	Actual	Positive (Negative) Variance
<b>Distribution expense</b>			
Salaries and wages	\$ 1,808,900	\$ 1,426,512	\$ 382,388
Payroll taxes and fringes	888,100	928,463	(40,363)
Substation	151,500	105,434	46,066
Overhead lines	49,500	19,275	30,225
Tree trimming	213,000	197,797	15,203
Underground lines	26,000	25,775	225
Storm work	50,000	605	49,395
Customer installation	-	24,741	(24,741)
Electric meters	5,100	8,194	(3,094)
Street lighting	235,600	253,768	(18,168)
Plant and structures	77,000	61,314	15,686
Load and dispatching contractual services	34,750	32,265	2,485
Professional services	76,500	7,428	69,072
Professional development	50,000	9,377	40,623
Operation supplies	125,600	99,746	25,854
Utilities	126,500	117,028	9,472
Safety	27,800	27,259	541
Transportation	29,500	27,763	1,737
Equipment rental	59,000	(98,557)	157,557
Inventory adjustment	10,000	43,080	(33,080)
Miscellaneous	10,500	8,652	1,848
<b>Total distribution expense</b>	<b>4,054,850</b>	<b>3,325,919</b>	<b>728,931</b>
<b>Transmission expense</b>			
Salaries and wages	185,600	208,813	(23,213)
Substation	85,500	42,799	42,701
Overhead lines	23,000	19,509	3,491
MISO	34,500	25,868	8,632
Load and dispatching	16,500	12,735	3,765
Equipment rental	1,300	3,360	(2,060)
Inventory adjustment	-	32,514	(32,514)
Miscellaneous	66,000	254,392	(188,392)
<b>Total transmission expense</b>	<b>412,400</b>	<b>599,990</b>	<b>(187,590)</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, 2021

	Amended Budget	Actual	Positive (Negative) Variance
<b>Customer accounting expense</b>			
Salaries and wages	\$ 171,200	\$ 174,650	\$ (3,450)
Meter reading	138,100	148,765	(10,665)
Payroll taxes and fringes	213,700	167,841	45,859
Office supplies	3,900	1,744	2,156
Postage	34,800	30,083	4,717
Communications	23,100	23,414	(314)
Stationary and printing	1,000	911	89
Professional and contractual	10,000	58,092	(48,092)
Uncollectible accounts	2,500	(3,906)	6,406
Collection expense	2,500	615	1,885
Data processing	24,500	14,160	10,340
Professional development	4,500	-	4,500
Transportation	2,500	1,500	1,000
Equipment rental	11,000	12,347	(1,347)
Miscellaneous	6,900	6,769	131
<b>Total customer accounting expense</b>	<b>650,200</b>	<b>636,985</b>	<b>13,215</b>
<b>Public service expense</b>			
Salaries and wages	98,700	88,550	10,150
Payroll taxes and fringes	39,900	24,962	14,938
Office supplies	500	181	319
Communications	650	816	(166)
Professional and contractual	41,500	81,487	(39,987)
Voluntary green rate program	81,500	33,318	48,182
Community investment fund	75,000	23,682	51,318
Public service information	431,550	243,787	187,763
<b>Total public service expense</b>	<b>769,300</b>	<b>496,783</b>	<b>272,517</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, 2021

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	<u>Amended Budget</u>	<u>Actual</u>	<u>Positive (Negative) Variance</u>
<b>Information Systems</b>			
Salaries	\$ 124,400	\$ 120,782	\$ 3,618
Payroll taxes and fringes	61,400	48,785	12,615
Professional development	6,800	3,059	3,741
Professional and contractual	75,000	7,561	67,439
Office supplies	1,000	104	896
Operation supplies	5,500	4,036	1,464
Communication	5,700	7,430	(1,730)
Software	180,000	68,912	111,088
Hardware	20,000	7,981	12,019
Uniforms	500	43	457
Printing and publishing	250	106	144
Miscellaneous	500	-	500
	<hr/>	<hr/>	<hr/>
<b>Total information systems</b>	<b>481,050</b>	<b>268,799</b>	<b>212,251</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, 2021

	Amended Budget	Actual	Postive (Negative) Variance
<b>General administration expense</b>			
Salaries	\$ 392,500	\$ 381,801	\$ 10,699
Payroll taxes and fringes	245,400	248,763	(3,363)
Professional development	18,200	3,548	14,652
Professional and contractual	50,000	98,273	(48,273)
Office supplies	10,000	3,939	6,061
Fees and per diems	70,000	65,886	4,114
Special services	7,500	2,426	5,074
Legal fees	52,500	43,793	8,707
Utilities	4,800	4,444	356
Printing and publishing	6,000	3,379	2,621
Transportation	500	-	500
Miscellaneous	3,000	431	2,569
<b>Total general administration expense</b>	<b>860,400</b>	<b>856,683</b>	<b>3,717</b>
<b>Other expenses</b>			
Insurance - general	85,000	74,571	10,429
City fee	1,774,000	1,614,472	159,528
Depreciation	3,250,000	3,139,265	110,735
<b>Total other expenses</b>	<b>5,109,000</b>	<b>4,828,308</b>	<b>280,692</b>
<b>Total operating expenses</b>	<b>33,678,280</b>	<b>30,046,624</b>	<b>3,631,656</b>
<b>Income before special item</b>	<b>1,902,420</b>	<b>2,447,348</b>	<b>544,928</b>
<b>Special item</b>	<b>-</b>	<b>1,358,904</b>	<b>1,358,904</b>
<b>Change in net position</b>	<b>\$ 1,902,420</b>	<b>\$ 3,806,252</b>	<b>\$ 1,903,832</b>

## TRAVERSE CITY LIGHT AND POWER

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

### SCHEDULE OF REVENUES AND EXPENSES - BUDGET AND ACTUAL (UNAUDITED) FIBER FUND FOR THE YEAR ENDED JUNE 30, 2021

	<u>Amended Budget</u>	<u>Actual</u>	<u>Positive (Negative) Variance</u>
<b>Operating revenues - sales</b>			
Charges for services - dark fiber	\$ 457,000	\$ 447,858	\$ (9,142)
Residential sales - lit fiber	435,800	105,435	(330,365)
Commercial sales - lit fiber	662,200	26,392	(635,808)
VOIP sales	83,700	4,025	(79,675)
Merchandising and jobbing	-	28,963	28,963
Forfeited discounts	-	833	833
<b>Total operating revenues</b>	<b><u>1,638,700</u></b>	<b><u>613,506</u></b>	<b><u>(1,025,194)</u></b>
<b>Fiber expenses</b>			
Salaries and wages	163,100	48,619	114,481
Payroll taxes and fringes	103,000	20,827	82,173
Operation supplies	2,500	1,435	1,065
Communications	-	324	(324)
Software and hardware	-	73	(73)
Professional and contractual	752,000	551,334	200,666
Professional development	5,000	-	5,000
Transportation	24,000	251	23,749
Pole attachment fees	15,900	15,525	375
Repair and Maintenance	5,000	-	5,000
Miscellaneous	1,000	6,780	(5,780)
<b>Total fiber expenses</b>	<b><u>1,071,500</u></b>	<b><u>645,168</u></b>	<b><u>426,332</u></b>
<b>WIFI expenses</b>			
Operation and maintenance	<u>25,100</u>	<u>33,237</u>	<u>(8,137)</u>
<b>Other expenses</b>			
Insurance and bonds	6,000	1,822	4,178
City fee	81,900	30,675	51,225
Depreciation	348,000	232,101	115,899
<b>Total other expenses</b>	<b><u>435,900</u></b>	<b><u>264,598</u></b>	<b><u>171,302</u></b>
<b>Total operating expenses</b>	<b><u>1,532,500</u></b>	<b><u>943,003</u></b>	<b><u>589,497</u></b>
<b>Operating income (loss)</b>	<b>106,200</b>	<b>(329,497)</b>	<b>(435,697)</b>
<b>Non-operating revenues (expenses)</b>			
Reimbursements	29,200	20,444	(8,756)
Interest expense	-	(14,453)	(14,453)
<b>Total non-operating revenues</b>	<b><u>29,200</u></b>	<b><u>5,991</u></b>	<b><u>(23,209)</u></b>
<b>Change in net position</b>	<b><u>\$ 135,400</u></b>	<b><u>\$ (323,506)</u></b>	<b><u>\$ (412,488)</u></b>



# **INTERNAL CONTROL AND COMPLIANCE**



## Vredeveld Haefner LLC

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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 20, 2021

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, 2021, 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 20, 2021.

#### **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.

*Ordebold Haefner LLC*