

# **Traverse City Light and Power**

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

## **Financial Statements**

**For the Fiscal Year Ended  
June 30, 2010**

# TRAVERSE CITY LIGHT AND POWER

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

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**INDEPENDENT AUDITORS' REPORT**

December 29, 2010

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

We have audited the accompanying financial statements of the *Traverse City Light and Power* (the "Department"), a component unit of the City of Traverse City, Michigan, as of and for the year ended June 30, 2010, which collectively comprise the Department's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Department's management. 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 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 opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Department as of June 30, 2010, and the changes in financial position and cash flows, thereof 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 our report dated December 29, 2010, on our consideration of the Department's internal control over financial reporting and 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 3-5 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. 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 schedules of revenues and expenditures – budget to 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 subject to the procedures applied in the audit of the basic financial statements, and, accordingly, we express no opinion on it.

A handwritten signature in black ink that reads "Lehmann Johnson". The signature is written in a cursive, flowing style.

## **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, 2010. 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. Fund financial statements
2. Notes to the financial statements
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 two proprietary funds (Enterprise Funds). The Light and Power Fund and the Fiber Fund, both of which are considered major for reporting purposes.

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

The *Statement of Net Assets* 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 *Statement of Revenues, Expenses and Changes in Net Assets* presents 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, revenues and expenses are reported in this statement for some items that will only result in cash flows in past or future fiscal periods (for instance, depreciation expense associated with capital assets).

The Department is principally supported by charges for providing electrical and 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 fund as required by the City Charter. Budgetary comparison schedules have been provided herein to demonstrate compliance with that charter provision.

The Department does not maintain any governmental or fiduciary funds.

**Notes to the financial statements.** The notes provide additional information that is essential to 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*, which includes this management discussion and analysis and schedules following the notes to financial statements.

### 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 \$71,000,000 at the close of the most recent fiscal year, June 30, 2010.

By far, the largest portion of net assets 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 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>2010</u>	<u>2009</u>
<b>Business-type Activities</b>		
Current and other assets	\$ 35,817,437	\$ 32,342,557
Capital assets	<u>38,208,732</u>	<u>38,900,738</u>
Total assets	74,026,169	71,243,295
Long-term liabilities outstanding	326,002	327,335
Other liabilities	<u>2,680,896</u>	<u>2,576,566</u>
Total liabilities	<u>3,006,898</u>	<u>2,903,901</u>
Net assets		
Invested in capital assets	38,208,732	38,900,738
Unrestricted	<u>32,810,539</u>	<u>29,438,656</u>
<b>Total net assets</b>	<b><u>\$ 71,019,271</u></b>	<b><u>\$ 68,339,394</u></b>

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

	<u>June 30</u>	
	<u>2010</u>	<u>2009</u>
<b>Business-type Activities</b>		
Operating revenue	\$ 27,214,578	\$ 28,530,645
Operating expenses	25,436,123	25,114,268
Nonoperating revenue (expenses) – net	<u>901,422</u>	<u>997,455</u>
Increase in net assets	2,679,877	4,413,832
Net assets – beginning of year	<u>68,339,394</u>	<u>63,925,562</u>
<b>Net assets – end of year</b>	<b><u>\$ 71,019,271</u></b>	<b><u>\$ 68,339,394</u></b>

## Business-type activities

The overall financial position of the Department remained strong in 2009-2010. There are no outstanding debt obligations except for the commitment through the power supply contract with MPPA to reimburse MPPA for debt service costs relating to the Campbell, Belle River and Kalkaska Combustion Turbine generation plants.

## Revenue

Residential sales were down 2.6% over last year, commercial sales were down 3.8% and industrial sales were down 5.6% contributing to the majority of a \$1,316,067 decrease in operating revenues. Management attributes this decrease to the local downturn in the economy.

## Expenses

In fiscal year 2009-2010, operating expenses increased approximately \$322,000 from fiscal year 2008-2009 due in large part to increased distribution maintenance expenses, energy conservation efforts from Public Act 295 requirements, and increased depreciation expense as a result of a new transmission substation being placed into service during the year.

## Capital asset and debt administration

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

	<u>June 30</u>	
	<u>2010</u>	<u>2009</u>
Land and land improvements	\$ 806,695	\$ 819,327
Construction in progress	82,980	3,508,006
Buildings and improvements	4,012,649	4,009,603
Equipment and distribution system	51,432,227	49,728,874
Accumulated depreciation	<u>(18,125,819)</u>	<u>(19,165,072)</u>
<b>Total</b>	<b><u>\$ 38,208,732</u></b>	<b><u>\$ 38,900,738</u></b>

Additional information about capital assets is provided in Notes 3 and 8 to the financial statements.

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

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

A rate increase was not budgeted for fiscal year 2010-11; however, future generation needs and recently passed legislation requiring 10% renewable energy generation by 2015 will impact the Departments capital plans.

Due to the uncertainty of the local and state economy, the Department maintained a status quo budget in 2010-2011 allowing for modest increases for inflation in revenues and expenses.

## 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 Tim Arends, Controller, Traverse City Light and Power, 1131 Hastings Street, Traverse City, MI 49686.



## **BASIC FINANCIAL STATEMENTS**

# TRAVERSE CITY LIGHT AND POWER

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

## STATEMENT OF NET ASSETS JUNE 30, 2010

ASSETS	<b>Light and Power Fund</b>	<b>Fiber Fund</b>	<b>Total</b>
<b>Current assets</b>			
Cash and cash equivalents	\$ 14,649,637	\$ -	\$ 14,649,637
Investments	14,337,962	-	14,337,962
Receivables			
Customer, less allowances of \$212,309 for uncollectible accounts (Light and Power Fund)	3,144,379	-	3,144,379
Accrued interest	30,892	-	30,892
Taxes	13,649	-	13,649
Other	1,026,999	-	1,026,999
Due from primary government	65,156	-	65,156
Due from other funds	130,500	-	130,500
Inventories	1,606,134	-	1,606,134
Prepaid expenses	32,483	-	32,483
<b>Total current assets</b>	<b>35,037,791</b>	<b>-</b>	<b>35,037,791</b>
<b>Long-term assets</b>			
Other postemployment benefit asset	144,275	-	144,275
Long-term advances - due from primary government	635,371	-	635,371
Land and land improvements	806,695	-	806,695
Construction in progress	49,239	33,741	82,980
Capital assets being depreciated, net	35,826,489	1,492,568	37,319,057
<b>Total long-term assets</b>	<b>37,462,069</b>	<b>1,526,309</b>	<b>38,988,378</b>
<b>Total assets</b>	<b>\$ 72,499,860</b>	<b>\$ 1,526,309</b>	<b>\$ 74,026,169</b>

# TRAVERSE CITY LIGHT AND POWER

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

## STATEMENT OF NET ASSETS JUNE 30, 2010

LIABILITIES AND NET ASSETS	Light and Power Fund	Fiber Fund	Total
<b>Current liabilities</b>			
Accounts payable	\$ 2,066,896	\$ 7,380	\$ 2,074,276
Accrued expenses and other liabilities	349,940	-	349,940
Customer deposits	105,472	-	105,472
Unearned revenue	-	12,100	12,100
Due to other funds	-	130,500	130,500
Due to primary government	-	8,608	8,608
Compensated absences	6,321	-	6,321
<b>Total current liabilities</b>	<b>2,528,629</b>	<b>158,588</b>	<b>2,687,217</b>
<b>Long-term liabilities</b>			
Compensated absences, net of current portion	319,681	-	319,681
<b>Total liabilities</b>	<b>2,848,310</b>	<b>158,588</b>	<b>3,006,898</b>
<b>Net assets (deficit)</b>			
Invested in capital assets	36,682,423	1,526,309	38,208,732
Unrestricted (deficit)	32,969,127	(158,588)	32,810,539
<b>Total net assets</b>	<b>69,651,550</b>	<b>1,367,721</b>	<b>71,019,271</b>
<b>Total liabilities and net assets</b>	<b>\$ 72,499,860</b>	<b>\$ 1,526,309</b>	<b>\$ 74,026,169</b>

# TRAVERSE CITY LIGHT AND POWER

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

## STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS FOR THE YEAR ENDED JUNE 30, 2010

	<b>Light and Power Fund</b>	<b>Fiber Fund</b>	<b>Total</b>
<b>Operating revenues</b>			
Charges for services	\$ 25,260,439	\$ 167,692	\$ 25,428,131
MISO income	1,601,533	-	1,601,533
Other	180,450	4,464	184,914
<b>Total operating revenues</b>	<b>27,042,422</b>	<b>172,156</b>	<b>27,214,578</b>
<b>Operating expenses</b>			
Generation	16,737,702	-	16,737,702
Distribution	3,005,425	-	3,005,425
Transmission	186,163	-	186,163
Customer accounting	583,173	-	583,173
Public service	421,840	-	421,840
General administration	1,241,819	-	1,241,819
Fiber	-	86,374	86,374
Other	80,809	-	80,809
City fee	1,374,844	8,608	1,383,452
Depreciation and amortization	1,624,621	84,745	1,709,366
<b>Total operating expenses</b>	<b>25,256,396</b>	<b>179,727</b>	<b>25,436,123</b>
<b>Operating income (loss)</b>	<b>1,786,026</b>	<b>(7,571)</b>	<b>1,778,455</b>
<b>Non-operating revenues (expenses)</b>			
State grant - other	21,176	-	21,176
Rental income	67,638	-	67,638
Reimbursements	214,759	53,486	268,245
Interest income	371,156	-	371,156
Change in fair value of investments	186,054	-	186,054
Loss on sale of capital asset	(12,847)	-	(12,847)
<b>Total non-operating revenues</b>	<b>847,936</b>	<b>53,486</b>	<b>901,422</b>
Change in net assets	2,633,962	45,915	2,679,877
Net assets, beginning of year	67,017,588	1,321,806	68,339,394
<b>Net assets, end of year</b>	<b>\$ 69,651,550</b>	<b>\$ 1,367,721</b>	<b>\$ 71,019,271</b>

# 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, 2010

	<b>Light and Power Fund</b>	<b>Fiber Fund</b>	<b>Total</b>
<b>Cash flows from operating activities</b>			
Cash received from customers	\$ 26,834,724	\$ 172,072	\$ 27,006,796
Cash payments to employees	(4,540,853)	(72,563)	(4,613,416)
Cash payments to suppliers for goods and services	(17,628,498)	(7,071)	(17,635,569)
Cash payments of city fee	(1,389,384)	(5,920)	(1,395,304)
<b>Net cash provided by operating activities</b>	<b>3,275,989</b>	<b>86,518</b>	<b>3,362,507</b>
<b>Cash flows from non-capital financing activities</b>			
Long-term advance from primary government	61,898	-	61,898
Cash payments to primary government	(65,156)	-	(65,156)
Cash payments from other governments	21,176	-	21,176
Cash payments to other funds	-	(9,424)	(9,424)
Cash payments from other funds	9,424	-	9,424
Customer deposits paid	(413)	-	(413)
Rental income received	67,638	-	67,638
Reimbursements received	214,759	53,486	268,245
<b>Net cash provided by non-capital financing activities</b>	<b>309,326</b>	<b>44,062</b>	<b>353,388</b>
<b>Cash flows from capital and related financing activities</b>			
Purchase of capital assets	(899,627)	(130,580)	(1,030,207)
<b>Cash flows from investing activities</b>			
Sale of investments	1,550,537	-	1,550,537
Interest and dividends received	574,587	-	574,587
<b>Net cash provided by investing activities</b>	<b>2,125,124</b>	<b>-</b>	<b>2,125,124</b>
Net increase in cash and cash equivalents	4,810,812	-	4,810,812
Cash and cash equivalents, beginning of year	9,838,825	-	9,838,825
<b>Cash and cash equivalents, end of year</b>	<b>\$ 14,649,637</b>	<b>\$ -</b>	<b>\$ 14,649,637</b>

# 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, 2010

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	<b>Light and Power Fund</b>	<b>Fiber Fund</b>	<b>Total</b>
<b>Cash flows from operating activities</b>			
Operating income (loss)	\$ 1,786,026	\$ (7,571)	\$ 1,778,455
Adjustments to reconcile operating income (loss) to net cash provided by operating activities			
Depreciation and amortization	1,624,621	84,745	1,709,366
Changes in operating assets and liabilities which (used) provided cash			
Receivables	(207,698)	38,412	(169,286)
Inventories	79,445	-	79,445
Prepaid expenses	(12,796)	-	(12,796)
Accounts payable	(64,516)	6,740	(57,776)
Due to other governments	(14,540)	2,688	(11,852)
Accrued expenses and other liabilities	231,055	-	231,055
Unearned revenue	-	(38,496)	(38,496)
Compensated absences	(1,333)	-	(1,333)
Other postemployment benefit asset	(144,275)	-	(144,275)
<b>Net cash provided by operating activities</b>	<b>\$ 3,275,989</b>	<b>\$ 86,518</b>	<b>\$ 3,362,507</b>

# 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 2010, the city fee was \$1,383,452.

#### 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*. Accordingly, the Department is a discretely presented component unit in the City's financial statements and is an integral part of that reported 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 include 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 "Non-operating revenues (expenses)" section of the Statements of Revenues, Expenses and Changes in Net Assets".

State statutes authorize the Department to invest in:

- a. Bond, securities, other obligations and repurchase agreements of the United States, or an agency or instrumentality of the United States.

# TRAVERSE CITY LIGHT AND POWER

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

## NOTES TO FINANCIAL STATEMENTS

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- b. Certificates of deposit, savings accounts, deposit accounts, or depository receipts of a qualified financial institution.
- 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 acceptance of United States banks.
- e. Obligations of the State of Michigan and its political subdivisions that, at the time of purchase are rated as investment grade by at least one standard rating service.
- f. Mutual funds registered under the Investment Company Act of 1940 with the authority to purchase only investment vehicles that are legal for direct investment by a public corporation.
- g. External investment pools as authorized by Public Act 20 as amended.
- h. Long-term or perpetual trust funds consisting of money and royalties or money derived from oil and gas exploration on property or mineral rights owned by the Department has the same authority to invest the assets as is authorized by Public Act 314 as amended.

### Inventories

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

### 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.

### Operating Revenue versus Non-operating Revenue

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



# TRAVERSE CITY LIGHT AND POWER

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

## 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. The Fiber Fund was created in 2008 with an initial capital contribution from the Light and Power Enterprise Fund.

### 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.

## 2. CASH DEPOSITS AND INVESTMENTS

The Department's cash and cash equivalents, and investments at June 30, 2010 are composed of the following:

	<u>Cash and cash Equivalents</u>	<u>Investments</u>	<u>Totals</u>
Deposits	\$ 14,649,437	\$ 4,486,020	\$ 19,135,457
Investments	-	9,851,942	9,851,942
Petty cash	<u>200</u>	<u>-</u>	<u>200</u>
<b>Total</b>	<b><u>\$14,649,637</u></b>	<b><u>\$ 14,337,962</u></b>	<b><u>\$ 28,987,599</u></b>

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.

# TRAVERSE CITY LIGHT AND POWER

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

## NOTES TO FINANCIAL STATEMENTS

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The Department chooses to disclose its investments by specifically identifying each. As of June 30, 2010, the Department's Michigan CLASS investment is rated by Standard & Poor's. The Department had the following investments:

<u>Investment</u>	<u>Maturity</u>	<u>Fair Value</u>	<u>Rating</u>
US Treasury note	09/30/2010	\$ 1,004,450	AAA
US Treasury note	09/20/2011	1,006,880	AAA
US Treasury note	12/31/2011	1,007,300	AAA
US Treasury note	01/15/2013	506,720	AAA
US Treasury note	04/15/2013	1,022,730	AAA
US Treasury note	09/30/2013	106,469	AAA
US Treasury note	11/12/2013	250,157	AAA
US Treasury note	09/30/2014	1,032,890	AAA
US Treasury note	12/31/2014	1,041,560	AAA
US Treasury note	12/31/2016	948,654	AAA
US Treasury note	02/15/2020	422,624	AAA
MPPA Investments Pool	Various	1,498,495	Unrated
Michigan CLASS	N/A	<u>3,013</u>	AAAm
		<u><b>\$ 9,851,942</b></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

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

## NOTES TO FINANCIAL STATEMENTS

*Custodial Credit Risk – Investments.* For investments, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Department will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. State law does not require and the Department does not have a policy for investment custodial credit risk. Of the above \$9,851,942 of investments at June 30, 2010, the Department has a custodial credit risk exposure of \$8,350,434 because the related securities are uninsured, unregistered and held by the government’s brokerage firm which is also the counterparty for these particular securities. Of the above investment pools the Department’s custodial credit risk exposure cannot be determined because the Department does not own specifically identifiable securities.

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

### 3. CAPITAL ASSETS

At June 30, 2010 capital assets consist of the following:

	<b>Beginning Balance</b>	<b>Increases</b>	<b>Decreases</b>	<b>Ending Balance</b>
Capital assets not being depreciated				
Land and land improvements	\$ 819,327	\$ 215	\$ 12,847	\$ 806,695
Construction in progress	3,508,006	467,044	3,892,070	82,980
Total capital assets not being depreciated	4,327,333	467,259	3,904,917	889,675
Capital assets being depreciated				
Buildings and improvements	4,009,603	7,204	4,158	4,012,649
Equipment and distribution system	48,175,001	4,350,975	2,744,461	49,781,515
Fiber system	1,553,873	96,839	-	1,650,712
Total capital assets being depreciated	53,738,477	4,455,018	2,748,619	55,444,876
Less accumulated depreciation for				
Buildings and improvements	743,164	120,272	4,158	859,278
Equipment and distribution system	18,348,509	1,504,349	2,744,461	17,108,397
Fiber system	73,399	84,745	-	158,144
Total accumulated depreciation	19,165,072	1,709,366	2,748,619	18,125,819
Total capital assets being depreciated, net	34,573,405	2,745,652	-	37,319,057
<b>Total capital assets, net</b>	<b>\$ 38,900,738</b>	<b>\$ 3,212,911</b>	<b>\$ 3,904,917</b>	<b>\$38,208,732</b>

# TRAVERSE CITY LIGHT AND POWER

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

## NOTES TO FINANCIAL STATEMENTS

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### 4. LONG-TERM DEBT

Long-term debt at June 30, 2010 consists of the following:

	<u>Compensated Absences</u>
Beginning balance, July 1, 2009	\$ 327,335
Reductions	<u>(1,333)</u>
<b>Ending balance, June 30, 2010</b>	<b><u>\$ 326,002</u></b>
<b>Due within one year</b>	<b><u>\$ 6,321</u></b>

### 5. POWER SUPPLY PURCHASE

In 1990, the Department entered into a 20-year power supply and capacity purchase agreement with the Michigan Public Power Agency ("MPPA") which will terminate on December 31, 2010. The Department has purchased all of its deficient capacity from the MPPA during the term of the agreement.

The Department, along with other Michigan municipal utilities, is a member of the MPPA. The agency was formed to acquire interests in certain electric generating plants and related transmission lines to service its members. 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 MPPA's 4.8% interest in the Campbell 3 plant and 4.53% of the energy generated by MPPA's 18.81% 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.

For the year ended June 30, 2010, Traverse City Light and Power recognized expenses totaling \$16,075,006, 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 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

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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 2010 costs adjusted for inflation. The total estimated future operating costs, which do not include the annual debt payments, are as follows:

<u>Year Ended December 31</u>	<u>Operating Costs</u>
2011	\$ 6,166,192
2012	6,351,177
2013	6,541,713
2014	4,134,257
2015	4,258,285
2016-2020	17,798,117
2021-2025	11,768,037
2026-2027	<u>5,216,297</u>
	<b><u>\$ 62,234,075</u></b>

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

<u>Year Ended December 31</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2011	\$ 2,360,782	\$ 1,750,396	\$ 4,111,178
2012	2,470,034	1,640,981	4,111,015
2013	2,592,937	1,519,905	4,112,842
2014	2,705,292	1,391,549	4,096,841
2015	2,808,932	1,251,511	4,060,443
2016-2020	9,993,413	4,265,335	14,258,748
2021-2025	7,521,690	2,167,306	9,688,996
2026-2027	<u>3,590,070</u>	<u>285,108</u>	<u>3,875,178</u>
	<b><u>\$ 34,043,150</u></b>	<b><u>\$ 14,272,091</u></b>	<b><u>\$ 48,315,241</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 \$1,498,495 as of June 30, 2010.

In December 2009, the Department entered into a 20-year purchase power agreement with Heritage Stoney Corners Wind Farm I, LLC to purchase up to 10 megawatt of electric energy and all associated renewable energy credits.

# TRAVERSE CITY LIGHT AND POWER

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

## NOTES TO FINANCIAL STATEMENTS

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### 6. RETIREMENT PLAN

Through the City, the Department participates in the Municipal Employees' Retirement System (MERS) defined benefit plan that covers substantially all employees. Annual contributions to the plan are based on actuarial studies performed annually. The Department's contributions to the plan during the year ended June 30, 2010 was \$585,640. The required disclosures related to the plan are provided in the City's financial statements.

### 7. POSTEMPLOYMENT BENEFITS

In addition to the pension benefits described above, the Department provides postretirement health insurance premiums in accordance with its personnel policies and union agreements. The benefit includes payment of the retirees' premiums until they reach the age of Medicare eligibility. The Department paid \$144,275 for 31 participants in 2010.

The Department participates in the City's Municipal Employees' Retirement System retiree health funding vehicle that covers substantially all employees. Annual contributions to the plan are based on actuarial studies performed bi-annually. The Department's contribution to the plan for the fiscal year ended June 30, 2010 was \$201,470. The required disclosures related to the plan are provided in the City's financial statements.

### 8. COMMITMENTS

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

#### Property

During fiscal 2003-04, the Department entered into an agreement with Maritime Heritage Alliance to lease a Department owned coal dock. The lease requires annual rental payments of \$1. Under the lease agreement, the lessee must maintain the property, carry adequate insurance and pay all assessments and property taxes on the property. The fair value of the lease is not considered by management to be significant in any one year and, therefore, is not recorded as contributed revenue and lease expense. This lease expires July 2023.

### 9. 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 \$4,032,028 within unrestricted net assets at June 30, 2010 to cover the potential impact of current and future uninsured claims.

# TRAVERSE CITY LIGHT AND POWER

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

## NOTES TO FINANCIAL STATEMENTS

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### 10. 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.

### 11. DESIGNATIONS OF NET ASSETS

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

	<u>June 30, 2010</u>
Emergencies	\$ 100,056
Uninsured claims	4,032,028
Capital expansion	<u>9,225,000</u>
<b>Total</b>	<b><u>\$13,357,084</u></b>

### 12. SUBSEQUENT EVENTS

In September 2010, the Department entered into two 5-year agreements with the Lansing Board of Water & Light ("LBWL") to commence January 1, 2011. The purchase power agreement allows for the purchase of a minimum of 10 megawatt of electric energy up to a maximum of 45 megawatt to replace its deficient energy needs from the expired agreement with MPPA. The estimated cost for the 5-year term is \$40,000,000. The energy service agency agreement provides for LBWL to act as the Department's agent with Midwest ISO ("MISO"). LBWL will enter into third party contracts to purchase energy and sell surplus energy into the MISO daily and hourly markets. The estimated cost for the 5-year term is \$300,000.

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## **SUPPLEMENTARY INFORMATION**



## TRAVERSE CITY LIGHT AND POWER

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

### SCHEDULE OF CAPITAL ASSETS AND DEPRECIATION LIGHT AND POWER FUND FOR THE YEAR ENDED JUNE 30, 2010

	Capital Assets - Cost			Balance at June 30, 2010
	Balance at June 30, 2009	Additions/ Transfers	Deletions/ Transfers	
Land	\$ 491,806	\$ -	\$ 12,847	\$ 478,959
Land - coal dock	245,633	-	-	245,633
Land improvements	81,888	215	-	82,103
<b>Total land and land improvements</b>	<b>819,327</b>	<b>215</b>	<b>12,847</b>	<b>806,695</b>
Buildings and improvements				
Keystone plant	3,191	-	3,191	-
Brown Bridge	2,701	-	967	1,734
Distribution plant	3,913,869	6,900	-	3,920,769
Office structures	40,574	304	-	40,878
Other buildings	49,268	-	-	49,268
<b>Total buildings</b>	<b>4,009,603</b>	<b>7,204</b>	<b>4,158</b>	<b>4,012,649</b>
Equipment and distribution system				
Union St. Dam	24,010	-	-	24,010
Keystone plant	58,130	-	57,740	390
Brown Bridge	145,372	-	26,840	118,532
Wind generation unit	763,860	21,756	-	785,616
Transmission and distribution	45,995,397	4,180,260	2,016,720	48,158,937
General	1,188,232	148,959	643,161	694,030
<b>Total equipment and distribution system</b>	<b>48,175,001</b>	<b>4,350,975</b>	<b>2,744,461</b>	<b>49,781,515</b>
<b>Construction in progress</b>	<b>3,508,006</b>	<b>429,206</b>	<b>3,887,973</b>	<b>49,239</b>
<b>Total</b>	<b>\$ 56,511,937</b>	<b>\$ 4,787,600</b>	<b>\$ 6,649,439</b>	<b>\$ 54,650,098</b>

Balance at June 30, 2009	Accumulated Depreciation		Balance at June 30, 2010	Capital Assets - Net
	Current Depreciation	Deletions		Balance at June 30, 2010
\$ -	\$ -	\$ -	\$ -	\$ 478,959
-	-	-	-	245,633
-	-	-	-	82,103
-	-	-	-	<b>806,695</b>
3,191	-	3,191	-	-
2,488	52	967	1,573	161
729,862	117,520	-	847,382	3,073,387
3,928	1,222	-	5,150	35,728
3,695	1,478	-	5,173	44,095
<b>743,164</b>	<b>120,272</b>	<b>4,158</b>	<b>859,278</b>	<b>3,153,371</b>
18,429	720	-	19,149	4,861
58,055	11	57,741	325	65
116,047	3,556	26,840	92,763	25,769
309,366	23,242	-	332,608	453,008
17,038,761	1,413,486	2,016,719	16,435,528	31,723,409
807,851	63,334	643,161	228,024	466,006
<b>18,348,509</b>	<b>1,504,349</b>	<b>2,744,461</b>	<b>17,108,397</b>	<b>32,673,118</b>
-	-	-	-	<b>49,239</b>
<b>\$ 19,091,673</b>	<b>\$ 1,624,621</b>	<b>\$ 2,748,619</b>	<b>\$ 17,967,675</b>	<b>\$ 36,682,423</b>

## TRAVERSE CITY LIGHT AND POWER

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

### SCHEDULE OF CAPITAL ASSETS AND DEPRECIATION FIBER FUND FOR THE YEAR ENDED JUNE 30, 2010

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	Capital Assets - Cost			Balance at June 30, 2010
	Balance at June 30, 2009	Additions/ Transfers	Deletions/ Transfers	
<b>Equipment and distribution system</b>				
Overhead	\$ 889,991	\$ 96,839	\$ -	\$ 986,830
Underground	221,587	-	-	221,587
Termination boxes	346,392	-	-	346,392
Wireless equipment	51,725	-	-	51,725
Other property	44,178	-	-	44,178
<b>Total equipment and distribution system</b>	<b>1,553,873</b>	<b>96,839</b>	<b>-</b>	<b>1,650,712</b>
<b>Construction in progress</b>	<b>-</b>	<b>37,838</b>	<b>4,097</b>	<b>33,741</b>
<b>Total</b>	<b>\$ 1,553,873</b>	<b>\$ 134,677</b>	<b>\$ 4,097</b>	<b>\$ 1,684,453</b>

<b>Balance at June 30, 2009</b>	<b>Accumulated Depreciation</b>		<b>Balance at June 30, 2010</b>	<b>Capital Assets - Net</b>
	<b>Current Depreciation</b>	<b>Deletions</b>		<b>Balance at June 30, 2010</b>
\$ 42,439	\$ 49,342	\$ -	\$ 91,781	\$ 895,049
10,235	11,079	-	21,314	200,273
15,800	17,320	-	33,120	313,272
2,586	2,586	-	5,172	46,553
2,339	4,418	-	6,757	37,421
<b>73,399</b>	<b>84,745</b>	<b>-</b>	<b>158,144</b>	<b>1,492,568</b>
-	-	-	-	<b>33,741</b>
<b>\$ 73,399</b>	<b>\$ 84,745</b>	<b>\$ -</b>	<b>\$ 158,144</b>	<b>\$ 1,526,309</b>

## TRAVERSE CITY LIGHT AND POWER

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

### SCHEDULE OF REVENUES AND EXPENSES - BUDGET AND ACTUAL LIGHT AND POWER FUND FOR THE YEAR ENDED JUNE 30, 2010

	Amended Budget	Actual	Positive (Negative) Variance
<b>Operating revenues - sales</b>			
Residential	\$ 5,235,000	\$ 4,799,781	\$ (435,219)
Commercial	13,650,000	12,490,638	(1,159,362)
Industrial	8,056,000	7,467,368	(588,632)
Public authority	236,000	226,101	(9,899)
Street lighting	198,000	193,937	(4,063)
Yard lights	82,000	82,614	614
	<b>27,457,000</b>	<b>25,260,439</b>	<b>(2,196,561)</b>
<b>Other operating revenues</b>			
Forfeited discounts	60,000	47,627	(12,373)
Merchandise and jobbing	140,000	110,665	(29,335)
Sale of scrap	7,500	10,666	3,166
Recovery of bad debts	500	-	(500)
MISO income	1,844,000	1,601,533	(242,467)
Miscellaneous	30,000	11,492	(18,508)
	<b>2,082,000</b>	<b>1,781,983</b>	<b>(300,017)</b>
<b>Non-operating revenues</b>			
State grant - other	25,000	21,176	(3,824)
Rental income	41,000	31,976	(9,024)
Pole rental income	34,850	35,662	812
Reimbursements	325,350	214,759	(110,591)
Interest income	325,000	371,156	46,156
Change in fair market value of investments	-	186,054	186,054
	<b>751,200</b>	<b>860,783</b>	<b>109,583</b>
<b>Total revenues</b>	<b>30,290,200</b>	<b>27,903,205</b>	<b>(2,386,995)</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) LIGHT AND POWER FUND FOR THE YEAR ENDED JUNE 30, 2010

	<u>Amended Budget</u>	<u>Actual</u>	<u>Positive (Negative) Variance</u>
<b>Generation expense</b>			
Wind generator - M-72 Traverse	\$ 40,000	\$ 38,318	\$ (1,682)
Wind farm development	-	33,132	33,132
Kalkaska combustion turbine	250,000	218,900	(31,100)
Hydrodams			
Brown bridge dam	15,000	4,363	(10,637)
Sabin dam	4,000	2,896	(1,104)
Boardman dam	5,000	3,289	(1,711)
Purchased power			
Power pool	7,500,000	6,461,761	(1,038,239)
Kalkaska combustion turbine	4,000,000	3,657,141	(342,859)
Campbell 3	4,132,000	3,223,417	(908,583)
Belle River	2,750,000	2,732,687	(17,313)
Coal dock	10,000	8,971	(1,029)
Trap and transfer	2,500	22	(2,478)
Union street fish ladder	700	162	(538)
Professional development	15,000	1,075	(13,925)
Operation supplies	155,300	340,014	184,714
Communications	4,900	5,164	264
Safety	16,000	5,741	(10,259)
Miscellaneous	15,500	649	(14,851)
<b>Total generation expenses</b>	<b><u>18,915,900</u></b>	<b><u>16,737,702</u></b>	<b><u>(2,178,198)</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) LIGHT AND POWER FUND FOR THE YEAR ENDED JUNE 30, 2010

	<u>Amended Budget</u>	<u>Actual</u>	<u>Positive (Negative) Variance</u>
<b>Distribution expense</b>			
Supervision and engineering	\$ 475,000	\$ 613,505	\$ 138,505
Substation	170,000	192,349	22,349
Overhead lines	300,000	425,093	125,093
Load and dispatching	580,000	540,880	(39,120)
Underground lines	231,000	230,710	(290)
Customer installations	47,200	27,366	(19,834)
Electric meters	82,000	108,316	26,316
Street lighting	127,000	129,576	2,576
Plant and structures	246,500	280,603	34,103
Shop labor	111,000	125,548	14,548
Professional development	90,000	107,291	17,291
Operation supplies	50,400	81,315	30,915
Utilities	87,900	74,629	(13,271)
Safety	68,000	62,468	(5,532)
Miscellaneous	4,700	5,776	1,076
<b>Total distribution expense</b>	<u><b>2,670,700</b></u>	<u><b>3,005,425</b></u>	<u><b>334,725</b></u>
<b>Transmission expense</b>			
Supervision and engineering	25,700	13,882	(11,818)
Substation	12,700	18,126	5,426
Overhead lines	6,100	47,946	41,846
Load and dispatching	102,500	54,057	(48,443)
MISO	21,700	19,987	(1,713)
Miscellaneous	69,300	32,165	(37,135)
<b>Total transmission expense</b>	<u><b>238,000</b></u>	<u><b>186,163</b></u>	<u><b>(51,837)</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) LIGHT AND POWER FUND FOR THE YEAR ENDED JUNE 30, 2010

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	<b>Amended Budget</b>	<b>Actual</b>	<b>Positive (Negative) Variance</b>
<b>Customer accounting expense</b>			
Salaries	\$ 125,850	\$ 138,378	\$ 12,528
Meter reading	124,150	128,022	3,872
Payroll taxes and fringes	161,500	134,642	(26,858)
Office supplies	4,700	4,085	(615)
Postage	36,200	37,920	1,720
Stationary and printing	9,600	7,946	(1,654)
Equipment rental	11,700	14,877	3,177
Professional and contractual	16,300	42,410	26,110
Uncollectible accounts	65,000	50,979	(14,021)
Collection expense	1,500	770	(730)
Data processing	20,000	15,253	(4,747)
Professional development	4,000	2,878	(1,122)
Miscellaneous	3,600	5,013	1,413
<b>Total customer accounting expense</b>	<b>584,100</b>	<b>583,173</b>	<b>(927)</b>
<b>Public service expense</b>			
Community investment fund	75,000	56,985	(18,015)
Energy audits	10,000	2,320	(7,680)
Public service information	436,000	362,535	(73,465)
<b>Total public service expense</b>	<b>521,000</b>	<b>421,840</b>	<b>(99,160)</b>



## TRAVERSE CITY LIGHT AND POWER

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

### SCHEDULE OF REVENUES AND EXPENSES - BUDGET AND ACTUAL (CONCLUDED) LIGHT AND POWER FUND FOR THE YEAR ENDED JUNE 30, 2010

	<u>Amended Budget</u>	<u>Actual</u>	<u>Positive (Negative) Variance</u>
<b>General administration expense</b>			
Salaries	\$ 665,000	\$ 672,886	\$ 7,886
Payroll taxes and fringes	284,400	188,585	(95,815)
Professional development	16,000	19,225	3,225
Professional and contractual	63,000	134,911	71,911
Office supplies	16,000	11,593	(4,407)
Fees and per diems	71,000	65,862	(5,138)
Special services	7,100	8,053	953
Legal fees	82,200	112,140	29,940
Utilities	8,000	9,292	1,292
Rent	-	581	581
Printing and publishing	13,300	8,225	(5,075)
Miscellaneous	9,700	10,466	766
<b>Total general administration expense</b>	<u>1,235,700</u>	<u>1,241,819</u>	<u>6,119</u>
<b>Other expenses</b>			
Insurance - general	110,000	80,809	(29,191)
City fee	1,498,200	1,374,844	(123,356)
Depreciation and amortization	1,600,000	1,624,621	24,621
Loss on sale of assets	-	12,847	12,847
<b>Total other expenses</b>	<u>3,208,200</u>	<u>3,093,121</u>	<u>(115,079)</u>
<b>Total expenses</b>	<u>27,373,600</u>	<u>25,269,243</u>	<u>(2,104,357)</u>
<b>Change in net assets</b>	<u>\$ 2,916,600</u>	<u>\$ 2,633,962</u>	<u>\$ (282,638)</u>

# TRAVERSE CITY LIGHT AND POWER

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

## SCHEDULE OF REVENUES AND EXPENSES - BUDGET AND ACTUAL FIBER FUND FOR THE YEAR ENDED JUNE 30, 2010

	<u>Amended Budget</u>	<u>Actual</u>	<u>Positive (Negative) Variance</u>
<b>Operating revenues - sales</b>			
Other sales	\$ 206,900	\$ 167,692	\$ (39,208)
<b>Other operating revenues</b>			
Miscellaneous	6,700	4,464	(2,236)
<b>Non-operating revenues</b>			
Reimbursements	7,300	53,486	46,186
<b>Total revenues</b>	<u>220,900</u>	<u>225,642</u>	<u>4,742</u>
<b>Fiber expenses</b>			
Supervision and engineering	66,250	35,170	(31,080)
Overhead	-	4,629	4,629
Underground	-	1,124	1,124
Termination boxes	-	20,389	20,389
Customer installations	-	12,279	12,279
Professional development	2,500	100	(2,400)
Miscellaneous	19,550	12,683	(6,867)
<b>Total fiber expenses</b>	<u>88,300</u>	<u>86,374</u>	<u>(1,926)</u>
<b>Other expenses</b>			
Insurance and bonds	1,350	-	(1,350)
City fee	10,650	8,608	(2,042)
Depreciation and amortization	79,900	84,745	4,845
<b>Total other expenses</b>	<u>91,900</u>	<u>93,353</u>	<u>1,453</u>
<b>Total expenses</b>	<u>180,200</u>	<u>179,727</u>	<u>(473)</u>
<b>Change in net assets</b>	<u>\$ 40,700</u>	<u>\$ 45,915</u>	<u>\$ 5,215</u>

## **INTERNAL CONTROL AND COMPLIANCE**

**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 29, 2010

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

We have audited the financial statements of the *Traverse City Light and Power* (the "Department", a component unit of the City of Traverse City, Michigan), as of and for the year ended June 30, 2010, and have issued our report thereon dated December 29, 2010. 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 opinion 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 *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, 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 the Board, management, federal and state awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in cursive script that reads "Lehmann Johnson".