

Traverse City Light and Power

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

Financial Statements

**For the Fiscal Year Ended
June 30, 2011**

TRAVERSE CITY LIGHT AND POWER

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

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INDEPENDENT AUDITORS' REPORT

December 29, 2011

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

We have audited the accompanying financial statements of the business-type activities and each major fund of **Traverse Department Light and Power** (the "Department"), a component unit of the City of Traverse City, Michigan, as of and for the year ended June 30, 2011, which collectively comprise the Department's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Department's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion the financial statements referred to above present fairly, in all material respects, the respective financial position of the business type activities and each major fund of the Department as of June 30, 2011, and the respective changes in financial position, and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated December 29, 2011, on our consideration of the Department's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis on pages 3-5 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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

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

MANAGEMENT'S DISCUSSION AND ANALYSIS

TRAVERSE CITY LIGHT AND POWER

Management's Discussion and Analysis

As management of the *Traverse City Light and Power* (the "Department"), we offer readers of the Department's financial statements this narrative overview and analysis of the financial activities for the fiscal year ended June 30, 2011. We encourage readers to consider the information presented here in conjunction with additional information that is furnished in the financial statements and notes to the financial statements.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Department's financial statements. The Department's financial statements comprise three components:

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

Financial Statements

A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Department, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The activity of the Department is accounted for in two proprietary funds (Enterprise Funds). The Light and Power Fund and the Fiber Fund 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 services to customers. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

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

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

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

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

The Department does not maintain any governmental or fiduciary funds.

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

The Department's Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the Department, assets exceeded liabilities by approximately \$73,000,000 at the close of the most recent fiscal year, June 30, 2011.

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

Traverse City Light and Power's Net Assets

	<u>June 30</u>	
	<u>2011</u>	<u>2010</u>
Business-type Activities		
Current and other assets	\$ 36,620,224	\$ 35,817,437
Capital assets	<u>38,817,697</u>	<u>38,208,732</u>
Total assets	75,437,921	74,026,169
Long-term liabilities outstanding	292,721	326,002
Other liabilities	<u>2,567,933</u>	<u>2,680,896</u>
Total liabilities	<u>2,860,654</u>	<u>3,006,898</u>
Net assets		
Invested in capital assets	38,817,697	38,208,732
Unrestricted	<u>33,759,570</u>	<u>32,810,539</u>
Total net assets	<u>\$ 72,577,267</u>	<u>\$ 71,019,271</u>

Traverse City Light and Power's Changes in Net Assets

	<u>June 30</u>	
	<u>2011</u>	<u>2010</u>
Business-type Activities		
Operating revenue	\$ 30,165,063	\$ 27,214,578
Operating expenses	(29,609,252)	(25,436,123)
Nonoperating revenue (expenses) – net	<u>1,002,185</u>	<u>901,422</u>
Increase in net assets	1,557,996	2,679,877
Net assets – beginning of year	<u>71,019,271</u>	<u>68,339,394</u>
Net assets – end of year	<u>\$ 72,577,267</u>	<u>\$ 71,019,271</u>

Business-type activities

The overall financial position of the Department remained strong in 2010-2011. There are no outstanding debt obligations except for the commitments through the power supply contracts with MPPA to reimburse MPPA for debt service costs relating to the Campbell, Belle River and Kalkaska Combustion Turbine generation plants.

Revenue

Residential sales were up 13.0% over last year, commercial sales were up 8.8% and industrial sales were up 11.4% contributing to the majority of a \$2,950,485 increase in operating revenues. Management attributes this increase to improvement in the local economy along with warmer summer seasons in 2010 and 2011.

Expenses

In fiscal year 2010-2011, operating expenses increased approximately \$4,173,000 from fiscal year 2009-2010 due in large part to increased generation expenses as a result of increased energy sales, increased energy conservation efforts that exceeded Public Act 295 requirements, and an increase in the city fee as a result of increased sales.

Capital asset and debt administration

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

	June 30	
	2011	2010
Land and land improvements	\$ 806,695	\$ 806,695
Construction in progress	780,851	82,980
Buildings and improvements	4,010,915	4,012,649
Equipment and distribution system	53,064,601	51,432,227
Accumulated depreciation	<u>(19,845,365)</u>	<u>(18,125,819)</u>
Total	<u>\$ 38,817,697</u>	<u>\$ 38,208,732</u>

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

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

Economic Factors and Next Year's Budgets and Rates

A rate increase was not budgeted for fiscal year 2011-12; however, future generation needs and recently passed legislation requiring 10% renewable energy generation by 2015 will impact the Department's capital plans.

Due to the uncertainty of the local and state economy, the Department maintained a status quo budget in 2011-2012 allowing for modest increases for inflation in revenues and expenses.

Requests for Information

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

FINANCIAL STATEMENTS

TRAVERSE CITY LIGHT AND POWER

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

STATEMENT OF NET ASSETS JUNE 30, 2011

ASSETS	<u>Light and Power Fund</u>	<u>Fiber Fund</u>	<u>Total</u>
Current assets			
Cash and cash equivalents	\$ 11,946,901	\$ -	\$ 11,946,901
Investments	17,649,745	-	17,649,745
Receivables			
Customer, less allowances of \$222,749 for uncollectible accounts (Light and Power Fund)	3,348,384	10,125	3,358,509
Accrued interest	25,786	-	25,786
Taxes	278,989	-	278,989
Other	75,264	-	75,264
Due from Federal government	250,000	-	250,000
Due from other funds	48,460	-	48,460
Inventories	2,077,606	-	2,077,606
Prepaid expenses	49,299	-	49,299
Total current assets	<u>35,750,434</u>	<u>10,125</u>	<u>35,760,559</u>
Non-current assets			
Other postemployment benefit asset	308,926	-	308,926
Long-term advances - due from primary government	550,739	-	550,739
Land and land improvements	806,695	-	806,695
Construction in progress	727,020	53,831	780,851
Capital assets being depreciated, net	35,796,417	1,433,734	37,230,151
Total non-current assets	<u>38,189,797</u>	<u>1,487,565</u>	<u>39,677,362</u>
Total assets	<u>\$ 73,940,231</u>	<u>\$ 1,497,690</u>	<u>\$ 75,437,921</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 ASSETS JUNE 30, 2011

LIABILITIES AND NET ASSETS	Light and Power Fund	Fiber Fund	Total
Current liabilities			
Accounts payable	\$ 1,893,122	\$ 16,181	\$ 1,909,303
Accrued expenses and other liabilities	394,959	-	394,959
Customer deposits	122,712	-	122,712
Unearned revenue	-	12,100	12,100
Due to other funds	-	48,460	48,460
Due to primary government	71,219	9,180	80,399
Compensated absences	6,456	-	6,456
Total current liabilities	2,488,468	85,921	2,574,389
Long-term liabilities			
Compensated absences, net of current portion	286,265	-	286,265
Total liabilities	2,774,733	85,921	2,860,654
Net assets			
Invested in capital assets	37,330,132	1,487,565	38,817,697
Unrestricted (deficit)	33,835,366	(75,796)	33,759,570
Total net assets	71,165,498	1,411,769	72,577,267
Total liabilities and net assets	\$ 73,940,231	\$ 1,497,690	\$ 75,437,921

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 ASSETS FOR THE YEAR ENDED JUNE 30, 2011

	Light and Power Fund	Fiber Fund	Total
Operating revenues			
Charges for services	\$ 27,844,636	\$ 183,605	\$ 28,028,241
MISO income	1,891,263	-	1,891,263
Other	245,559	-	245,559
Total operating revenues	29,981,458	183,605	30,165,063
Operating expenses			
Generation	20,074,348	-	20,074,348
Distribution	3,276,966	-	3,276,966
Transmission	196,728	-	196,728
Customer accounting	545,269	-	545,269
Public service	707,311	-	707,311
General administration	1,320,066	-	1,320,066
Fiber	-	78,097	78,097
Other	71,315	1,263	72,578
City fee	1,511,219	9,180	1,520,399
Depreciation and amortization	1,732,081	85,409	1,817,490
Total operating expenses	29,435,303	173,949	29,609,252
Operating income	546,155	9,656	555,811
Non-operating revenues (expenses)			
Federal grant	250,000	-	250,000
State grant	27,623	-	27,623
Rental income	103,589	-	103,589
Reimbursements	271,227	34,392	305,619
Interest income	314,787	-	314,787
Change in fair value of investments	22,891	-	22,891
Loss on disposal of capital asset	(22,324)	-	(22,324)
Total non-operating revenues	967,793	34,392	1,002,185
Change in net assets	1,513,948	44,048	1,557,996
Net assets, beginning of year	69,651,550	1,367,721	71,019,271
Net assets, end of year	\$ 71,165,498	\$ 1,411,769	\$ 72,577,267

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, 2011

	Light and Power Fund	Fiber Fund	Total
Cash flows from operating activities			
Cash received from customers	\$ 30,475,358	\$ 173,480	\$ 30,648,838
Cash payments to employees	(4,937,006)	(65,399)	(5,002,405)
Cash payments to suppliers for goods and service	(22,081,484)	(5,160)	(22,086,644)
Cash payments of City fee	(1,374,844)	(8,608)	(1,383,452)
Net cash provided by operating activities	2,082,024	94,313	2,176,337
Cash flows from non-capital financing activities			
Long-term advance from primary government	84,632	-	84,632
Cash payments from other government	27,623	-	27,623
Cash payments to other fund:	-	(82,040)	(82,040)
Cash payments from other fund:	82,040	-	82,040
Customer deposits received	17,240	-	17,240
Rental income received	103,589	-	103,589
Reimbursements received	271,227	34,392	305,619
Net cash provided by (used in) non-capital financing activities	586,351	(47,648)	538,703
Cash flows from capital and related financing activities			
Purchase of capital assets	(2,402,112)	(46,665)	(2,448,777)
Cash flows from investing activities			
Purchase of investments	(3,311,783)	-	(3,311,783)
Interest and dividends received	342,784	-	342,784
Net cash used in investing activities	(2,968,999)	-	(2,968,999)
Net decrease in cash and cash equivalents	(2,702,736)	-	(2,702,736)
Cash and cash equivalents, beginning of year	14,649,637	-	14,649,637
Cash and cash equivalents, end of year	\$ 11,946,901	\$ -	\$ 11,946,901

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, 2011

	Light and Power Fund	Fiber Fund	Total
Cash flows from operating activities			
Operating income	\$ 546,155	\$ 9,656	\$ 555,811
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation and amortization	1,732,081	85,409	1,817,490
Changes in operating assets and liabilities which (used) provided cash:			
Receivables	482,390	(10,125)	472,265
Inventories	(471,472)	-	(471,472)
Prepaid expenses	(16,816)	-	(16,816)
Accounts payable	(173,774)	8,801	(164,973)
Due to other governments	136,375	572	136,947
Accrued expenses and other liabilities	45,017	-	45,017
Compensated absences	(33,281)	-	(33,281)
Other postemployment benefit asse	(164,651)	-	(164,651)
Net cash provided by operating activities	<u>\$ 2,082,024</u>	<u>\$ 94,313</u>	<u>\$ 2,176,337</u>

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

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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 2011, the city fee was \$1,520,399.

Reporting Entity

The Department is a discretely presented component unit of the City because the City appoints the Department’s Board of Directors, it has the ability to significantly influence the Department’s operations and it is financially accountable for the Department as defined under GASB Statement No. 14, *The Financial Reporting Entity*. Accordingly, the Department is a discretely presented component unit in the City’s financial statements and is an integral part of that 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 “Non-operating revenues” section of the Statements of Revenues, Expenses and Changes in Net Assets”.

State statutes authorize the Department to invest in:

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

TRAVERSE CITY LIGHT AND POWER

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

NOTES TO FINANCIAL STATEMENTS

- b. Certificates of deposit, savings accounts, deposit accounts, or depository receipts of a qualified financial institution.
- c. Commercial paper rated at the time of purchase within the two highest classifications established by not less than two standard rating services and that matures not more than 270 days after the date of purchase.
- d. Bankers acceptance of United States banks.
- e. Obligations of the State of Michigan and its political subdivisions that at the time of purchase are rated as investment grade by at least one standard rating service.
- f. Mutual funds registered under the Investment Company Act of 1940 with the authority to purchase only investment vehicles that are legal for direct investment by a public corporation.
- g. External investment pools as authorized by Public Act 20 as amended.
- h. Long-term or perpetual trust funds consisting of money and royalties or money derived from oil and gas exploration on property or mineral rights owned by the Department has the same authority to invest the assets as is authorized by Public Act 314 as amended.

Inventories

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

Capital assets

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

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

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

Compensated Absences

Compensated absences consist of accumulated unpaid vacation, short-term leave and sick pay. Accumulated unpaid vacation and short-term leave are accrued when earned and sick pay is accrued up to a maximum when it is probable that the benefit will be paid to the employee.

Operating Revenue versus Non-operating Revenue

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

TRAVERSE CITY LIGHT AND POWER

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

NOTES TO FINANCIAL STATEMENTS

Funds

The Department reports the following major proprietary funds:

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

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

Restricted resources

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

2. CASH DEPOSITS AND INVESTMENTS

The Department's cash and cash equivalents, and investments at June 30, 2011 are composed of the following:

	<u>Cash and cash equivalents</u>	<u>Investments</u>	<u>Totals</u>
Deposits	\$11,946,801	\$ 6,118,309	\$ 18,065,110
Investments	-	11,531,436	11,531,436
Petty cash	<u>100</u>	<u>-</u>	<u>100</u>
Total	<u>\$11,946,901</u>	<u>\$ 17,649,745</u>	<u>\$ 29,596,646</u>

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

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

TRAVERSE CITY LIGHT AND POWER

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

NOTES TO FINANCIAL STATEMENTS

The Department chooses to disclose its investments by specifically identifying each. As of June 30, 2011, the Department's Michigan CLASS investment is rated by Standard & Poor's. The Department had the following investments:

<u>Investment</u>	<u>Maturity</u>	<u>Fair Value</u>	<u>Rating</u>
US Treasury note	09/30/2011	\$ 1,002,340	AAA
US Treasury note	12/31/2011	1,004,340	AAA
US Treasury note	01/15/2013	507,735	AAA
US Treasury note	04/15/2013	1,023,520	AAA
US Treasury note	09/30/2014	1,046,560	AAA
US Treasury note	12/31/2014	1,054,060	AAA
US Treasury note	06/30/2015	697,411	AAA
US Treasury note	02/16/2016	400,500	AAA
US Treasury note	04/11/2016	500,155	AAA
US Treasury note	05/25/2016	500,045	AAA
US Treasury note	06/30/2018	498,298	AAA
US Treasury note	12/31/2016	960,120	AAA
US Treasury note	02/15/2020	423,156	AAA
US Treasury note	09/30/2013	105,781	AAA
MPPA Investments Pool	Various	1,804,398	Unrated
Michigan CLASS	N/A	<u>3,017</u>	AAAm
		<u>\$ 11,531,436</u>	

Investment and deposit risk

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

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

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

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NOTES TO FINANCIAL STATEMENTS

Custodial Credit Risk – Investments. For investments, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Department will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. State law does not require and the Department does not have a policy for investment custodial credit risk. Of the above \$11,531,436 of investments at June 30, 2011, the Department has a custodial credit risk exposure of \$9,724,021 because the related securities are uninsured, unregistered and held by the government’s brokerage firm which is also the counterparty for these particular securities. Of the above investment pools the Department’s custodial credit risk exposure cannot be determined because the Department does not own specifically identifiable securities.

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

3. CAPITAL ASSETS

At June 30, 2011 capital assets consist of the following:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets not being depreciated				
Land and land improvements	\$ 806,695	\$ -	\$ -	\$ 806,695
Construction in progress	82,980	1,201,372	503,501	780,851
Total capital assets not being depreciated	889,675	1,201,372	503,501	1,587,546
Capital assets being depreciated				
Buildings and improvements	4,012,649	-	1,734	4,010,915
Equipment and distribution system	49,781,515	1,724,331	118,532	51,387,314
Fiber system	1,650,712	26,575	-	1,677,287
Total capital assets being depreciated	55,444,876	1,750,906	120,266	57,075,516
Less accumulated depreciation for				
Buildings and improvements	859,278	120,379	1,625	978,032
Equipment and distribution system	17,108,397	1,611,702	96,319	18,623,780
Fiber system	158,144	85,409	-	243,553
Total accumulated depreciation	18,125,819	1,817,490	97,944	19,845,365
Total capital assets being depreciated, net	37,319,057	(66,584)	22,322	37,230,151
Total capital assets, net	\$ 38,208,732	\$ 1,134,788	\$ 525,823	\$38,817,697

TRAVERSE CITY LIGHT AND POWER

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

NOTES TO FINANCIAL STATEMENTS

4. INTERFUND PAYABLES AND RECEIVABLES

Amounts payable to cover cash deficits due to the Light and Power Fund from the Fiber Fund at June 30, 2011 amounted to \$48,460 and \$48,460, respectively.

5. LONG-TERM LIABILITIES

Long-term debt at June 30, 2011 consists of the following:

	<u>Compensated Absences</u>
Beginning balance, July 1, 2010	\$ 326,002
Reductions	<u>33,281</u>
Ending balance, June 30, 2011	<u>\$ 292,721</u>
Due within one year	<u>\$ 6,456</u>

6. FEDERAL FUNDING

The Department is a recipient of federal funding. Expenditures eligible for reimbursement by the federal government amounted to \$250,000 for the fiscal year ended June 30, 2011. These expenditures are included in the single audit for the City of Traverse City.

7. POWER SUPPLY PURCHASE

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

In September 2010, the Department entered into two 5-year agreements with the Lansing Board of Water & Light ("LBWL") to commence January 1, 2011. The purchase power agreement allows for the purchase of a minimum of 10 megawatt of electric energy up to a maximum of 45 megawatt to replace its deficient energy needs from the expired agreement with MPPA. The estimated cost for the 5-year term is \$40,000,000. The energy service agency agreement provides for LBWL to act as the Department's agent with Midwest ISO ("MISO"). LBWL will enter into third party contracts to purchase energy and sell surplus energy into the MISO daily and hourly markets. The estimated cost for the 5-year term is \$375,000. For the year ended June 30, 2011, the Department recognized expenses totaling \$4,450,284.

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

TRAVERSE CITY LIGHT AND POWER

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

NOTES TO FINANCIAL STATEMENTS

In 1983, the Department entered into a 35-year power supply and project support contract with MPPA. Under the agreement, the Department will purchase 26.35% of the energy generated by MPPA's 4.8% interest in the Campbell 3 plant and 4.53% of the energy generated by MPPA's 18.61% interest in the Belle River plant. In 2002, the Department entered into a 25-year power supply and project support contract with MPPA. Under the agreement, the Department will purchase 75.9% of the energy generated by MPPA's 100% interest in the Kalkaska Combustion Turbine.

For the year ended June 30, 2011, Traverse City Light and Power recognized expenses totaling \$13,024,492 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 2011 costs adjusted for inflation. The total estimated future operating costs, which do not include the annual debt payments, are as follows:

<u>Year Ended December 31</u>	<u>Operating Costs</u>
2012	\$ 6,837,096
2013	7,042,209
2014	4,999,236
2015	5,149,213
2016	5,303,690
2017-2021	21,325,946
2022-2026	19,213,230
2027	<u>4,195,297</u>
	<u>\$ 74,065,917</u>

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

<u>Year Ended December 31</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2012	\$ 2,464,976	\$ 1,639,740	\$ 4,104,716
2013	2,587,663	1,518,871	4,106,534
2014	2,699,892	1,390,739	4,090,631
2015	2,803,532	1,250,971	4,054,503
2016	2,906,094	1,105,762	4,011,856
2017-2021	8,436,734	3,742,670	12,179,404
2022-2026	7,916,370	1,772,417	9,688,787
2027	<u>1,840,575</u>	<u>96,630</u>	<u>1,937,205</u>
	<u>\$ 31,655,836</u>	<u>\$ 12,517,800</u>	<u>\$ 44,173,636</u>

TRAVERSE CITY LIGHT AND POWER

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

NOTES TO FINANCIAL STATEMENTS

The MPPA and its member utilities were over-charged on their power sales contract agreements. Because of this, MPPA and the member utilities have established a trust fund (“The Municipal Competitive Trust”). Specific policies have been established by each member regarding the use of these funds. The Department’s share of this trust fund was \$1,804,398 as of June 30, 2011.

In December 2010, the Department entered into a 20-year purchase power agreement with Heritage Stoney Corners Wind Farm I, LLC to purchase up to 10 megawatt of electric energy and all associated renewable energy credits. For the year ended June 30, 2011, the Department recognized expenses totaling \$1,892,441.

8. RETIREMENT PLAN

Through the City, the Department participates in the Municipal Employees’ Retirement System (MERS) defined benefit plan that covers substantially all employees. Annual contributions to the plan are based on actuarial studies performed annually. The Department’s contributions to the plan during the year ended June 30, 2011 were \$729,922. The required disclosures related to the plan are provided in the City’s financial statements.

9. POSTEMPLOYMENT BENEFITS

In addition to the pension benefits described above, the Department provides postretirement health insurance premiums in accordance with its personnel policies and union agreements. The benefit includes payment of the retirees’ premiums until they reach the age of Medicare eligibility. The Department paid \$164,651 for 36 participants in 2011.

The Department participates in the City’s Municipal Employees’ Retirement System retiree health funding vehicle that covers substantially all employees. Annual contributions to the plan are based on actuarial studies performed bi-annually. The Department’s contribution to the plan for the fiscal year ended June 30, 2011 was \$210,535. The required disclosures related to the plan are provided in the City’s financial statements. The Department’s share of the City’s other postemployment benefit asset at June 30, 2011 was \$308,926.

10. COMMITMENTS

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

Property

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

TRAVERSE CITY LIGHT AND POWER

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

NOTES TO FINANCIAL STATEMENTS

11. CONTINGENCIES

In the normal course of business, the Department becomes a party in various legal actions and claims, some of which are uninsured. While the outcome of these actions and claims is not expected to have a material effect on the financial position of the Department, the Board has established a designation of \$4,198,398 within unrestricted net assets at June 30, 2011 to cover the potential impact of current and future uninsured claims.

The Department participates in federally assisted grant programs, which are subject to financial and compliance audits. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements, and is subject to audit by the grantor agencies. The amount, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time although the Department expects such amounts, if any, to be immaterial.

12. RISK OF LOSS

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

13. DESIGNATIONS OF NET ASSETS

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

	<u>June 30, 2011</u>
Emergencies	\$ 100,056
Uninsured claims	4,198,398
Capital expansion	<u>10,075,000</u>
Total	<u>\$14,373,454</u>

14. SUBSEQUENT EVENTS

The MPPA Board approved the refunding of the outstanding revenue bonds relating to the Kalkaska Combustion Turbine Project to take advantage of lower interest rates that will save approximately \$1.8 million in bond payments over the life of the bonds. The October 2011 refunding of the outstanding bonds will save approximately \$110,000/year for the Department's entitlement share in the Project.

TRAVERSE CITY LIGHT AND POWER

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

NOTES TO FINANCIAL STATEMENTS

15. GASB PRONOUNCEMENTS

In December 2010, The Governmental Accounting Standards Board issued Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. The objective of this statement is to incorporate into the GASB's authoritative literature certain accounting and financial reporting guidance that is included in the following pronouncements issued on or before November 30, 1989, which does not conflict with or contradict GASB pronouncements:

- Financial Accounting Standards Board (FASB) Statements and Interpretations
- Accounting Principles Board Opinions
- Accounting Research Bulletins of the American Institute of Certified Public Accountants' (AICPA) Committee on Accounting Procedure.

In June 2011, the Governmental Accounting Standards Board issued Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. This Statement provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources. Concepts Statement No. 4, *Elements of Financial Statements*, introduced and defined those elements as a consumption of net assets by the government that is applicable to a future reporting period, and an acquisition of net assets by the government that is applicable to a future reporting period, respectively. Previous financial reporting standards do not include guidance for reporting those financial statement elements, which are distinct from assets and liabilities. Concepts Statement No. 4 also identifies net position as the residual of all other elements presented in a statement of financial position. This Statement amends the net asset reporting requirements in Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, and other pronouncements by incorporating deferred outflows of resources and deferred inflows of resources into the definitions of the required components of the residual measure and by renaming that measure as net position, rather than net assets. The Department is currently evaluating the impact this standard will have on the financial statements when adopted. The Department will implement Statement No. 63 beginning with the fiscal year ended June 30, 2013.

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SUPPLEMENTARY INFORMATION

TRAVERSE CITY LIGHT AND POWER

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

SCHEDULE OF CAPITAL ASSETS AND DEPRECIATION LIGHT AND POWER FUND FOR THE YEAR ENDED JUNE 30, 2011

	Capital Assets - Cost			
	Balance at June 30, 2010	Additions/ Transfers	Deletions/ Transfers	Balance at June 30, 2011
Land and land improvements				
Land	\$ 478,959	\$ -	\$ -	\$ 478,959
Land - coal dock	245,633	-	-	245,633
Land improvements	82,103	-	-	82,103
Total land and land improvements	806,695	-	-	806,695
Buildings and improvements				
Brown Bridge	1,734	-	1,734	-
Distribution plant	3,920,769	-	-	3,920,769
Office structures	40,878	-	-	40,878
Other buildings	49,268	-	-	49,268
Total buildings and improvements	4,012,649	-	1,734	4,010,915
Equipment and distribution system				
Union St. Dam	24,010	-	-	24,010
Keystone plant	390	-	-	390
Brown Bridge	118,532	-	118,532	-
Wind generation unit	785,616	-	-	785,616
Transmission and distribution	48,158,937	1,493,085	-	49,652,022
General	694,030	231,246	-	925,276
Total equipment and distribution system	49,781,515	1,724,331	118,532	51,387,314
Construction in progress	49,239	1,154,707	476,926	727,020
Total	\$ 54,650,098	\$ 2,879,038	\$ 597,192	\$ 56,931,944

<u>Balance at June 30, 2010</u>	<u>Accumulated Depreciation</u>		<u>Balance at June 30, 2011</u>	<u>Capital Assets - Net</u>
	<u>Current Depreciation</u>	<u>Deletions</u>		<u>Balance at June 30, 2011</u>
\$ -	\$ -	\$ -	\$ -	\$ 478,959
-	-	-	-	245,633
-	-	-	-	82,103
-	-	-	-	806,695
1,573	52	1,625	-	-
847,382	117,623	-	965,005	2,955,764
5,150	1,226	-	6,376	34,502
5,173	1,478	-	6,651	42,617
859,278	120,379	1,625	978,032	3,032,883
19,149	721	-	19,870	4,140
325	12	-	337	53
92,763	3,556	96,319	-	-
332,608	23,569	-	356,177	429,439
16,435,528	1,503,983	-	17,939,511	31,712,511
228,024	79,861	-	307,885	617,391
17,108,397	1,611,702	96,319	18,623,780	32,763,534
-	-	-	-	727,020
\$ 17,967,675	\$ 1,732,081	\$ 97,944	\$ 19,601,812	\$ 37,330,132

TRAVERSE CITY LIGHT AND POWER

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

SCHEDULE OF CAPITAL ASSETS AND DEPRECIATION FIBER FUND FOR THE YEAR ENDED JUNE 30, 2011

	Capital Assets - Cost			Balance at June 30, 2011
	Balance at June 30, 2010	Additions/ Transfers	Deletions/ Transfers	
Equipment and distribution system				
Overhead	\$ 986,830	\$ 26,575	\$ -	\$ 1,013,405
Underground	221,587	-	-	221,587
Termination boxes	346,392	-	-	346,392
Wireless equipment	51,725	-	-	51,725
Other property	44,178	-	-	44,178
Total equipment and distribution system	1,650,712	26,575	-	1,677,287
Construction in progress	33,741	46,665	26,575	53,831
Total	\$ 1,684,453	\$ 73,240	\$ 26,575	\$ 1,731,118

Balance at June 30, 2010	Accumulated Depreciation		Balance at June 30, 2011	Capital Assets - Net
	Current Depreciation	Deletions		Balance at June 30, 2011
\$ 91,781	\$ 50,006	\$ -	\$ 141,787	\$ 871,618
21,314	11,079	-	32,393	189,194
33,120	17,320	-	50,440	295,952
5,172	2,586	-	7,758	43,967
6,757	4,418	-	11,175	33,003
158,144	85,409	-	243,553	1,433,734
-	-	-	-	53,831
\$ 158,144	\$ 85,409	\$ -	\$ 243,553	\$ 1,487,565

TRAVERSE CITY LIGHT AND POWER

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

SCHEDULE OF REVENUES AND EXPENSES - BUDGET AND ACTUAL LIGHT AND POWER FUND FOR THE YEAR ENDED JUNE 30, 2011

	Amended Budget	Actual	Positive (Negative) Variance
Operating revenues - sales			
Residential	\$ 5,212,000	\$ 5,421,674	\$ 209,674
Commercial	13,375,000	13,587,206	212,206
Industrial	7,922,000	8,321,852	399,852
Public authority	222,500	232,115	9,615
Street lighting	189,500	199,785	10,285
Yard lights	85,000	82,004	(2,996)
	27,006,000	27,844,636	838,636
Total operating revenues - sales			
Other operating revenues			
Forfeited discounts	50,000	55,757	5,757
Merchandise and jobbing	64,000	145,548	81,548
Sale of scrap	10,000	18,682	8,682
Recovery of bad debts	500	80	(420)
MISO income	1,500,000	1,891,263	391,263
Miscellaneous	14,500	25,492	10,992
	1,639,000	2,136,822	497,822
Total other operating revenues			
Non-operating revenues			
Federal grant	-	250,000	250,000
State grant	15,000	27,623	12,623
Rental income	56,050	44,154	(11,896)
Pole rental income	35,650	59,435	23,785
Reimbursements	140,700	271,227	130,527
Interest income	250,000	314,787	64,787
Change in fair market value of investments	-	22,891	22,891
	497,400	990,117	492,717
Total non-operating revenues			
Total revenues	29,142,400	30,971,575	1,829,175

TRAVERSE CITY LIGHT AND POWER

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

SCHEDULE OF REVENUES AND EXPENSES - BUDGET AND ACTUAL (CONTINUED) LIGHT AND POWER FUND FOR THE YEAR ENDED JUNE 30, 2011

	<u>Amended Budget</u>	<u>Actual</u>	<u>Positive (Negative) Variance</u>
Generation expense			
Wind generator - M-72 Traverse	\$ 37,500	\$ 13,633	\$ 23,867
Wind farm development	-	11,897	(11,897)
Kalkaska combustion turbine	185,000	378,527	(193,527)
Hydrodams			
Brown Bridge dam	4,000	932	3,068
Sabin dam	4,700	885	3,815
Boardman dam	3,700	1,179	2,521
Purchased power			
Power pool	5,600,000	7,087,514	(1,487,514)
Heritage Stoney Corners wind energy	1,250,000	1,892,441	(642,441)
Kalkaska combustion turbine	3,680,000	4,216,734	(536,734)
Campbell 3	3,280,000	3,322,056	(42,056)
Belle River	2,883,000	3,087,679	(204,679)
Coal dock	8,400	4,221	4,179
Trap and transfer	1,000	-	1,000
Union street fish ladder	350	-	350
Professional development	10,000	4,998	5,002
Operation supplies	154,600	46,860	107,740
Communications	6,000	351	5,649
Safety	9,000	4,000	5,000
Miscellaneous	1,750	441	1,309
Total generation expenses	<u>17,119,000</u>	<u>20,074,348</u>	<u>(2,955,348)</u>

TRAVERSE CITY LIGHT AND POWER

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

SCHEDULE OF REVENUES AND EXPENSES - BUDGET AND ACTUAL (CONTINUED) LIGHT AND POWER FUND FOR THE YEAR ENDED JUNE 30, 2011

	<u>Amended Budget</u>	<u>Actual</u>	<u>Positive (Negative) Variance</u>
Distribution expense			
Supervision and engineering	\$ 555,000	\$ 700,400	\$ (145,400)
Substation	130,000	149,903	(19,903)
Overhead lines	315,000	515,483	(200,483)
Load and dispatching	510,000	575,341	(65,341)
Underground lines	295,000	175,280	119,720
Customer installations	21,600	32,985	(11,385)
Electric meters	215,600	202,975	12,625
Street lighting	324,000	277,541	46,459
Plant and structures	235,000	172,101	62,899
Shop labor	139,000	139,682	(682)
Professional development	100,000	135,075	(35,075)
Operation supplies	86,100	94,792	(8,692)
Utilities	87,800	65,802	21,998
Safety	60,000	35,395	24,605
Miscellaneous	9,800	4,211	5,589
Total distribution expense	<u>3,083,900</u>	<u>3,276,966</u>	<u>(193,066)</u>
Transmission expense			
Supervision and engineering	12,000	21,035	(9,035)
Substation	8,000	40,357	(32,357)
Overhead lines	24,100	13,589	10,511
Load and dispatching	93,500	57,954	35,546
MISO	21,000	20,598	402
Miscellaneous	20,000	43,195	(23,195)
Total transmission expense	<u>178,600</u>	<u>196,728</u>	<u>(18,128)</u>

TRAVERSE CITY LIGHT AND POWER

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

SCHEDULE OF REVENUES AND EXPENSES - BUDGET AND ACTUAL (CONTINUED) LIGHT AND POWER FUND FOR THE YEAR ENDED JUNE 30, 2011

	<u>Amended Budget</u>	<u>Actual</u>	<u>Positive (Negative) Variance</u>
Customer accounting expense			
Salaries	\$ 157,500	\$ 169,528	\$ (12,028)
Meter reading	134,500	110,158	24,342
Payroll taxes and fringes	170,100	143,843	26,257
Office supplies	5,100	5,888	(788)
Postage	39,000	36,113	2,887
Stationary and printing	11,000	4,405	6,595
Equipment rental	18,500	13,843	4,657
Professional and contractual	12,500	7,993	4,507
Uncollectible accounts	50,000	19,454	30,546
Collection expense	1,000	415	585
Data processing	18,000	19,572	(1,572)
Professional development	3,750	4,690	(940)
Miscellaneous	6,450	9,367	(2,917)
Total customer accounting expense	<u>627,400</u>	<u>545,269</u>	<u>82,131</u>
Public service expense			
Community investment fund	75,000	55,350	19,650
Energy audits	5,000	-	5,000
Public service information	483,700	651,961	(168,261)
Total public service expense	<u>563,700</u>	<u>707,311</u>	<u>(143,611)</u>

TRAVERSE CITY LIGHT AND POWER

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

SCHEDULE OF REVENUES AND EXPENSES - BUDGET AND ACTUAL (CONCLUDED) LIGHT AND POWER FUND FOR THE YEAR ENDED JUNE 30, 2011

	<u>Amended Budget</u>	<u>Actual</u>	<u>Positive (Negative) Variance</u>
General administration expense			
Salaries	\$ 775,000	\$ 760,912	\$ 14,088
Payroll taxes and fringes	203,000	253,317	(50,317)
Professional development	20,000	37,033	(17,033)
Professional and contractual	85,000	74,071	10,929
Office supplies	13,000	7,871	5,129
Fees and per diems	66,500	67,342	(842)
Special services	7,000	10,757	(3,757)
Legal fees	80,000	78,262	1,738
Utilities	10,000	7,833	2,167
Rent	1,500	-	1,500
Printing and publishing	8,500	4,760	3,740
Miscellaneous	12,300	17,908	(5,608)
Total general administration expense	<u>1,281,800</u>	<u>1,320,066</u>	<u>(38,266)</u>
Other expenses			
Insurance - general	90,000	71,315	18,685
City fee	1,450,000	1,511,219	(61,219)
Depreciation and amortization	1,665,000	1,732,081	(67,081)
Loss on disposal of capital asset	-	22,324	(22,324)
Total other expenses	<u>3,205,000</u>	<u>3,336,939</u>	<u>(131,939)</u>
Total expenses	<u>26,059,400</u>	<u>29,457,627</u>	<u>(3,398,227)</u>
Change in net assets	<u>\$ 3,083,000</u>	<u>\$ 1,513,948</u>	<u>\$ (1,569,052)</u>

TRAVERSE CITY LIGHT AND POWER

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

SCHEDULE OF REVENUES AND EXPENSES - BUDGET AND ACTUAL FIBER FUND FOR THE YEAR ENDED JUNE 30, 2011

	Amended Budget	Actual	Positive (Negative) Variance
Operating revenues - sales			
Other sales	\$ 212,800	\$ 183,605	\$ (29,195)
Non-operating revenues			
Reimbursements	86,500	34,392	(52,108)
Total revenues	299,300	217,997	(81,303)
Fiber expenses			
Supervision and engineering	38,200	29,371	8,829
Overhead	1,500	2,753	(1,253)
Underground	-	1,623	(1,623)
Termination boxes	21,000	32,839	(11,839)
Customer installations	18,700	1,700	17,000
Professional development	1,500	7,757	(6,257)
Miscellaneous	92,300	2,054	90,246
Total fiber expenses	173,200	78,097	95,103
Other expenses			
Insurance and bonds	-	1,263	(1,263)
City fee	10,600	9,180	1,420
Depreciation and amortization	99,500	85,409	14,091
Total other expenses	110,100	95,852	14,248
Total expenses	283,300	173,949	109,351
Change in net assets	\$ 16,000	\$ 44,048	\$ 28,048

INTERNAL CONTROL AND COMPLIANCE

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

December 29, 2011

To the Honorable Chairman and Members
Traverse City Light and Power Board
City of Traverse City, Michigan

We have audited the financial statements of the business-type activities and each major fund of *Traverse City Light and Power* (the "Department"), a component unit of the City of Traverse City, as of and for the year ended June 30, 2011, which collectively comprise the Department's basic financial statements, and have issued our report thereon dated December 29, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

A 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 combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as identified above.

Compliance and Other Matters

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

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

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