

Traverse City Light and Power

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

Financial Statements

**For the Fiscal Year Ended
June 30, 2025**



Vredeveld Haefner LLC
CPAs and Consultants

CPAs

TRAVERSE CITY LIGHT AND POWER

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

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INDEPENDENT AUDITORS' REPORT

December 17, 2025

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 the business-type activities, each major fund, and the aggregate remaining fund information 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, 2025, 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, 2025, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

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 37 through 42 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 17, 2025, 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.

Uredewald 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, 2025. 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 \$87,721,276 at the close of the most recent fiscal year, June 30, 2025.

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	
	2025	2024
Current and other assets	\$28,195,591	\$26,955,262
Capital assets	78,157,782	76,514,366
Total assets	106,353,373	103,469,628
Deferred outflows	3,598,155	4,606,879
Long-term liabilities outstanding	15,090,231	15,426,928
Other liabilities	5,353,253	5,188,117
Total liabilities	20,443,484	20,615,045
Deferred inflows	1,786,768	2,679,941
Net position		
Invested in capital assets	74,814,069	73,250,436
Unrestricted	12,907,207	11,531,385
Total net position	\$87,721,276	\$84,781,521

Traverse City Light and Power’s Changes in Net Position

Business-type Activities	June 30	
	2025	2024
Operating revenue	\$43,471,840	\$40,299,016
Operating expenses	42,255,167	37,678,434
Nonoperating revenue (expense)	1,723,082	1,271,379
Increase in net position	2,939,755	3,891,961
Net position – beginning of year	84,781,521	80,889,560
Net position – end of year	\$87,721,276	\$84,781,521

Business-type activities

The overall financial position of the Department remained strong in 2024-2025. 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. The City Commission authorized the issuance of Smart Grid Bonds composed of a market bond issuance and loan issued by the USDA through the Power Sustainable Rural Communities Program. Issuance for the market bond is expected to occur in the subsequent fiscal year. 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. Additionally, TCL&P have various energy service contracts for solar, wind and landfill with MPPA and other entities.

Revenue

Overall, the Electric Fund’s revenues were over budget by \$2,240,699. Electric operating revenues were over budget by \$2,350,507 and non-operating revenues came under budget by \$109,808. Overall revenues exceeded budget relating primarily to higher electricity consumption than was projected.

Expenses

In fiscal year 2024-25, Electric Funds operating expenses were under budget by \$1,062,357. Purchase power costs came in overbudget by \$1,068,852 related to significant maintenance repairs for the Kalkaska Combustion Turbine and was offset by various departments that came under budget with the largest being Information Systems at \$869,401 relating to a position not being filled and accounts not fully expended such as software and hardware.

Capital asset and debt administration

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

	June 30	
	<u>2025</u>	<u>2024</u>
Land and land improvements	\$1,071,410	\$1,071,410
Construction in progress	3,554,609	1,435,581
Buildings and improvements	6,736,994	6,216,001
Equipment and distribution system	114,767,680	112,577,315
Right of use subscription	1,802,786	1,802,786
	<u>\$127,933,479</u>	<u>\$123,103,094</u>
Accumulated depreciation	(48,273,375)	(44,966,220)
Total	<u>\$79,660,104</u>	<u>\$78,136,873</u>

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

Traverse City Light and Power Notes Payable

	June 30	
	<u>2025</u>	<u>2024</u>
Notes payable	<u>\$237,208</u>	<u>\$253,277</u>

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

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, 2025

ASSETS	<u>Light and Power Fund</u>	<u>Fiber Fund</u>	<u>Business-type Activities Total</u>
Current assets			
Cash and cash equivalents	\$ 207,247	\$ 152,529	\$ 359,776
Receivables			
Customer, less allowances of \$341,500 and \$984 for uncollectible accounts (Light and Power Fund and Fiber Fund)	5,179,256	71,768	5,251,024
Accrued interest	21,913	-	21,913
Taxes	11,246	-	11,246
Lease receivable	65,629	-	65,629
Other	697,438	-	697,438
Due from other funds	10,554	12,299	22,853
Due from federal government	212,790	-	212,790
Due from state	169,462	-	169,462
Inventories	2,999,947	166,254	3,166,201
Prepaid expenses	83,330	4,357	87,687
Total current assets	<u>9,658,812</u>	<u>407,207</u>	<u>10,066,019</u>
Non-current assets			
Investments	10,366,850	-	10,366,850
Accounts receivables	2,347,269	-	2,347,269
Lease receivable	166,796	-	166,796
Long-term advances - Due from Fiber Fund	3,264,230	-	3,264,230
Right to use subscription asset	1,502,322	-	1,502,322
OPEB Asset	420,665	-	420,665
Land and land improvements	1,071,410	-	1,071,410
Construction in progress	3,554,609	-	3,554,609
Lease asset, net of amortization	61,440	-	61,440
Capital assets being depreciated, net	69,022,851	4,508,912	73,531,763
Total non-current assets	<u>91,778,442</u>	<u>4,508,912</u>	<u>96,287,354</u>
Total assets	<u>101,437,254</u>	<u>4,916,119</u>	<u>106,353,373</u>
Deferred outflows			
Deferred outflows of resources - Pensions	3,239,035	-	3,239,035
Deferred outflows of resources - OPEB	359,120	-	359,120
Total deferred outflows of resources	<u>3,598,155</u>	<u>-</u>	<u>3,598,155</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 NET POSITION

JUNE 30, 2025

LIABILITIES AND NET POSITION	Light and Power Fund	Fiber Fund	Business-type Activities Total
Current liabilities			
Accounts payable	\$ 4,011,534	\$ 56,375	\$ 4,067,909
Accrued expenses and other liabilities	313,473	26,032	339,505
Customer deposits	179,065	-	179,065
Due to other funds	12,299	10,554	22,853
Accrued interest payable	-	5,781	5,781
Unearned revenue	-	66,275	66,275
Notes payable	29,883	-	29,883
Lease liability	29,340	-	29,340
Right to use subscription liability	89,331	-	89,331
Due to other funds - primary government	363,311	160,000	523,311
Total current liabilities	5,028,236	325,017	5,353,253
Long-term liabilities			
Compensated absences	380,858	31,687	412,545
Long term advances - Due to Electric Fund	-	3,264,230	3,264,230
Notes payable	207,325	-	207,325
Lease liability	46,516	-	46,516
Right to use subscription liability	1,318,058	-	1,318,058
Net pension liability	9,841,557	-	9,841,557
Total liabilities	16,822,550	3,620,934	20,443,484
Deferred inflows			
Deferred inflows of resources - Lease	224,386	-	224,386
Deferred inflows of resources - Pensions	1,040,725	-	1,040,725
Deferred inflows of resources - OPEB	521,657	-	521,657
Total deferred inflows of resources	1,786,768	-	1,786,768
Net position			
Invested in capital assets	73,729,387	1,084,682	74,814,069
Unrestricted	12,696,704	210,503	12,907,207
Total net position	\$ 86,426,091	\$ 1,295,185	\$ 87,721,276

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, 2025

	Light and Power Fund	Fiber Fund	Business-type Activities Total
Operating revenues			
Charges for services	\$ 38,023,193	\$ 1,326,133	\$ 39,349,326
MISO income	3,657,777	-	3,657,777
Other	464,737	-	464,737
Total operating revenues	42,145,707	1,326,133	43,471,840
Operating expenses			
Purchase power	24,832,937	-	24,832,937
Distribution	5,306,252	-	5,306,252
Transmission	547,902	-	547,902
Customer accounting	1,021,223	68,273	1,089,496
Public service	1,051,040	-	1,051,040
Information systems	929,499	-	929,499
General administration	1,430,696	-	1,430,696
Fiber	-	749,007	749,007
Other	126,356	-	126,356
City fee	2,103,311	66,534	2,169,845
Depreciation and amortization	3,653,667	368,470	4,022,137
Total operating expenses	41,002,883	1,252,284	42,255,167
Operating income	1,142,824	73,849	1,216,673
Nonoperating revenues (expenses)			
Federal grant	390,998	-	390,998
State grant	211,447	-	211,447
Rental income	28,547	-	28,547
Reimbursements	480,049	107,060	587,109
Interest income	125,594	4,552	130,146
Lease revenue	65,542	-	65,542
Change in fair value of investments	546,950	-	546,950
Interest expense	(61,524)	(8,672)	(70,196)
Loss on sale of assets	(167,461)	-	(167,461)
Total nonoperating revenue (expenses)	1,620,142	102,940	1,723,082
Change in net position	2,762,966	176,789	2,939,755
Net position, beginning of year	83,663,125	1,118,396	84,781,521
Net position, end of year	\$ 86,426,091	\$ 1,295,185	\$ 87,721,276

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, 2025

	Light and Power Fund	Fiber Fund	Business-type Activities Total
Cash flows from operating activities			
Cash received from customers	\$ 41,075,141	\$ 1,375,315	\$ 42,450,456
Cash payments to employees	(6,610,605)	(384,549)	(6,995,154)
Cash payments to suppliers for goods and services	(29,313,803)	(495,589)	(29,809,392)
Cash payments of City fee	(1,740,000)	(66,534)	(1,806,534)
Net cash provided by operating activities	3,410,733	428,643	3,839,376
Cash flows from noncapital financing activities			
Customer deposits received	16,265	-	16,265
Rental income received	28,547	-	28,547
Reimbursements received	480,049	107,060	587,109
Net cash provided by noncapital financing activities	524,861	107,060	631,921
Cash flows from capital and related financing activities			
Interfund loans	8,794	(168,629)	(159,835)
Cash received from federal government	469,715	-	469,715
Cash received from state government	87,789	-	87,789
Purchase of capital assets	(5,339,705)	(349,415)	(5,689,120)
Payment for right to use subscription asset	(85,833)	-	(85,833)
Cash received from lease receivable	65,542	-	65,542
Payment for lease payables	(28,386)	-	(28,386)
Issuance of notes payable	11,127	-	11,127
Repayment of notes payable	(27,196)	-	(27,196)
Interest expense	(61,524)	(8,672)	(70,196)
Net cash (used in) capital financing activities	(4,899,677)	(526,716)	(5,426,393)
Cash flows from investing activities			
Sale of investments	173	-	173
Interest	125,746	4,552	130,298
Net cash provided by investing activities	125,919	4,552	130,471
Net increase (decrease) in cash and cash equivalents	(838,164)	13,539	(824,625)
Cash and cash equivalents, beginning of year	1,045,411	138,990	1,184,401
Cash and cash equivalents, end of year	\$ 207,247	\$ 152,529	\$ 359,776

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, 2025

	Light and Power Fund	Fiber Fund	Business-type Activities Total
Cash flows from operating activities			
Operating income	\$ 1,142,824	\$ 73,849	\$ 1,216,673
Adjustments to reconcile operating income to net cash provided by operating activities			
Depreciation	3,653,667	368,470	4,022,137
Changes in operating assets and liabilities which provided (used) cash			
Receivables	(1,070,566)	49,182	(1,021,384)
Due to primary government	363,311	-	363,311
Inventories	(575,484)	(10,472)	(585,956)
Prepaid expenses	100,735	-	100,735
Deferred outflow	1,008,724	-	1,008,724
Accounts payable	(270,374)	(69,189)	(339,563)
Accrued expenses and other liabilities	105,869	16,803	122,672
Compensated absences	75,888	-	75,888
Deferred inflow	(827,631)	-	(827,631)
Net pension liability	(135,783)	-	(135,783)
Other post employment liability	(160,447)	-	(160,447)
Net cash provided by operating activities	\$ 3,410,733	\$ 428,643	\$ 3,839,376

Non cash transaction: The cash flow includes the change in fair market value of investments in the amount of \$546,950

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, 2025**

	<u>Retiree Health Funding Trust</u>
Assets	
Investments, at fair value	
MERS total market fund	\$ 5,861,974
Liabilities	
Accrued liabilities	<u>217,137</u>
Net Position	
Held in trust for other postemployment benefits	<u><u>\$ 5,644,837</u></u>

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

TRAVERSE CITY LIGHT AND POWER

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

STATEMENT OF CHANGES IN FIDUCIARY NET POSITION FIDUCIARY FUND FOR THE YEAR ENDED JUNE 30, 2025

	<u>Retiree Health Funding Trust</u>
Additions	
Employer contributions	<u>\$ 10,443</u>
Investment earnings	
Net investment in fair value of investments	519,530
Investment advisor fees	<u>(11,668)</u>
Net investment earnings	<u>507,862</u>
Total additions	518,305
Deductions	
Medical, dental, and life insurance retirees	<u>(297,827)</u>
Net increase in fiduciary net position	220,478
Net position held in trust, beginning of year	<u>5,424,359</u>
Net position held in trust, end of year	<u><u>\$ 5,644,837</u></u>

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

TRAVERSE CITY LIGHT AND POWER

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

NOTES TO FINANCIAL STATEMENTS

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 2025, the City fee was \$2,169,845.

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

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- financial institution.
- c. Commercial paper rated at the time of purchase within the two highest classifications established by not less than two standard rating services and that matures not more than 270 days after the date of purchase.
 - d. 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 and fiber system and are valued at average cost. 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:

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

Lease Receivables

The Department has recorded lease receivables at the present value of payments expected to be received during the lease term. Subsequently, the lease receivable is reduced by the principal portion of the lease payments received.

Key estimates and judgements related to leases include how the Department determines the 1) the discount rate it uses to discount the expected lease payments to present value, 2) lease term, and 3) lease payments received by the lessor. The Department generally uses its estimated incremental borrowing rate as the discount rate for leases. The lease term includes the non-cancellable period of the lease. Lease payments received included in the measurement of the lease receivable are composed of fixed payments.

The Department monitors changes in circumstances that would require a remeasurement of its lease and will remeasure the lease receivable if certain changes occur that are expected to significantly affect the amount of the lease receivable.

Leased Assets and Lease Payable

The right to use leased assets are initially measured at an amount equal to the initial measurement of the related lease liability plus any ancillary charges necessary to place the lease into service. The right to use assets are amortized on a straight-line basis over the life of the related lease.

At the commencement of a lease, the Department measures the lease liability at the present value of payments expected to be made during the lease term. Subsequently, the lease liability is reduced by the principal portion of lease payments made.

Key estimates and judgements related to leases include how the Department determines the 1) the discount rate it uses to discount the expected lease payments to present value, 2) lease term, and 3) lease payments. Where applicable, the Department will use the interest rate charged by the lessor as the discount rate. When it is not provided, the Department generally uses its estimated incremental borrowing rate as the discount rate for leases. The lease term includes the non-cancellable period of the lease. Lease payments included in the measurement of the lease liability are composed of fixed payments and purchase option price (if applicable) that the Department is reasonably certain to exercise.

The Department monitors changes in circumstances that would require a remeasurement of its lease and will remeasure the lease asset and liability if certain changes occur that are expected to significantly affect the amount of the lease liability.

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Subscription Based Information Technology Arrangements (“SBITA”)

The Department has a non-cancellable subscription-based information technology arrangement.

At the commencement of a subscription, the Department measures the subscription liability at the present value of payments expected to be made during the SBITA term. Subsequently, the subscription liability is reduced by the principal portion of the subscription payments made. The subscription asset is initially measured as the initial amount of the subscription liability, adjusted for subscription payments made at or before the subscription commencement date, plus certain initial direct costs. Subsequently, the subscription asset is amortized on a straight-line basis over its useful life.

Key estimates and judgements related to leases include how the Department determines the 1) the discount rate it uses to discount the expected SBITA payments to present value, 2) subscription term, and 3) subscription payments. Where applicable, the Department will use the interest rate charged by the SBITA vendor as the discount rate. When it is not provided, the Department generally uses its estimated incremental borrowing rate as the discount rate for SBITA’s. The SBITA term includes the noncancellable period of the subscription. Subscription payments included in the measurement of the subscription liability are composed of fixed payments and purchase option price (if applicable) that the Department is reasonably certain to exercise.

The Department monitors changes in circumstances that would require a remeasurement of its subscription and will remeasure the subscription asset and liability if certain changes occur that are expected to significantly affect the amount of the subscription liability.

Compensated Absences

The Department recognizes a liability for compensated absences for leave time that (1) has been earned for services previously rendered by employees, (2) accumulates and is allowed to be carried over to subsequent years, and (3) is more likely than not to be used as time off or settled during or upon separation from employment. The liability for compensated absences includes salary-related benefits, where applicable.

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 8 and the OPEB plan as discussed in Note 12.

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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 8, OPEB plan as discussed in Note 12, 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.

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.

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2. CASH DEPOSITS AND INVESTMENTS

The Department's cash and cash equivalents, and investments on June 30, 2025, are composed of the following:

	Enterprise Funds	Fiduciary Fund	Total
Cash and cash equivalents	\$359,776	\$ -	\$359,776
Investments	10,366,850	5,861,974	16,228,824
Total	\$10,726,626	\$5,861,974	\$16,588,600

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

Cash on hand	\$900
Deposits	358,876
Investments	10,366,850
OPEB - investments	5,861,974
Total	\$16,588,600

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.

The Department chooses to disclose its investments by specifically identifying each. As of June 30, 2025, the Department's Michigan CLASS investment and the U.S. agency securities are rated by Standard and Poor's 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.

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The Department had the following investments:

<u>Investment</u>	<u>Maturity</u>	<u>Fair Value</u>	<u>Rating</u>
FHLB Bond	06/30/2025	\$1,000,000	AA+
FHLB Bond	10/29/2025	1,974,900	AA+
FFCB Bond	01/22/2027	1,903,180	AA+
FFCB Bond	04/27/2027	949,770	AA+
FHLB Bond	06/04/2027	948,400	AA+
FHLB Bond	11/16/2029	1,863,940	AA+
FHLB Bond	10/29/2030	1,722,920	AA+
Michigan CLASS	NA	3,740	AAAm
	Total	\$10,366,850	

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.

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 \$10,366,850 of investments at June 30, 2025, the Department has a custodial credit risk exposure of \$10,363,110 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

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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.

- FFCB 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>\$3,740</u>

3. LEASES RECEIVABLE

The Department provides lease rights for pole attachments to third parties without transfer of ownership for periods greater than one year and tower rental. 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, 2025 was \$232,425. Lease revenue amounted to \$65,542 and interest revenue was \$5,426 for the year ended June 30, 2025.

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4. CAPITAL ASSETS

At June 30, 2025, 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	1,435,581	4,093,581	1,974,553	3,554,609
	<hr/>			
Total capital assets not being depreciated	2,506,991	4,093,581	1,974,553	4,626,019
	<hr/>			
Capital assets being depreciated				
Buildings and improvements	6,216,001	520,993	-	6,736,994
Equipment and distribution system	105,014,032	2,682,714	845,379	106,851,367
Electric vehicle charging stations	374,773	16,970	13,355	378,388
Fiber System	6,686,647	349,415	-	7,036,062
Wi-Fi System	501,863	-	-	501,863
	<hr/>			
Total capital assets being depreciated	118,793,316	3,570,092	858,734	121,504,674
	<hr/>			
Less accumulated depreciation for				
Buildings and improvement	3,016,881	195,938	-	3,212,819
Equipment and distribution system	39,046,052	3,288,285	688,159	41,646,178
Electric vehicle charging stations	62,465	25,552	3,116	84,901
Fiber System	2,183,823	343,370	-	2,527,193
Wi-Fi System	476,720	25,100	-	501,820
	<hr/>			
Total accumulated depreciation	44,785,941	3,878,245	691,275	47,972,911
	<hr/>			
Total capital assets being depreciated, net	74,007,375	(308,153)	(167,459)	73,531,763
	<hr/>			
Intangible asset				
Right of use subscriptions	1,802,786	-	-	1,802,786
Less accumulated amortization	180,279	120,185	-	300,464
	<hr/>			
Net intangible assets	1,622,507	120,185	-	1,502,322
	<hr/>			
Total capital assets, net	\$78,136,873	\$3,665,243	\$2,142,012	\$79,660,104

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	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>
Right to use assets				
Tower	\$ 45,652	\$ -	\$ -	\$45,652
Transmission pole attachment	105,436	-	-	105,436
Land	5,183	-	-	5,183
<hr/>				
Total right to use assets	156,271	-	-	156,271
Accumulated amortization				
Tower	22,820	7,606	-	30,426
Transmission pole attachment	45,186	15,061	-	60,247
Land	3,118	1,040	-	4,158
<hr/>				
Total accumulated amortization	71,124	23,707	-	94,831
Total right to use assets	\$85,147	\$(23,707)	\$ -	\$61,440

5. INTERFUND RECEIVABLES AND PAYABLES

<u>Fund</u>	<u>Interfund Receivables</u>	<u>Fund</u>	<u>Interfund Payables</u>
Light & Power	\$ 3,274,784	Fiber	\$ 3,274,784
Fiber	\$ 12,299	Light & Power	\$ 12,299

Interfund receivables and payables are established to cover financing of the Smart Grid/Fiber to the Premise project Phase 1 in the amount of \$3,264,230 and the remaining interfund receivables and payables related to misallocated expenses between funds.

6. LONG-TERM LIABILITIES

Long-term debt at June 30, 2025, 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	\$ 327,404	\$474,321	\$389,180	\$ 412,545	\$ -
Notes payable	253,277	11,116	27,185	237,208	29,883
Lease payable	104,242	-	28,386	75,856	29,340
Right to use subscription liability	1,493,222	-	85,833	1,407,389	89,331
Total	\$2,178,145	\$485,437	\$530,584	\$2,132,998	\$148,554

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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.

The principal requirements to maturity for the notes payable for the subsequent fiscal years ending June 30 were:

<u>Year</u>	<u>Principal</u>
2026	\$29,883
2027	30,444
2028	30,444
2029	30,444
2030	30,444
Thereafter	85,549
Total	<u>\$237,208</u>

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

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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>
2026	\$29,340	\$2,403	\$31,744
2027	28,564	1,415	29,979
2028	17,952	472	18,423
Total	\$75,856	\$4,290	\$80,146

Right to Use Subscription Liability

The Department has entered into a right to use subscription liability whereby the Department obtains the right to use software system for customer information system, utility billing and financial enterprise systems. The principal and interest requirements to maturity for these right to use subscriptions for the subsequent fiscal years ending June 30 were:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2026	\$ 89,331	\$ 54,670	\$ 144,000
2027	92,969	51,031	144,000
2028	96,758	47,242	144,000
2029	100,700	43,300	144,000
2030	104,802	39,198	144,000
Thereafter	922,829	145,171	1,068,001
Total	\$1,407,389	\$380,612	\$1,788,001

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

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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. In 2018, the department entered a commitment with MPPA for 24.4% of energy generated on MPPA's share of Assembly 1 Solar Farm and Invenergy Solar Farm. In 2019 the Department entered a commitment with MPPA for 18.95% of energy generated on MPPA's share of Assembly II Solar Farm. In 2021, the Department entered a commitment with MPPA for 27.2% of energy generated on MPPA's share of Calhoun solar and 26.4% of energy generated on MPPA's share of the Hart Solar Farm.

For the year ended June 30, 2025, Traverse City Light and Power recognized expenses totaling \$20,805,184 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 2025 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:

<u>Year Ended December 31</u>	<u>Operating Costs</u>
2026	\$ 8,267,117
2027	7,237,249
2028	7,337,874
2029	8,122,245
2030	8,678,502
Total	<u>\$39,642,987</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
2026	\$1,733,027	\$103,628	\$1,836,655
2027	1,765,083	73,206	1,838,289
2028	159,683	44,145	203,828
2029	167,837	35,753	203,590
2030 and thereafter	555,378	56,432	611,810
Total	\$4,381,008	\$313,164	\$4,694,172

As of December 31, 2024, MPPA has two projects that have identified asset retirement obligations. Campbell project in the amount of \$4,001,880 with the Department share at \$1,054,142 and Belle River in the amount of \$14,457,313 with the Department share at \$654,902.

On June 23, 2022, the Michigan Public Service Commission approved a settlement in Consumers Energy's Integrated Resource Plan that secured May 2025 as the retirement date for Consumers Energy's J.H. Campbell coal plant, 15 years earlier than previously planned. The U.S. Department of Energy has issued emergency orders citing a risk to grid reliability and is requiring Consumers Energy to continue to operate the coal plant. On July 26, 2023, the Michigan Public Service Commission approved a settlement in DTE's Integrated Resource Plan that secures 2028 as the retirement date for DTE's Belle River Coal Plan which will be transitioned to a natural gas plant.

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, 2025, the Department recognized expenses totaling \$3,359,857 under this agreement.

In August 2017, the Department amended the Heritage Sustainable Energy, LLC contract to purchase an additional 1MW of electric energy from the M-72 solar array. It was amended again on July 11, 2019, to include an additional 2MW of electric energy through an expansion of the M-72 1MW solar array. It was amended again on July 28, 2022 to include an additional 2 MW of electric energy through another expansion. The contract will terminate December 31, 2042. For the year ended June 30, 2025, the Department recognized expenses totaling \$386,111 under this agreement.

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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.

Benefits Provided

01 - Non Union – closed to new hires, linked to Division 11	
	2024 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	
	2024 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

TRAVERSE CITY LIGHT AND POWER

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

NOTES TO FINANCIAL STATEMENTS

11 - Non-union hired after 7/1/2017, linked to Division 01	
	2024 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

12 - Union hired after 7/1/2012, linked to Division 10	
	2024 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	
	2024 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

TRAVERSE CITY LIGHT AND POWER

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

NOTES TO FINANCIAL STATEMENTS

- 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, 2024, valuation date, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	61
Inactive employees entitled to but not yet receiving benefits	7
Active employees	<u>41</u>
	<u>109</u>

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

Employer minimum contributions range from 10.17 to 10.99% based on annual payroll for open divisions. There are two divisions that are closed to new employees that require a monthly employer contribution amount of \$39,399 and \$80,241.

Net Pension Liability. The employer's Net Pension Liability was measured as of December 31, 2024, 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, 2024, 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.

TRAVERSE CITY LIGHT AND POWER

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

NOTES TO FINANCIAL STATEMENTS

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%
MES Gain Adjustment			(.07%)
Inflation			2.50%
Administrative fee			.25%
Investment rate of return			7.18%

Discount rate. The discount rate used to measure the total pension liability is 7.18%. The projection of cash flows used to determine the discount rate assumes that employer and employee contributions will be made at the rates agreed upon for employees and the actuarially determined rates for employers. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to pay all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

TRAVERSE CITY LIGHT AND POWER

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

NOTES TO FINANCIAL STATEMENTS

Changes in Net Pension Liability

Calculating the Net Pension Liability			
Changes in Net Pension Liability	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) – (b)
Balances at 12/31/23			
Changes for the Year	\$37,572,123	\$27,594,783	\$9,977,340
Service Cost	409,889	-	409,889
Interest on Total Pension Liability	2,621,338	-	2,621,338
Difference between expected and actual experience	430,879	-	430,879
Change in Assumption	(102,878)	-	(102,878)
Employer contributions	-	1,515,001	(1,515,001)
Net investment income	-	2,040,482	(2,040,482)
Benefit payments, including employee refunds	(2,536,364)	(2,536,364)	-
Administrative expense	-	(60,472)	60,472
Net Changes	822,864	958,647	(135,783)
Balances as of 12/31/24	38,394,987	28,553,430	9,841,557

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 7.18%, as well as what the employer's Net Pension Liability would be using a discount rate that is 1 percentage point lower (6.18%) or 1% higher (8.18%) than the current rate.

	1% Decrease	Current Discount Rate	1% Increase
Net Pension Liability at 12/31/24	\$9,841,557	\$9,841,557	\$9,841,557
Change in Net Pension Liability (NPL)	4,413,244	-	(3,699,938)
Calculated NPL	\$14,254,801	\$9,841,557	\$6,141,619

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

TRAVERSE CITY LIGHT AND POWER

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

NOTES TO FINANCIAL STATEMENTS

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

For the year ended June 30, 2025, the employer recognized pension and amortization expense of \$1,669,378. 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	\$1,967,000	\$(922,980)
Change in Experience	323,159	(40,581)
Change in Assumption	92,358	(77,164)
Contributions subsequent to the measurement date*	856,518	-
Total	\$3,239,035	\$(1,040,725)

*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 2025.

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

Year ended	
2026	\$ 647,183
2027	848,859
2028	(134,641)
2029	(19,609)
Total	\$1,341,792

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 Empower Retirement Corporation, Mission Square and MERS 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 \$401,597 and employees contributed \$347,701.

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 \$65,751 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 8, 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, 2024):

Active plan members	47
Retirees and beneficiaries receiving benefits	<u>39</u>
Total	<u>86</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 June 30, 2024 annual actuarial valuation was determined using the following actuarial assumptions and roll forward this year and applied to all periods included in the measurement:

Inflation: 2.25%
Salary Increases: 3.00%
Investment rate of return: 7.5%

TRAVERSE CITY LIGHT AND POWER

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

NOTES TO FINANCIAL STATEMENTS

Healthcare cost initial trend rates: 4.4.% to 7.31% 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 6/30/2024	\$5,164,141	\$5,424,359	\$(260,218)
Changes for the Year			
Service cost	37,756	-	37,756
Interest on OPEB liability	374,117	-	374,117
Employer Contributions	-	64,460	(64,460)
Net investment income	-	507,862	(507,862)
Benefit payments, including employee refunds	(351,844)	(351,844)	-
Net changes	<u>60,029</u>	<u>220,476</u>	<u>(160,449)</u>
Balance as of 6/30/2025	\$5,224,170	\$5,644,837	\$(420,667)

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	\$131,472	\$(420,667)	\$(885,020)

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 ultimate trend rate of 4.40 to 5.0%, 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	(\$972,563)	(\$420,667)	\$238,775

TRAVERSE CITY LIGHT AND POWER

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

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, 2025 the employer recognized OPEB expense of \$(25,816). 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	\$163,085	\$348,062
Changes in assumptions	31,119	25,768
Excess (deficit) investment returns	164,916	147,827
Total	\$359,120	\$521,657

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

2026	\$ 123,931
2027	(63,682)
2028	(120,989)
2029	(98,658)
2030	(3,139)
Total	<u><u>\$ (162,537)</u></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, 2025</u>
Emergencies	\$ 100,056
Minimum Cash Reserve	9,459,550
Total	<u>\$9,559,606</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, 2025, through December 31, 2028, in the amount of \$15,947,442, and capacity transaction bilateral contracts for the fiscal year beginning July 1, 2025, through May 31, 2040, in the amount of \$4,928,095.

17. SUBSEQUENT EVENTS

On August 6, 2025, subsequent to the fiscal year end, the City issued 2025 Capital Improvement Bonds for the Traverse City Light and Power's Smart Grid Fiber to the Premise Project in the amount of \$13,460,000.

On October 20, 2025, the City Commission approved a request for a renewal of a ten-year interfund loan of \$1,000,000 for the Smart Grid Project. The intention was to provide a flexible financial mechanism to address potential cost overruns or increased customer participation causing additional drop costs than originally anticipated.

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, 2025

	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Total pension liability										
Service cost	\$ 295,317	\$ 300,475	\$ 310,387	\$ 285,497	\$ 264,001	\$ 261,413	\$ 251,797	\$ 316,301	\$ 347,633	\$ 409,889
Interest	2,142,935	2,276,465	2,292,239	2,370,497	2,386,419	2,386,190	2,502,605	2,537,411	2,602,696	2,621,338
Differences between expected and actuarial experience	363,835	(509,997)	363,115	(370,024)	(12,114)	316,198	346,956	501,584	(121,743)	430,879
Changes in assumptions	1,444,054	-	-	-	1,104,897	845,524	1,303,436	-	277,076	(102,878)
Benefit payments, including refunds	(1,715,604)	(1,818,642)	(1,930,810)	(2,021,640)	(2,130,738)	(2,233,905)	(2,311,561)	(2,423,015)	(2,517,949)	(2,536,364)
Other changes	(759)	-	1,448	(300)	7,402	-	-	-	-	-
Net change in total pension liability	2,529,778	248,301	1,036,379	264,030	1,619,867	1,575,420	2,093,233	932,281	587,713	822,864
Total pension liability, beginning 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	36,984,410	37,572,123
Total pension liability, end of year	29,214,899	29,463,200	30,499,579	30,763,609	32,383,476	33,958,896	36,052,129	36,984,410	37,572,123	38,394,987
Plan fiduciary net position										
Contribution - employer	858,331	1,564,302	2,253,396	2,395,423	2,403,450	2,471,829	2,551,769	2,681,471	2,082,539	1,515,001
Net investment income (loss)	(234,339)	1,686,136	2,200,228	(760,557)	2,532,810	3,099,212	3,145,898	(2,882,548)	2,800,706	2,040,482
Administrative expenses	(34,767)	(33,363)	(34,750)	(37,098)	(43,690)	(43,211)	(39,507)	(51,839)	(59,588)	(60,472)
Benefit payments, including refunds	(1,715,604)	(1,818,642)	(1,930,809)	(2,021,640)	(2,130,737)	(2,233,905)	(2,311,561)	(2,423,015)	(2,517,949)	(2,536,364)
Net change in plan fiduciary net position	(1,126,379)	1,398,433	2,488,065	(423,872)	2,761,833	3,293,925	3,346,599	(2,675,931)	2,305,708	958,647
Plan fiduciary net position, beginning 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	25,289,075	27,594,783
Plan fiduciary net position, end of year	15,100,023	16,498,456	18,986,521	18,562,649	21,324,482	24,618,407	27,965,006	25,289,075	27,594,783	28,553,430
Department's net pension liability	\$ 14,114,876	\$ 12,964,744	\$ 11,513,058	\$ 12,200,960	\$ 11,058,994	\$ 9,340,489	\$ 8,087,123	\$ 11,695,335	\$ 9,977,340	\$ 9,841,557
Plan fiduciary net position as a percent of total pension liability	51.69%	56.00%	62.25%	60.34%	65.85%	72.49%	77.57%	68.38%	73.44%	74.37%
Covered employee payroll	\$ 2,736,729	\$ 2,728,607	\$ 2,883,420	\$ 2,679,680	\$ 2,412,833	\$ 2,369,118	\$ 2,351,541	\$ 2,697,151	\$ 3,008,483	\$ 3,554,386
Department's net pension liability as a percent of covered employee payroll	515.76%	475.14%	399.28%	455.31%	458.34%	394.26%	343.91%	433.62%	331.64%	276.88%

Notes to Schedule

The data presented above is based on a December 31 measurement date.

TRAVERSE CITY LIGHT AND POWER
REQUIRED SUPPLEMENTARY INFORMATION
DEFINED BENEFIT PENSION PLAN
MERS SCHEDULE OF EMPLOYER CONTRIBUTIONS
FOR THE YEAR ENDED JUNE 30, 2025

	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>	<u>2022</u>	<u>2023</u>	<u>2024</u>	<u>2025</u>
Actuarially determined contribution	\$ 891,939	\$ 944,388	\$ 1,110,648	\$ 1,113,276	\$ 2,382,248	\$ 2,556,504	\$ 2,548,975	\$ 2,850,241	\$ 1,343,619	\$ 1,694,236
Actual contribution	(891,939)	(2,202,960)	(2,356,392)	(2,428,720)	(2,382,248)	(2,556,504)	(2,548,975)	(2,850,241)	(1,343,619)	(1,694,236)
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ (1,258,572)</u>	<u>\$ (1,245,744)</u>	<u>\$ (1,315,444)</u>	<u>\$ -</u>					
Covered employee payroll	\$ 2,866,124	\$ 2,862,491	\$ 2,837,222	\$ 2,680,970	\$ 2,412,833	\$ 2,369,118	\$ 2,351,541	\$ 2,697,151	\$ 3,008,483	\$ 3,554,386
Contribution as a percentage of covered employee payroll	31.12%	32.99%	39.15%	41.53%	98.73%	107.91%	108.40%	105.68%	44.66%	47.67%

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	3.00% to 14.5% (3.75% in 2023)
Investment rate of return	7.00% (7.35% 2023)
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)

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, 2025

	2018	2019	2020	2021	2022	2023	2024	2025
Total OPEB liability								
Service cost	\$ 2,852	\$ 3,363	\$ 3,615	\$ 24,167	\$ 27,928	\$ 30,505	\$ 32,788	\$ 37,756
Interest	406,878	390,609	400,451	361,942	362,322	398,670	403,760	374,117
Differences between expected and actuarial experience	(269,497)	-	(104,468)	-	553,716	-	(520,370)	-
Changes in assumptions	28,187	-	(449,662)	-	(87,492)	-	46,525	-
Benefit payments, including refunds	(342,038)	(350,628)	(349,982)	(376,806)	(385,277)	(358,396)	(364,133)	(351,844)
Other changes	(38,996)	87,555	-	-	-	-	-	-
Net change in total OPEB liability	(212,614)	130,899	(500,046)	9,303	471,197	70,779	(401,430)	60,029
Total OPEB liability, beginning of year	5,596,053	5,383,439	5,514,338	5,014,292	5,023,595	5,494,792	5,565,571	5,164,141
Total OPEB liability, end of year	5,383,439	5,514,338	5,014,292	5,023,595	5,494,792	5,565,571	5,164,141	5,224,170
Plan fiduciary net position								
Contribution - employer	229,388	-	514,424	515,225	467,997	455,138	159,894	64,460
Net investment income	191,582	78,435	64,798	1,061,721	(424,666)	340,966	496,569	507,862
Differences between expected and actuarial experience	-	(161,940)	-	-	-	-	-	-
Benefit payments	- 0	-	(349,982)	(376,807)	(385,277)	(358,396)	(364,133)	(351,844)
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)	437,708	292,330	220,478
Plan fiduciary net position, beginning of year	2,929,135	3,343,884	3,611,936	3,836,128	5,036,267	4,694,321	5,132,029	5,424,359
Plan fiduciary net position, end of year	3,343,884	3,611,936	3,836,128	5,036,267	4,694,321	5,132,029	5,424,359	5,644,837
Department's net OPEB (asset)/liability	\$ 2,039,555	\$ 1,902,402	\$ 1,178,164	\$ (12,672)	\$ 800,471	\$ 433,542	\$ (260,218)	\$ (420,667)
Plan fiduciary net position as a percent of total OPEB liability (asset)	62.11%	65.50%	76.50%	100.25%	85.43%	92.21%	105.04%	108.05%
Covered employee payroll	\$ 2,837,222	\$ 2,680,970	\$ 2,198,312	\$ 2,334,263	\$ 2,283,935	\$ 2,440,629	\$ 2,306,425	\$ 2,402,716
Department's net OPEB liability as a percent of covered employee payroll	71.89%	70.96%	53.59%	-0.54%	35.05%	17.76%	-11.28%	-17.51%

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, 2025

	2017	2018	2019	2020	2021	2022	2023	2024	2025
Total OPEB liability	\$ 5,596,053	\$ 5,383,439	\$ 5,514,338	\$ 5,014,292	\$ 5,023,595	\$ 5,494,792	\$ 5,565,571	\$ 5,164,141	\$ 5,224,170
OPEB fiduciary net position	2,929,135	3,343,884	3,611,936	3,836,128	5,036,267	4,694,321	5,132,029	5,424,359	5,644,837
Net OPEB liability	\$ 2,666,918	\$ 2,039,555	\$ 1,902,402	\$ 1,178,164	\$ (12,672)	\$ 800,471	\$ 433,542	\$ (260,218)	\$ (420,667)
OPEB fiduciary net position as a % of total OPEB liability	52.34%	62.11%	65.50%	76.50%	100.25%	85.43%	92.21%	105.04%	108.05%
Covered employee payroll	\$ 2,862,491	2,837,222	2,680,970	2,198,312	2,334,263	2,283,935	2,440,629	2,306,425	2,402,716
NET OPEB liability as a percentage of covered employee payroll	93.17%	71.89%	70.96%	53.59%	-0.54%	35.05%	17.76%	-11.28%	-17.51%

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, 2025

	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>	<u>2022</u>	<u>2023</u>	<u>2024</u>	<u>2025</u>
Actuarially determined contribution	\$ 229,556	\$ 175,757	\$ 175,757	\$ 164,442	\$ 138,418	\$ 82,720	\$ 96,742	\$ 65,071	\$ 10,443
Actual contribution	229,556	229,388	175,757	164,442	138,418	82,720	96,742	65,071	10,443
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ (53,631)</u>	<u>\$ -</u>						
Covered employee payroll	\$ 2,862,491	\$ 2,837,222	\$ 2,680,970	\$ 2,198,312	\$ 2,334,263	\$ 2,283,395	\$ 2,440,629	\$ 2,306,425	\$ 2,402,716
Contribution as a percentage of covered employee payroll	8.02%	6.19%	6.56%	7.48%	5.93%	3.62%	3.96%	2.82%	0.43%

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	3.00%
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, 2025

	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>	<u>2022</u>	<u>2023</u>	<u>2024</u>	<u>2025</u>
Annual money-weighted rate of return, net of investment expense	20.50%	5.90%	2.60%	1.83%	24.10%	-8.73%	13.54%	9.63%	9.12%

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, 2025**

	Capital Assets - Cost			Balance at June 30, 2025
	Balance at June 30, 2024	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	6,050,175	520,993	-	6,571,168
Office structures	97,149	-	-	97,149
Other buildings	68,677	-	-	68,677
Total buildings and improvements	6,216,001	520,993	-	6,736,994
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	102,892,028	2,583,572	774,315	104,701,285
Electric vehicle charging stations	374,773	16,970	13,355	378,388
General	2,076,754	99,142	71,064	2,104,832
Total equipment and distribution system	105,388,805	2,699,684	858,734	107,229,755
Construction in progress	1,435,581	3,744,165	1,625,137	3,554,609
Total	\$ 114,111,797	\$ 6,964,842	\$ 2,483,871	\$ 118,592,768

Balance at June 30, 2024	Accumulated Depreciation		Balance at June 30, 2025	Capital Assets - Net
	Current Depreciation	Deletions		Balance at June 30, 2025
\$ -	\$ -	\$ -	\$ -	\$ 1,033,770
-	-	-	-	37,640
-	-	-	-	1,071,410
2,963,370	185,236	-	3,148,606	3,422,562
22,315	1,226	-	23,541	73,608
31,196	9,476	-	40,672	28,005
3,016,881	195,938	-	3,212,819	3,524,175
24,010	-	-	24,010	-
390	-	-	390	-
6,567	626	-	7,193	13,657
37,382,163	3,173,461	617,095	39,938,529	64,762,756
62,465	25,552	3,116	84,901	293,487
1,632,922	114,198	71,064	1,676,056	428,776
39,108,517	3,313,837	691,275	41,731,079	65,498,676
-	-	-	-	3,554,609
\$ 42,125,398	\$ 3,509,775	\$ 691,275	\$ 44,943,898	\$ 73,648,870

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, 2025**

	Capital Assets - Cost			Balance at June 30, 2025
	Balance at June 30, 2024	Additions/ Transfers	Deletions/ Transfers	
Equipment and distribution system				
Overhead	\$ 2,088,904	\$ 118,813	\$ -	\$ 2,207,717
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	1,219,893	204,202	-	1,424,095
Data center	346,854	-	-	346,854
Equipment	112,038	-	-	112,038
Other property	74,248	26,400	-	100,648
Total equipment and distribution system	7,188,510	349,415	-	7,537,925
Construction in progress	-	349,415	349,415	-
Total	\$ 7,188,510	\$ 698,830	\$ 349,415	\$ 7,537,925

	Accumulated Depreciation			Balance at June 30, 2025	Capital Assets - Net
	Balance at June 30, 2024	Current Depreciation	Deletions		Balance at June 30, 2025
\$ 1,015,691	\$ 107,763	\$ -	\$ 1,123,454	\$ 1,084,263	
517,538	101,585	-	619,123	1,412,567	
355,756	38,065	-	393,821	367,474	
41,376	2,586	-	43,962	7,763	
476,720	25,100	-	501,820	43	
124,083	66,100	-	190,183	1,233,912	
60,697	17,342	-	78,039	268,815	
18,651	5,602	-	24,253	87,785	
50,031	4,327	-	54,358	46,290	
2,660,543	368,470	-	3,029,013	4,508,912	
-	-	-	-	-	
\$ 2,660,543	\$ 368,470	\$ -	\$ 3,029,013	\$ 4,508,912	

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, 2025

	Amended Budget	Actual	Positive (Negative) Variance
Operating revenues - sales			
Residential	\$ 7,539,000	\$ 8,235,272	\$ 696,272
Commercial	16,984,000	18,038,739	1,054,739
Industrial	10,673,000	11,010,877	337,877
Public authority	356,000	366,798	10,798
Green energy	15,000	14,703	(297)
Electric vehicle charging stations	17,000	14,640	(2,360)
Street lighting	250,000	234,218	(15,782)
Yard lights	116,000	107,946	(8,054)
Total operating revenues - sales	35,950,000	38,023,193	2,073,193
Other operating revenues			
Forfeited discounts	54,000	46,897	(7,103)
Merchandise and jobbing	140,000	273,811	133,811
Sale of scrap	25,000	31,283	6,283
MISO income	3,600,000	3,657,777	57,777
Miscellaneous	26,200	112,746	86,546
Total other operating revenues	3,845,200	4,122,514	277,314
Nonoperating revenues (expenses)			
Federal grant	800,000	390,998	(409,002)
State grant	-	211,447	211,447
Rental income	37,000	3,631	(33,369)
Pole rental income	24,050	24,916	866
Reimbursements	137,500	480,049	342,549
Lease revenue	357,400	65,542	(291,858)
Interest income	175,000	125,594	(49,406)
Change in fair market value of investments	-	546,950	546,950
Interest expense	(381,000)	(61,524)	319,476
Gain/(Loss) on sale of assets	580,000	(167,461)	(747,461)
Total nonoperating revenues	1,729,950	1,620,142	(109,808)
Total revenues	41,525,150	43,765,849	2,240,699

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, 2025

	<u>Amended Budget</u>	<u>Actual</u>	<u>Positive (Negative) Variance</u>
Purchase power expense			
Salaries and wages	\$ 40,100	\$ 8,919	\$ 31,181
Payroll taxes and fringes	36,000	123,155	(87,155)
Purchased power	23,482,300	24,551,152	(1,068,852)
Professional and contractual	136,200	163,238	(27,038)
Operation supplies	5,600	11	5,589
Safety	4,000	4,879	(879)
Transportation	2,700	3,024	(324)
Professional development	-	698	(698)
Equipment rental	11,940	(22,478)	34,418
Miscellaneous	500	339	161
Total purchase power expenses	<u>23,719,340</u>	<u>24,832,937</u>	<u>(1,113,597)</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, 2025

	Amended Budget	Actual	Positive (Negative) Variance
Distribution expense			
Salaries and wages	\$ 2,421,500	\$ 2,478,502	\$ (57,002)
Payroll taxes and fringes	1,528,700	1,078,061	450,639
Substation	150,000	107,795	42,205
Overhead lines	159,500	152,885	6,615
Tree trimming	345,000	365,437	(20,437)
Underground lines	41,700	47,119	(5,419)
Storm work	-	16,238	(16,238)
Electric meters	28,000	109,274	(81,274)
Street lighting	18,000	17,471	529
Street lighting utility costs	227,600	225,857	1,743
Plant and structures	130,000	214,704	(84,704)
Load and dispatching contractual services	37,400	33,750	3,650
Electric vehicle charging stations	12,000	12,646	(646)
Professional services	95,000	10,870	84,130
Professional development	120,300	35,142	85,158
Operation supplies	119,900	119,908	(8)
Utilities	142,000	134,425	7,575
Safety	28,000	28,250	(250)
Transportation	22,300	22,063	237
Equipment rental	52,700	224,510	(171,810)
Inventory adjustment	10,000	(136,191)	146,191
Miscellaneous	12,000	7,536	4,464
Total distribution expense	5,701,600	5,306,252	395,348
Transmission expense			
Salaries and wages	279,200	247,086	32,114
Substation	50,000	81,331	(31,331)
Overhead lines	40,500	20,819	19,681
Tree trimming	85,800	54,465	31,335
MISO	25,000	25,105	(105)
Load and dispatching	11,100	11,250	(150)
Equipment rental	2,700	2,800	(100)
Inventory adjustment	-	(24,812)	24,812
Miscellaneous	130,000	129,858	142
Total transmission expense	624,300	547,902	76,398

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, 2025

	Amended Budget	Actual	Positive (Negative) Variance
Customer accounting expense			
Salaries and wages	\$ 500,900	\$ 486,434	\$ 14,466
Payroll taxes and fringes	216,000	178,377	37,623
Office supplies	7,100	4,022	3,078
Postage	77,000	93,967	(16,967)
Communications	25,600	23,100	2,500
Stationary and printing	5,000	2,614	2,386
Professional and contractual	76,320	81,438	(5,118)
Uncollectible accounts	10,000	(13,518)	23,518
Collection expense	10,000	303	9,697
Professional development	30,000	10,588	19,412
Transportation	2,500	-	2,500
Miscellaneous	170,000	153,898	16,102
	1,130,420	1,021,223	109,197
Total customer accounting expense			
Public service expense			
Salaries and wages	335,000	351,597	(16,597)
Payroll taxes and fringes	175,100	176,798	(1,698)
Office supplies	2,500	997	1,503
Operation supplies	-	329	(329)
Communications	1,500	480	1,020
Professional and contractual	155,000	124,538	30,462
Voluntary green rate program	80,000	-	80,000
Community investment fund	148,900	148,866	34
Public service information	446,050	247,435	198,615
	1,344,050	1,051,040	293,010
Total public service expense			

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, 2025

	<u>Amended Budget</u>	<u>Actual</u>	<u>Positive (Negative) Variance</u>
Information Systems			
Salaries	\$ 468,000	\$ 338,149	\$ 129,851
Payroll taxes and fringes	284,300	186,718	97,582
Professional development	26,500	22,509	3,991
Professional and contractual	85,000	43,475	41,525
Office supplies	1,000	618	382
Operation supplies	5,000	7,356	(2,356)
Communication	45,400	7,100	38,300
Software	634,000	244,585	389,415
Hardware	248,200	78,035	170,165
Uniforms	1,000	-	1,000
Printing and publishing	-	550	(550)
Miscellaneous	500	404	96
	<hr/>	<hr/>	<hr/>
Total information systems	1,798,900	929,499	869,401

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, 2025

	<u>Amended Budget</u>	<u>Actual</u>	<u>Positive (Negative) Variance</u>
General administration expense			
Salaries	\$ 733,600	\$ 759,109	\$ (25,509)
Payroll taxes and fringes	372,200	264,320	107,880
Professional development	84,550	87,683	(3,133)
Professional and contractual	139,300	144,742	(5,442)
Office supplies	6,500	3,951	2,549
Fees and per diems	101,200	90,535	10,665
Special services	12,400	11,771	629
Legal fees	60,000	40,049	19,951
Utilities	8,000	3,170	4,830
Memberships and dues	2,000	104	1,896
Printing and publishing	15,730	16,243	(513)
Transportation	4,000	1,319	2,681
Miscellaneous	5,200	7,700	(2,500)
Total general administration expense	<u>1,544,680</u>	<u>1,430,696</u>	<u>113,984</u>
Other expenses			
Insurance - general	120,750	126,356	(5,606)
City fee	2,000,000	2,103,311	(103,311)
Depreciation	4,081,200	3,653,667	427,533
Total other expenses	<u>6,201,950</u>	<u>5,883,334</u>	<u>318,616</u>
Total operating expenses	<u>42,065,240</u>	<u>41,002,883</u>	<u>1,062,357</u>
Change in net position	<u>\$ (540,090)</u>	<u>\$ 2,762,966</u>	<u>\$ 3,303,056</u>

TRAVERSE CITY LIGHT AND POWER

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

SCHEDULE OF REVENUES AND EXPENSES - BUDGET AND ACTUAL (UNAUDITED) FIBER FUND FOR THE YEAR ENDED JUNE 30, 2025

	Amended Budget	Actual	Positive (Negative) Variance
Operating revenues - sales			
Charges for services - dark fiber	\$ 438,000	\$ 457,481	\$ 19,481
Residential sales - lit fiber	711,700	565,044	(146,656)
Commercial sales - lit fiber	286,700	263,343	(23,357)
Enterprise sales - lit fiber	16,600	-	(16,600)
VOIP sales	32,000	28,890	(3,110)
Merchandising and jobbing	-	9,606	9,606
Forfeited discounts	5,000	957	(4,043)
Miscellaneous income	-	812	812
Total operating revenues	1,490,000	1,326,133	(163,867)
Fiber expenses			
Salaries and wages	313,600	237,539	76,061
Payroll taxes and fringes	229,600	127,555	102,045
Operation supplies	55,000	6,606	48,394
Communications	2,500	1,335	1,165
Software and hardware	500	32,635	(32,135)
Professional and contractual	543,000	269,035	273,965
Building overhead costs	35,000	17,689	17,311
Professional development	41,500	14,929	26,571
Transportation	20,600	(277)	20,877
Pole attachment fees	-	15,526	(15,526)
Repair and Maintenance	-	385	(385)
Inventory adjustment	-	16,291	(16,291)
Miscellaneous	52,600	9,759	42,841
Total fiber expenses	1,293,900	749,007	544,893

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, 2025

	Amended Budget	Actual	Positive (Negative) Variance
Customer Accounting			
Salaries and wages	\$ 40,900	\$ 26,301	\$ 14,599
Payroll taxes and fringes	17,200	9,957	7,243
Operation supplies	4,000	150	3,850
Professional development	-	2,508	(2,508)
Professional and contractual	20,000	10,830	9,170
Printing and Publishing	-	12	(12)
Uncollectable accounts	10,000	984	9,016
Miscellaneous	37,000	17,531	19,469
Total customer accounting	129,100	68,273	60,827
Other expenses			
Insurance and bonds	8,300	-	8,300
City fee	74,500	66,534	7,966
Depreciation	375,000	368,470	6,530
Total other expenses	457,800	435,004	22,796
Total operating expenses	1,880,800	1,252,284	628,516
Operating income (loss)	(390,800)	73,849	464,649
Non-operating revenues (expenses)			
Reimbursements	86,000	107,060	21,060
Interest revenue	-	4,552	4,552
Interest expense	(313,710)	(8,672)	305,038
Total non-operating revenues	(227,710)	102,940	330,650
Change in net position	\$ (618,510)	\$ 176,789	\$ 795,299

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 17, 2025

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 the business-type activities, each major fund, and the aggregate remaining fund information 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, 2025, 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 17, 2025.

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.

Orlando Haefner LLC



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December 17, 2025

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

We have audited the financial statements of the governmental activities and each major fund of the Traverse City Light and Power, a Component Unit of the City of Traverse City, Michigan, for the year ended June 30, 2025. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards and *Government Auditing Standards*, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated September 22, 2025. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Results

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by Traverse City Light and Power are described in Note 1 to the financial statements. GASB 101, *Compensated Absences*, was implemented this fiscal year. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were:

Management's estimate of the useful lives of capital assets is based on previous history and future expectations and the estimate of pension and OPEB plan obligations are based on actuarial valuations of the plans. We evaluated the key factors and assumptions used to develop the estimates in determining that they are reasonable in relation to the financial statements taken as a whole.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. We did not detect any misstatements as a result of audit procedures the required correction by management that were material, either individually or in the aggregate, to each opinion unit's financial statements taken as a whole.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated December 17, 2025.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the governmental unit's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Other Matters

We applied certain limited procedures to the required supplementary information (RSI), as itemized in the table of contents, that supplements the basic financial statements. Our procedures consisted of inquiries of management regarding 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 did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

Restriction on Use

This information is intended solely for the use of Traverse City Light and Power Board of Directors and the City Commission of the City of Traverse City and management of Traverse City Light and Power and the City of Traverse City and is not intended to be and should not be used by anyone other than these specified parties.

Sincerely,

Orlando Haefner LLC