

Traverse City Light and Power

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

Financial Statements

**For the Fiscal Year Ended
June 30, 2022**



Vredeveld Haefner LLC
CPAs and Consultants

TRAVERSE CITY LIGHT AND POWER

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

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INDEPENDENT AUDITORS' REPORT

December 23, 2022

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

Report on the Financial Statements

Opinions

We have audited the accompanying financial statements of Traverse City Light and Power, a Component Unit of the City of Traverse City, Michigan, as of and for the year ended June 30, 2022, and the related notes to the financial statements, which collectively comprise Traverse City Light and Power's basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of each major fund and the aggregate remaining fund information of Traverse City Light and Power, as of June 30, 2022, and the respective changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

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. We are required to be independent of Traverse City of Light and Power and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management for the Financial Statements

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Traverse City of Light and Power's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Traverse City of Light and Power's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Traverse City of Light and Power's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 6 and the benefit plan trend information on pages 32 through 37 be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Management is responsible for the other information included in the annual report. The other information comprises the schedule of capital assets and depreciation and the schedule of revenues and expenses – budget and actual but does not include the basic financial statements and our auditor's report thereon. Our opinions on the basic financial statements do not cover the other information, and we do not express an opinion or any form of assurance thereon.

In connection with our audit of the basic financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the basic financial statements, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 23, 2022, on our consideration of Traverse City of Light and Power's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Traverse City of Light and Power's internal control over financial reporting and compliance.

Orederold 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, 2022. 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 are intended to serve as an introduction to the Department's financial statements. The Department's financial statements comprise three components:

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

Financial Statements

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

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

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

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

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

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

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

The Department does not maintain any governmental funds.

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

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

The Department's Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the Department, assets exceeded liabilities by \$81,066,855 at the close of the most recent fiscal year, June 30, 2022.

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

Traverse City Light and Power's Net Position

Business-type Activities	June 30	
	2022	2021
Current and other assets	\$22,705,648	\$21,959,335
Capital assets	74,126,044	74,429,999
Total assets	96,831,692	96,389,334
Deferred outflows	4,435,098	3,531,687
Long-term liabilities outstanding	12,833,998	12,896,101
Other liabilities	4,023,065	2,489,977
Total liabilities	16,857,063	15,386,078
Deferred inflows	3,342,872	2,994,667
Net position		
Invested in capital assets	71,148,442	71,750,404
Unrestricted	9,918,413	9,789,872
Total net position	\$81,066,855	\$81,540,276

Traverse City Light and Power's Changes in Net Position

Business-type Activities	June 30	
	2022	2021
Operating revenue	\$35,988,849	\$32,979,228
Operating expenses	35,500,969	(30,989,627)
Nonoperating revenue (expense)	(505,228)	134,241
Special item	-	1,358,904
Increase in net position	(17,348)	3,482,746
Net position – beginning of year, as restated	81,084,203	78,057,530
Net position – end of year	\$81,066,855	\$81,540,276

Business-type activities

The overall financial position of the Department remained strong in 2021-2022. The only outstanding debt obligation is the Note Payable to the United States Department of Agriculture that is repaid by ratepayers paid through their monthly utility bill for financed energy efficiency projects. Additionally, there are commitments through the power supply contracts with Michigan Public Power Agency ("MPPA") to reimburse MPPA for operating and/or debt service costs relating to the Campbell, Belle River, and Kalkaska generation plants.

Revenue

Overall, the Electric Fund's revenues were over budget by \$504,486. Electric operating revenues were over budget by \$239,495 and non-operating revenues came under budget by \$743,981 primarily relating to change in fair market value of investments.

Expenses

In fiscal year 2021-22, Electric Funds operating expenses was over budget by \$582,323. The largest line item over budget is Purchase Power costs in the amount of \$22,116,889 because of higher than expected electric market prices in the MISO market.

Capital asset and debt administration

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

	June 30	
	2022	2021
Land and land improvements	\$1,071,410	\$1,071,410
Construction in progress	993,717	453,875
Buildings and improvements	5,862,329	5,851,973
Equipment and distribution system	105,133,513	102,847,238
	113,060,969	110,224,496
Accumulated depreciation	(38,934,925)	(35,794,497)
Total	\$74,126,044	\$74,429,999

Additional information about capital assets is provided in Note 4 to the financial statements.

Traverse City Light and Power Notes Payable

	June 30	
	2022	2021
Notes payable	\$131,442	\$ 42,956

Additional information about notes payable is provided in Note 6 to the financial statements.

Economic Factors and Next Year's Budgets and Rates

Overall, the budget remains similar to past years. A rate increase of 2.5% was budgeted to be effective August 1, 2022. In addition to this rate increase, a slight decrease in sales was budgeted based on load growth while taking into consideration the impacts of energy waste reduction. Additionally, a slight increase in purchase power costs was expected going from \$62.59 to \$64.54 per MWh, which will be passed on to the customer through the utility's variable power service cost recovery rate. Market conditions have changed since the adoption of the budget and purchase power costs have increased relating to increase natural gas costs. The utility is continuing with an accelerated amortization schedule on the utility's unfunded pension liability to increase the overall pension funding percentage. The Fiber Fund budget incorporates the deployment of both Phase 1 and Phase 1.1 Smart Grid Expansion/Fiber to the Premise Project to the utility's commercial and residential areas located in these designated areas.

Requests for Information

This financial report is designed to provide a general overview of the Department's finances. Questions concerning any of the information provided in this report or requests for additional financial information, should be addressed to Karla Myers-Beman, Chief Financial Officer, Traverse City Light and Power, 1131 Hastings Street, Traverse City, MI 49686.

FINANCIAL STATEMENTS

TRAVERSE CITY LIGHT AND POWER

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

STATEMENT OF NET POSITION JUNE 30, 2022

ASSETS	Light and Power Fund	Fiber Fund	Business-type Activities Total
Current assets			
Cash and cash equivalents	\$ 870,754	\$ -	\$ 870,754
Receivables			
Customer, less allowances of \$380,252			
for uncollectible accounts (Light and Power Fund)	3,997,762	17,286	4,015,048
Accrued interest	17,175	-	17,175
Taxes	1,744	-	1,744
Lease receivable	42,558	-	42,558
Other	382,579	-	382,579
Due from state	148,004	-	148,004
Due from federal government	108,408	-	108,408
Inventories	1,665,470	8,928	1,674,398
Prepaid expenses	211,066	8,062	219,128
Total current assets	7,445,520	34,276	7,479,796
Non-current assets			
Investments	9,837,577	-	9,837,577
Accounts receivables	1,806,453	-	1,806,453
Lease receivable	272,215	-	272,215
Long-term advances - Due from Fiber Fund	2,977,602	-	2,977,602
Long-term advances - Due from Primary Government	171,711	-	171,711
Land and land improvements	1,071,410	-	1,071,410
Construction in progress	992,318	1,399	993,717
Lease asset, net of amortization	160,294	-	160,294
Capital assets being depreciated, net	67,494,594	4,566,323	72,060,917
Total non-current assets	84,784,174	4,567,722	89,351,896
Total assets	92,229,694	4,601,998	96,831,692
Deferred outflows			
Deferred outflows of resources - Pensions	3,222,303	-	3,222,303
Deferred outflows of resources - OPEB	1,212,795	-	1,212,795
Total deferred outflows of resources	4,435,098	-	4,435,098

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

TRAVERSE CITY LIGHT AND POWER

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

STATEMENT OF NET POSITION JUNE 30, 2022

LIABILITIES AND NET POSITION	Light and Power Fund	Fiber Fund	Business-type Activities Total
Current liabilities			
Accounts payable	\$ 3,272,601	\$ 111,567	\$ 3,384,168
Accrued expenses and other liabilities	309,539	14,727	324,266
Customer deposits	88,611	-	88,611
Accrued interest payable	-	11,563	11,563
Compensated absences	5,108	-	5,108
Unearned revenue	-	11,206	11,206
Lease liability	26,576	-	26,576
Notes payable	11,567	-	11,567
Due to other funds - Industrial Park Fund	-	160,000	160,000
Total current liabilities	3,714,002	309,063	4,023,065
Long-term liabilities			
Compensated absences	229,479	7,739	237,218
Long term advances - Due to Electric Fund	-	2,977,602	2,977,602
Long term advances - Due to Industrial Park Fund	-	480,000	480,000
Notes payable	119,875	-	119,875
Lease liability	131,709	-	131,709
Net pension liability	8,087,123	-	8,087,123
Net other post employment benefit	800,471	-	800,471
Total liabilities	13,082,659	3,774,404	16,857,063
Deferred inflows			
Deferred inflows of resources - Lease	313,936	-	313,936
Deferred inflows of resources - Pensions	2,311,970	-	2,311,970
Deferred inflows of resources - OPEB	716,966	-	716,966
Total deferred inflows of resources	3,342,872	-	3,342,872
Net position			
Invested in capital assets	69,558,322	950,120	71,148,442
Unrestricted	10,680,939	(122,526)	9,918,413
Total net position	\$ 80,239,261	\$ 827,594	\$ 81,066,855

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

TRAVERSE CITY LIGHT AND POWER

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

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION FOR THE YEAR ENDED JUNE 30, 2022

	Light and Power Fund	Fiber Fund	Business-type Activities Total
Operating revenues			
Charges for services	\$ 31,502,236	\$ 974,854	\$ 32,477,090
MISO income	3,184,244	-	3,184,244
Other	327,515	-	327,515
Total operating revenues	35,013,995	974,854	35,988,849
Operating expenses			
Purchase power	22,359,066	-	22,359,066
Distribution	4,027,951	-	4,027,951
Transmission	440,087	-	440,087
Customer accounting	665,281	-	665,281
Public service	638,164	-	638,164
Information systems	387,021	-	387,021
General administration	874,512	-	874,512
Fiber	-	685,593	685,593
WIFI	-	36,040	36,040
Other	89,050	1,773	90,823
City fee	1,747,792	48,743	1,796,535
Depreciation	3,151,599	348,297	3,499,896
Total operating expenses	34,380,523	1,120,446	35,500,969
Operating income (loss)	633,472	(145,592)	487,880
Nonoperating revenues (expenses)			
Federal grant	20,775	-	20,775
State grant	136,897	-	136,897
Rental income	74,061	-	74,061
Reimbursements	208,245	8,942	217,187
Interest income	98,642	-	98,642
Lease revenue	42,850	-	42,850
Change in fair value of investments	(985,620)	-	(985,620)
Interest expense	-	(18,789)	(18,789)
Loss on sale of assets	(91,231)	-	(91,231)
Total nonoperating expense	(495,381)	(9,847)	(505,228)
Change in net position	138,091	(155,439)	(17,348)
Net position, beginning of year, as restated	80,101,170	983,033	81,084,203
Net position, end of year	\$ 80,239,261	\$ 827,594	\$ 81,066,855

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

TRAVERSE CITY LIGHT AND POWER

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

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED JUNE 30, 2022

	Light and Power Fund	Fiber Fund	Business-type Activities Total
Cash flows from operating activities			
Cash received from customers	\$ 33,788,087	\$ 1,038,007	\$ 34,826,094
Cash payments to employees	(5,928,283)	(311,269)	(6,239,552)
Cash payments to suppliers for goods and services	(23,445,631)	(538,130)	(23,983,761)
Cash payments of City fee	(1,747,792)	(48,743)	(1,796,535)
Net cash provided by operating activities	2,666,381	139,865	2,806,246
Cash flows from noncapital financing activities			
Customer deposits paid	8,160	-	8,160
Rental income received	74,061	-	74,061
Reimbursements received	208,245	8,942	217,187
Net cash provided by noncapital financing activities	290,466	8,942	299,408
Cash flows from capital and related financing activities			
Interfund loans	(302,922)	138,007	(164,915)
Cash received from federal government	(80,709)	-	(80,709)
Cash received from state government	6,603	-	6,603
Purchase of capital assets	(2,998,325)	(265,135)	(3,263,460)
Issuance of notes payable	82,810	-	82,810
Interest expense	-	(21,679)	(21,679)
Net cash (used in) capital financing activities	(3,292,543)	(148,807)	(3,441,350)
Cash flows from investing activities			
Sale of investments	490,373	-	490,373
Interest earnings and decrease in fair value	(889,451)	-	(889,451)
Net cash (used in) investing activities	(399,078)	-	(399,078)
Net decrease in cash and cash equivalents	(734,774)	-	(734,774)
Cash and cash equivalents, beginning of year	1,605,528	-	1,605,528
Cash and cash equivalents, end of year	\$ 870,754	\$ -	\$ 870,754

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

TRAVERSE CITY LIGHT AND POWER

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

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED JUNE 30, 2022

	Light and Power Fund	Fiber Fund	Business-type Activities Total
Cash flows from operating activities			
Operating income (loss)	\$ 633,472	\$ (145,592)	\$ 487,880
Adjustments to reconcile operating income to net cash provided by operating activities			
Depreciation	3,151,599	348,297	3,499,896
Changes in operating assets and liabilities which provided (used) cash			
Receivables	(1,225,908)	63,153	(1,162,755)
Inventories	(222,226)	-	(222,226)
Prepaid expenses	(14,913)	7,500	(7,413)
Deferred outflow	(903,411)	-	(903,411)
Accounts payable	1,593,089	(118,474)	1,474,615
Accrued expenses and other liabilities	50,144	(15,019)	35,125
Compensated absences	10,489	-	10,489
Deferred inflow/outflow	34,269	-	34,269
Net pension liability	(1,253,366)	-	(1,253,366)
Other post employment liability	813,143	-	813,143
Net cash provided by operating activities	\$ 2,666,381	\$ 139,865	\$ 2,806,246

Non cash transaction: The cash flow includes the change in fair market value of investments in the amount of \$985,620.

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

TRAVERSE CITY LIGHT AND POWER

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

STATEMENT OF FIDUCIARY NET POSITION

FIDUCIARY FUND

JUNE 30, 2022

	Other Post employment Benefit Funds
Assets	
Investments, at fair value	
MERS total market fund	\$ 4,694,321
Net Position	
Held in trust for other post employment benefits	<u>\$ 4,694,321</u>

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

TRAVERSE CITY LIGHT AND POWER

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

STATEMENT OF CHANGES IN FIDUCIARY NET POSITION FIDUCIARY FUND FOR THE YEAR ENDED JUNE 30, 2022

	Other Post employment Benefit Funds
Additions	
Employer contributions	\$ 82,720
Investment earnings	
Interest and dividend income	(415,638)
Investment advisor fees	(9,028)
Net investment earnings	(424,666)
Total additions	(341,946)
Net position held in trust, beginning of year	5,036,267
Net position held in trust, end of year	\$ 4,694,321

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

TRAVERSE CITY LIGHT AND POWER

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

NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

Under provisions of the City of Traverse City (the “City”) Charter, the Light and Power Board (the “Board”) was created having jurisdiction and control of *Traverse City Light and Power* (the “Department”). The Board consists of seven members (two of which are City Commissioners) and one ex-officio member (the City Manager). The Department’s annual budget is approved by the City Commission. The Department is required to pay 5% of its gross revenue annually to the City’s General Fund as a City fee. For fiscal 2022, the City fee was \$1,796,535.

Reporting Entity

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

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

Basis of Accounting

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

Cash and Cash Equivalents

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

Investments

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

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

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

TRAVERSE CITY LIGHT AND POWER

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

NOTES TO FINANCIAL STATEMENTS

- c. Commercial paper rated at the time of purchase within the two highest classifications established by not less than two standard rating services and that matures not more than 270 days after the date of purchase.
- d. Banker's acceptances of United States banks.
- e. Obligations of the State of Michigan and its political subdivisions that at the time of purchase are rated as investment grade by at least one standard rating service.
- f. Mutual funds registered under the Investment Company Act of 1940 with the authority to purchase only investment vehicles that are legal for direct investment by a public corporation.
- g. External investment pools as authorized by Public Act 20, as amended.
- h. The other post-employment benefits trust fund may also invest in corporate debt and equity securities.

Receivables/Payables

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

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

Inventories

Inventories consist of materials to be used in the electric system and are valued at cost (first-in, first-out) not in excess of market. Maintenance and office supplies (immaterial at year end) are charged to expenses upon purchase.

Prepaid Expenses

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

Capital assets

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

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

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

TRAVERSE CITY LIGHT AND POWER

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Compensated Absences

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

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense) until then. The Department has items that qualify for reporting in this category related to the pension plan which is discussed in Note 7 and the OPEB plan as discussed in Note 10.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows or resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The Department has items that qualify for reporting in this category related to the pension plan which is discussed in Note 7, OPEB plan as discussed in Note 10, and leases as discussed in Note 3.

Pensions

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

Operating Revenue versus Nonoperating Revenue

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

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NOTES TO FINANCIAL STATEMENTS

Funds

The Department reports the following major proprietary funds:

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

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

Restricted resources

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

2. CASH DEPOSITS AND INVESTMENTS

The Department's cash and cash equivalents, and investments on June 30, 2022, are composed of the following:

	<u>Enterprise Funds</u>	<u>Fiduciary Fund</u>	<u>Total</u>
Cash and cash equivalents	\$ 870,754	\$ -	\$ 870,754
Investments	9,837,577	4,694,321	14,531,898
Total	<u>\$10,708,331</u>	<u>\$4,694,321</u>	<u>\$15,402,652</u>

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

Deposits	\$ 870,754
Investments	9,837,577
OPEB - investments	4,694,321
Total	<u>\$15,402,652</u>

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

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

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The Department chooses to disclose its investments by specifically identifying each. As of June 30, 2022, the Department's Michigan CLASS investment and the U.S. agency securities are rated by Standard and Poor's and/or Moody's.

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

The Department had the following investments:

<u>Investment</u>	<u>Maturity</u>	<u>Fair Value</u>	<u>Rating</u>
FHLB Bond	06/30/2025	\$ 930,110	Aaa/AA+
FHLB Bond	10/29/2025	1,834,100	Aaa/AA+
FFCB Bond	01/22/2027	1,807,840	Aaa/AA+
FFCB Bond	04/27/2027	894,500	Aaa/AA+
FHLB Bond	06/04/2027	901,180	Aaa/AA+
FHLB Bond	11/16/2029	1,809,560	Aaa/AA+
FHLB Bond	10/29/2030	1,657,040	Aaa/AA+
Michigan CLASS	NA	3,247	AAAm
		<u>\$9,837,577</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, banker's 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.

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Custodial Credit Risk – Investments. For investments, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Department will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. State law does not require, and the Department does not have a policy for investment custodial credit risk. Of the above \$9,837,577 of investments at June 30, 2022, the Department has a custodial credit risk exposure of \$9,834,330 because the related securities are uninsured, unregistered and held by the government's brokerage firm which is also the counterparty for these particular securities. The Department's custodial credit risk exposure cannot be determined for the above Michigan CLASS investment pool because the Department does not own specifically identifiable securities.

Concentration of Credit Risk. State law limits allowable investments but does not limit concentration of credit risk as identified above. The Department's investment policy does not have specific limits in excess of state law on concentration of credit risk. None of the investments held by the Department exceed 5% of the Department's investments.

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

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

- US Treasury Notes, FFCB Bonds and FHLB Bonds are valued using quoted market prices in active markets (Level 1 Inputs)
- MERS Total Market Fund is valued using a pricing model utilizing observable fair value measures of fund/pool investments and other observable inputs to determining the fair value of the securities making up the investment fund/pool (Level 2 Inputs).
- The Department does not have any investments that report fair value based on significant unobservable inputs (Level 3 Inputs)

Investments in Entities that Calculate Net Asset Value per Share

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

	<u>Fair Value</u>
Michigan Class	<u><u>\$ 3,247</u></u>

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3. LEASES RECEIVABLE

The Department provides lease rights for pole attachments to third parties without transfer of ownership for periods greater than one year. The rights associated with these leases are required to be recognized at their net present value using the Department's incremental borrowing rate or in accordance with lease terms and future earnings are deferred. The value of these lease receivables as of June 30, 2022, was \$314,773. Lease revenue amounted to \$42,850 and interest revenue was \$4,345 for the year ended June 30, 2022.

4. CAPITAL ASSETS

At June 30, 2022, capital assets consist of the following:

	<u>Beginning Balance</u>	<u>Additions &Transfers</u>	<u>Deletions & Transfers</u>	<u>Ending Balance</u>
Capital assets not being depreciated				
Land and land improvements	\$1,071,410	\$ -	\$ -	\$1,071,410
Construction in progress	453,875	2,995,398	2,455,556	993,717
Total capital assets not being depreciated	1,525,285	2,995,398	2,455,556	2,065,127
Capital assets being depreciated				
Buildings and improvements	5,851,973	10,356	-	5,862,329
Equipment and distribution system	96,616,509	2,073,354	426,987	98,262,876
Electric vehicle charging stations	-	374,773	-	374,773
Fiber System	5,728,866	265,135	-	5,994,001
Wi-Fi System	501,863	-	-	501,863
Total capital assets being depreciated	108,699,211	2,723,618	426,987	110,995,842
Less accumulated depreciation for				
Buildings and improvement	2,478,911	177,357	-	2,656,268
Equipment and distribution system	31,734,342	2,938,039	335,758	34,336,623
Electric vehicle charging stations	-	12,493	-	12,493
Fiber System	1,255,082	298,111	-	1,553,193
Wi-Fi System	326,162	50,186	-	376,348
Total accumulated depreciation	35,794,497	3,476,186	335,758	38,934,925
Total capital assets being depreciated, net	72,904,714	(752,568)	91,229	72,060,917
Total capital assets, net	\$74,429,999	\$ 2,242,830	\$ 2,546,785	\$74,126,044

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	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>
Right to use assets				
Tower	\$ 68,451	\$ -	\$ 8,572	\$ 59,879
Transmission pole attachment	131,365	-	14,967	116,398
Land	9,074	-	1,348	7,726
Total right to use assets	208,890	-	24,887	184,003
Accumulated amortization				
Tower	-	7,608	-	7,608
Transmission pole attachment	-	15,062	-	15,062
Land	-	1,039	-	1,039
Total accumulated amortization	-	23,709	-	23,709
Total right to use assets	\$208,890	\$23,709	\$ 24,887	\$160,294

5. INTERFUND RECEIVABLES AND PAYABLES

<u>Fund</u>	<u>Interfund Receivables</u>	<u>Fund</u>	<u>Interfund Payables</u>
Light & Power	\$ 2,977,602	Fiber	\$ 2,977,602

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

6. LONG-TERM LIABILITIES

Long-term debt at June 30, 2022, consists of the following:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Accrued compensated absences	\$230,952	\$257,584	\$246,210	\$242,326	\$ 5,108
Notes Payable	48,632	87,633	4,823	131,442	11,567
Total	\$279,584	\$345,217	\$251,033	\$373,768	\$16,675

Notes Payable

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

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Lease Liability

The Department has entered into lease agreements whereby the Department obtains the right to the present service capacity of certain assets without the transfer of ownership for periods greater than one year. These lease obligations are recorded as a liability at present value using the Department's incremental borrowing rate unless otherwise noted in the lease terms and are as follows:

Tower leases: Tower leases have been secured to support radio communications. This lease is payable monthly and have lease terms for 20 years. This lease does not contain provisions for residual guarantees. Additionally, there are no other payments such as residual value guarantees or termination penalties, not previously included in the measurement of the lease liability reflected as outflows of resources.

Land leases: The Department leases land for a water retention area for a term of 25 years. This lease is payable monthly with a cost of living increase every five years. This lease does not contain provisions for variable payments or residual guarantees. Additionally, there are no other payments such as residual value guarantees, or termination penalties not previously included in the measurement of the lease liability reflected as outflows of resources.

Pole Attachment leases: The Department leases for pole attachments to Consumer's Energy poles. This lease payment is made annually and adjusted in accordance with the PPI for Electric Power Distribution Code. This lease does not contain provisions for variable payments or residual guarantees. Additionally, there are no other payments such as residual value guarantees, or termination penalties not previously included in the measurement of the lease liability reflected as outflows of resources.

The principal and interest requirements to maturity for these leases for the subsequent fiscal years ending June 30 were:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2023	\$ 26,576	\$ 5,167	\$ 31,743
2024	27,465	4,278	31,743
2025	28,386	3,357	31,743
2026	29,340	2,403	31,743
2027	28,565	1,414	29,979
2028	17,953	472	18,425
Total	\$158,285	\$17,091	\$175,376

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7. POWER SUPPLY PURCHASE

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

In 1983, the Department entered a 35-year power supply and project support contract with MPPA. Under the agreement, the Department will purchase 26.35% of the energy generated by MPPA's 4.8% interest in the Campbell 3 plant and 4.53% of the energy generated by MPPA's 18.6% interest in the Belle River plant. In 2002, the Department entered a 25-year power supply and project support contract with MPPA. Under the agreement, the Department will purchase 75.9% of the energy generated by MPPA's 100% interest in the Kalkaska Combustion Turbine. In 2009, the Department entered a power supply contract with MPPA. Under the agreement, the Department will purchase 8.13% of the energy generated in the MPPA's renewable energy contract with Grainger Electric of Michigan, LLC. In 2011, the Department entered a power supply contract with MPPA. Under the agreement, the Department will purchase 8.13% of the energy generated in the MPPA's renewable energy contract with Northern American Natural Resources of Michigan. In 2014, the Department entered into an Energy Services Agreement with MPPA for the objective of accessing third party marketers in MISO for the purpose of reducing exposure to MISO market during volatile seasons. This is accomplished through MPPA soliciting bids and subsequently entering contracts on behalf of the Department for firm priced energy supply. In 2017, the Department entered a commitment with MPPA for 5.80% of energy generated from the Pegasus Wind Farm.

For the year ended June 30, 2022, Traverse City Light and Power recognized expenses totaling \$18,955,720 to purchase power under the terms of all contracts with MPPA. The price of the power was calculated on a basis, as specified in the contracts, to enable MPPA to recover its production, transmission, and debt service costs.

Under the terms of the contracts, the Department must make minimum annual payments to cover their share of annual debt service requirements and fixed operation costs of the Campbell 3, Belle River, and Combustion Turbine projects (based on the percentage of power purchased). Future operating costs are estimated based on 20214 costs adjusted for inflation and calculated until the time of project's estimated retirement date or debt retirement.

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

Year Ended December 31	Operating Costs
2023	\$ 9,238,324
2024	9,515,474
2025	9,800,398
2026	10,094,966
2027	7,340,951
2028-2029	10,378,581
Total	<u>\$56,368,694</u>

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

Year Ended December 31	Principal	Interest	Total
2023	\$1,525,590	\$104,379	\$1,629,969
2024	1,548,360	84,089	1,632,449
2025	1,571,130	63,496	1,634,626
2026	1,590,105	42,600	1,632,705
2027	1,612,875	21,451	1,634,326
Total	\$7,848,060	\$316,015	\$8,164,075

As of December 31, 2022, MPPA has two projects that have identified asset retirement obligations. Campbell project in the amount of \$2,421,019 with the Department share at \$116,209 and Belle River in the amount of \$614,657 with the Department share at \$114,326.

On June 23, 2022, the Michigan Public Service Commission approved a settlement in Consumers Energy's Integrated Resource Plan that secures 2025 as the retirement date for Consumers Energy's J.H. Campbell coal plant, 15 years earlier than previously planned.

In December 2009, the Department entered into a 20-year purchase power agreement with Heritage Stoney Corners Wind Farm I, LLC which was subsequently sold in 2020 to DTE to purchase up to 10 megawatts of electric energy and all associated renewable energy credits. For the year ended June 30, 2022, the Department recognized expenses totaling \$2,889,573 under this agreement.

In December 2014, the Department entered into a 20-year purchase power agreement with options to terminate on January 1, 2025, and January 1, 2030, upon ninety-day notice. The Agreement is with Heritage Sustainable Energy, LLC to purchase up to .6 MW of electric energy from the M-72 wind turbine. For the year ended June 30, 2022, the Department recognized expenses totaling \$2,208 under this agreement. The M-72 Wind Turbine was decommissioned.

In August 2017, the Department amended the Heritage Sustainable Energy, LLC contract to purchase an additional 1MW of electric energy from the M-72 solar array. It was amended again on July 11, 2019, to include an additional 2MW of electric energy through an expansion of the M-72 1MW solar array. The contract will terminate December 31, 2038. For the year ended June 30, 2022, the Department recognized expenses totaling \$269,388 under this agreement.

8. RETIREMENT PLAN

General Information about the Pension Plan

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

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Benefits Provided

01 - Non Union – closed to new hires, linked to Division 11	
	2021 Valuation
Benefit Multiplier:	2.25% Multiplier (80% max)
Normal Retirement Age:	60
Vesting:	10 years
Early Retirement (Unreduced):	55/25
Early Retirement (Reduced):	50/25
	55/15
Final Average Compensation:	5 years
COLA for Current/Future Retirees:	2.50% (Non-Compound)
Member Contributions:	0%
Act 88:	No

10 - Union closed to new hires, linked to Division 12	
	2021 Valuation
Benefit Multiplier:	2.25% Multiplier (80% max)
Normal Retirement Age:	60
Vesting:	6 years
Early Retirement (Unreduced):	50/25
Early Retirement (Reduced):	55/15
Final Average Compensation:	5 years
COLA for Current/Future Retirees:	2.50% (Non-Compound)
Member Contributions:	0%
Act 88:	No

11 - Non-union hired after 7/1/2017, linked to Division 01	
	2021 Valuation
Benefit Multiplier:	1.5% Multiplier (80% max)
Normal Retirement Age:	60
Vesting:	6 years
Early Retirement (Unreduced):	55/25
Early Retirement (Reduced):	55/15
	50/25
Final Average Compensation:	5 years
COLA for Future Retirees:	2.50% (Non-Compound)
Member Contributions:	0%
Act 88:	No

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12 - Union hired after 7/1/2012, linked to Division 10	
	2021 Valuation
Benefit Multiplier:	1.5% Multiplier (80% max)
Normal Retirement Age:	60
Vesting:	6 years
Early Retirement (Unreduced):	55/25
Early Retirement (Reduced):	55/15
	50/25
Final Average Compensation:	5 years
COLA for Future Retirees:	2.50% (Non-Compound)
Member Contributions:	0%
Act 88:	No

13 - Union lineworkers pre 7/1/2012, closed to new hires	
	2021 Valuation
Benefit Multiplier:	2.25% Multiplier (80% max)
Normal Retirement Age:	60
Vesting:	6 years
Early Retirement (Unreduced):	50/25
Early Retirement (Reduced):	55/15
Final Average Compensation:	5 years
COLA for Future Retirees:	2.50% (Non-Compound)
Member Contributions:	0%
DC Plan for New Hires:	2/1/2019
Act 88:	No

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

Employees covered by benefits terms. At the December 31, 2021, valuation date, the following employees were covered by the benefit terms:

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

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

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Employer minimum contributions range from 7.42 to 9.24% based on annual payroll for open divisions. There are two divisions that are closed to new employees that require an annual employer contribution amount of \$53,476 and \$138,956.

Net Pension Liability. The employer's Net Pension Liability was measured as of December 31, 2021, and the total pension liability used to calculate the Net Pension Liability was determined by an annual actuarial valuation as of that date.

Actuarial assumptions. The total pension liability in the December 31, 2021, annual actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation: 2.5%

Salary Increases: 3.00% in the long-term

Investment rate of return: 7.00%, net of administrative and investment expenses, including inflation.

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

The actuarial assumptions used in the valuation were based on the results of the most recent actuarial experience study in 2021.

The long-term expected rate of return on pension plan investments was determined using a model method in which the best-estimate ranges of expected future real rates of return (expected returns, net of investment and administrative expenses and inflation) are developed for each major asset class.

These ranges are combined to provide the long-term expected rate of return by weighting the expected future real rates of return of the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return	Expected Money Weighted Rate of Return
Global Equity	60.0%	4.50%	2.70%
Global Fixed Income	20.0%	2.00%	.40%
Real Assets	20.0%	7.00%	1.40%
Inflation			2.50%
Administrative fee			.25%
Investment rate of return			7.25%

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Discount rate. The discount rate used to measure the total pension liability is 7.25%. The projection of cash flows used to determine the discount rate assumes that employer and employee contributions will be made at the rates agreed upon for employees and the actuarially determined rates for employers. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to pay all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Changes in Net Pension Liability

Calculating the Net Pension Liability			
Changes in Net Pension Liability	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability
	(a)	(b)	(a) – (b)
Balances at 12/31/20			
Changes for the Year	\$33,958,896	\$24,618,407	\$9,340,489
Service Cost	251,797	-	251,797
Interest on Total Pension Liability	2,502,605	-	2,502,605
Difference between expected and actual experience	346,956	-	346,956
Changes in assumption	1,303,436	-	1,303,436
Employer contributions	-	2,551,769	(2,551,769)
Net investment income	-	3,145,898	(3,145,898)
Benefit payments, including employee refunds	(2,311,561)	(2,311,561)	-
Administrative expense	-	(39,507)	39,507
Net Changes	2,093,233	3,346,599	(1,253,366)
Balances as of 12/31/21	\$36,052,129	\$27,965,006	\$8,087,123

Sensitivity of the Net Position Liability to changes in the discount rate. The following presents the Net Pension Liability of the employer, calculated using the discount rate of 7.25%, as well as what the employer's Net Pension Liability would be using a discount rate that is 1 percentage point lower (6.25%) or 1% higher (8.25%) than the current rate.

	1% Decrease	Current Discount Rate	1% Increase
Net Pension Liability at 12/31/21	\$8,087,123	\$8,087,123	\$8,087,123
Change in Net Pension Liability (NPL)	4,218,898	-	(3,520,105)
Calculated NPL	\$12,306,021	\$8,087,123	\$ 4,567,018

TRAVERSE CITY LIGHT AND POWER

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

NOTES TO FINANCIAL STATEMENTS

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

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

For the year ended June 30, 2022, the employer recognized pension and amortization expense of \$1,653,128. The employer reported deferred outflows and inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Excess (Deficit) Investment Returns	\$458,589	\$(2,311,970)
Change in Experience	336,703	-
Change in Assumption	1,150,799	-
Contributions subsequent to the measurement date*	1,276,212	-
Total	\$ 3,222,303	\$(2,311,970)

*The amount reported as deferred outflows of resources resulting from contributions subsequent to the measurement date will be recognized as a reduction in the Net Pension Liability for the year ending 2023.

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

Year ended	
2023	\$ 640,548
2024	(205,282)
2025	(547,685)
2026	(253,460)
	<u>\$ (365,879)</u>

10. DEFERRED COMPENSATION

The Department participated in the City's Deferred Compensation Plan created in accordance with the Internal Revenue Code Section 457. The City has ICMA Retirement Corporation and Mass Mutual as administrators for the Plan. Participants may contribute zero to six percent of covered payroll based on the employee's employment or labor union contract. The employer provides for the administrative group a 100% match up to 6% of the employee's gross pay and for the union group contributes 6% if the employees contribute 1.5% to the program. Plan provision and contribution requirements can only be amended by authorization of the Traverse City Light and Power Board. In the current fiscal year, the Department contributed \$236,759 and employees contributed \$241,172.

TRAVERSE CITY LIGHT AND POWER

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

NOTES TO FINANCIAL STATEMENTS

11. DEFINED CONTRIBUTION PLAN

Effective February 1, 2019, the Department eliminated the defined benefit pension plan for line workers hired after July 1, 2012 and replaced it with a MERS defined contribution plan. The employer contributes six percent of base wage only and there is no employee contribution requirement. The plan requires a one-year vesting period. In the current fiscal year, the Department contributed \$49,549 to this plan.

12. POST-EMPLOYMENT BENEFITS

Plan Description. The Department maintains a single employer defined benefit healthcare plan (the "Plan"). In addition to the retirement benefits described in Note 7, the Plan provides health insurance benefits to certain retirees and their beneficiaries, which are advance funded on a discretionary basis. The Plan is included as another post-employment benefits trust fund in the Department's financial statements; a stand-alone financial report of the Plan has not been issued.

Benefits provided. The plan provides health insurance premiums paid at 100% for the retiree only. If a retiree receives a reduced benefit pension as calculated by MERS, the Board will reduce the retiree health payment by the same percentage. Effective July 1, 2017, for all new hires who become eligible for a pension benefit, the Board will pay the retiree's health insurance premium until the retiree is Medicare eligible. If a retiree receives a reduced benefit pension as calculated by MERS, the Board will reduce the retiree health payment by the same percentage. Effective July 1, 2021, for all new hires, no retiree hospital-medical-surgical insurance coverage will be provided.

Membership of the Plan consisted of the following at the date of the latest actuarial valuation (June 30, 2022):

Active plan members	38
Retirees and beneficiaries receiving benefits	<u>43</u>
Total	<u><u>81</u></u>

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

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

Net OPEB Liability. The total OPEB liability in the June 30, 2022, annual actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation: 2.25%

Salary Increases: 2.50%

Investment rate of return: 7.5%

TRAVERSE CITY LIGHT AND POWER

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NOTES TO FINANCIAL STATEMENTS

Healthcare cost trend rates: .9% to 7.80% per year

Mortality rates used MP-2019 Combined Annuitant Mortality Table for males and females.

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

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

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Global Equity	60%	7.75%
Global Fixed Income	20%	3.75%
Private Investments	20%	9.75%
Total	100.0%	

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

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

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

TRAVERSE CITY LIGHT AND POWER

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

NOTES TO FINANCIAL STATEMENTS

Changes in the Net OPEB Liability

Calculating the Net OPEB Liability (Asset)			
	Increase (Decrease)		
	Total OPEB Liability (a)	Plan Fiduciary Net Position (b)	Net OPEB Liability (a)-(b)
Balances at 6/30/2021	\$5,023,595	\$5,036,267	(\$12,672)
Changes for the Year			
Service cost	27,928	-	27,928
Difference between expected and actual experience	553,716	-	553,716
Changes in assumption	(87,492)	-	(87,492)
Interest on total OPEB liability	362,322	-	362,322
Employer Contributions	-	467,997	(467,997)
Net investment income	-	(424,666)	424,666
Benefit payments, including employee refunds	(385,277)	(385,277)	-
Net changes	471,197	(341,946)	813,143
Balance as of 6/30/2022	<u>\$5,494,792</u>	<u>\$4,694,321</u>	<u>\$800,471</u>

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

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

	1% Decrease	Current Discount rate	1% Increase
Net OPEB liability	\$1,403,025	\$800,471	\$294,914

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

The following presents the net OPEB liability of the employer, calculated using the healthcare cost trend rate of -10.51% to 6.5%, as well as what the employer's net OPEB liability would be using a healthcare cost trend rate that is 1 percentage point lower or higher than the current rate.

	1% Decrease	Current healthcare cost trend rate	1% Increase
Net OBEB liability	\$257,962	\$800,471	\$1,446,733

TRAVERSE CITY LIGHT AND POWER

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NOTES TO FINANCIAL STATEMENTS

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

For the year ended June 30, 2022 the employer recognized OPEB expense of \$54,464. The employer reported deferred outflows and inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences in experience	\$ 456,059	\$ (34,028)
Changes in assumptions	-	(218,531)
Excess (deficit) investment returns	756,736	(464,407)
Total	1,212,795	(716,966)

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

2023	\$ 36,967
2024	73,165
2025	87,903
2026	242,704
2027	55,090
Total	<u>495,829</u>

13. CONTINGENCIES

In the normal course of business, the Department becomes a party in various legal actions and claims, some of which are uninsured. The outcome of these actions and claims is not expected to have a material effect on the financial position of the Department.

14. RISK OF LOSS

The Department is exposed to various risks of losses related to torts; theft of, damage to, and destruction of assets; errors and omission; injuries to employees; and natural disasters. The Department is covered for these losses through the City via the Michigan Municipal Liability and Property Pool, Michigan Municipal Workers Compensation Self Insurance Fund and commercial health insurance. The Department has had no settled claims resulting from these risks that exceeded their coverage in any of the past three years.

TRAVERSE CITY LIGHT AND POWER

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

NOTES TO FINANCIAL STATEMENTS

15. DESIGNATIONS OF CASH AND INVESTMENTS

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

	<u>June 30, 2022</u>
Emergencies	\$ 100,056
Minimum Cash Reserve	<u>8,459,000</u>
Total	<u>\$8,559,056</u>

16. COMMITMENTS

The utility has agreements with the MPPA committing it to purchase of up to 2MW of landfill renewable energy from Granger Electric of Michigan, LLC, .65MW of landfill renewable energy from North American Natural Resources, Inc., and 49.6 MW of all energy, capacity, and environmental attributes for solar renewable energy located in Michigan and 3.6 MW of all energy, capacity, and environmental attributes for wind renewable energy located in Michigan. Additionally, through the MPPA Energy Service Committee, the utility has base energy bilateral contracts for the fiscal year beginning July 1, 2022, through December 31, 2024, in the amount of \$709,800, and capacity transaction bilateral contracts for the fiscal year beginning July 1, 2022, through May 31, 2030, in the amount of \$2,238,480.

17. NET POSITION RESTATEMENT

Beginning net position was decreased by \$456,073 to reflect a change in the accrual of power service cost revenue.

18. SUBSEQUENT EVENT

On July 28, 2022, TCLP executed a Third Amendment and Restated Power Purchase Agreement with Heritage Sustainable Energy, LLC to add the purchase of capacity and energy generated from the solar array named M-72 Solar III. The energy and capacity will be purchased at LMP Real Time hourly rate at the Cons. MPPA Node. The term is through December 31, 2042.

On April 4, 2022, the City Commission approved a Notice of Intent Resolution to issue Capital Improvement Bonds and Notes for Electric Utility Smart Grid Network and Fiber System improvements, which indicates the City's intention to borrow money in the amount not-to-exceed \$18,200,000 and authorize issuance and sale of one or more general obligation invested tax bonds. In addition, the City and Department entered into an intergovernmental agreement for the Department to pledge its revenues to cover any financial costs or liabilities pertaining to the bond issuance.

REQUIRED SUPPLEMENTARY INFORMATION

TRAVERSE CITY LIGHT AND POWER

REQUIRED SUPPLEMENTARY INFORMATION
MERS DEFINED BENEFIT PENSION PLAN
SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS
FOR THE YEAR ENDED JUNE 30, 2022

	December 31,							
	2014	2015	2016	2017	2018	2019	2020	2021
Total pension liability								
Service cost	\$ 313,020	\$ 295,317	\$ 300,475	\$ 310,387	\$ 285,497	\$ 264,001	\$ 261,413	\$ 251,797
Interest	2,083,781	2,142,935	2,276,465	2,292,239	2,370,497	2,386,419	2,386,190	2,502,605
Differences between expected and actuarial experience	-	363,835	(509,997)	363,115	(370,024)	(12,114)	316,198	346,956
Changes in assumptions	-	1,444,054	-	-	-	1,104,897	845,524	1,303,436
Benefit payments, including refunds	(1,626,244)	(1,715,604)	(1,818,642)	(1,930,810)	(2,021,640)	(2,130,738)	(2,233,905)	(2,311,561)
Other changes	-	(759)	-	1,448	(300)	7,402	-	-
Net change in total pension liability	770,557	2,529,778	248,301	1,036,379	264,030	1,619,867	1,575,420	2,093,233
Total pension liability, beginning of year	25,914,564	26,685,121	29,214,899	29,463,200	30,499,579	30,763,609	32,383,476	33,958,896
Total pension liability, end of year	26,685,121	29,214,899	29,463,200	30,499,579	30,763,609	32,383,476	33,958,896	36,052,129
Plan fiduciary net position								
Contribution - employer	773,230	858,331	1,564,302	2,253,396	2,395,423	2,403,450	2,471,829	2,551,769
Net investment income (loss)	1,000,478	(234,339)	1,686,136	2,200,228	(760,557)	2,532,810	3,099,212	3,145,898
Administrative expenses	(36,578)	(34,767)	(33,363)	(34,750)	(37,098)	(43,690)	(43,211)	(39,507)
Benefit payments, including refunds	(1,626,244)	(1,715,604)	(1,818,642)	(1,930,809)	(2,021,640)	(2,130,737)	(2,233,905)	(2,311,561)
Net change in plan fiduciary net position	110,886	(1,126,379)	1,398,433	2,488,065	(423,872)	2,761,833	3,293,925	3,346,599
Plan fiduciary net position, beginning of year	16,115,516	16,226,402	15,100,023	16,498,456	18,986,521	18,562,649	21,324,482	24,618,407
Plan fiduciary net position, end of year	16,226,402	15,100,023	16,498,456	18,986,521	18,562,649	21,324,482	24,618,407	27,965,006
Department's net pension liability	\$ 10,458,719	\$ 14,114,876	\$ 12,964,744	\$ 11,513,058	\$ 12,200,960	\$ 11,058,994	\$ 9,340,489	\$ 8,087,123
Plan fiduciary net position as a percent of total pension liability	60.81%	51.69%	56.00%	62.25%	60.34%	65.85%	72.49%	77.57%
Covered employee payroll	\$ 2,862,491	\$ 2,736,729	\$ 2,728,607	\$ 2,883,420	\$ 2,679,680	\$ 2,412,833	\$ 2,369,118	\$ 2,351,541
Department's net pension liability as a percent of covered employee payroll	365.37%	515.76%	475.14%	399.28%	455.31%	458.34%	394.26%	343.91%

Notes to Schedule
The data presented above is based on a December 31 measurement date.
The schedule is being accumulated prospectively until 10 years of information is presented.

TRAVERSE CITY LIGHT AND POWER

REQUIRED SUPPLEMENTARY INFORMATION

DEFINED BENEFIT PENSION PLAN

MERS SCHEDULE OF EMPLOYER CONTRIBUTIONS

FOR THE YEAR ENDED JUNE 30, 2022

	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>	<u>2022</u>
Actuarially determined contribution	\$ 770,572	\$ 891,939	\$ 944,388	\$ 1,110,648	\$ 1,113,276	\$ 2,382,248	\$ 2,556,504	\$ 2,548,975
Actual contribution	(770,572)	(891,939)	(2,202,960)	(2,356,392)	(2,428,720)	(2,382,248)	(2,556,504)	(2,548,975)
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (1,258,572)</u>	<u>\$ (1,245,744)</u>	<u>\$ (1,315,444)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered employee payroll	\$ 2,880,960	\$ 2,866,124	\$ 2,862,491	\$ 2,837,222	\$ 2,680,970	\$ 2,412,833	\$ 2,369,118	\$ 2,351,541
Contribution as a percentage of covered employee payroll	26.75%	31.12%	32.99%	39.15%	41.53%	98.73%	107.91%	108.40%
Notes to schedule								
Actuarial cost method	Entry Age							
Amortization method	Level percentage of payroll, open							
Remaining amortization period	15 years							
Asset valuation method	5 year smoothed (10 year smoothing 2014)							
Inflation	2.5% (3.5% 2014)							
Salary increases	3.75 to 14.5% (4.50% in 2014)							
Investment rate of return	7.35% (8.25% 2014)							
Retirement age	Varies depending on plan adoption							
Mortality	RP-2014 mortality tables of a 50% Male and 50% Female blend (50% female/50% male 1994 group annuity mortality table 2014)							

Note to Schedule

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

TRAVERSE CITY LIGHT AND POWER

REQUIRED SUPPLEMENTARY INFORMATION
OTHER POST EMPLOYMENT BENEFIT TRUST FUND
SCHEDULE OF CHANGES IN NET OPEB LIABILITY AND RELATED RATIOS
FOR THE YEAR ENDED JUNE 30, 2022

	2018	2019	2020	2021	2022
Total OPEB liability					
Service cost	\$ 2,852	\$ 3,363	\$ 3,615	\$ 24,167	\$ 27,928
Interest	406,878	390,609	400,451	361,942	362,322
Differences between expected and actuarial experience	(269,497)	-	(104,468)	-	553,716
Changes in assumptions	28,187	-	(449,662)	-	(87,492)
Benefit payments, including refunds	(342,038)	(350,628)	(349,982)	(376,806)	(385,277)
Other changes	(38,996)	87,555	-	-	-
Net change in total OPEB liability	(212,614)	130,899	(500,046)	9,303	471,197
Total OPEB liability, beginning of year	5,596,053	5,383,439	5,514,338	5,014,292	5,023,595
Total OPEB liability, end of year	5,383,439	5,514,338	5,014,292	5,023,595	5,494,792
Plan fiduciary net position					
Contribution - employer	229,388	-	514,424	515,225	467,997
Net investment income	191,582	78,435	64,798	1,061,721	(424,666)
Differences between expected and actuarial experience	-	(161,940)	-	-	-
Benefit payments	-	-	(349,982)	(376,807)	(385,277)
Other changes	-	357,118	-	-	-
Administrative expenses	(6,221)	(5,561)	(5,048)	-	-
Net change in plan fiduciary net position	414,749	268,052	224,192	1,200,139	(341,946)
Plan fiduciary net position, beginning of year	2,929,135	3,343,884	3,611,936	3,836,128	5,036,267
Plan fiduciary net position, end of year	3,343,884	3,611,936	3,836,128	5,036,267	4,694,321
Department's net OPEB (asset)/liability	\$ 2,039,555	\$ 1,902,402	\$ 1,178,164	\$ (12,672)	\$ 800,471
Plan fiduciary net position as a percent of total OPEB liability	62.11%	65.50%	76.50%	100.25%	85.43%
Covered employee payroll	\$ 2,837,222	\$ 2,680,970	\$ 2,198,312	\$ 2,334,263	\$ 2,283,935
Department's net OPEB liability as a percent of covered employee payroll	71.89%	70.96%	53.59%	-0.54%	35.05%

Notes to Schedule

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

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

TRAVERSE CITY LIGHT AND POWER

REQUIRED SUPPLEMENTARY INFORMATION
OTHER POST EMPLOYMENT BENEFIT TRUST FUND
SCHEDULE OF NET OPEB LIABILITY, FIDUCIARY NET POSITION AND RELATED RATIOS
FOR THE YEAR ENDED JUNE 30, 2022

	2017	2018	2019	2020	2021	2022
Total OPEB liability	\$ 5,596,053	\$ 5,383,439	\$ 5,514,338	\$ 5,014,292	\$ 5,023,595	\$ 5,494,792
OPEB fiduciary net position	2,929,135	3,343,884	3,611,936	3,836,128	5,036,267	4,694,321
Net OPEB liability	2,666,918	2,039,555	1,902,402	1,178,164	(12,672)	800,471
OPEB fiduciary net position as a % of total						
OPEB liability	52.34%	62.11%	65.50%	76.50%	100.25%	85.43%
Covered employee payroll	\$ 2,862,491	2,837,222	2,680,970	2,198,312	2,334,263	2,283,935
NET OPEB liability as a percentage of covered						
employee payroll	93.17%	71.89%	70.96%	53.59%	-0.54%	35.05%

Note to Schedule

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

TRAVERSE CITY LIGHT AND POWER

REQUIRED SUPPLEMENTARY INFORMATION

OTHER POST EMPLOYMENT BENEFIT TRUST FUND

SCHEDULE OF CONTRIBUTIONS

FOR THE YEAR ENDED JUNE 30, 2022

	2017	2018	2019	2020	2021	2022
Actuarially determined contribution	\$ 229,556	\$ 175,757	\$ 175,757	\$ 164,442	\$ 138,418	\$ 82,720
Actual contribution	229,556	229,388	175,757	164,442	138,418	82,720
Contribution deficiency (excess)	\$ -	\$ (53,631)	\$ -	\$ -	\$ -	\$ -
Covered employee payroll	\$ 2,862,491	\$ 2,837,222	\$ 2,680,970	\$ 2,198,312	\$ 2,334,263	\$ 2,283,395
Contribution as a percentage of covered employee payroll	8.02%	6.19%	6.56%	7.48%	5.93%	3.62%
Notes to Schedule						
Actuarial cost method	Entry Age Normal					
Amortization method	Straight Line					
Remaining amortization period	4.45					
Asset valuation method	Market Value					
Inflation	2.25%					
Salary increases	2.50%					
Investment rate of return	7.50%					
Retirement age	Varies depending on retirement plan					
Mortality	MP-2019 Combined Annuitant Mortality Table for males and females					
Health Care Trend rates	-10.51 to 6.50%					

Note to Schedule

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

TRAVERSE CITY LIGHT AND POWER
REQUIRED SUPPLEMENTARY INFORMATION
OTHER POST EMPLOYMENT BENEFIT TRUST FUND
SCHEDULE OF INVESTMENT RETURNS
FOR THE YEAR ENDED JUNE 30, 2022

	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>	<u>2022</u>
Annual money-weighted rate of return, net of investment expense	20.50%	5.90%	2.60%	1.83%	24.10%	-8.73%

Note to Schedule

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

OTHER SUPPLEMENTARY INFORMATION

TRAVERSE CITY LIGHT AND POWER

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

SCHEDULE OF CAPITAL ASSETS AND DEPRECIATION (UNAUDITED) LIGHT AND POWER FUND FOR THE YEAR ENDED JUNE 30, 2022

	Capital Assets - Cost			Balance at June 30, 2022
	Balance at June 30, 2021	Additions/ Transfers	Deletions/ Transfers	
Land and land improvements				
Land	\$ 1,033,770	\$ -	\$ -	\$ 1,033,770
Land improvements	37,640	-	-	37,640
Total land and land improvements	1,071,410	-	-	1,071,410
Buildings and improvements				
Service center	5,686,147	10,356	-	5,696,503
Office structures	97,149	-	-	97,149
Other buildings	68,677	-	-	68,677
Total buildings and improvements	5,851,973	10,356	-	5,862,329
Equipment and distribution system				
Union St. Dam	24,010	-	-	24,010
Keystone plant	390	-	-	390
Wind generation unit	20,850	-	-	20,850
Transmission and distribution	94,555,862	2,049,923	426,987	96,178,798
Electric vehicle charging stations	-	374,773	-	374,773
General	2,015,397	23,431	-	2,038,828
Total equipment and distribution system	96,616,509	2,448,127	426,987	98,637,649
Construction in progress	452,476	2,730,262	2,190,420	992,318
Total	\$ 103,992,368	\$ 5,188,745	\$ 2,617,407	\$ 106,563,706

Balance at June 30, 2021	Accumulated Depreciation		Balance at June 30, 2022	Capital Assets - Net
	Current Depreciation	Deletions		Balance at June 30, 2022
\$ -	\$ -	\$ -	\$ -	\$ 1,033,770
-	-	-	-	37,640
-	-	-	-	1,071,410
2,435,684	174,071	-	2,609,755	3,086,748
18,636	1,226	-	19,862	77,287
24,591	2,060	-	26,651	42,026
2,478,911	177,357	-	2,656,268	3,206,061
24,010	-	-	24,010	-
390	-	-	390	-
4,691	625	-	5,316	15,534
30,392,252	2,807,353	335,758	32,863,847	63,314,951
-	12,493	-	12,493	362,280
1,312,999	130,061	-	1,443,060	595,768
31,734,342	2,950,532	335,758	34,349,116	64,288,533
-	-	-	-	992,318
\$ 34,213,253	\$ 3,127,889	\$ 335,758	\$ 37,005,384	\$ 69,558,322

TRAVERSE CITY LIGHT AND POWER

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

SCHEDULE OF CAPITAL ASSETS AND DEPRECIATION (UNAUDITED) FIBER FUND FOR THE YEAR ENDED JUNE 30, 2022

	Capital Assets - Cost			Balance at June 30, 2022
	Balance at June 30, 2021	Additions/ Transfers	Deletions/ Transfers	
Equipment and distribution system				
Overhead	\$ 2,088,904	\$ -	\$ -	\$ 2,088,904
Underground	2,031,690	-	-	2,031,690
Termination boxes	761,295	-	-	761,295
Wireless equipment	51,725	-	-	51,725
WIFI system	501,863	-	-	501,863
Customer services	325,016	226,855	-	551,871
Data center	346,854	-	-	346,854
Equipment	73,768	38,270	-	112,038
Other property	49,624	-	-	49,624
Total equipment and distribution system	6,230,739	265,125	-	6,495,864
Construction in progress	1,399	265,136	265,136	1,399
Total	\$ 6,232,138	\$ 530,261	\$ 265,136	\$ 6,497,263

Accumulated Depreciation				Capital Assets - Net
Balance at June 30, 2021	Current Depreciation	Deletions	Balance at June 30, 2022	Balance at June 30, 2022
\$ 701,315	\$ 104,792	\$ -	\$ 806,107	\$ 1,282,797
212,783	101,585	-	314,368	1,717,322
241,561	38,065	-	279,626	481,669
33,618	2,586	-	36,204	15,521
326,162	50,186	-	376,348	125,515
8,125	27,594	-	35,719	516,152
8,671	17,342	-	26,013	320,841
1,845	5,602	-	7,447	104,591
47,164	545	-	47,709	1,915
1,581,244	348,297	-	1,929,541	4,566,323
-	-	-	-	1,399
\$ 1,581,244	\$ 348,297	\$ -	\$ 1,929,541	\$ 4,567,722

TRAVERSE CITY LIGHT AND POWER

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

SCHEDULE OF REVENUES AND EXPENSES - BUDGET AND ACTUAL (UNAUDITED) LIGHT AND POWER FUND FOR THE YEAR ENDED JUNE 30, 2022

	Amended Budget	Actual	Positive (Negative) Variance
Operating revenues - sales			
Residential	\$ 6,604,000	\$ 6,725,915	\$ 121,915
Commercial	14,695,000	14,940,030	245,030
Industrial	9,360,000	9,099,951	(260,049)
Public authority	361,000	298,504	(62,496)
Green energy	50,000	79,183	29,183
Electric vehicle charging stations	-	5,038	5,038
Street lighting	225,000	222,302	(2,698)
Yard lights	125,000	131,313	6,313
Total operating revenues - sales	31,420,000	31,502,236	82,236
Other operating revenues			
Forfeited discounts	55,000	30,583	(24,417)
Merchandise and jobbing	140,000	166,854	26,854
Sale of scrap	20,000	39,689	19,689
MISO income	3,100,000	3,184,244	84,244
Miscellaneous	39,500	90,389	50,889
Total other operating revenues	3,354,500	3,511,759	157,259
Nonoperating revenues			
Federal grant	-	20,775	20,775
State grant	-	136,897	136,897
Rental income	51,600	52,772	1,172
Pole rental income	65,000	21,289	(43,711)
Reimbursements	42,000	208,245	166,245
Lease revenue	-	42,850	42,850
Interest income	90,000	98,642	8,642
Change in fair market value of investments	-	(985,620)	(985,620)
Gain/(Loss) on sale of assets	-	(91,231)	(91,231)
Total nonoperating revenues	248,600	(495,381)	(743,981)
Total revenues	35,023,100	34,518,614	(504,486)

TRAVERSE CITY LIGHT AND POWER

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

SCHEDULE OF REVENUES AND EXPENSES - BUDGET AND ACTUAL (UNAUDITED) LIGHT AND POWER FUND FOR THE YEAR ENDED JUNE 30, 2022

	<u>Amended Budget</u>	<u>Actual</u>	<u>Positive (Negative) Variance</u>
Purchase power expense			
Salaries and wages	\$ 90,400	\$ (5,192)	\$ 95,592
Payroll taxes and fringes	(26,300)	132,324	(158,624)
Purchased power	20,878,500	22,116,889	(1,238,389)
Professional and contractual	193,000	97,648	95,352
Professional development	3,000	-	3,000
Operation supplies	4,800	3,389	1,411
Communications	200	57	143
Safety	3,600	3,076	524
Transportation	4,800	2,789	2,011
Equipment rental	15,200	7,869	7,331
Miscellaneous	500	217	283
	<u>21,167,700</u>	<u>22,359,066</u>	<u>(1,191,366)</u>
Total purchase power expenses	<u>21,167,700</u>	<u>22,359,066</u>	<u>(1,191,366)</u>

Continued

TRAVERSE CITY LIGHT AND POWER

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

SCHEDULE OF REVENUES AND EXPENSES - BUDGET AND ACTUAL (UNAUDITED) LIGHT AND POWER FUND FOR THE YEAR ENDED JUNE 30, 2022

	Amended Budget	Actual	Positive (Negative) Variance
Distribution expense			
Salaries and wages	\$ 1,886,700	\$ 1,682,484	\$ 204,216
Payroll taxes and fringes	1,194,600	1,153,066	41,534
Substation	143,200	156,444	(13,244)
Overhead lines	27,000	61,735	(34,735)
Tree trimming	215,500	136,619	78,881
Underground lines	26,600	38,434	(11,834)
Storm work	50,000	8,401	41,599
Customer installation	-	3,646	(3,646)
Electric meters	13,500	21,660	(8,160)
Street lighting	240,000	257,233	(17,233)
Plant and structures	89,000	78,337	10,663
Load and dispatching contractual services	34,500	32,265	2,235
Electric vehicle charging stations	-	3,880	(3,880)
Professional services	123,400	66,027	57,373
Professional development	45,300	25,461	19,839
Operation supplies	116,400	104,923	11,477
Utilities	116,600	121,245	(4,645)
Safety	28,600	26,986	1,614
Transportation	29,500	33,394	(3,894)
Equipment rental	(26,000)	43,798	(69,798)
Inventory adjustment	-	(52,425)	52,425
Miscellaneous	11,000	24,338	(13,338)
Total distribution expense	4,365,400	4,027,951	337,449
Transmission expense			
Salaries and wages	184,200	212,358	(28,158)
Substation	69,500	49,880	19,620
Overhead lines	27,500	83,048	(55,548)
MISO	30,000	24,853	5,147
Load and dispatching	14,000	12,735	1,265
Equipment rental	1,800	2,910	(1,110)
Inventory adjustment	-	(16,046)	16,046
Miscellaneous	80,000	70,349	9,651
Total transmission expense	407,000	440,087	(33,087)

Continued

TRAVERSE CITY LIGHT AND POWER

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

SCHEDULE OF REVENUES AND EXPENSES - BUDGET AND ACTUAL (UNAUDITED) LIGHT AND POWER FUND FOR THE YEAR ENDED JUNE 30, 2022

	Amended Budget	Actual	Positive (Negative) Variance
Customer accounting expense			
Salaries and wages	\$ 174,000	\$ 173,561	\$ 439
Meter reading	168,100	151,435	16,665
Payroll taxes and fringes	197,400	226,711	(29,311)
Office supplies	3,000	2,594	406
Postage	37,500	29,520	7,980
Communications	24,300	23,813	487
Stationary and printing	2,000	268	1,732
Professional and contractual	16,100	22,297	(6,197)
Uncollectible accounts	12,500	(3,639)	16,139
Collection expense	2,500	115	2,385
Data processing	17,000	15,142	1,858
Professional development	2,800	561	2,239
Transportation	4,500	2,602	1,898
Equipment rental	11,000	13,132	(2,132)
Miscellaneous	8,700	7,169	1,531
Total customer accounting expense	681,400	665,281	16,119
Public service expense			
Salaries and wages	101,300	104,622	(3,322)
Payroll taxes and fringes	11,200	47,654	(36,454)
Office supplies	500	208	292
Communications	600	533	67
Professional and contractual	81,000	38,992	42,008
Voluntary green rate program	100,000	-	100,000
Community investment fund	75,000	48,465	26,535
Public service information	442,500	397,690	44,810
Total public service expense	812,100	638,164	173,936

Continued

TRAVERSE CITY LIGHT AND POWER

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

SCHEDULE OF REVENUES AND EXPENSES - BUDGET AND ACTUAL (UNAUDITED) LIGHT AND POWER FUND FOR THE YEAR ENDED JUNE 30, 2022

	Amended Budget	Actual	Postive (Negative) Variance
Information Systems			
Salaries	\$ 127,900	\$ 140,355	\$ (12,455)
Payroll taxes and fringes	41,300	71,949	(30,649)
Professional development	3,000	4,232	(1,232)
Professional and contractual	35,000	6,919	28,081
Office supplies	1,000	-	1,000
Operation supplies	4,500	7,347	(2,847)
Communication	7,900	6,019	1,881
Software	198,000	143,221	54,779
Hardware	20,000	6,467	13,533
Uniforms	1,000	235	765
Printing and publishing	200	90	110
Miscellaneous	500	187	313
Total information systems	440,300	387,021	53,279

TRAVERSE CITY LIGHT AND POWER

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

SCHEDULE OF REVENUES AND EXPENSES - BUDGET AND ACTUAL (UNAUDITED) LIGHT AND POWER FUND FOR THE YEAR ENDED JUNE 30, 2022

	Amended Budget	Actual	Postive (Negative) Variance
General administration expense			
Salaries	\$ 401,700	\$ 354,542	\$ 47,158
Payroll taxes and fringes	262,000	233,682	28,318
Professional development	19,200	19,735	(535)
Professional and contractual	90,400	134,942	(44,542)
Office supplies	4,500	6,068	(1,568)
Fees and per diems	72,500	70,313	2,187
Special services	6,900	3,327	3,573
Legal fees	55,000	34,328	20,672
Utilities	4,600	4,162	438
Printing and publishing	6,000	3,475	2,525
Transportation	500	1,246	(746)
Miscellaneous	3,000	8,692	(5,692)
Total general administration expense	926,300	874,512	51,788
Other expenses			
Insurance - general	85,000	89,050	(4,050)
City fee	1,748,000	1,747,792	208
Depreciation	3,165,000	3,151,599	13,401
Total other expenses	4,998,000	4,988,441	9,559
Total operating expenses	33,798,200	34,380,523	(582,323)
Change in net position	\$ 1,224,900	\$ 138,091	\$ (1,086,809)

TRAVERSE CITY LIGHT AND POWER

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

SCHEDULE OF REVENUES AND EXPENSES - BUDGET AND ACTUAL (UNAUDITED) FIBER FUND FOR THE YEAR ENDED JUNE 30, 2022

	Amended Budget	Actual	Positive (Negative) Variance
Operating revenues - sales			
Charges for services - dark fiber	\$ 463,800	\$ 450,333	\$ (13,467)
Residential sales - lit fiber	519,300	377,698	(141,602)
Commercial sales - lit fiber	270,400	116,058	(154,342)
VOIP sales	19,000	19,488	488
Merchandising and jobbing	50,000	9,074	(40,926)
Forfeited discounts	-	2,203	2,203
Total operating revenues	1,322,500	974,854	(347,646)
Fiber expenses			
Salaries and wages	114,200	148,411	(34,211)
Payroll taxes and fringes	102,800	147,839	(45,039)
Operation supplies	2,500	3,632	(1,132)
Communications	1,300	545	755
Professional and contractual	532,000	314,847	217,153
Building overhead costs	-	21,000	(21,000)
Professional development	5,000	5,031	(31)
Transportation	32,000	12,500	19,500
Pole attachment fees	15,500	15,526	(26)
Repair and Maintenance	5,000	-	5,000
Miscellaneous	25,000	16,262	8,738
Total fiber expenses	835,300	685,593	149,707
WIFI expenses			
Operation and maintenance	36,300	36,040	260
Other expenses			
Insurance and bonds	6,000	1,773	4,227
City fee	66,000	48,743	17,257
Depreciation	400,000	348,297	51,703
Total other expenses	472,000	398,813	73,187
Total operating expenses	1,343,600	1,120,446	223,154
Operating income (loss)	(21,100)	(145,592)	(124,492)
Non-operating revenues (expenses)			
Reimbursements	26,800	8,942	(17,858)
Interest expense	-	(18,789)	(18,789)
Total non-operating revenues	26,800	(9,847)	(36,647)
Change in net position	\$ 5,700	\$ (155,439)	\$ (87,845)

INTERNAL CONTROL AND COMPLIANCE



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

December 23, 2022

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Traverse City Light and Power, a Component Unit of the City of Traverse City, Michigan, as of and for the year ended June 30, 2022, and the related notes to the financial statements, which collectively comprise Traverse City Light and Power's basic financial statements, and have issued our report thereon dated December 23, 2022.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

Ordedeld Haefner LLC