

**Traverse City Light and Power**

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

**Financial Statements**

**For the Fiscal Year Ended  
June 30, 2007**



*Vredeveld Haefner LLC*





*Vredeveld Haefner LLC*

CPA's and Consultants  
4001 Granada Ct.  
Grand Rapids, MI 49534  
FAX (616) 828-0307

Douglas J. Vredeveld, CPA  
(616) 446-7474

Peter S. Haefner, CPA  
(616) 460-9388

**INDEPENDENT AUDITORS' REPORT**

December 13, 2007

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

We have audited the accompanying financial statements of Traverse City Light and Power (a component unit of the City of Traverse City, Michigan) (the "Department") as of and for the year ended June 30, 2007, as listed in the table of contents. These financial statements are the responsibility of the management of the Department. Our responsibility is to express opinions on these financial statements based on our audit. The financial statements of the Department, as of June 30, 2006, were audited by other auditors who expressed an unqualified opinion on those financial statements in their report dated November 1, 2006.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Traverse City Light and Power as of June 30, 2007, and the changes in its financial position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated December 13, 2007, on our consideration of the Department's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*, and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 3-6 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements of Traverse City Light and Power. The schedule of capital assets and depreciation, and schedule of revenues and expenditures - budget and actual, are supplementary information presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on it.

*Oredevold Haefner LLC*

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

# TRAVERSE CITY LIGHT AND POWER

## Management's Discussion and Analysis

As management of the *Traverse City Light and Power* (the "Department"), we offer readers of the Department's financial statements this narrative overview and analysis of the financial activities for the fiscal year ended June 30, 2007. 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.

### Financial Highlights

1. The Department completed the process with the County and City, owners of the dams and the regulatory agencies, State of Michigan's Department of Environmental Quality and Federal Energy Regulatory Commission to decommission the Brown Bridge, Boardman and Sabin dams, which were used to generate electricity for Light and Power's customers. The Department's board approved contracts with the dam owners to provide routine maintenance for a limited time period.
2. The Department entered into an agreement with Traverse City Area Public Schools ("TCAPS") to be the project manager for construction of a fiber optic network. The network will connect TCAPS schools and other buildings and concurrently the Department will connect several of its locations and facilities. The Department will own the system and 88 filaments and TCAPS will own 44 filaments. The two parties will share future maintenance costs of the system and filaments.
3. The Department's board approved a 2.5% increase in their rates to fund future capital improvements. The rate increase was effective October 1, 2006.

### 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. Fund financial statements
2. Notes to the financial statements, and
3. Supplementary information.

### Fund 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 a proprietary fund (Enterprise Fund).

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

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

The *Statements of Revenues, Expenses and Changes in Net Assets* present information showing how the Department's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenue 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 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 fund as required by the City Charter. A budgetary comparison schedule has been provided herein to demonstrate compliance with that budget.

The Department does not maintain any governmental or fiduciary funds.

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

**Other information.** In addition to the financial statements and accompanying notes, this report also presents certain *supplementary information*.

**The Department's Financial Analysis**

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the Department, assets exceeded liabilities by approximately \$59,000,000 at the close of the most recent fiscal year, June 30, 2007.

By far, the largest portion of net assets for the Department is its investment in capital assets (primarily land, construction in progress, building, distribution system and equipment), less any related debt that is still outstanding. The Department uses these capital assets to provide services to customers. The bulk of the remaining Department net assets are unrestricted and available for Department activity.

**Traverse City Light and Power's Net Assets**

	<u>June 30</u>	
	<u>2007</u>	<u>2006</u>
<b>Business-type Activities</b>		
Current and other assets	\$ 27,088,619	\$ 22,757,427
Capital assets	<u>34,606,059</u>	<u>35,775,206</u>
Total assets	61,694,678	58,532,633
Long-term liabilities outstanding	369,545	401,986
Other liabilities	<u>2,566,456</u>	<u>2,613,868</u>
Total liabilities	2,936,001	3,015,854
Net assets		
Invested in capital assets	34,606,059	35,775,206
Restricted	622,595	-
Unrestricted	<u>23,530,023</u>	<u>19,741,573</u>
<b>Total net assets</b>	<b><u>\$ 58,758,677</u></b>	<b><u>\$ 55,516,779</u></b>

## Traverse City Light and Power's Changes in Net Assets

	June 30	
	2007	2006
<b>Business-type Activities</b>		
Operating revenue	\$ 28,648,766	\$ 26,075,329
Operating expenses	26,645,060	26,259,558
Nonoperating revenue (expenses) – net	2,821,572	1,379,136
Income before special items	4,825,278	1,194,907
Special items - net	(1,583,380)	(190,392)
Increase in net assets	3,241,898	1,004,515
Net assets – beginning of year – as restated	55,516,779	54,512,264
<b>Net assets – end of year</b>	<b>\$ 58,758,677</b>	<b>\$ 55,516,779</b>

### Business-type activities

The overall financial position of the Department remained strong in 2007 - 2008. The Department continued to monitor its rate structure and evaluate its expenses in view of the new deregulation market. The Department has no outstanding long-term debt obligations except for the commitment through their power supply contract with MPPA to reimburse MPPA for debt service costs relating to the Campbell, Belle River and Combustion Turbine generation plants.

### Revenue

In fiscal year 2007, revenues increased due to a rate increase, which was effective October 2006. In addition, 2007 was the first full year of MISO income.

### Expenses

In fiscal year 2007, operating expenses increased approximately \$386,000 from fiscal year 2006. The primary increases resulted from items that did not occur 2006. These items include transmission maintenance work performed by the MPPA in the amount of \$50,000 and tree trimming services in the amount of \$130,000.

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

	June 30	
	2007	2006
Land	\$ 821,051	\$ 821,051
Construction in progress	1,229,136	1,093,681
Buildings and improvements	3,985,430	3,700,780
Equipment and distribution system	44,685,948	47,376,127
Accumulated depreciation	(16,115,506)	(17,216,433)
<b>Total</b>	<b>\$ 34,606,059</b>	<b>\$ 35,775,206</b>



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

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

The economic climate for fiscal year 2008 will continue to be a challenge. Changes in the market and fuel costs will evolve that are out of the Department's control. A 2.5% rate increase was effective October 1, 2006 and was designed to offset the rising purchased power costs. By the end of fiscal year 2007-08 a 2.9% rate adjustment is expected to be implemented. We are in the process of completing a number of significant capital improvement projects as well as building our reserves for future partnerships in baseload projects.

Our economic outlook continues to be strong, our fiscal year 2008 budget reflects an operating gain and we maintain the ability to weather any unforeseen financial aberrations that may arise.

### **Requests for Information**

This financial report is designed to provide a general overview of the Department's finances for all those with an interest in the finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to Greg Pierce, Deputy Director, Traverse City Light and Power, 1131 Hastings Street, Traverse City, MI 49686.

# TRAVERSE CITY LIGHT AND POWER

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

## BALANCE SHEETS

ASSETS	June 30,	
	2007	2006
<b>Current assets</b>		
Cash and cash equivalents	\$ 9,377,074	\$ 4,662,422
Investments	10,953,217	12,148,028
Receivables		
Customer, less allowances of \$78,151 and \$63,212 respectively, for uncollectible accounts	3,372,230	3,213,054
Accrued interest	59,051	59,050
Taxes	1,689	3,282
Other	828,669	949,120
Inventories	1,038,644	822,639
Prepaid expenses	13,934	13,983
<b>Total current assets</b>	<b>25,644,508</b>	<b>21,871,578</b>
<b>Restricted assets</b>	<b>622,595</b>	<b>-</b>
<b>Long-term assets</b>		
Long-term advances - due from primary government	821,516	885,849
Land	821,051	821,051
Construction in progress	1,229,136	1,093,681
Capital assets, net	32,555,872	33,860,474
<b>Total long-term assets</b>	<b>35,427,575</b>	<b>36,661,055</b>
<b>Total assets</b>	<b>\$ 61,694,678</b>	<b>\$ 58,532,633</b>

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

	June 30,	
	2007	2006
<b>LIABILITIES AND NET ASSETS</b>		
<b>Current liabilities</b>		
Accounts payable	\$ 2,135,350	\$ 2,170,312
Accrued expenses and other liabilities	60,731	81,983
Customer deposits	126,675	134,525
Due to primary government	243,700	227,048
<b>Total current liabilities</b>	<b>2,566,456</b>	<b>2,613,868</b>
<b>Long-term liabilities</b>		
Compensated absences	369,545	401,986
<b>Total liabilities</b>	<b>2,936,001</b>	<b>3,015,854</b>
<b>Net assets</b>		
Invested in capital assets	34,606,059	35,775,206
Restricted for rate stabilization	622,595	-
Unrestricted	23,530,023	19,741,573
<b>Total net assets</b>	<b>58,758,677</b>	<b>55,516,779</b>
<b>Total liabilities and net assets</b>	<b>\$ 61,694,678</b>	<b>\$ 58,532,633</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)

## STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

	Year Ended June 30,	
	2007	2006
<b>Operating revenues</b>		
Charges for services	\$ 26,728,808	\$ 25,466,677
MISO income	1,654,950	368,368
Other	265,008	240,284
<b>Total operating revenues</b>	<b>28,648,766</b>	<b>26,075,329</b>
<b>Operating expenses</b>		
Personnel	3,752,200	3,631,529
Contractual services	667,037	686,716
Repairs and maintenance	70,514	87,054
Office supplies, insurance and other	297,479	292,220
Operating supplies	18,566,813	18,443,152
Rentals	181,407	170,142
Utilities	91,733	91,912
City fee	1,478,700	1,337,048
Depreciation and amortization	1,539,177	1,519,785
<b>Total operating expenses</b>	<b>26,645,060</b>	<b>26,259,558</b>
<b>Operating income (loss)</b>	<b>2,003,706</b>	<b>(184,229)</b>
<b>Non-operating revenues (expenses)</b>		
Grant revenue	236,714	185,996
Rental income	26,396	23,152
Reimbursement	1,171,466	255,867
Sale of emission allowances	588,012	585,107
Interest income	1,084,075	667,893
Change in fair market value of investments	(50,736)	(125,665)
Grant expense	(234,355)	(213,029)
Interest expense	-	(185)
<b>Total non-operating revenues</b>	<b>2,821,572</b>	<b>1,379,136</b>
<b>Income before special items</b>	<b>4,825,278</b>	<b>1,194,907</b>
<b>Special items</b>		
Hydrodam impairment	(1,535,899)	-
Insurance settlement	(47,481)	-
Plant decommissioning	-	(190,392)
<b>Total special items</b>	<b>(1,583,380)</b>	<b>(190,392)</b>
<b>Change in net assets</b>	<b>3,241,898</b>	<b>1,004,515</b>
<b>Net assets, beginning of year, as restated</b>	<b>55,516,779</b>	<b>54,512,264</b>
<b>Net assets, end of year</b>	<b>\$ 58,758,677</b>	<b>\$ 55,516,779</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)

## STATEMENTS OF CASH FLOWS

	Year Ended June 30,	
	2007	2006
<b>Cash flows from operating activities</b>		
Cash received from customers	\$ 28,578,271	\$ 24,791,322
Cash payments to employees	(3,772,530)	(3,661,814)
Cash payments to suppliers for goods and services	(20,125,901)	(19,606,930)
Cash payments for city fee	(1,462,048)	(1,308,373)
<b>Net cash provided by operating activities</b>	<b>3,217,792</b>	<b>214,205</b>
<b>Cash flows from non-capital financing activities</b>		
Long-term advance to primary government	64,333	66,058
Cash payment to MPPA for working capital	-	(188,613)
Insurance settlement	(47,481)	-
Customer deposits	(7,850)	(8,401)
Rental income	26,396	23,152
Proceeds from sale of emission allowances	588,012	585,107
Reimbursement	1,171,466	1,175,428
<b>Net cash provided by non-capital financing activities</b>	<b>1,794,876</b>	<b>1,652,731</b>
<b>Cash flows from capital and related financing activities</b>		
Purchase of capital assets	(1,743,567)	(2,438,189)
Capital asset project abandoned	(162,362)	-
Cash received from grantors	236,714	185,996
Cash payment for grant expenditures	(234,355)	(213,029)
Note principal payments	-	(310,000)
Note interest payments	-	(7,935)
<b>Net cash used in capital and related financing activities</b>	<b>(1,903,570)</b>	<b>(2,783,157)</b>
<b>Cash flows from investing activities</b>		
Purchase of investments	-	(361,986)
Sale of investments	521,480	-
Investment income	1,084,074	650,651
<b>Net cash provided by investing activities</b>	<b>1,605,554</b>	<b>288,665</b>
Net increase (decrease) in cash and cash equivalents	4,714,652	(627,556)
Cash and cash equivalents, beginning of year	4,662,422	5,289,978
<b>Cash and cash equivalents, end of year</b>	<b>\$ 9,377,074</b>	<b>\$ 4,662,422</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)**

**STATEMENTS OF CASH FLOWS**

	<u>Year Ended June 30,</u>	
	<u>2007</u>	<u>2006</u>
<b>Cash flows from operating activities</b>		
Operating income (loss)	\$ 2,003,706	\$ (184,229)
Adjustments to reconcile operating income to net cash provided by operating activities		
Depreciation and amortization	1,539,177	1,519,785
Plant decommissioning	-	(190,392)
Changes in operating assets and liabilities which (used) provided cash		
Receivables	(37,132)	(306,787)
Inventories	(216,005)	(46,317)
Prepaid expenses	49	(720)
Accounts payable	(34,962)	401,695
Due to other governments	16,652	28,675
Accrued expenses and other liabilities	(21,252)	(150,982)
Unearned revenue	-	(919,561)
Compensated absences	(32,441)	63,038
<b>Net cash provided by operating activities</b>	<b><u>\$ 3,217,792</u></b>	<b><u>\$ 214,205</u></b>

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

# TRAVERSE CITY LIGHT AND POWER

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

## NOTES TO FINANCIAL STATEMENTS

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### 1. SUMMARY OF 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 for payment in lieu of taxes. For fiscal 2007 and 2006, payments of City fees were \$1,478,700 and \$1,337,048 respectively.

The Department is a discrete component unit of the City because the City appoints the Department's Board of Directors, it has the ability to significantly influence the Department's operations and it is financially accountable for the Department as defined under GASB Statement No. 14, *The Financial Reporting Entity*. Accordingly, the Department is presented as a discrete component unit in the City's financial statements and is an integral part of that reporting entity.

#### 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 (including restricted assets) 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 "Non-operating revenues (expenses)" section of the Statements of Revenues, Expenses and Changes in Net Assets".

#### Inventories

Inventories consist of materials to use in the electric system and are valued at average cost. Maintenance and office supplies (immaterial at year end) are charged to expenses upon purchase.



# TRAVERSE CITY LIGHT AND POWER

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

## NOTES TO FINANCIAL STATEMENTS

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### Capital assets

Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years.

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

	<u>Years</u>
Buildings and structures	20-50
Power production equipment and distribution system	5-50

### Compensated Absences

Compensated absences consist of accumulated unpaid vacation, short-term leave and sick pay. Accumulated unpaid vacation and short-term leave are accrued when earned and sick pay is accrued up to a maximum when it is probable that the benefit will be paid to the employee, in accordance with Governmental Accounting Standards Board Statement No. 16 - *Accounting for Compensated Absences*.

### Operating Revenue versus Nonoperating Revenue

Proprietary funds distinguish operating revenues and expenses from nonoperating 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.

### GASB 20

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their enterprise funds, subject to this same limitation. The Department has elected not to follow subsequent private-sector guidance.

### Restricted resources

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

# TRAVERSE CITY LIGHT AND POWER

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

## NOTES TO FINANCIAL STATEMENTS

### Budgetary Information

The Department follows the requirements set forth in the Charter in establishing the budgetary data reflected in the financial statements:

- The Department submits a proposed budget to the City Manager. After review, the City Manager submits a recommended operating budget to the City Commission. Public hearings are held to obtain taxpayer comments. The budget is legally adopted through a City Commission resolution prior to the beginning of the budgetary year for the Department's fund. The budget is then adopted by the Department's Board.
- The budget is adopted on a basis consistent with generally accepted accounting principles. Budgeted amounts are as originally adopted or amended by the City Commission during the year. Individual amendments were not material in relation to the original appropriations.

In addition, the City Treasurer's office performs the accounting function on behalf of the Department. This includes utility bill processing, other accounts receivable invoicing, processing accounts payable and payroll, maintaining all general ledgers and subsidiary ledgers, and reconciling them on a monthly basis.

### Reclassifications

A change in financial statement presentation from the prior year to current year caused reclassifications of prior year amounts.

## 2. CASH DEPOSITS AND INVESTMENTS

The Department's cash and cash equivalents, investments and restricted assets at June 30, 2007 and 2006 are composed of the following:

<u>June 30, 2007</u>	<u>Cash and cash Equivalents</u>	<u>Restricted assets</u>	<u>Investments</u>	<u>Totals</u>
Deposits	\$ 9,376,674	\$ -	\$ 4,852,725	\$ 14,229,399
Investments	-	622,595	6,100,492	6,723,087
Petty cash	400	-	-	400
<b>Total</b>	<b><u>\$ 9,377,074</u></b>	<b><u>\$ 622,595</u></b>	<b><u>\$10,953,217</u></b>	<b><u>\$ 20,952,886</u></b>

<u>June 30, 2006</u>	<u>Cash and cash Equivalents</u>	<u>Investments</u>	<u>Totals</u>
Deposits	\$ 4,662,022	\$ 3,656,127	\$ 8,318,149
Investments	-	8,491,901	8,491,901
Petty cash	400	-	400
<b>Total</b>	<b><u>\$ 4,662,422</u></b>	<b><u>\$ 12,148,028</u></b>	<b><u>\$16,810,450</u></b>

# TRAVERSE CITY LIGHT AND POWER

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

## NOTES TO FINANCIAL STATEMENTS

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

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

The Department chooses to disclose its investments by specifically identifying each. As of June 30, 2007, the Department had the following investments.

<u>Investment</u>	<u>Maturity</u>	<u>Fair Value</u>	<u>Rating</u>
Federal Home Loan bond	08/08/2007	\$ 299,907	AAA
Federal Home Loan bond	11/21/2008	199,688	AAA
Federal Home Loan bond	05/26/2009	249,765	AAA
US Treasury note	05/15/2008	989,060	AAA
US Treasury note	05/31/2008	999,060	AAA
US Treasury note	09/15/2008	489,220	AAA
US Treasury note	08/15/2008	686,915	AAA
US Treasury note	09/15/2008	97,844	AAA
US Treasury note	04/15/2009	97,000	AAA
US Treasury note	05/31/2009	999,690	AAA
US Treasury note	06/15/2009	983,670	AAA
MPPA Investments	Various	622,595	AAA
MBIA Class	N/A	2,846	AAA
Investment pool	14 days	<u>5,827</u>	N/A
		<b><u>\$ 6,723,087</u></b>	

As of June 30, 2006, the Department had the following investments.

<u>Investment</u>	<u>Maturity</u>	<u>Fair Value</u>	<u>Rating</u>
Federal Home Loan bond	02/20/2009	\$ 198,562	AAA
Federal Home Loan bond	04/28/2008	199,376	AAA
Federal Home Loan bond	05/21/2007	244,532	AAA
Federal Home Loan bond	12/29/2007	295,407	AAA
Federal Home Loan bond	05/16/2008	199,312	AAA
Federal Home Loan bond	08/08/2007	297,282	AAA
Federal Home Loan bond	11/17/2007	298,314	AAA
US Treasury note	08/15/2008	673,533	AAA
US Treasury note	09/15/2008	479,100	AAA
US Treasury note	11/15/2007	495,175	AAA
US Treasury note	09/15/2008	95,820	AAA
US Treasury note	05/31/2007	994,410	AAA
US Treasury note	05/15/2007	981,640	AAA

# TRAVERSE CITY LIGHT AND POWER

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

## NOTES TO FINANCIAL STATEMENTS

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<u>Investment</u>	<u>Maturity</u>	<u>Fair Value</u>	<u>Rating</u>
US Treasury note	06/15/2009	\$ 969,260	AAA
US Treasury note	05/15/2008	974,730	AAA
US Treasury note	06/30/2007	992,340	AAA
US Treasury note	04/15/2009	94,853	AAA
Investment pool	14 days	5,551	N/A
MBIA Pool	N/A	<u>2,704</u>	AAA
		<u>\$ 8,491,901</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 above. The Department's investment policy does not have specific limits in excess of state law on investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. The maturity dates for each investment are identified above for investments held at year-end.

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

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

*Custodial Credit Risk – Investments.* For investments, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Department will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. State law does not require and the Department does not have a policy for investment custodial credit risk. Of the above \$6,100,492 and \$8,491,901 of investments at June 30, 2007 and 2006 respectively, the Department has a custodial credit risk exposure of \$6,100,492 and \$8,491,901 because the related securities are uninsured, unregistered and held by the government's brokerage firm which is also the counterparty for these particular securities.

# TRAVERSE CITY LIGHT AND POWER

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

## NOTES TO FINANCIAL STATEMENTS

*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 the 5% of the Department's investments.

### 3. CAPITAL ASSETS

At June 30, 2007 capital assets consist of the following

	<b>Beginning Balance</b>	<b>Increases</b>	<b>Decreases</b>	<b>Ending Balance</b>
<b>Business-type activities</b>				
Capital assets not being depreciated				
Land	\$ 821,051	\$ -	\$ -	\$ 821,051
Construction in progress	<u>1,093,681</u>	<u>536,778</u>	<u>(401,323)</u>	<u>1,229,136</u>
Total capital assets not being depreciated	<u>1,914,732</u>	<u>536,778</u>	<u>(401,323)</u>	<u>2,050,187</u>
Capital assets being depreciated				
Buildings and improvements	3,700,780	284,650	-	3,985,430
Equipment and distribution system	<u>47,376,127</u>	<u>1,323,462</u>	<u>(4,013,641)</u>	<u>44,685,948</u>
Total capital assets being depreciated	<u>51,076,907</u>	<u>1,608,112</u>	<u>(4,013,641)</u>	<u>48,671,378</u>
Less accumulated depreciation for				
Buildings and improvements	(388,756)	(115,169)	-	(503,925)
Equipment and distribution system	<u>(16,827,677)</u>	<u>(1,424,008)</u>	<u>2,640,104</u>	<u>(15,611,581)</u>
Total accumulated depreciation	<u>(17,216,433)</u>	<u>(1,539,177)</u>	<u>2,640,104</u>	<u>(16,115,506)</u>
Total capital assets being depreciated, net	<u>33,860,474</u>	<u>68,935</u>	<u>(1,373,537)</u>	<u>32,555,872</u>
<b>Business-type activities capital assets, net</b>	<u><b>\$ 35,775,206</b></u>	<u><b>\$ 605,713</b></u>	<u><b>\$ (1,774,860)</b></u>	<u><b>\$34,606,059</b></u>

# TRAVERSE CITY LIGHT AND POWER

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

## NOTES TO FINANCIAL STATEMENTS

At June 30, 2006 capital assets consist of the following

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
<b>Business-type activities</b>				
Capital assets not being depreciated –				
Land	\$ 843,173	\$ -	\$ (22,122)	\$ 821,051
Construction in progress	<u>3,760,028</u>	<u>1,008,607</u>	<u>(3,674,954)</u>	<u>1,093,681</u>
Total capital assets not being depreciated	<u>4,603,201</u>	<u>1,008,607</u>	<u>(3,697,076)</u>	<u>1,914,732</u>
Capital assets being depreciated				
Buildings and improvements	3,690,554	10,226	-	3,700,780
Equipment and distribution system	<u>42,259,695</u>	<u>5,652,035</u>	<u>(535,603)</u>	<u>47,376,127</u>
Total capital assets being depreciated	<u>45,950,249</u>	<u>5,662,261</u>	<u>(535,603)</u>	<u>51,076,907</u>
Less accumulated depreciation for				
Buildings and improvements	(278,164)	(110,592)	-	(388,756)
Equipment and distribution system	<u>(15,452,519)</u>	<u>(1,789,544)</u>	<u>414,386</u>	<u>(16,827,677)</u>
Total accumulated depreciation	<u>(15,730,683)</u>	<u>(1,900,136)</u>	<u>414,386</u>	<u>(17,216,433)</u>
Total capital assets being depreciated, net	<u>30,219,566</u>	<u>3,762,125</u>	<u>(121,217)</u>	<u>33,860,474</u>
<b>Business-type activities capital assets, net</b>	<u><b>\$ 34,822,767</b></u>	<u><b>\$ 4,770,732</b></u>	<u><b>\$ (3,818,293)</b></u>	<u><b>\$35,775,206</b></u>

#### 4. LONG-TERM DEBT

Long-term debt at June 30, 2007 consists of the following:

	<u>Compensated Absences</u>
Beginning Balance, July 1, 2006	\$ 401,986
Reductions	<u>(32,441)</u>
<b>Ending Balance, June 30, 2007</b>	<u><b>\$ 369,545</b></u>
<b>Due within one year</b>	<u><b>\$ -</b></u>

# TRAVERSE CITY LIGHT AND POWER

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

## NOTES TO FINANCIAL STATEMENTS

Long-term debt at June 30 2006, consists of the following

	Electric Utility System Revenue Refunding Bonds	Compensated Absences
Beginning Balance, July 1, 2005	\$ 310,000	\$ 338,948
Additions	-	63,038
Reductions	<u>(310,000)</u>	<u>-</u>
<b>Ending Balance, June 30, 2006</b>	<b><u>\$ -</u></b>	<b><u>\$ 401,986</u></b>
<b>Due within one year</b>	<b><u>\$ -</u></b>	<b><u>\$ -</u></b>

### 5. POWER SUPPLY PURCHASE

The Department along with other Michigan municipal utilities, is a member of the Michigan Public Power Agency ("MPPA"). The agency was formed to acquire interests in certain electric generating plants and related transmission lines. MPPA has acquired a 4.8% undivided interest in the Consumers Power Company Campbell 3 plant, an 18.61% undivided interest in the Detroit Edison Company Belle River project, and 100% undivided interest in the Kalkaska Combustion Turbine project.

In 1983, the Department entered into a 35 year power supply and project support contract with MPPA. Under the agreement, the Department will purchase 26.35% of the energy generated by the Campbell 3 plant and 4.53% of the energy generated by 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 the Kalkaska Combustion Turbine.

For the years ended June 30, 2007 and 2006, Traverse City Light and Power recognized expenses totaling \$17,833,864 and \$17,778,322, respectively, to purchase power under the terms of the contract. The price of the power was calculated on a basis, as specified in the contract, to enable MPPA to recover its production, transmission and debt service costs.

# TRAVERSE CITY LIGHT AND POWER

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

## NOTES TO FINANCIAL STATEMENTS

Under the terms of the contract, 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 2007 costs adjusted for inflation. The total estimated future operating costs, which do not include the debt payments below are as follows:

<u>Year Ended</u> <u>December 31</u>	<u>Operating</u> <u>Costs</u>
2008	\$ 5,575,956
2009	5,743,235
2010	5,915,532
2011	6,092,998
2012	6,275,788
2013-2017	26,103,130
2018-2022	16,582,527
2023-2027	<u>13,638,668</u>
	<b><u>\$ 85,927,834</u></b>

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

<u>Year Ended</u> <u>December 31</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2008	\$ 2,203,788	\$ 1,963,899	\$ 4,167,687
2009	2,313,742	1,851,640	4,165,382
2010	2,249,546	1,734,726	3,984,272
2011	2,360,782	1,631,011	3,991,793
2012	2,470,034	1,521,596	3,991,630
2013-2017	10,859,645	5,866,011	16,725,656
2018-2022	7,634,963	3,299,742	10,934,705
2023-2027	<u>8,330,024</u>	<u>1,356,805</u>	<u>9,686,829</u>
	<b><u>\$ 38,422,524</u></b>	<b><u>\$ 19,225,430</u></b>	<b><u>\$57,647,954</u></b>

The MPPA and its member utilities were over-charged on their power sales contract agreements. Because of this, MPPA and the member utilities have established a trust fund ("The Municipal Competitive Trust"). Specific policies have been established by each member regarding the use of these funds. The Department's share of this trust fund was \$ 622,595.

### 6. SPECIAL ITEM

During the fiscal year ending June 30, 2007, the Department agreed to a litigation settlement regarding an outage that occurred on October 3, 2004. All claims were settled during the 2007 fiscal year and required a payment by the Department in the amount of \$47,463. In addition, the



# TRAVERSE CITY LIGHT AND POWER

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

## NOTES TO FINANCIAL STATEMENTS

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Department decommissioned their hydrodams during the year because the costs to comply with FERC regulations exceeded the benefit of operations. Because of the decommissioning, the assets have been determined to be impaired in accordance with GASB Statement No. 42, "Accounting and Financial Reporting for Impairment of Capital Assets and Insurance Recoveries." In accordance with the statement, the capital assets were written down to their fair value, which was determined through a purchase bidding process. These two items have been recorded as a special items due to the items being under management's control and infrequent in nature.

During the fiscal year ending June 30, 2005, the Department began decommissioning the Bayside Plant and completed the project in 2006. As a result, the Department incurred expenses in the amount of \$190,392 in 2006.

### 7. RETIREMENT PLAN

Through the City, the Department participates in the Municipal Employees' Retirement System, a defined benefit plan that covers substantially all employees. Annual contributions to the plan are based on actuarial studies performed annually. The Department's contributions to the plan during the years ended June 30, 2007 and 2006 were \$570,874 and \$496,030 respectively. The disclosure requirements of the Governmental Accounting Standards Board Statement Number 27 are outlined in the City's Financial Statements.

### 8. POST-EMPLOYMENT BENEFITS

In addition to the pension benefits described above, the Department provides postretirement health insurance premiums in accordance with their personnel policies and union agreements. The benefit includes payment of the retiree's premium until they reach the age of Medicare eligibility and at that time premiums for complementary coverage is paid by the Department. The Department paid approximately \$110,000 for 24 participants in 2007 and \$103,000 for 23 participants in 2006, respectively.

### 9. COMMITMENTS

In September 1994, the Department purchased of distribution facilities located within the City of Traverse City from Consumers Power Company ("Consumers") for \$840,000. The purchase was made in connection with the settlement of litigation initiated by the Department against Consumers. The purchase was completed under the auspices of the Michigan Public Service Commission and approved by the Department Board. The Department will take possession of these facilities in three stages, one remaining stage to occur in September 2014.

On May 11, 2007, the Department entered into a letter of understanding with Wolverine Power Supply Cooperative, Inc. for construction of a transmission substation. The cost of this project shall not exceed \$6,600,000 (\$3,300,000 for each party). The letter of understanding is legally binding for 120 days. The letter has been replaced with a definitive agreement subsequent to fiscal year end.

# TRAVERSE CITY LIGHT AND POWER

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

## NOTES TO FINANCIAL STATEMENTS

### Property

During fiscal 2004, the Department entered into an agreement to lease the Light and Power's coal dock. The lease requires annual rental payments of \$1. Under the lease agreement, the Department must maintain the property, carry adequate insurance and pay all assessments and property taxes on the property. The fair value of the lease is not considered by management to be significant in any one year and, therefore, is not recorded as contributed revenue and lease expense. This lease expires July 2023.

### 10. CONTINGENCIES

In the normal course of business, the Department becomes a party in various legal actions and claims, some of which are uninsured. While the outcome of these actions and claims is not expected to have a material effect on the financial position of the Department, the Board has established a designation of \$3,442,507 and \$3,224,771 within unrestricted net assets at June 30, 2007 and 2006, respectively to cover the potential impact of current and future uninsured claims.

### 11. RISK OF LOSS

The Department is exposed to various risks of losses related to torts; theft of, damage to, and destruction of assets; errors and omission; injuries to employees; and natural disasters. The Department is covered for these losses through the City via the Michigan Municipal Liability and Property Pool, Michigan Municipal Workers Compensation Self Insurance Fund and commercial health insurance.

### 12. DESIGNATIONS OF NET ASSETS

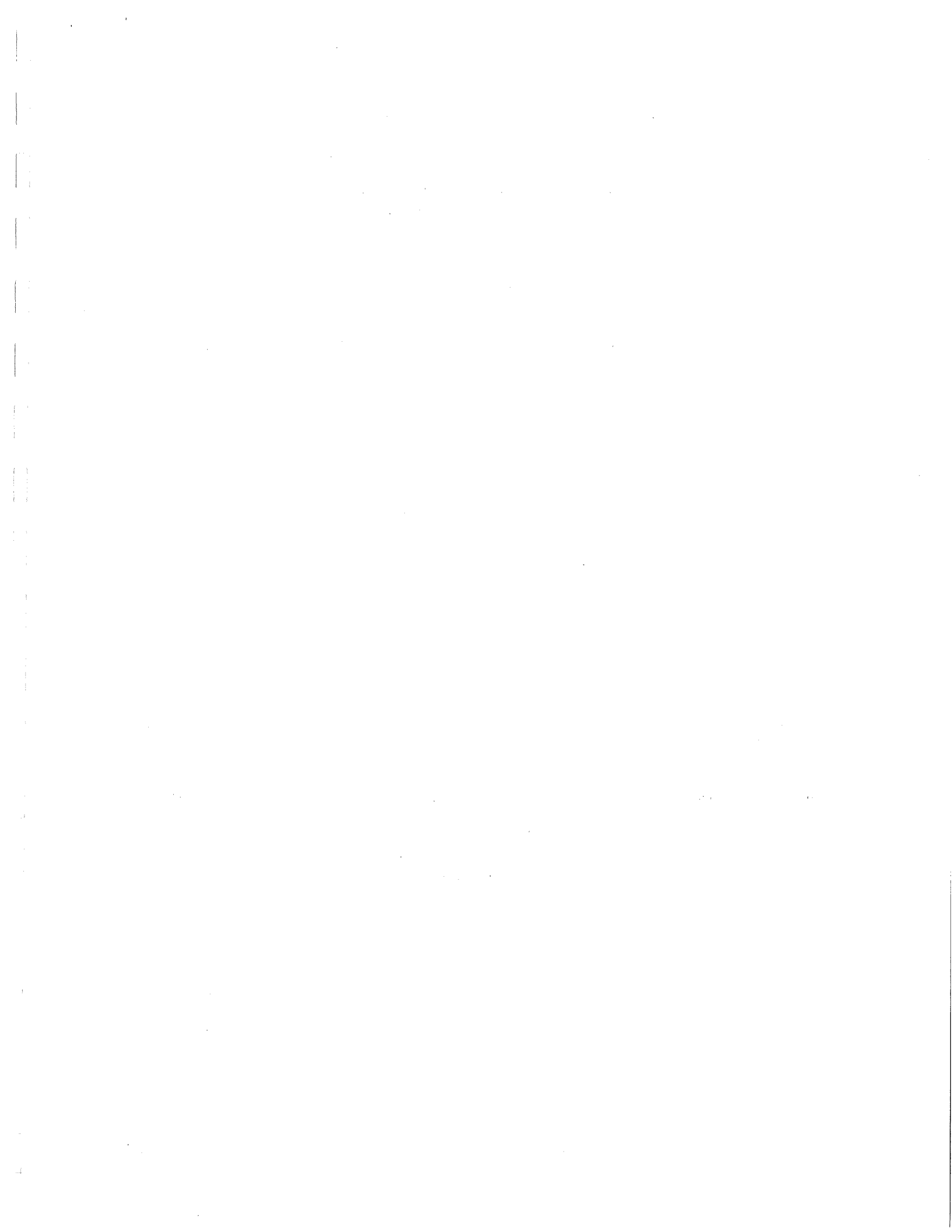
The following are designations of unrestricted net assets established by the Board

	<u>June 30,</u> <u>2007</u>	<u>June 30,</u> <u>2006</u>
Maintenance contingencies	\$2,867,337	\$2,867,337
Green energy	850,000	850,000
Emergencies	99,519	99,519
Uninsured claims	3,442,507	3,224,771
Capital expansion	<u>6,020,000</u>	<u>3,515,000</u>
<b>Total</b>	<b><u>\$13,279,363</u></b>	<b><u>\$ 10,556,627</u></b>

### 13. PRIOR PERIOD ADJUSTMENT

Beginning net assets for the fiscal year end June 30, 2006 were increased in the amount of \$582,876 to reflect accounts receivable from MPPA for working capital paid in prior years by the Department and in the amount of \$919,561 to reflect MPPA Trust Fund revenue, which should have been recognized in prior years.

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## TRAVERSE CITY LIGHT AND POWER

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

### SCHEDULE OF CAPITAL ASSETS AND DEPRECIATION FOR THE YEAR ENDED JUNE 30, 2007 (WITH COMPARATIVE NET BALANCES AT JUNE 30, 2006)

	Capital Assets - Cost			Balance at June 30, 2007
	Balance at June 30, 2006	Additions/ Transfers	Deletions/ Transfers	
Land	\$ 575,415	\$ -	\$ -	\$ 575,415
Land - coal dock	245,636	-	-	245,636
<b>Total land</b>	<b>821,051</b>	<b>-</b>	<b>-</b>	<b>821,051</b>
<b>Buildings</b>				
Keystone plant	3,191	-	-	3,191
Brown Bridge	2,701	-	-	2,701
Distribution plant	3,673,953	235,382	-	3,909,335
Office structures	20,935	-	-	20,935
Other buildings	-	49,268	-	49,268
<b>Total buildings</b>	<b>3,700,780</b>	<b>284,650</b>	<b>-</b>	<b>3,985,430</b>
<b>Equipment and distribution system</b>				
Sabin Dam	1,442,689	-	1,419,081	23,608
Boardman Dam	2,630,952	-	2,594,560	36,392
Union St. Dam	24,010	-	-	24,010
Keystone plant	58,130	-	-	58,130
Brown Bridge	145,372	-	-	145,372
Wind generation unit	763,860	-	-	763,860
Transmission and distribution	41,488,844	1,283,151	-	42,771,995
General	822,270	40,311	-	862,581
<b>Total equipment and distribution system</b>	<b>47,376,127</b>	<b>1,323,462</b>	<b>4,013,641</b>	<b>44,685,948</b>
<b>Construction-in-progress</b>	<b>1,093,681</b>	<b>536,778</b>	<b>401,323</b>	<b>1,229,136</b>
<b>Total</b>	<b>\$ 52,991,639</b>	<b>\$ 2,144,890</b>	<b>\$ 4,414,964</b>	<b>\$ 50,721,565</b>

Balance at June 30, 2006	Accumulated Depreciation		Balance at June 30, 2007	Capital Assets - Net	
	Current Depreciation	Deletions		Balance at June 30, 2007	Balance at June 30, 2006
\$ -	\$ -	\$ -	\$ -	\$ 575,415	\$ 575,415
-	-	-	-	245,636	245,636
-	-	-	-	<b>821,051</b>	<b>821,051</b>
3,191	-	-	3,191	-	-
2,331	53	-	2,384	317	370
381,485	113,749	-	495,234	3,414,101	3,292,468
1,749	628	-	2,377	18,558	19,186
-	739	-	739	48,529	-
<b>388,756</b>	<b>115,169</b>	<b>-</b>	<b>503,925</b>	<b>3,481,505</b>	<b>3,312,024</b>
842,172	43,281	885,453	-	23,608	600,517
1,675,723	78,928	1,754,651	-	36,392	955,229
16,269	720	-	16,989	7,021	7,741
58,019	12	-	58,031	99	111
105,379	3,556	-	108,935	36,437	39,993
240,618	22,916	-	263,534	500,326	523,242
13,176,295	1,241,547	-	14,417,842	28,354,153	28,312,549
713,202	33,048	-	746,250	116,331	109,068
<b>16,827,677</b>	<b>1,424,008</b>	<b>2,640,104</b>	<b>15,611,581</b>	<b>29,074,367</b>	<b>30,548,450</b>
-	-	-	-	<b>1,229,136</b>	<b>1,093,681</b>
<b>\$ 17,216,433</b>	<b>\$ 1,539,177</b>	<b>\$ 2,640,104</b>	<b>\$ 16,115,506</b>	<b>\$ 34,606,059</b>	<b>\$ 35,775,206</b>

## TRAVERSE CITY LIGHT AND POWER

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

### SCHEDULE OF REVENUES AND EXPENSES - BUDGET AND ACTUAL FOR THE YEAR ENDED JUNE 30, 2007 (WITH COMPARATIVE BALANCES AT JUNE 30, 2006)

	<u>2007 Budget</u>	<u>2007 Actual</u>	<u>Positive (Negative) Variance</u>	<u>2006 Actual</u>
Operating revenues - sales				
Residential	\$ 4,655,000	\$ 4,707,275	\$ 52,275	\$ 4,359,581
Commercial	13,295,000	13,043,317	(251,683)	12,516,718
Industrial	8,410,000	8,455,464	45,464	8,071,188
Public authority	270,000	250,447	(19,553)	246,735
Street lighting	192,000	189,928	(2,072)	186,713
Yard lights	86,000	82,377	(3,623)	85,742
<b>Total operating revenues - sales</b>	<b><u>26,908,000</u></b>	<b><u>26,728,808</u></b>	<b><u>(179,192)</u></b>	<b><u>25,466,677</u></b>
Other operating revenues				
Forfeited discounts	50,000	56,317	6,317	56,205
Merchandise and jobbing	40,000	117,496	77,496	94,449
Sale of scrap	10,000	33,921	23,921	12,569
Recovery of bad debts	1,000	293	(707)	629
MISO income	1,260,000	1,654,950	394,950	368,368
Miscellaneous	50,000	56,981	6,981	76,432
<b>Total other operating revenues</b>	<b><u>1,411,000</u></b>	<b><u>1,919,958</u></b>	<b><u>508,958</u></b>	<b><u>608,652</u></b>
Non-operating revenues				
Grant revenue	-	236,714	236,714	185,996
Rental income	2,000	12,000	10,000	8,788
Pole rental income	15,000	14,396	(604)	14,364
Reimbursement	150,000	1,171,466	1,021,466	255,867
Sale of emission allowances	1,020,000	588,012	(431,988)	585,107
Change in fair market value of investments	-	(50,736)	(50,736)	(125,665)
Interest income	500,000	1,084,075	584,075	667,893
<b>Total non-operating revenues</b>	<b><u>1,687,000</u></b>	<b><u>3,055,927</u></b>	<b><u>1,368,927</u></b>	<b><u>1,592,350</u></b>
<b>Total revenues</b>	<b><u>30,006,000</u></b>	<b><u>31,704,693</u></b>	<b><u>1,698,693</u></b>	<b><u>27,667,679</u></b>

# TRAVERSE CITY LIGHT AND POWER

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

## SCHEDULE OF REVENUES AND EXPENSES - BUDGET AND ACTUAL (CONTINUED) FOR THE YEAR ENDED JUNE 30, 2007 (WITH COMPARATIVE BALANCES AT JUNE 30, 2006)

	2007 Amended Budget	2007 Actual	Positive (Negative) Variance	2006 Actual
<b>Generation Expense</b>				
Operating				
Station labor	\$ 285,000	\$ 242,230	\$ 42,770	\$ 277,447
Payroll taxes and fringes	182,400	106,786	75,614	136,797
Campbell No. 3 power	4,360,000	5,186,907	(826,907)	4,191,420
Belle River No. 1 power	3,700,000	2,631,918	1,068,082	3,219,817
Combustion turbine	3,800,000	3,865,813	(65,813)	3,469,229
Hydro fees	69,500	91,349	(21,849)	104,575
Purchased power	7,670,000	5,954,190	1,715,810	6,897,856
Utilities			-	
Telephone	6,000	6,188	(188)	8,021
Water	-	(872)	872	1,346
Coal dock	2,000	288	1,712	1,250
Miscellaneous supplies	1,500	5,104	(3,604)	6,282
Professional development	18,000	3,728	14,272	1,508
<b>Total generation operating expenses</b>	<u>20,094,400</u>	<u>18,093,629</u>	<u>2,000,771</u>	<u>18,315,548</u>

## TRAVERSE CITY LIGHT AND POWER

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

### SCHEDULE OF REVENUES AND EXPENSES - BUDGET AND ACTUAL (CONTINUED) FOR THE YEAR ENDED JUNE 30, 2007 (WITH COMPARATIVE BALANCES AT JUNE 30, 2006)

	2007 Amended Budget	2007 Actual	Positive (Negative) Variance	2006 Actual
<b>Generation Expense (continued)</b>				
Maintenance				
Labor	\$ 193,800	\$ 296,858	\$ (103,058)	\$ 236,190
Payroll taxes and fringes	144,400	140,448	3,952	141,259
Structures	-	-	-	9
Coal dock	500	8,818	(8,318)	4,293
Wind generator	5,000	12,482	(7,482)	2,284
Boardman River	6,000	517	5,483	6,044
Brown Bridge	20,000	9,563	10,437	25,440
Accessory electrical equipment	2,000	2,313	(313)	74
Auxiliary power plant equipment	62,000	91,615	(29,615)	70,427
Small tools	2,000	2,941	(941)	1,799
Uniforms	-	292	(292)	-
Sabin Dam	17,000	2,687	14,313	10,261
Boardman Dam	22,000	6,258	15,742	20,505
Elk Rapids Dam	(10,000)	4,080	(14,080)	(3,052)
Equipment rental	33,000	32,833	167	32,450
Equipment fuel	11,500	10,046	1,454	10,353
Miscellaneous	35,000	13,076	21,924	7,207
	<u>544,200</u>	<u>634,827</u>	<u>(90,627)</u>	<u>565,543</u>
<b>Total generation maintenance expense</b>				
<b>Total generation expense</b>	<u><b>20,638,600</b></u>	<u><b>18,728,456</b></u>	<u><b>1,910,144</b></u>	<u><b>18,881,091</b></u>



## TRAVERSE CITY LIGHT AND POWER

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

### SCHEDULE OF REVENUES AND EXPENSES - BUDGET AND ACTUAL ( CONTINUED) FOR THE YEAR ENDED JUNE 30, 2007 (WITH COMPARATIVE BALANCES AT JUNE 30, 2006)

	2007 Amended Budget	2007 Actual	Positive (Negative) Variance	2006 Actual
<b>Distribution Expense</b>				
Operating and maintenance				
Labor	\$ 1,284,400	\$ 1,338,390	\$ (53,990)	\$ 1,251,106
Payroll taxes and fringes	566,600	603,556	(36,956)	624,404
Substation	43,000	101,471	(58,471)	97,986
Overhead lines	452,500	325,515	126,985	187,498
Underground lines	45,000	49,493	(4,493)	36,810
Transformers and devices	-	10,746	(10,746)	23,181
Poles and fixtures	-	7,772	(7,772)	24,116
Electric meters	20,000	9,728	10,272	5,977
Conductors and devices	-	509	(509)	726
Services	3,000	322	2,678	773
Street lighting	13,000	39,012	(26,012)	23,553
Plants and structures	54,000	70,514	(16,514)	71,928
Professional development	100,000	69,154	30,846	33,106
Office supplies	4,500	6,711	(2,211)	4,155
Utilities	87,300	79,008	8,292	94,668
Equipment rental	185,000	138,983	46,017	132,746
Equipment fuel	47,000	39,380	7,620	40,667
Radio equipment	3,000	3,697	(697)	1,394
Small tools	20,000	15,077	4,923	15,126
Miscellaneous	34,500	44,829	(10,329)	44,949
<b>Total distribution expense</b>	<b>2,962,800</b>	<b>2,953,867</b>	<b>8,933</b>	<b>2,714,869</b>
<b>Transmission Expense</b>				
Operating and maintenance				
MISO	-	6,331	(6,331)	-
Kalkaska combustion turbine	-	26	(26)	-
Transmission expense	5,000	88,460	(83,460)	4,997
<b>Total transmission expense</b>	<b>5,000</b>	<b>94,817</b>	<b>(89,817)</b>	<b>4,997</b>

# TRAVERSE CITY LIGHT AND POWER

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

## SCHEDULE OF REVENUES AND EXPENSES - BUDGET AND ACTUAL ( CONTINUED)

FOR THE YEAR ENDED JUNE 30, 2007

(WITH COMPARATIVE BALANCES AT JUNE 30, 2006)

	<u>2007 Amended Budget</u>	<u>2007 Actual</u>	<u>Positive (Negative) Variance</u>	<u>2006 Actual</u>
<b>Customer Accounting Expense</b>				
Salaries	\$ 135,600	\$ 138,944	\$ (3,344)	\$ 210,477
Meter reading	92,700	92,470	230	91,063
Payroll taxes and fringes	81,700	82,013	(313)	79,918
Office supplies	2,500	1,933	567	2,508
Postage	33,500	22,853	10,647	29,595
Stationary and printing	12,500	9,105	3,395	7,215
Equipment rental	4,500	5,700	(1,200)	-
Professional and contractual	10,000	13,399	(3,399)	4,425
Uncollectible accounts	15,000	27,165	(12,165)	29,826
Collection expense	1,500	1,273	227	(105)
Data processing	48,200	20,150	28,050	20,555
Professional development	1,800	1,342	458	448
Miscellaneous	1,850	1,340	510	17,235
<b>Total customer accounting expense</b>	<u>441,350</u>	<u>417,687</u>	<u>23,663</u>	<u>493,160</u>
<b>Public Service Expense</b>				
Public service information	<u>320,900</u>	<u>234,293</u>	<u>86,607</u>	<u>262,234</u>

# TRAVERSE CITY LIGHT AND POWER

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

## SCHEDULE OF REVENUES AND EXPENSES - BUDGET AND ACTUAL (CONCLUDED)

FOR THE YEAR ENDED JUNE 30, 2007

(WITH COMPARATIVE BALANCES AT JUNE 30, 2006)

	2007 Amended Budget	2007 Actual	Postive (Negative) Variance	2006 Actual
<b>General Administration Expense</b>				
Salaries	\$ 445,000	\$ 523,540	\$ (78,540)	\$ 424,010
Payroll taxes and fringes	159,200	186,965	(27,765)	158,858
Professional development	38,500	31,295	7,205	19,312
Office supplies	7,500	27,119	(19,619)	8,145
Fees and per diems	45,000	104,057	(59,057)	81,128
Special services	102,000	106,600	(4,600)	106,231
Legal fees	75,000	54,581	20,419	59,811
Utilities	6,800	7,121	(321)	7,537
Rent	4,000	194	3,806	521
Miscellaneous	14,000	7,888	6,112	15,203
<b>Total general administration expense</b>	<b>897,000</b>	<b>1,049,360</b>	<b>(152,360)</b>	<b>880,756</b>
<b>Other expenses</b>				
Grant expense	25,000	234,355	(209,355)	213,029
Insurance - general	165,000	148,703	16,297	165,618
Depreciation and amortization	1,450,000	1,539,177	(89,177)	1,519,785
City fee	1,502,000	1,478,700	23,300	1,337,048
Interest expense	-	-	-	185
<b>Total other expenses</b>	<b>3,142,000</b>	<b>3,400,935</b>	<b>(258,935)</b>	<b>3,235,665</b>
<b>Special item expense</b>				
Hydrodam impairment	-	1,535,899	(1,535,899)	-
Insurance settlement	100,000	47,481	52,519	-
Plant decommissioning	-	-	-	190,392
<b>Total special item expense</b>	<b>100,000</b>	<b>1,583,380</b>	<b>(1,483,380)</b>	<b>190,392</b>
<b>Total expenses</b>	<b>28,507,650</b>	<b>28,462,795</b>	<b>44,855</b>	<b>26,663,164</b>
<b>Change in net assets</b>	<b>\$ 1,498,350</b>	<b>\$ 3,241,898</b>	<b>\$ 1,653,838</b>	<b>\$ 1,004,515</b>





*Vredeveld Haefner LLC*

CPA's and Consultants  
4001 Granada Ct.  
Grand Rapids, MI 49534  
FAX (616) 828-0307

Douglas J. Vredeveld, CPA  
(616) 446-7474

Peter S. Haefner, CPA  
(616) 460-9388

**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 13, 2007

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

We have audited the financial statements of Traverse City Light and Power (a component unit of the City of Traverse City, Michigan) (the "Department") as of and for the year ended June 30, 2007, and have issued our report thereon dated December 13, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the Department's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Department's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Department's internal control over financial reporting.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Department's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Department's financial statements that is more than inconsequential will not be prevented or detected by the Department's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Department's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

## **Compliance and Other Matters**

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

This report is intended solely for the information and use of management, the Light and Power Board, the City Commission, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*Wredavold Haefner LLC*