

MICHIGAN PUBLIC POWER AGENCY

Lansing, Michigan

FINANCIAL STATEMENTS

December 31, 2002 and 2001

MICHIGAN PUBLIC POWER AGENCY

NOTES TO FINANCIAL STATEMENTS

December 31, 2002 and 2001

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Virchow Krause & company

INDEPENDENT AUDITORS' REPORT

To the Board of Commissioners
Michigan Public Power Agency
Lansing, Michigan

We have audited the accompanying combined financial statements of Michigan Public Power Agency (MPPA) as identified in the accompanying table of contents as of and for the years ended December 31, 2002 and 2001. These combined financial statements are the responsibility of management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the combined financial statements referred to in the first paragraph present fairly, in all material respects, the combined financial position of MPPA as of December 31, 2002 and 2001, and the changes in its financial position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 1 to the combined financial statements, MPPA adopted the provisions of Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, Statement No. 37 *Basic Financial Statement – and Management's Discussion and Analysis – For State and Local Governments – Omnibus*, (GASB 37), and Statement No. 38 *Certain Financial Statement Note Disclosures* as of and for the year ended December 31, 2002.

This results in a change in the format and content of the basic financial statements and accompanying notes to the financial statements for all periods presented.

The Management's Discussion and Analysis on pages 3 to 8 is not a required part of the basic financial statements, but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures that consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

To the Board of Commissioners
Michigan Public Power Agency

Our audit was conducted for the purpose of forming an opinion on the combined financial statements taken as a whole. The financial information on pages 14 - 29 is presented for purposes of additional analysis and is not a required part of the combined financial statements of Michigan Public Power Agency. Such information for the years ended December 31, 2002 and 2001 has been subjected to the auditing procedures applied in our audit of the combined financial statements and, in our opinion, is fairly stated in all material respects in relation to the combined financial statements taken as a whole.

Vickroy, Krause & Company, LLP

Madison, Wisconsin
March 20, 2003

**MANAGEMENT'S DISCUSSION
AND ANALYSIS**

MICHIGAN PUBLIC POWER AGENCY

MANAGEMENT'S DISCUSSION AND ANALYSIS December 31, 2002 and 2001

The management of Michigan Public Power Agency (MPPA) offers all persons interested in the financial position of MPPA this narrative overview and analysis of MPPA's financial performance during the year ending December 31, 2002 and 2001. You are invited to read this narrative in conjunction with MPPA's financial statements.

FINANCIAL HIGHLIGHTS

- MPPA's total net assets decreased \$16,900, or 3% from the prior year. This was due to general office operations in excess of member dues and other revenues.
 - MPPA's operating expenses in 2002 were \$6,446,000 lower than in 2001. This is a 6% decrease in operating expenses from the prior year. Most of the decrease was due to lower purchased power costs in the Power Pool project. These savings were passed on to project participants resulting in a decrease in operating revenues of \$6,500,900 or about 5%. The net effect was a decrease in operating income of \$55,000 compared to the prior year.
 - Total agency assets decreased \$13,835,000 while total liabilities decreased \$13,818,000. These changes related to refinancing of the Belle River project debt during the year. See Note 6 for further information.
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OVERVIEW OF THE FINANCIAL STATEMENTS

Michigan Public Power Agency is a public body politic and corporate of the state of Michigan. MPPA was created in 1978 under Act 448 of the Public Acts of Michigan, 1976, as amended. The purpose of MPPA is to oversee the development and operation of various projects to supply electric power and energy to the project members. MPPA has thirteen members, each of which is a municipal corporation in the State of Michigan and owns and operates a municipal electric system.

This annual report consists of two parts: Management's Discussion and Analysis (this section) and the basic financial statements. MPPA is a self-supporting entity and follows proprietary fund reporting; accordingly, the financial statements are presented using the economic resources measurement focus and the accrual basis of accounting. Proprietary fund statements offer financial information about the activities and operations of MPPA.

The combined financial statements are designed to provide readers with a broad overview of MPPA's finances, in a manner similar to a private-sector business.

MPPA's operations consist of four power projects:

- Campbell No. 3
- Belle River
- Power Pool
- Combustion Turbine #1

In addition, MPPA members share in the administrative and general costs incurred to operate these projects.

MICHIGAN PUBLIC POWER AGENCY

MANAGEMENT'S DISCUSSION AND ANALYSIS December 31, 2002 and 2001

OVERVIEW OF THE FINANCIAL STATEMENTS (cont.)

It is very important to note however that due to contractual arrangements, which are the basis of each power project, no monies can be shared between projects. The cash flow of one power project, although combined with all others in the combined financial statement presentation as required by financial reporting rules, cannot and should not be considered available for any other project. Great care should be exercised in evaluating the financial condition of MPPA as a combined entity from the use of the Combined Financial Statements.

- The Combined Statement of Revenues, Expenses, and Changes in Net Assets presents information showing how MPPA's net assets changed during the most recent 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 the related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.
 - The Combined Statement of Cash Flows report the cash provided and used by operating activities, as well as other cash sources such as investment income and cash payments for repayment of bonds and capital additions.
 - The notes provide additional information that is essential to a full understanding of the data provided in the financial statements. The notes to the financial statements can be found beginning on page 14 of this report.
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MPPA FINANCIAL ANALYSIS

An analysis of MPPA's financial position begins with a review of the Statement of Net Assets, and the Statement of Revenues, Expenses and Changes in Net Assets report information. These two statements report MPPA's net assets and changes therein. As noted earlier, great care must be taken when evaluating MPPA's financial position and results of operations when using the combined financial presentations due to the legal separation that must be maintained between projects. However, broad patterns and trends may be observed at this level that should lead the reader to study carefully the financial statements of each project.

A summary of MPPA's Combined Statement of Net Assets is presented below in Table 1. The Combined Statement of Revenues, Expenses and Changes in Net Assets is summarized in Table 2.

MICHIGAN PUBLIC POWER AGENCY

MANAGEMENT'S DISCUSSION AND ANALYSIS (cont.)
December 31, 2002 and 2001

MPPA FINANCIAL ANALYSIS (cont.)

Table 1
Condensed Statement of Net Assets

	2002	2001
Current assets	\$ 124,726,265	\$ 121,962,724
Restricted assets	30,301,934	64,160,217
Non-current assets		
Capital assets	267,158,591	252,260,668
Other assets	4,506,242	2,144,197
Total Assets	\$ 426,693,032	\$ 440,527,806
Current liabilities	\$ 12,246,309	\$ 33,886,808
Non-current liabilities		
Deferred revenue to be recognized in future periods	62,256,371	57,373,976
Revenue bonds payable, less current portion	351,665,528	348,725,287
Total Liabilities	426,168,208	439,986,071
Net assets		
Invested in capital assets, net of related debt	(65,834,127)	(108,070,422)
Restricted	24,880,765	39,414,143
Unrestricted	41,478,186	69,198,014
Total Net Assets	524,824	541,735
Total Liabilities and Net Assets	\$ 426,693,032	\$ 440,527,806

Table 2
Condensed Statement of Revenues, Expenses and Changes in Net Assets

	2002	2001
Operating Revenues	\$ 113,826,102	\$ 120,326,997
Non-Operating Revenues	6,374,719	10,821,035
Total Revenues	120,200,821	131,148,032
Depreciation Expense	13,720,302	13,456,006
Other Operating Expenses	81,547,619	88,257,912
Non-Operating Expenses	20,067,416	21,018,364
Total Expenses	115,335,337	122,732,282
Income Before Deferred Revenue	4,865,484	8,415,750
Deferred Revenue to be Recognized in Future Periods Net of Deferred Revenue Recognized in Current Period	(4,882,395)	(8,549,686)
Changes in Net Assets	(16,911)	(133,936)
Beginning Net Assets	541,735	675,671
Ending Net Assets	\$ 524,824	\$ 541,735

MICHIGAN PUBLIC POWER AGENCY

MANAGEMENT'S DISCUSSION AND ANALYSIS (cont.)
December 31, 2002 and 2001

MPPA FINANCIAL ANALYSIS (cont.)

MPPA uses fund accounting, Federal Energy Regulatory Commission accounting and special utility industry terminology to ensure and demonstrate compliance with finance-related legal requirements.

Campbell No. 3 Project

MPPA jointly owns and operates the Campbell Unit No. 3 electric generation facility with Consumer's Energy. Ten of MPPA's members participate in this project, consisting of a 4.8% undivided ownership interest in the coal-fired generating plant in Ottawa County, Michigan. During 2002 MPPA issued \$11,000,000 in revenue bonds for capital improvements at the Campbell No. 3 facility. Unspent resources remaining at December 31, 2002 of \$6,693,000 are reported in the construction account as a restricted asset. Operating revenues for 2002 increased by 12% compared to 2001. During the same time period the cost of power increased by 11%. There was an increase in the amount of purchased power and a corresponding decrease in the amount of production due to federally required improvements that are ongoing at the plant. Transmission costs also increased over the prior year as the operation of these assets was transferred from Consumer's Energy to Michigan Electric Transmission Company.

Belle River Project

With 11 of the member communities participating in this project, MPPA jointly owns and operates the Belle River Power Plant with Detroit Edison. MPPA has a 37.22% undivided ownership interest in Belle River Unit No.1, a coal-fired electric generating unit located in St. Clair County, Michigan. The outstanding bonds related to the construction of this project were advanced refunded in 2002 with the issuance of \$280,180,000 in new revenue bonds. MPPA was able to use a substantial amount of existing resources to decrease the amount of new debt required for this refinancing due to the elimination of the reserve requirement on the new bonds. See Note 6 for additional information on the advance refunding. The cost of power increased by 4.8% from 2001 to 2002. Due to maintenance at the plant additional purchased power was required, however the decrease in the cost of fuel was offset by the maintenance costs. Sales to participants increased proportionately to the operating costs, resulting in a less than 1% decrease in operating income. Interest and amortization expenses decreased from 2001 to 2002 due to the refinancing of the project debt. The net cash and cash equivalents of the Belle River Project decreased by \$14,876,000 during 2002 mainly as a result of the advance refunding of the debt.

Power Pool Project

The Power Pool Project was established to allow member communities to pool their generating resources and electric loads. The Power Pool uses economic dispatch principles in determining the moment-by-moment output of generating resources, along with any purchases of energy from third party resources, so as to obtain the lowest overall electric energy cost for the Power Pool that is reasonably attainable at any given point in time. The group experienced a 23% decrease in the cost of power in 2002 compared to 2001. For 2002 purchased power made up 86% of the Power Pool operating costs. With the establishment of the Michigan Electric Transmission Company, transmission costs increased by almost 50% over 2001. For 2002, the operating costs of the Power Pool project exceeded the member billings resulting in the application of deferred revenue from a previous period.

MICHIGAN PUBLIC POWER AGENCY

MANAGEMENT'S DISCUSSION AND ANALYSIS (cont.)
December 31, 2002 and 2001

MPPA FINANCIAL ANALYSIS (cont.)

Combustion Turbine #1 Project

MPPA began construction of the Combustion Turbine #1 Project (CT Project) in 2001. Construction of the natural-gas fired combustion turbine generating unit was completed in 2002 and operation began in November. \$34,645,000 of revenue bonds were issued in 2002 to finance the construction. Currently there are five members participating in this project. For the year ended December 31, 2002 this project reported \$59,400 of deferred revenues to be recognized in a future period. At December 31, 2002 the CT Project had a negative share of the joint cash resources resulting from operating costs incurred but not yet billed out to the participating members.

General Office Operations

MPPA accounts for the general office operations that cannot be attributed to any one specific project in an internal service fund. Member dues are based on the annual budgeted operating costs, with a portion of the operating costs allocated to each project as overhead. The loss for the General Office Operations fund was \$16,911 in 2002 compared to \$133,936 in 2001.

CAPITAL ASSETS

MPPA's investment in capital assets as of December 31, 2002 amounts to \$267,159,000 (net of accumulated depreciation). This investment in capital assets includes investment in plants, transmission systems, land, buildings, improvements, machinery and equipment. The total increase in MPPA's investment in capital assets for the year was 5.9%. Each project contributed to this differently. The Campbell No. 3 Project investment in capital assets increased by 2.4% with the continued plant improvement initiatives. The investment in the Belle River Project capital assets decreased by 3.1%, while the General Office Operations investment decreased by 6.7%, both as a result of annual depreciation. Power Pool Project capital investment increased by \$1,200 due to small capital additions. The completion of the Combustion Turbine Project increased that funds investment in capital assets by \$21,445,000 in 2002. See Note 5 for additional details.

LONG-TERM DEBT

At December 31, 2002, MPPA had total liabilities outstanding of \$426,168,000 of which \$353,911,000 represents bond payments payable. These remaining principal payments on long-term debt, including current amounts due, are as follows:

Campbell No. 3 Project	\$ 28,829,000
Belle River Project	290,502,000
Combustion Turbine #1 Project	<u>34,580,000</u>
Total	<u>\$ 353,911,000</u>

MICHIGAN PUBLIC POWER AGENCY

MANAGEMENT'S DISCUSSION AND ANALYSIS (cont.)
December 31, 2002 and 2001

LONG-TERM DEBT (cont.)

During 2002 MPPA issued \$11,000,000 in revenue bonds for capital improvements at the Campbell No. 3 Project, \$280,180,000 to advance refund the existing debt for the Belle River Project and \$34,645,000 for the construction of the Combustion Turbine Project. See Note 6 for additional details.

ECONOMIC CONDITIONS

The 2003 budget was adopted amid a slow-down in the national and state economies. The member-cities' economies have shown varying amounts of growth in both demand and energy. Interest rates, having been historically low in 2001 and 2002, are expected to begin increasing by late 2003. In order to assist its members in meeting their future power supply requirements, MPPA performs annual planning reviews of load and resource projections for all of its members that request such service. These projections are utilized in preparing the annual budgets and evaluating the need for future capital projects. Because MPPA's members are billed based on actual costs, revenues will fluctuate with operating costs rather than be determined by any set rates.

CURRENTLY KNOWN FACTS

MPPA's transmission agreements have undergone changes in the past year. Consumers' Energy has transferred its transmission assets to Michigan Electric Transmission Company (METC), a subsidiary of Consumer's Energy. MPPA has taken legal action that resulted in settlement agreements which require that MPPA's rights under the Consumers transmission Agreement will be honored and performed by METC, or any subsequent purchaser of METC or a substantial portion of the transmission facilities. FERC has approved the sale of METC to TransElect. The settlement agreement also provides for the purchase of additional transmission assets by MPPA, for which the purchase price is not currently known. Detroit Edison has transferred its transmission system to ITC, a wholly-owned subsidiary of DTE Energy Company. MPPA's agreements with Detroit Edison have been assigned by ITC.

CONTACTING MPPA'S FINANCIAL MANAGEMENT

This financial report is designed to provide our customers, investors and creditors with a general overview of MPPA's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to Michigan Public Power Agency, 809 Centennial Way, Lansing, MI 48917.

Balance Sheet Follows

MICHIGAN PUBLIC POWER AGENCY

COMBINED BALANCE SHEET
December 31, 2002 and 2001

ASSETS							(Memorandum Only)
	Campbell No. 3 Project	Belle River Project	Power Pool Project	Combustion Turbine #1	General Office Operation	2002	2001
CURRENT ASSETS							
Cash and Cash Equivalents							
Project account	\$ 5,980,679	\$ 5,393,955	\$ -	\$ -	\$ -	\$ 11,374,634	\$ 25,689,326
Operation and maintenance account	1,010,727	8,342,610	-	-	-	9,353,337	7,936,641
Operation and maintenance reserve account	250,000	-	-	-	-	250,000	250,000
Fuel reserve account	800,000	-	-	-	-	800,000	800,000
Other	-	-	2,273,238	(125,128)	578,297	2,726,407	4,044,128
Total Cash and Cash Equivalents	<u>8,041,406</u>	<u>13,736,565</u>	<u>2,273,238</u>	<u>(125,128)</u>	<u>578,297</u>	<u>24,504,378</u>	<u>38,720,095</u>
Investments - Project Account							
US Government securities	-	16,956,000	-	-	-	16,956,000	-
US Government Agency notes	-	61,060,826	-	-	-	61,060,826	62,407,490
Accrued interest receivable	10,374	1,225,787	-	11,950	-	1,248,111	1,382,527
Accounts receivable	1,029,780	4,952,261	4,593,174	249,153	16,448	10,840,816	9,211,414
Fuel inventory	921,295	6,477,644	-	-	-	7,398,939	7,688,331
Materials and supplies inventory	-	2,513,415	-	203,780	-	2,717,195	2,552,867
Total Current Assets	<u>10,002,855</u>	<u>106,922,498</u>	<u>6,866,412</u>	<u>339,755</u>	<u>594,745</u>	<u>124,726,265</u>	<u>121,962,724</u>
RESTRICTED ASSETS							
Debt service account	3,076,093	1,879,380	-	872,429	-	5,827,902	23,663,147
Debt service reserve account	-	-	-	-	-	-	32,128,625
Construction account	6,693,201	-	-	9,718,367	-	16,411,568	-
Reserve and contingency account	-	8,047,520	-	-	-	8,047,520	8,353,760
Scholarship Fund	-	-	-	-	14,944	14,944	14,685
Total Restricted Assets	<u>9,769,294</u>	<u>9,926,900</u>	<u>-</u>	<u>10,590,796</u>	<u>14,944</u>	<u>30,301,934</u>	<u>64,160,217</u>
NON-CURRENT ASSETS							
Capital assets							
Utility plant in service	41,366,327	443,576,335	2,509,825	24,847,655	844,981	513,145,123	481,425,661
Utility plant - construction in progress	-	-	-	-	-	-	3,333,861
Allowance for depreciation	(21,274,346)	(221,714,341)	(2,507,983)	(68,858)	(421,004)	(245,986,532)	(232,498,854)
Total Capital Assets	<u>20,091,981</u>	<u>221,861,994</u>	<u>1,842</u>	<u>24,778,797</u>	<u>423,977</u>	<u>267,158,591</u>	<u>252,260,668</u>
Other assets							
Deferred bond issue costs - net	424,282	3,184,961	-	896,999	-	4,506,242	2,144,197
Prepaid long-term lease (deferred obligation)	-	346,000	-	-	(346,000)	-	-
Total Non-Current Assets	<u>20,516,263</u>	<u>225,392,955</u>	<u>1,842</u>	<u>25,675,796</u>	<u>77,977</u>	<u>271,664,833</u>	<u>254,404,865</u>
TOTAL ASSETS	<u>\$ 40,288,412</u>	<u>\$ 342,242,353</u>	<u>\$ 6,868,254</u>	<u>\$ 36,606,347</u>	<u>\$ 687,666</u>	<u>\$ 426,693,032</u>	<u>\$ 440,527,806</u>

MICHIGAN PUBLIC POWER AGENCY

COMBINED BALANCE SHEET

December 31, 2002 and 2001

LIABILITIES AND NET ASSETS

	Campbell No. 3 Project	Belle River Project	Power Pool Project	Combustion Turbine #1	General Office Operation	2002	(Memorandum Only) 2001
CURRENT LIABILITIES							
Accounts payable and accrued expenses	\$ 311,509	\$ (212,377)	\$ 5,364,441	\$ 1,213,669	\$ 147,898	\$ 6,825,140	\$ 9,140,734
Current Liabilities Payable from Restricted Assets							
Accrued interest payable	804,608	1,166,388	-	872,428	-	2,843,424	9,913,070
Current portion of revenue bonds	2,245,000	-	-	-	-	2,245,000	13,750,000
Construction costs payable	-	317,801	-	-	-	317,801	1,068,319
Scholarship fund	-	-	-	-	14,944	14,944	14,685
Total Current Liabilities Payable from Restricted Assets	<u>3,049,608</u>	<u>1,484,189</u>	<u>-</u>	<u>872,428</u>	<u>14,944</u>	<u>5,421,169</u>	<u>24,746,074</u>
Total Current Liabilities	<u>3,361,117</u>	<u>1,271,812</u>	<u>5,364,441</u>	<u>2,086,097</u>	<u>162,842</u>	<u>12,246,309</u>	<u>33,886,808</u>
NON-CURRENT LIABILITIES							
Deferred revenue to be recognized in future periods	10,343,396	50,468,625	1,503,813	(59,463)	-	62,256,371	57,373,976
Revenue bonds payable, less current portion	<u>26,583,899</u>	<u>290,501,916</u>	<u>-</u>	<u>34,579,713</u>	<u>-</u>	<u>351,665,528</u>	<u>348,725,287</u>
Total Non-Current Liabilities	<u>36,927,295</u>	<u>340,970,541</u>	<u>1,503,813</u>	<u>34,520,250</u>	<u>-</u>	<u>413,921,899</u>	<u>406,099,263</u>
Total Liabilities	<u>40,288,412</u>	<u>342,242,353</u>	<u>6,868,254</u>	<u>36,606,347</u>	<u>162,842</u>	<u>426,168,208</u>	<u>439,986,071</u>
NET ASSETS							
Invested in capital assets, net of related debt	(1,619,435)	(65,454,961)	1,842	814,450	423,977	(65,834,127)	(108,070,422)
Restricted	6,719,686	8,442,711	-	9,718,368	-	24,880,765	39,414,143
Unrestricted	<u>(5,100,251)</u>	<u>57,012,250</u>	<u>(1,842)</u>	<u>(10,532,818)</u>	<u>100,847</u>	<u>41,478,186</u>	<u>69,198,014</u>
Total Net Assets	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 524,824</u>	<u>\$ 524,824</u>	<u>\$ 541,735</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 40,288,412</u>	<u>\$ 342,242,353</u>	<u>\$ 6,868,254</u>	<u>\$ 36,606,347</u>	<u>\$ 687,666</u>	<u>\$ 426,693,032</u>	<u>\$ 440,527,806</u>

See accompanying notes to financial statements.

MICHIGAN PUBLIC POWER AGENCY

COMBINED STATEMENTS OF REVENUES, EXPENSES AND CHANGES NET ASSETS

Years Ended December 31, 2002 and 2001

	Campbell No. 3 Project	Belle River Project	Power Pool Project	Combustion Turbine No.1	General Office Operation	2002	(Memorandum Only) 2001
OPERATING REVENUES							
Sales to participants	\$ 11,323,858	\$ 62,092,048	\$ 39,450,397	\$ 246,245	\$ -	\$ 113,112,548	\$ 119,705,802
Other	-	-	-	-	713,554	713,554	621,195
Total Operating Revenues	<u>11,323,858</u>	<u>62,092,048</u>	<u>39,450,397</u>	<u>246,245</u>	<u>713,554</u>	<u>113,826,102</u>	<u>120,326,997</u>
OPERATING EXPENSES							
Cost of Power							
Production	4,548,404	26,132,068	-	83,742	-	30,764,214	31,519,119
Purchased	2,534,717	3,608,386	34,406,399	-	-	40,549,502	48,073,603
Total Cost of Power	7,083,121	29,740,454	34,406,399	83,742	-	71,313,716	79,592,722
Transmission	62,641	463,425	4,838,784	580	-	5,365,430	3,437,773
General and administrative	477,202	3,050,591	618,398	13,518	708,764	4,868,473	5,227,417
Depreciation	1,192,807	12,420,980	964	68,858	36,693	13,720,302	13,456,006
Total Operating Expenses	<u>8,815,771</u>	<u>45,675,450</u>	<u>39,864,545</u>	<u>166,698</u>	<u>745,457</u>	<u>95,267,921</u>	<u>101,713,918</u>
Operating Income (Loss)	<u>2,508,087</u>	<u>16,416,598</u>	<u>(414,148)</u>	<u>79,547</u>	<u>(31,903)</u>	<u>18,558,181</u>	<u>18,613,079</u>
NONOPERATING REVENUES (EXPENSES)							
Interest cost incurred	(1,279,661)	(17,788,554)	-	(145,405)	-	(19,213,620)	(19,826,140)
Amortization of financing-related costs	(173,297)	(674,806)	-	(5,693)	-	(853,796)	(1,192,224)
Investment income	232,999	6,352,023	48,597	12,088	14,992	6,660,699	7,947,622
Net change in fair value of investments	-	(285,980)	-	-	-	(285,980)	2,873,413
Total Nonoperating Revenues (Expenses)	<u>(1,219,959)</u>	<u>(12,397,317)</u>	<u>48,597</u>	<u>(139,010)</u>	<u>14,992</u>	<u>(13,692,697)</u>	<u>(10,197,329)</u>
Income before deferred revenue	1,288,128	4,019,281	(365,551)	(59,463)	(16,911)	4,865,484	8,415,750
Deferred revenue to be recognized in future periods	(1,288,128)	(4,019,281)	-	59,463	-	(5,307,409)	(8,549,686)
Deferred revenue recognized in current period	-	-	365,551	-	-	425,014	-
CHANGE IN NET ASSETS	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>(16,911)</u>	<u>(16,911)</u>	<u>(133,936)</u>
NET ASSETS - Beginning of Year					<u>541,735</u>	<u>541,735</u>	<u>675,671</u>
NET ASSETS - END OF YEAR					<u>\$ 524,824</u>	<u>\$ 524,824</u>	<u>\$ 541,735</u>

See accompanying notes to financial statements.

Statement of Cash Flows Follows

MICHIGAN PUBLIC POWER AGENCY

COMBINED STATEMENTS OF CASH FLOWS Years Ended December 31, 2002 and 2001

	Campbell No. 3 Project	Belle River Project	Power Pool Project	Combustion Turbine #1	General Office Operation	2002	(Memorandum Only) 2001
CASH FLOWS FROM OPERATING ACTIVITIES							
Received from customers	\$ 11,181,311	\$ 61,204,202	\$ 39,103,632	-	\$ 710,462	\$ 112,199,607	\$ 122,854,180
Paid to suppliers for goods and services	(8,096,884)	(31,919,602)	(39,619,331)	65,345	(625,739)	(80,196,211)	(89,151,723)
Paid to employees for services	(125,579)	(174,774)	(155,456)	(6,868)	(114,985)	(577,662)	(535,785)
Net Cash Flows From Operating Activities:	<u>2,958,848</u>	<u>29,109,826</u>	<u>(671,155)</u>	<u>58,477</u>	<u>(30,262)</u>	<u>31,425,734</u>	<u>33,166,672</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES							
Acquisition and construction of utility plant	(1,662,030)	(6,180,139)	-	(19,381,828)	-	(27,223,997)	(8,997,692)
Good faith bond deposit	-	-	-	(692,800)	-	(692,800)	692,800
Return of contributions to participating members	-	-	-	(3,159,050)	-	(3,159,050)	3,159,050
Proceeds from revenue bonds	11,000,000	307,250,735	-	34,764,103	-	353,014,838	-
Bond issue costs	(301,745)	(3,179,303)	-	(960,686)	-	(4,441,734)	-
Revenue bonds refunded	-	(327,806,666)	-	-	-	(327,806,666)	-
Loss on early extinguishment of debt, less noncash portion	-	(6,673,309)	-	-	-	(6,673,309)	-
Principal payment on revenue bonds	(2,140,000)	(23,573,334)	-	-	-	(25,713,334)	(13,075,000)
Interest paid on revenue bonds	(1,031,278)	(25,979,011)	-	(1,017,833)	-	(28,028,122)	(20,161,860)
Other	-	24,000	(2,149)	-	(30,155)	(8,304)	(23,802)
Net Cash Flows from Capital and Related Financing Activities	<u>5,864,947</u>	<u>(86,117,027)</u>	<u>(2,149)</u>	<u>9,551,906</u>	<u>(30,155)</u>	<u>(70,732,478)</u>	<u>(38,406,504)</u>
CASH FLOWS FROM INVESTING ACTIVITIES							
Long-term investments purchased	(7,073,069)	(17,432,938)	-	(10,590,796)	-	(35,096,803)	(3,027,944)
Long-term investments sold	-	53,060,029	-	-	-	53,060,029	14,934,015
Investment income	227,124	6,504,264	48,597	332,824	14,992	7,127,801	8,050,210
Net Cash Flows From Investing Activities	<u>(6,845,945)</u>	<u>42,131,355</u>	<u>48,597</u>	<u>(10,257,972)</u>	<u>14,992</u>	<u>25,091,027</u>	<u>19,956,281</u>
Net Change in Cash and Cash Equivalents	1,977,850	(14,875,846)	(624,707)	(647,589)	(45,425)	(14,215,717)	14,716,449
UNRESTRICTED CASH AND CASH EQUIVALENTS - Beginning of Year	<u>6,063,556</u>	<u>28,612,411</u>	<u>2,897,945</u>	<u>522,461</u>	<u>623,722</u>	<u>38,720,095</u>	<u>24,003,646</u>
UNRESTRICTED CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$ 8,041,406</u>	<u>\$ 13,736,565</u>	<u>\$ 2,273,238</u>	<u>\$ (125,128)</u>	<u>\$ 578,297</u>	<u>\$ 24,504,378</u>	<u>\$ 38,720,095</u>

MICHIGAN PUBLIC POWER AGENCY

COMBINED STATEMENTS OF CASH FLOWS
Years Ended December 31, 2002 and 2001

	<u>Campbell No. 3 Project</u>	<u>Belle River Project</u>	<u>Power Pool Project</u>	<u>Combustion Turbine #1</u>	<u>General Office Operation</u>	<u>2002</u>	<u>(Memorandum Only) 2001</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH FLOWS FROM OPERATING ACTIVITIES							
Operating income (loss)	\$ 2,508,087	\$ 16,416,598	\$ (414,148)	\$ 79,547	\$ (31,903)	\$ 18,558,181	\$ 18,613,079
Adjustments to reconcile operating income to net cash provided by (used in) operating activities							
Depreciation	1,192,807	12,420,980	964	68,858	36,693	13,720,302	13,456,006
Changes in assets and liabilities							
Accounts receivables	(142,547)	(887,846)	(346,765)	(249,152)	(3,092)	(1,629,402)	2,527,183
Fuel inventory	(20,593)	309,984	-	(203,780)	-	85,611	399,757
Materials and supplies inventory	-	39,452	-	-	-	39,452	360,850
Accounts payable and accrued expense	<u>(578,906)</u>	<u>810,658</u>	<u>88,794</u>	<u>363,004</u>	<u>(31,960)</u>	<u>651,590</u>	<u>(2,190,203)</u>
NET CASH FLOWS FROM OPERATING ACTIVITIES	<u>\$ 2,958,848</u>	<u>\$ 29,109,826</u>	<u>\$ (671,155)</u>	<u>\$ 58,477</u>	<u>\$ (30,262)</u>	<u>\$ 31,425,734</u>	<u>\$ 33,166,672</u>

MICHIGAN PUBLIC POWER AGENCY

NOTES TO FINANCIAL STATEMENTS December 31, 2002 and 2001

NOTE 1 – NATURE OF OPERATIONS

Michigan Public Power Agency (MPPA) is a public body politic and corporate of the state of Michigan created in 1978 under Act 448 of the Public Acts of Michigan, 1976, as amended. MPPA was formed to undertake the planning, financing, development, acquisition, construction, improvement, operation and maintenance of projects to supply electric power and energy for the present or future needs of its members. Each MPPA member is a municipal corporation organized under the laws of the state of Michigan and owns and operates a municipal electric system. Of MPPA's thirteen members as of December 31, 2002, ten are participants in the Campbell No. 3 Project, eleven are participants in the Belle River Project, eight are participants in the Power Pool Project and five are participants in the Combustion Turbine No.1 Project.

BASIS OF PRESENTATION

The financial activities of MPPA are recorded in separate proprietary funds described as follows:

Enterprise Funds

The Campbell No. 3, Belle River, Power Pool Project and Combustion Turbine No. 1 Funds account for the financing and operation of MPPA's interest in the respective projects, where costs are recovered through participant charges. The accounts of these Funds are maintained in accordance with the Uniform System of Accounts of the Federal Energy Regulatory Commission. The Power Pool Project allows participants to pool their generating resources and electrical loads in order to coordinate the production and distribution of the most economic source of electricity at any given point in time.

General Office Operations Fund

The General Office Operation Fund accounts for financing, through participant charges, the general and administrative activities of MPPA not related to any specific electric power supply project.

MPPA's financial statements are prepared on the accrual basis of accounting following generally accepted accounting principles as established by the GASB. As permitted under these GASB established principles, the proprietary funds of MPPA do not apply Financial Accounting Standards Board (FAS) statements and interpretations issued after November 30, 1989, except for FAS 71 and related FAS statements for entities operating in industries subject to regulatory issues.

On January 1, 2001 MPPA adopted the provision of Governmental Accounting Standards Board Statement No. 33 *Accounting and Financial Reporting for Nonexchange Transactions*. This statement requires that capital contributions to MPPA be presented as a change in net assets.

On January 1, 2002 MPPA adopted the provisions of Governmental Accounting Standards Board Statement No. 34 *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*. Statement 34 established standards for external financial reporting for all state and local governmental entities which includes a statement of net assets, a statement of revenues, expenses, and changes in net assets and a statement of cash flows. It requires the classification of net assets into three components – invested in capital assets, net of related debt; restricted; and unrestricted. These classifications are defined as follows:

MICHIGAN PUBLIC POWER AGENCY

NOTES TO FINANCIAL STATEMENTS December 31, 2002 and 2001

NOTE 1 – NATURE OF OPERATIONS (cont.)

BASIS OF PRESENTATION (cont.)

- *Invested in capital assets, net of related debt* – This component of net assets consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. If there are significant unspent related debt proceeds at year-end, the portion of the debt attributable to the unspent proceeds are not included in the calculation of invested in capital assets, net of related debt. Rather, that portion of the debt is included in the same net assets component as the unspent proceeds.
- *Restricted* – This component of net assets consists of constraints placed on net asset use through external constraints imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.
- *Unrestricted* – This component of net assets consists of net assets that do not meet the definition of “restricted” or “invested in capital assets, net of related debt”.

The adoption of Statements No. 34 affected the classification of net assets.

BUDGETARY ACCOUNTING

The Board of Commissioners of MPPA adopts an operating budget each year for all funds, on the same basis of accounting used to reflect actual revenues and expenses in the financial statements. The General Manager exercises budgetary control.

USE OF ESTIMATES

Preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reported period. Actual results could differ from those estimates.

OPERATING REVENUES

The Agency distinguishes operating revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the Agency’s principal ongoing operations. The principal operating revenues of the Agency are charges to members for sales and services. Operating expenses for the Agency includes 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.

MICHIGAN PUBLIC POWER AGENCY

NOTES TO FINANCIAL STATEMENTS December 31, 2002 and 2001

NOTE 1 – NATURE OF OPERATIONS (cont.)

UTILITY PLANT

Additions to and replacements of utility plant are recorded at original cost including an allowance for borrowed funds. Depreciation is recorded using the straight-line method using service lives of three to 54 years.

Interest is capitalized on utility property acquired with tax-exempt debt. The amount of interest to be capitalized is calculated by offsetting interest expense incurred from the date of the borrowing until completion of the project with interest earned on invested proceeds over the same period.

INVENTORIES

Fuel inventories of coal for the Belle River Project and Campbell No. 3 Project are stated at average cost. The materials and supplies inventory is stated at average cost.

CASH EQUIVALENTS

For purposes of the statement of cash flows, cash equivalents are cash and investments having an initial maturity of three months or less.

INVESTMENTS

Investments are stated at fair market value, based on quoted market prices.

DEFERRED CHARGES

Bond issuance costs, premiums and discounts are deferred and amortized over the life of the bonds based on the effective interest method. Losses on advance refundings occurring after 1993 are deferred and amortized on a straight-line basis over the repayment period of the related debt.

DEFERRED REVENUES

The Agency applies the provisions of Statement of Financial Accounting Standards (FAS) No. 71, "Accounting for the Effects of Certain Types of Regulation" (FAS No. 71). This statement recognizes the effects of operating in a regulatory environment creating future economic benefits and obligations affecting its members. Accordingly, the Agency records these future economic benefits and obligations as regulatory assets and regulatory liabilities, respectively.

Regulatory assets represent probable future revenues associated with previously incurred costs that are expected to be recovered from customers. Regulatory liabilities represent probable future reductions in revenues associated with amounts that are expected to be refunded to members through the ratemaking process.

MICHIGAN PUBLIC POWER AGENCY

NOTES TO FINANCIAL STATEMENTS December 31, 2002 and 2001

NOTE 1 – NATURE OF OPERATIONS (cont.)

DEFERRED REVENUES (cont.)

In order for the Agency to continue to apply the provisions of FAS No. 71, it must continue to meet the following three criteria: (1) the Agency's rates for services provided to its customers must be established by an independent third-party regulator or its own governing board empowered by a statute to establish rates that bind customers; (2) the Agency's rates must be designed to recover the Agency's costs of providing the services; and (3) in view of the demand for the services and the level of competition, it is reasonable to assume that rates set at levels that will recover the Agency's costs can be charged to and collected from customers.

In accordance with the provisions of FAS 71, revenues collected from members in excess of operating expenses are deferred to future periods when they will be recognized as revenues.

RATES

Members are billed monthly based on estimated usage, with amounts adjusted to actual costs in future month's bills. Accrued revenues are not considered material to these financial statements.

TAXES

MPPA is exempt from State and Federal income taxes.

COMPENSATED ABSENCES

Under terms of employment, employees are granted one and one quarter day of sick leave per month. Employees can accumulate up to sixty-five days of sick leave, however there is no payment for unused sick leave upon termination of employment.

NOTE 2 – JOINT PROJECT OWNERSHIP AGREEMENTS

CAMPBELL UNIT NO. 3

MPPA and Consumers Energy Company (Consumers) entered into the following agreements dated October 1, 1979, as amended, relating to Consumers' Campbell Unit No. 3 steam-electric generating unit, which went into commercial operation in September 1980:

The Campbell Ownership Agreement provides for MPPA to own a 4.8% undivided interest in Campbell Unit No. 3, for Consumers to operate Campbell Unit No. 3, for the sale of surplus electric capacity to Consumers, for operating costs of Campbell Unit No. 3 to be shared on a pro rata basis, and for MPPA to purchase an undivided ownership interest in the fuel supply for Campbell Unit No. 3.

MICHIGAN PUBLIC POWER AGENCY

NOTES TO FINANCIAL STATEMENTS December 31, 2002 and 2001

NOTE 2 – JOINT AGREEMENTS (cont.)

CAMPBELL UNIT NO. 3 (cont.)

The Campbell Transmission Agreement provides for MPPA to purchase a 58.06% undivided ownership interest in Consumers' Vergennes to Kenowa-Goss 345 KV transmission line, the method of determining certain charges for utilization of the Consumers transmission system, for the sale to Consumers of planned available transmission capacity in excess of MPPA's need, and for sharing transmission line operating expenses.

The Campbell Back-Up Agreement provides for Consumers to make backup electric capacity and energy available to MPPA from its electric system reserves in the event of total or partial unavailability of capacity and energy from Campbell Unit No. 3, and for determination of the associated backup electric capacity and energy charges to MPPA.

MPPA entered into a Power Sales Contract and a Project Support Contract with each of the ten members who elected to participate in the Campbell No. 3 Project. These contracts provide for the participant to purchase from MPPA the participant's entitlement share, as defined, of the generation and transmission of the Project. Each participant also shares proportionately in the proceeds from MPPA's sale of excess generating and transmission capacity to Consumers. Each participant is obligated to pay its share of the operating and debt service costs of the Project.

BELLE RIVER UNIT NO. 1

On December 1, 1982, MPPA and the Detroit Edison Company (Edison) entered into the following agreements, as amended, relating to Edison's Belle River Unit No. 1 steam-electric generating unit, part of a two-unit generating station, which went into commercial operation in August 1984:

The Belle River Participation Agreement provides for MPPA to purchase a 37.22% undivided ownership interest in Belle River Unit No. 1 and an undivided ownership interest in certain common and joint facilities associated with Belle River Unit No. 1, for MPPA to purchase an undivided ownership interest in the fuel supply stockpile, for Edison to operate Belle River Units No. 1 and 2, for the sharing of operating costs of both units, for the sale of surplus electric capacity and energy to Edison, and for backup electric capacity and energy from Edison's electric system reserves to be available in the event of total or partial unavailability of power and energy from Belle River. Pursuant to the reliability exchange provisions in the Agreement, MPPA is entitled to 18.61% of the electric capacity and energy from each of the Belle River Units No. 1 and 2.

The Belle River Transmission Ownership and Operating Agreement with Edison provides for MPPA to purchase a 50.41% undivided ownership interest in Edison's Greenwood-St. Clair-Jewell-Stephens Transmission Line and the Monroe-Wayne-Coventry-Majestic Transmission Line, for Edison to operate the transmission lines, for the sharing of operating costs and for the sale of planned excess transmission capacity to Edison.

MICHIGAN PUBLIC POWER AGENCY

NOTES TO FINANCIAL STATEMENTS December 31, 2002 and 2001

NOTE 2 – JOINT AGREEMENTS (cont.)

BELLE RIVER UNIT NO. 1 (cont.)

MPPA entered into the Belle River Transmission Ownership and Operating Agreement with Consumers, dated December 1, 1982, as amended, which provides MPPA with a 90% undivided ownership interest in certain Consumers-designated transmission lines, for Consumers to operate the transmission lines, for the sharing of operating costs and for the sale to Consumers of planned excess transmission capacity, if any.

MPPA entered into a Power Sales Contract and a Project Support Contract with each of the eleven members who elected to participate in the Belle River Project. These contracts provide for the participants to purchase from MPPA their entitlement share, as defined, of generation and transmission of the Project. Each participant also shares proportionately in MPPA's sale of excess generating and transmission capacity. Each participant is obligated to pay its share of power, transmission, backup, debt service and other project-related costs.

COMBUSTION TURBINE PROJECT NO. 1

In 2001, MPPA began construction of a 50 mW (nominal nameplate rating) simple-cycle combustion turbine generating unit fueled with natural gas (the CT Project No. 1). The unit will be located in Kalkaska County, Michigan. The project includes construction of natural gas pipeline and metering equipment to connect to Coral Energy, LLC's (Coral) natural gas facilities, a 69 kV electrical line tap and associated equipment to deliver the output of the CT Project No. 1 to the transmission system owned by Wolverine Power Supply Cooperative (Wolverine), and an undivided ownership interest in one or more as yet undesignated extra-high voltage electrical transmission lines on the METC transmission system. MPPA has executed a letter of intent with Coral to purchase a parcel of land from Coral and to enter into a long-term fuel purchase contract with Coral to supply the CT Project No.1.

MPPA entered into a Power Sales Contract with each of the five members who elected to participate in the CT Project No. 1. These contracts provide for the participants to purchase from MPPA their entitlement share, as defined, of generation and transmission of the Project. Each participant is obligated to pay its share of the operating and debt service costs of the Project.

NOTE 3 – CASH AND INVESTMENTS

MPPA adopted an investment policy, in accordance with the bond resolutions, that allows it to invest in U.S. Treasury obligations, certain federal agency securities, new Michigan Housing Authority bonds, direct and general obligations of any state, certificates of deposit with qualified United States institutions, repurchase agreements with qualified institutions, municipal obligations, time deposits, bankers' acceptances, commercial paper and pooled investment funds.

MICHIGAN PUBLIC POWER AGENCY

NOTES TO FINANCIAL STATEMENTS December 31, 2002 and 2001

NOTE 3 – CASH AND INVESTMENTS (cont.)

MPPA's deposits and investments are categorized to give an indication of the level of risk assumed by the Agency at year end. Category 1 includes items that are insured or registered or which are collateralized by or evidenced by securities held by MPPA's or its agent in MPPA's name. Category 2 includes deposits collateralized with securities held by the pledging institution's trust department or agent in MPPA's name, or uninsured and unregistered investments for which the securities are held by the counter party's trust department or agent in MPPA's name. Category 3 includes uncollateralized deposits, and uninsured and uncollateralized investments.

CASH AND INVESTMENTS – DECEMBER 31, 2002

	Category			Carrying Value
	1	2	3	
Restricted Assets				
Certificates of deposit	\$ -	\$ 13,763	\$ -	\$ 13,763
Money market funds	30,286,990	1,181	-	30,288,171
	<u>\$ 30,286,990</u>	<u>\$ 14,944</u>	<u>\$ -</u>	<u>\$ 30,301,934</u>
Current Assets				
Cash and cash equivalents				
Money market funds	\$ 5,393,955	\$ 19,103,186	\$ -	24,497,141
Demand and savings deposits	-	7,237	-	7,237
	5,393,955	19,110,423	-	24,504,378
U.S. Government securities	16,956,000	-	-	16,956,000
U.S. Government Agency notes	61,060,826	-	-	61,060,826
	<u>\$ 83,410,781</u>	<u>\$ 19,110,423</u>	<u>\$ -</u>	<u>\$ 102,521,204</u>
Total Cash and Investments				<u>\$ 132,823,138</u>

CASH AND INVESTMENTS – DECEMBER 31, 2001

	Category			Carrying Value
	1	2	3	
Restricted Assets				
U.S. Government securities	\$ 40,482,385	\$ -	\$ -	\$ 40,482,385
Certificates of deposit	-	13,763	-	13,763
Money market funds	23,663,147	922	-	23,664,069
	<u>\$ 64,145,532</u>	<u>\$ 14,685</u>	<u>\$ -</u>	<u>\$ 64,160,217</u>
Current Assets				
Cash and cash equivalents				
Money market funds	\$ 21,586,535	\$ 16,995,171	\$ -	38,581,706
Demand and savings deposits	-	138,391	-	138,391
	21,586,535	17,133,562	-	38,720,097
U.S. Government Agency notes	62,407,490	-	-	62,407,490
	<u>\$ 83,994,025</u>	<u>\$ 17,133,562</u>	<u>\$ -</u>	<u>\$ 101,127,587</u>
Total Cash and Investments				<u>\$ 165,287,804</u>

MICHIGAN PUBLIC POWER AGENCY

NOTES TO FINANCIAL STATEMENTS December 31, 2002 and 2001

NOTE 3 – CASH AND INVESTMENTS (cont.)

Investments are stated at fair value, which is the amount at which an investment could be exchanged in a current transaction between willing parties. Fair values are based on quoted market prices. No investments are reported at amortized cost. The difference between the bank balance and carrying value is due to outstanding checks and/or deposits in transit.

Deposits in banks are insured by the FDIC in the amount of \$100,000 for all interest bearing accounts and \$100,000 for all noninterest bearing accounts.

NOTE 4 – FUNDS

The Agency's bond resolutions require the segregation of bond proceeds, establishment of various funds, and prescribe the application of the Agency's revenues. Also, it defines what type of securities that the Agency may invest in. The funds established by the resolution are detailed in the balance sheet. The Agency is in compliance with all bond resolution funding requirements.

NOTE 5 – CHANGES IN CAPITAL ASSETS

A summary of changes in capital assets for 2002 and 2001 follows:

2002

	Balance 12/31/01	Additions/ Reclassi- fications	Deletions/ Reclass- ifications	Balance 12/31/02
Capital assets being depreciated:				
Land	\$ 291,254	\$ 30,000	\$ -	\$ 321,254
Utility Plant in Service	481,134,407	31,719,462	-	512,823,869
Construction Work in Process	3,333,861	18,537,038	21,870,899	-
Less: Accumulated Depreciation	<u>(232,498,854)</u>	<u>(13,720,302)</u>	<u>232,624</u>	<u>(245,986,532)</u>
Net Utility Plant	<u>\$ 252,260,668</u>			<u>\$ 267,158,591</u>

2001

	Balance 12/31/00	Additions/ Reclassi- fications	Deletions/ Reclass- ifications	Balance 12/31/01
Capital assets being depreciated:				
Land	\$ 291,254	\$ -	\$ -	\$ 291,254
Utility Plant in Service	474,563,939	6,570,468	-	481,134,407
Construction Work in Process	-	3,333,861	-	3,333,861
Less: Accumulated Depreciation	<u>(219,104,471)</u>	<u>(13,456,006)</u>	<u>61,623</u>	<u>(232,498,854)</u>
Net Utility Plant	<u>\$ 255,750,722</u>			<u>\$ 252,260,668</u>

MICHIGAN PUBLIC POWER AGENCY

NOTES TO FINANCIAL STATEMENTS December 31, 2002 and 2001

NOTE 6 – LONG-TERM DEBT

CAMPBELL NO. 3 PROJECT REVENUE BONDS

On May 23, 2002, MPPA issued \$11,000,000 of 2002 Series A Campbell No. 3 Project revenue bonds to finance the cost of improvements to the Campbell generating station. The bonds, with interest rates of 4.0% – 4.25%, are payable annually through 2013. Repayment of the bonds is pledged by the revenues of the MPPA members participating in the project.

The following bonds have been issued by the Agency:

Date	Purpose	Final Maturity	Interest Rates	Original Amount
July 15, 1997	Refund 1989 bonds	1/1/09	5.0 – 5.5%	\$ 24,925,000
May 1, 2002	Finance cost of improvements	1/1/13	4.0 – 4.25%	\$ 11,000,000

The following obligations are outstanding at December 31:

	2002	2001
1997A bonds	\$ 18,485,000	\$ 20,625,000
Unamortized loss 1997A advanced refunding transaction	(879,260)	(1,055,132)
Unamortized premium on 1997A bonds	223,159	291,835
2002A bonds	11,000,000	-
	<u>28,828,899</u>	<u>19,861,703</u>
Less: Current portion	<u>2,245,000</u>	<u>2,140,000</u>
Totals	<u>\$ 26,583,899</u>	<u>\$ 17,721,703</u>

Revenue bond debt service requirements to be collected from members to maturity follows:

Year Ending December 31,	Principal	Interest	Total
2004	\$ 2,355,000	\$1,346,025	\$ 3,701,025
2005	2,485,000	1,216,500	3,701,500
2006	2,620,000	1,079,825	3,699,825
2007	2,770,000	935,725	3,705,725
2008	2,925,000	783,375	3,708,375
2009 – 2013	<u>14,085,000</u>	<u>1,789,610</u>	<u>15,874,610</u>
Totals	<u>\$ 27,240,000</u>	<u>\$ 7,151,060</u>	<u>\$ 34,391,060</u>

Substantially all revenues of the Campbell No. 3 Project are pledged until the debt is defeased.

MICHIGAN PUBLIC POWER AGENCY

NOTES TO FINANCIAL STATEMENTS December 31, 2002 and 2001

NOTE 6 – LONG-TERM DEBT (cont.)

CAMPBELL NO. 3 PROJECT REVENUE BONDS (cont.)

Long-term liability activity for the years ended December 31, 2002 and 2001 is as follows:

Long-term liabilities as of December 31, 2002:

<u>Long-Term Liabilities</u>	<u>12/31/01 Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>12/31/02 Balance</u>
Revenue bonds	\$ 20,625,000	\$ 11,000,000	\$(2,140,000)	\$ 29,485,000
Unamortized loss on advanced refunding transaction	(1,055,132)	-	175,872	(879,260)
Unamortized premium on bonds	291,835	-	(68,676)	223,159
Current maturities	<u>(2,140,000)</u>	<u>2,140,000</u>	<u>(2,245,000)</u>	<u>(2,245,000)</u>
Total Long-Term Liabilities	<u>\$ 17,721,703</u>	<u>\$ 13,140,000</u>	<u>\$(4,277,804)</u>	<u>\$ 26,583,899</u>

Long-term liabilities as of December 31, 2001:

<u>Long-Term Liabilities</u>	<u>12/31/00 Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>12/31/01 Balance</u>
Revenue bonds	\$ 22,660,000	\$ -	\$(2,035,000)	\$ 20,625,000
Unamortized loss on advanced refunding transaction	(1,231,004)	-	175,872	(1,055,132)
Unamortized premium on bonds	367,831	-	(75,996)	291,835
Current maturities	<u>(2,035,000)</u>	<u>2,035,000</u>	<u>(2,140,000)</u>	<u>(2,140,000)</u>
Total Long-Term Liabilities	<u>\$ 19,761,827</u>	<u>\$ 2,035,000</u>	<u>\$(4,075,124)</u>	<u>\$ 17,721,703</u>

BELLE RIVER PROJECT REVENUE BONDS

The following bonds have been issued by the Agency:

<u>Date</u>	<u>Purpose</u>	<u>Final Maturity</u>	<u>Interest Rates</u>	<u>Original Amount</u>
November 18, 1992	Refund 1983 bonds	1/1/03	5.6 – 5.7%	\$ 44,600,000
March 10, 1993	Refund 1986A bonds	1/1/18	5.00 – 5.25%	323,615,000
July 15, 1993	Refund 1986B bonds	1/1/19	4.7 – 5.0%	46,190,000
December 2, 2002	Refund 1993A&B bonds	1/1/18	2.125 – 5.25%	280,180,000

MICHIGAN PUBLIC POWER AGENCY

NOTES TO FINANCIAL STATEMENTS December 31, 2002 and 2001

NOTE 6 – LONG-TERM DEBT (cont.)

BELLE RIVER PROJECT REVENUE BONDS (cont.)

The following obligations are outstanding at December 31:

	2002	2001
1992A bonds	\$ -	\$ 16,700,000
1993A bonds	-	289,590,000
1993B bonds	-	45,090,000
2002A bonds	280,180,000	-
Unamortized loss 2002A advanced refunding transaction	(16,465,411)	-
Unamortized premium on 2002A bonds	26,787,327	-
Less: Unamortized discount on term bonds	-	(8,766,416)
	290,501,916	342,613,584
Less: Current portion	-	11,610,000
Totals	\$ 290,501,916	\$ 331,003,584

Revenue bond debt service requirements to be collected from members to maturity follows:

Year	Principal	Interest	Total
2004	\$ 11,850,000	\$ 15,645,693	\$ 27,495,693
2005	13,610,000	13,886,805	27,496,805
2006	14,275,000	13,222,118	27,497,118
2007	14,975,000	12,516,980	27,491,980
2008	15,685,000	11,810,780	27,495,780
2009 – 2013	91,565,000	45,907,228	137,472,228
2014 – 2018	118,220,000	19,254,112	137,474,112
Totals	\$ 280,180,000	\$ 132,243,716	\$ 412,423,716

Substantially all revenues of the Belle River Project are pledged until the debt is defeased.

Long-term liability activity for the years ended December 31, 2002 and 2001 is as follows:

Long-term liabilities as of December 31, 2002:

<u>Long-Term Liabilities</u>	12/31/01 Balance	Additions	Reductions	12/31/02 Balance
Revenue bonds	\$ 351,380,000	\$ 280,180,000	\$(351,380,000)	\$ 280,180,000
Unamortized loss on advanced refunding transaction	-	(16,465,411)	-	(16,465,411)
Unamortized premium on bonds	-	27,070,735	(283,408)	26,787,327
Unamortized discount on term bonds	(8,766,416)	-	8,766,416	-
Current maturities	(11,610,000)	11,610,000	-	-
Total Long-Term Liabilities	\$ 331,003,584	\$ 302,395,324	\$(342,896,992)	\$ 290,501,916

MICHIGAN PUBLIC POWER AGENCY

NOTES TO FINANCIAL STATEMENTS December 31, 2002 and 2001

NOTE 6 – LONG-TERM DEBT (cont.)

BELLE RIVER PROJECT REVENUE BONDS (cont.)

Long-term liabilities as of December 31, 2001:

<u>Long-Term Liabilities</u>	<u>12/31/00 Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>12/31/01 Balance</u>
Revenue bonds	\$ 362,420,000	\$ -	\$ (11,040,000)	\$351,380,000
Unamortized discount on term bonds	(9,594,547)	-	828,131	(8,766,416)
Current maturities	(11,040,000)	11,040,000	(11,610,000)	(11,610,000)
 Total Long-Term Liabilities	 <u>\$ 341,785,453</u>	 <u>\$ 11,040,000</u>	 <u>\$ (21,821,869)</u>	 <u>\$331,003,584</u>

ADVANCE REFUNDING

On December 2, 2002, MPPA issued \$280,180,000 in bonds (new bonds) with interest rates of 2.125% – 5.25% to advance refund \$30,850,000 outstanding bonds (old bonds) with interest rates of 4.8% – 5.7%. The net proceeds of \$304,037,412, (after payment of \$3,213,323 in underwriting fees, insurance and other issuance costs) plus an additional \$49,984,538 of sinking fund monies were used to purchase U.S. government securities. Those securities were deposits in an irrevocable trust with an escrow agent to provide for all future debt service payments on the old bonds. As a result, the old bonds are considered to be defeased and the liability for the old bonds has been removed from the balance sheet.

The cash flow requirements on the old bonds prior to the advance refunding was \$498,521,385 from 2003 through 2019. The cash flow requirements on the new bonds are \$412,423,716 from 2003 through 2018. The advance refunding resulted in an economic gain (difference between the present values of the debt service payments on the old and new bonds) of \$25,452,966.

COMBUSTION TURBINE NO. 1 PROJECT REVENUE BONDS

On January 10, 2002, MPPA issued \$34,645,000 of Series A Combustion Turbine No. 1 Project revenue bonds to finance the construction of a combustion turbine. The bonds, with interest rates of 3.75% - 5.4%, are payable annually through 2027. Repayment of the bonds is pledged by the revenues of the MPPA members participating in the project.

The following obligations are outstanding at December 31:

	<u>2002</u>	<u>2001</u>
2002A bonds	\$ 34,645,000	\$ -
Less: unamortized discount on 2002A bonds	(65,287)	-
	<u>34,579,713</u>	<u>-</u>
Less: Current portion	-	-
 Totals	 <u>\$ 34,579,713</u>	 <u>\$ -</u>

MICHIGAN PUBLIC POWER AGENCY

NOTES TO FINANCIAL STATEMENTS December 31, 2002 and 2001

NOTE 6 – LONG-TERM DEBT (cont.)

COMBUSTION TURBINE NO. 1 PROJECT REVENUE BONDS (cont.)

Revenue bond debt service requirements to be collected from members to maturity follows:

<u>Year Ending December 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2004	\$ 810,000	\$ 1,744,856	\$ 2,554,856
2005	840,000	1,714,481	2,554,481
2006	870,000	1,680,881	2,550,881
2007	905,000	1,646,081	2,551,081
2008	945,000	1,608,750	2,553,750
2009 – 2013	5,405,000	7,358,513	12,763,513
2014 – 2018	6,925,000	5,838,525	12,763,525
2019 – 2023	8,945,000	3,819,375	12,764,375
2024 – 2027	9,000,000	1,211,438	10,211,438
 Totals	 <u>\$ 34,645,000</u>	 <u>\$ 26,622,900</u>	 <u>\$ 61,267,900</u>

Substantially all revenues of the Combustion Turbine No. 1 Project are pledged until the debt is defeased.

Long-term liabilities as of December 31, 2002:

<u>Long-Term Liabilities</u>	<u>12/31/01 Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>12/31/02 Balance</u>
Revenues bonds	\$ -	\$ 34,645,000	\$ -	\$ 34,645,000
Unamortized discount on term bonds	-	(69,923)	4,636	(65,287)
Current maturities	-	-	-	-
 Total Long-Term Liabilities	 <u>\$ -</u>	 <u>\$ 34,575,077</u>	 <u>\$ 4,636</u>	 <u>\$ 34,579,713</u>

NOTE 7 – EMPLOYEE RETIREMENT PLAN

MPPA employees are covered by a defined contribution retirement pension plan. MPPA makes an annual contribution based on a percentage of employee earnings on behalf of each employee. Total contributions to the plan by MPPA for the years ended December 31, 2002, 2001 and 2000 were approximately \$122,100, \$113,400, and \$97,000, respectively.

MICHIGAN PUBLIC POWER AGENCY

NOTES TO FINANCIAL STATEMENTS December 31, 2002 and 2001

NOTE 8 – CONTRACTS AND COMMITMENTS

CONTRACT WITH CONSUMERS ENERGY

MPPA contracted with Consumers to purchase fuel coal in order to maintain a stockpile level of 21,281 wet tons (20,493 in 2001) for the Campbell Unit No. 3 plant. The coal is purchased at the prevailing market price at the time of delivery. MPPA also purchased an additional stockpile of coal as substitute for its proportionate interest in the materials and supply inventory at Campbell Unit No. 3. This stockpile is maintained at a level to approximate MPPA's ownership interest in the materials and supply inventory at the Campbell plant.

CONTRACT WITH DETROIT EDISON

MPPA's share of the stockpile of coal for the Belle River plant equals 260,500 tons.

COMMITMENTS FOR THE COMBUSTION TURBINE NO. 1 PROJECT

In 2001, MPPA entered into agreements for construction of the CT Project No. 1 in Kalkaska County, Michigan. As part of the CT Project No. 1, MPPA has entered into construction contracts with the project engineer and constructor of the turbine. As of December 31, 2001, outstanding construction commitments totaled \$15.1 million. MPPA expects to finance these commitments with the proceeds of the 2001 Series A bond issue (Note 12).

NOTE 9 – RISK MANAGEMENT

MPPA is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; errors and omissions; workers compensation; and health care of its employees. These risks are covered through the purchase of commercial insurance, with minimal deductibles. Settled claims have not exceeded the commercial liability in any of the past three years. There were no significant reductions in coverage compared to the prior year.

NOTE 10 – CONCENTRATION OF RISK

Credit risk represents the risk of loss that would occur if customers do not meet their financial obligations to MPPA. Concentration of risk occurs when significant customers possess similar characteristics that would cause their ability to meet contractual obligations to be affected by the same events.

MPPA has two members who are considered significant customers. They accounted for \$30.9 million (27%) and \$23.5 million (20%) of MPPA revenues in 2002 and 2001, respectively.

MICHIGAN PUBLIC POWER AGENCY

NOTES TO FINANCIAL STATEMENTS December 31, 2002 and 2001

NOTE 11 – EFFECT OF NEW ACCOUNTING STANDARDS ON CURRENT-PERIOD FINANCIAL STATEMENTS

In June 2001, the FASB issued SFAS No. 143, "Accounting for Obligations Associated with the Retirement of Long-Lived Assets", which is effective for fiscal years beginning after June 15, 2002. This statement requires the recognition of the fair value of a liability for and asset retirement obligation, (ARO), such as power plant decommissioning, in the period which it occurs. Asset retirement costs will be capitalized as part of the cost of the related long-lived asset when it is placed into service, the ARO will then be depreciated over the life of the asset. A cumulative adjustment will be recorded by MPPA when it adopts this pronouncement in its financial statements for the year ended December 31, 2003. MPPA management has not determined if the ARO recognition will be material to the financial statements.

NOTE 12 – BOND COVENANT DISCLOSURES

CAMPBELL No. 3 PROJECT

COMPLIANCE WITH FUNDING REQUIREMENTS

MPPA is in compliance with bond funding requirements.

DEBT SERVICE COVERAGE

	<u>2002</u>	<u>2001</u>
Operating revenues	\$ 11,323,858	\$ 10,076,185
Other revenues	<u>232,999</u>	<u>387,867</u>
	<u>11,556,857</u>	<u>10,464,052</u>
Operating expenses	8,815,771	7,935,232
Less depreciation	<u>(1,192,807)</u>	<u>(1,111,497)</u>
	<u>7,622,964</u>	<u>6,823,735</u>
Net revenues	<u>3,933,893</u>	<u>3,640,317</u>
Debt service	3,552,333	3,252,450
	x <u>1.10</u>	x <u>1.10</u>
Required revenues	<u>3,907,566</u>	<u>3,577,695</u>
Revenues in Excess of Coverage Requirements	<u>\$ 26,327</u>	<u>\$ 62,622</u>

MICHIGAN PUBLIC POWER AGENCY

NOTES TO FINANCIAL STATEMENTS
December 31, 2002 and 2001

NOTE 12 – BOND COVENANT DISCLOSURES (cont.)

BELLE RIVER PROJECT

COMPLIANCE WITH FUNDING REQUIREMENTS

MPPA is in compliance with bond funding requirements.

DEBT SERVICE COVERAGE

	2002	2001
Operating revenues	\$ 62,092,048	\$ 60,770,573
Other revenues	<u>6,352,023</u>	<u>7,431,533</u>
	<u>68,444,071</u>	<u>68,202,106</u>
Operating expenses	45,675,450	44,243,252
Less depreciation	<u>(12,420,980)</u>	<u>(12,307,059)</u>
	<u>33,254,470</u>	<u>31,936,193</u>
Net Revenues	<u>35,189,601</u>	<u>36,265,913</u>
2000 debt service	<u>29,751,889</u>	<u>30,323,690</u>
Revenues in Excess of Coverage Requirements	<u>\$ 5,437,712</u>	<u>\$ 5,942,223</u>

COMBUSTION TURBINE NO. 1 PROJECT

COMPLIANCE WITH FUNDING REQUIREMENTS

MPPA is in compliance with bond funding requirements.

DEBT SERVICE COVERAGE

	2002
Operating revenues	\$ 246,245
Other revenues	<u>12,088</u>
	<u>258,333</u>
Operating expenses	166,698
Less depreciation	<u>(68,858)</u>
	<u>97,840</u>
Net Revenues	<u>160,493</u>
Debt service	145,405
	<u>x 1.10</u>
Required revenues	<u>159,946</u>
Revenues in Excess of Coverage Requirements	<u>\$ 547</u>

S U P P L E M E N T A L I N F O R M A T I O N

MICHIGAN PUBLIC POWER AGENCY

SCHEDULE OF CHANGES IN FUNDS ESTABLISHED BY THE CAMPBELL NO. 3 PROJECT REVENUE BOND RESOLUTION Year Ended December 31, 2002

	Debt Service Account	Revenue Account	Operation and Maintenance Account	Operation and Maintenance Reserve Account	Fuel Reserve Account	Construction Account	Project Account	Totals
Cash and investments at January 1, 2002	\$ 2,696,225	\$ -	\$ 910,764	\$ 250,000	\$ 800,000	\$ -	\$ 4,102,792	\$ 8,759,781
Receipts	-	11,181,310	-	-	-	-	-	11,181,310
Investment receipts	25,860	-	134,855	-	-	66,409	-	227,124
Net increase (decrease) in fair value of investments	-	-	-	-	-	-	-	-
Proceeds from bonds	-	-	-	-	-	10,778,973	-	10,778,973
Payment of interest on bonds	(1,031,277)	-	-	-	-	-	-	(1,031,277)
Payment of bond principal	(2,140,000)	-	-	-	-	-	-	(2,140,000)
Disbursements	-	(3,548,699)	(6,416,512)	-	-	-	-	(9,965,211)
Transfers – net	3,525,285	(7,632,611)	6,381,620	-	-	(4,152,181)	1,877,887	-
CASH AND INVESTMENTS AT DECEMBER 31, 2002	<u>\$ 3,076,093</u>	<u>\$ -</u>	<u>\$ 1,010,727</u>	<u>\$ 250,000</u>	<u>\$ 800,000</u>	<u>\$ 6,693,201</u>	<u>\$ 5,980,679</u>	<u>\$ 17,810,700</u>

MICHIGAN PUBLIC POWER AGENCY

SCHEDULE OF CHANGES IN FUNDS ESTABLISHED BY THE BELLE RIVER PROJECT REVENUE BOND RESOLUTION Year Ended December 31, 2002

	Debt Service Account	Debt Service Reserve Account	Reserve and Contingency Account	Revenue Account	Operation and Maintenance Account	Project Account	Totals
Cash and investments at January 1, 2002	\$ 20,966,922	\$ 32,128,625	\$ 8,353,760	\$ -	\$ 7,025,877	\$ 83,994,024	\$ 152,469,208
Receipts	-	-	-	61,149,052	267,283	-	61,416,335
Investment receipts	186,309	1,852,428	518,232	-	80,834	3,866,461	6,504,264
Net Increase (decrease) in fair value of investments	-	(322,388)	(324,472)	-	-	360,881	(285,979)
Bond refunding - net	(19,541,975)	(30,442,563)					(49,984,538)
Payment of interest on bonds	(18,400,370)	-	-	-	-	-	(18,400,370)
Payment of bond principal	(11,610,000)	-	-	-	-	-	(11,610,000)
Disbursements	-	-	-	-	(31,633,906)	(6,794,723)	(38,428,629)
Transfers – net	<u>30,278,494</u>	<u>(3,216,102)</u>	<u>(500,000)</u>	<u>(61,149,052)</u>	<u>32,602,522</u>	<u>1,984,138</u>	<u>-</u>
CASH AND INVESTMENTS AT DECEMBER 31, 2002	<u>\$ 1,879,380</u>	<u>-</u>	<u>\$ 8,047,520</u>	<u>\$ -</u>	<u>\$ 8,342,610</u>	<u>\$ 83,410,781</u>	<u>\$ 101,680,291</u>

MICHIGAN PUBLIC POWER AGENCY

DETAILS OF REVENUES AND EXPENSES - CAMPBELL NO. 3 PROJECT

	2002 Budget	2002 Actual	2001 Actual	2002 Actual Over (Under) Budget
OPERATING REVENUES				
Sales to Participants				
Power	\$ 4,892,000	\$ 4,891,615	\$ 4,207,441	\$ (385)
Backup capacity	607,000	606,879	556,588	(121)
Transmission	364,000	363,696	264,727	(304)
Energy (fuel)	3,535,500	3,535,427	4,324,603	(73)
Backup energy	1,928,000	1,927,838	718,627	(162)
Transmission utilization	-	(1,597)	4,199	(1,597)
Total Operating Revenue	<u>11,326,500</u>	<u>11,323,858</u>	<u>10,076,185</u>	<u>(2,642)</u>
OPERATING EXPENSES				
Production				
Fuel	3,535,500	3,535,427	4,324,603	(73)
Operation	406,000	405,127	405,561	(873)
Maintenance	610,000	607,850	377,268	(2,150)
Total Production	<u>4,551,500</u>	<u>4,548,404</u>	<u>5,107,432</u>	<u>(3,096)</u>
Purchased Power				
Backup capacity	1,928,000	606,879	556,588	(1,321,121)
Backup energy	607,000	1,927,838	718,627	1,320,838
Total Purchased Power	<u>2,535,000</u>	<u>2,534,717</u>	<u>1,275,215</u>	<u>(283)</u>
Transmission				
Operation	37,000	36,859	688	(141)
Maintenance	28,000	27,379	4,923	(621)
Utilization	-	(1,597)	4,199	(1,597)
Total Transmission	<u>65,000</u>	<u>62,641</u>	<u>9,810</u>	<u>(2,359)</u>
General and Administrative				
Salaries and wages	130,000	125,579	89,689	(4,421)
Employee benefits	178,000	177,932	166,703	(68)
Outside services	51,000	50,882	91,110	(118)
Taxes	48,000	48,517	43,552	517
Insurance and liability	31,000	30,955	11,021	(45)
Meetings and travel	5,000	4,738	5,683	(262)
Office supplies	14,000	13,197	9,420	(803)
Rents	10,000	9,423	8,028	(577)
Miscellaneous	16,000	15,979	6,072	(21)
Total General and Administrative	<u>483,000</u>	<u>477,202</u>	<u>431,278</u>	<u>(5,798)</u>

MICHIGAN PUBLIC POWER AGENCY

DETAILS OF REVENUES AND EXPENSES - CAMPBELL NO. 3 PROJECT (cont.)

	<u>2002 Budget</u>	<u>2002 Actual</u>	<u>2001 Actual</u>	<u>2002 Actual Over (Under) Budget</u>
OPERATING EXPENSES (cont.)				
Depreciation	\$ 1,193,000	\$ 1,192,807	\$ 1,111,497	\$ (193)
Total Operating Expense	<u>8,827,500</u>	<u>8,815,771</u>	<u>7,935,232</u>	<u>(11,729)</u>
Operating Income	<u>2,499,000</u>	<u>2,508,087</u>	<u>2,140,953</u>	<u>9,087</u>
OTHER EXPENSES				
Interest cost incurred	1,279,700	1,279,661	1,112,450	(39)
Amortization of financing-related costs	<u>173,300</u>	<u>173,297</u>	<u>148,932</u>	<u>(3)</u>
Total Other Expenses	<u>1,453,000</u>	<u>1,452,958</u>	<u>1,261,382</u>	<u>(42)</u>
OTHER REVENUES				
Investment income	233,000	232,999	387,867	(1)
Net change in fair value of investments	<u>-</u>	<u>-</u>	<u>(2,494)</u>	<u>-</u>
Total Other Income	<u>233,000</u>	<u>232,999</u>	<u>385,373</u>	<u>(1)</u>
Income before deferred revenue	<u>\$ 1,279,000</u>	1,288,128	1,264,944	<u>\$ 9,128</u>
Deferred revenue to be recognized in future periods		<u>(1,288,128)</u>	<u>(1,264,944)</u>	
CHANGE IN NET ASSETS		<u>\$ -</u>	<u>\$ -</u>	

MICHIGAN PUBLIC POWER AGENCY

DETAILS OF REVENUES AND EXPENSES - BELLE RIVER PROJECT

	2002 Budget	2002 Actual	2001 Actual	2002 Actual Over (Under) Budget
OPERATING REVENUES				
Sales to Participants				
Power	\$ 36,935,347	\$ 36,139,062	\$ 34,586,035	\$ (796,285)
Backup capacity	314,900	304,776	285,894	(10,124)
Transmission	3,459,142	3,380,684	3,169,851	(78,458)
Energy (fuel)	21,229,526	19,175,836	21,265,017	(2,053,690)
Backup energy	4,215,008	3,303,610	1,665,043	(911,398)
Transmission utilization	-	(211,920)	(201,267)	(211,920)
Total Sales to Participants	<u>66,153,923</u>	<u>62,092,048</u>	<u>60,770,573</u>	<u>(4,061,875)</u>
OPERATING EXPENSES				
Production				
Fuel	21,229,526	19,175,836	21,265,017	(2,053,690)
Operation	2,712,000	2,528,445	2,206,452	(183,555)
Maintenance	3,240,000	4,427,787	2,940,218	1,187,787
Total Production	<u>27,181,526</u>	<u>26,132,068</u>	<u>26,411,687</u>	<u>(1,049,458)</u>
Purchased Power				
Backup capacity	314,900	304,776	285,894	(10,124)
Backup energy	4,215,008	3,303,610	1,665,043	(911,398)
Total Purchased Power	<u>4,529,908</u>	<u>3,608,386</u>	<u>1,950,937</u>	<u>(921,522)</u>
Transmission				
Operation	312,000	472,242	284,602	160,242
Maintenance	288,000	203,103	145,389	(84,897)
Utilization	-	(211,920)	(201,267)	(211,920)
Total Transmission	<u>600,000</u>	<u>463,425</u>	<u>228,724</u>	<u>(136,575)</u>
General and Administrative				
Salaries and wages	1,139,898	873,696	50,974	(266,202)
Employee benefits	1,236,780	810,883	935,796	(425,897)
Outside services	510,350	227,583	351,671	(282,767)
Taxes	628,000	509,380	269,134	(118,620)
Insurance and liability	199,875	166,628	133,621	(33,247)
Meetings and travel	17,340	15,351	17,306	(1,989)
Office supplies	1,126,140	368,721	1,521,900	(757,419)
Rents	39,012	(1,549)	9,806	(40,561)
Miscellaneous	107,522	79,898	54,637	(27,624)
Total General and Administrative	<u>5,004,917</u>	<u>3,050,591</u>	<u>3,344,845</u>	<u>(1,954,326)</u>

MICHIGAN PUBLIC POWER AGENCY

DETAILS OF REVENUES AND EXPENSES - BELLE RIVER PROJECT (cont.)

	2002 Budget	2002 Actual	2001 Actual	2002 Actual Over (Under) Budget
OPERATING EXPENSES (cont.)				
Depreciation	\$ 12,312,000	\$ 12,420,980	\$ 12,307,059	\$ 108,980
Total Operating Expense	<u>49,628,351</u>	<u>45,675,450</u>	<u>44,243,252</u>	<u>(3,952,901)</u>
Operating Income	<u>16,525,572</u>	<u>16,416,598</u>	<u>16,527,321</u>	<u>(108,974)</u>
OTHER EXPENSES				
Interest cost incurred	18,087,048	17,788,554	18,713,690	(298,494)
Amortization of financing-related costs	<u>1,012,212</u>	<u>674,806</u>	<u>1,043,292</u>	<u>(337,406)</u>
Total Other Expenses	<u>19,099,260</u>	<u>18,463,360</u>	<u>19,756,982</u>	<u>(635,900)</u>
OTHER REVENUES				
Investment income	6,240,000	6,352,023	7,431,533	112,023
Net change in fair value of investments		<u>(285,980)</u>	<u>2,875,907</u>	<u>(285,980)</u>
Total Other Income	<u>6,240,000</u>	<u>6,066,043</u>	<u>10,307,440</u>	<u>(173,957)</u>
Income (loss) before deferred revenue	<u>\$ 3,666,312</u>	4,019,281	7,077,779	<u>\$ 352,969</u>
Deferred revenue to be recognized in future periods		<u>(4,019,281)</u>	<u>(7,077,779)</u>	
CHANGE IN NET ASSETS		<u>\$ -</u>	<u>\$ -</u>	

MICHIGAN PUBLIC POWER AGENCY

DETAILS OF REVENUES AND EXPENSES - POWER POOL PROJECT

	2002 Budget	2002 Actual	2001 Actual	2002 Actual Over (Under) Budget
OPERATING REVENUES				
Sales to Participants				
Power	\$ 36,964,629	\$ 25,799,051	\$ 34,852,338	\$ (11,165,578)
Capacity	7,802,731	9,497,288	10,743,222	1,694,557
Transmission	1,501,258	4,154,058	3,263,484	2,652,800
Total Operating Revenue	46,268,618	39,450,397	48,859,044	(6,818,221)
OPERATING EXPENSES				
Purchased Power				
Capacity	7,772,733	9,080,356	11,023,944	1,307,623
Energy	36,052,024	25,326,043	33,823,507	(10,725,981)
Total Purchased Power	43,824,757	34,406,399	44,847,451	(9,418,358)
Transmission				
Wheeling	1,501,246	4,838,784	3,199,239	3,337,538
General and Administrative				
Salaries and wages	173,398	155,446	150,789	(17,952)
Employee benefits	67,644	58,668	59,720	(8,976)
Outside services	444,684	361,622	438,801	(83,062)
Insurance and liability	5,513	5,488	5,796	(25)
Meetings and travel	12,120	9,297	11,970	(2,823)
Office supplies	7,092	5,449	7,865	(1,643)
Rents	16,704	15,018	17,776	(1,686)
Miscellaneous	7,523	7,410	7,373	(113)
Total General and Administrative	734,678	618,398	700,090	(116,280)
Depreciation	605	964	1,189	359
Total Operating Expense	46,061,286	39,864,545	48,747,969	(6,196,741)
Operating Income (Loss)	207,332	(414,148)	111,075	(621,480)
OTHER EXPENSES				
Interest costs incurred	-	-	-	-
OTHER REVENUES				
Investment income	24,000	48,597	95,888	24,597
Income before deferred revenue	\$ 231,332	(365,551)	206,963	\$ (596,883)
Deferred revenue to be recognized in future periods			(206,963)	
Deferred revenue recognized in current period		365,551		
CHANGE IN NET ASSETS		\$ -	\$ -	

MICHIGAN PUBLIC POWER AGENCY

DETAILS OF REVENUES AND EXPENSES - COMBUSTION TURBINE NO. 1 PROJECT

	2002 Budget	2002 Actual	2001 Actual	2002 Actual Over (Under) Budget
OPERATING REVENUES				
Sales to Participants				
Power	\$ 222,300	\$ 226,295	\$ -	\$ 3,995
Backup capacity	-	-	-	-
Transmission	500	580	-	80
Energy (fuel)	22,300	22,278	-	(22)
Backup energy	-	-	-	-
Transmission utilization	-	-	-	-
Total Operating Revenue	<u>245,100</u>	<u>249,153</u>	<u>-</u>	<u>4,053</u>
OPERATING EXPENSES				
Production				
Fuel	22,300	22,278	-	(22)
Operation	61,450	61,464	-	14
Maintenance	-	-	-	-
Total Production	<u>83,750</u>	<u>83,742</u>	<u>-</u>	<u>(8)</u>
Purchased Power				
Backup capacity	-	-	-	-
Backup energy	-	-	-	-
Total Purchased Power	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Transmission				
Operation	500	580	-	80
Maintenance	-	-	-	-
Utilization	-	-	-	-
Total Transmission	<u>500</u>	<u>580</u>	<u>-</u>	<u>80</u>
General and Administrative				
Salaries and wages	8,000	7,211	-	(789)
Employee benefits	4,000	3,434	-	(566)
Outside services	-	2,908	-	2,908
Taxes	-	-	-	-
Insurance and liability	-	-	-	-
Meetings and travel	3,000	2,529	-	(471)
Office supplies	100	5	-	(95)
Rents	500	339	-	(161)
Miscellaneous	1,000	-	-	(1,000)
Total General and Administrative	<u>16,600</u>	<u>16,426</u>	<u>-</u>	<u>(174)</u>

MICHIGAN PUBLIC POWER AGENCY

DETAILS OF REVENUES AND EXPENSES - COMBUSTION TURBINE NO. 1 PROJECT (cont.)

	2002 Budget	2002 Actual	2001 Actual	2002 Actual Over (Under) Budget
OPERATING EXPENSES (cont.)				
Depreciation	\$ -	\$ 68,858	\$ -	\$ 68,858
Total Operating Expense	<u>100,850</u>	<u>169,606</u>	<u>-</u>	<u>68,756</u>
Operating Income	<u>144,250</u>	<u>79,547</u>	<u>-</u>	<u>(64,703)</u>
OTHER EXPENSES				
Interest cost incurred	145,500	145,405		(95)
Amortization of financing-related costs	<u>5,700</u>	<u>5,693</u>	<u>-</u>	<u>(7)</u>
Total Other Expenses	<u>151,200</u>	<u>151,098</u>	<u>-</u>	<u>(102)</u>
OTHER REVENUES				
Investment income	12,000	12,088		88
Net change in fair value of investments	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Other Income	<u>12,000</u>	<u>12,088</u>	<u>-</u>	<u>88</u>
Income before deferred revenue	<u>\$ 5,050</u>	<u>(59,463)</u>	<u>-</u>	<u>\$ (64,513)</u>
Deferred revenue to be recognized in future periods			<u>-</u>	
Deferred revenue recognized in current period		<u>59,463</u>		
CHANGE IN NET ASSETS		<u>\$ -</u>	<u>\$ -</u>	

MICHIGAN PUBLIC POWER AGENCY

DETAILS OF REVENUES AND EXPENSES - GENERAL OFFICE OPERATION

	2002 Budget	2002 Actual	2001 Actual	2002 Actual Over (Under) Budget
OPERATING REVENUES				
Participant membership fees	\$ 401,478	\$ 401,478	\$ 335,335	\$ -
Charges for Services				
Projects	103,000	103,000	82,500	-
MMEA	209,000	209,076	203,360	76
Total Operating Revenue	<u>713,478</u>	<u>713,554</u>	<u>621,195</u>	<u>76</u>
OPERATING EXPENSES				
General and Administrative				
Salaries and wages	225,696	230,366	226,485	4,670
Employee benefits	112,848	115,183	115,096	2,335
Outside services	183,000	217,512	263,658	34,512
Insurance and liability	4,410	4,391	4,225	(19)
Meetings and travel	32,220	29,599	25,674	(2,621)
Office supplies	11,832	16,020	14,471	4,188
Rents	37,864	25,021	26,783	(12,843)
Miscellaneous	99,641	94,672	98,812	(4,969)
Total General and Administrative	<u>707,511</u>	<u>732,764</u>	<u>775,204</u>	<u>25,253</u>
Depreciation	36,168	36,693	36,261	525
Total Operating Expense	<u>743,679</u>	<u>769,457</u>	<u>811,465</u>	<u>25,778</u>
Operating Income (Loss)	<u>(30,201)</u>	<u>(55,903)</u>	<u>(190,270)</u>	<u>(25,702)</u>
OTHER REVENUES				
Interest income	14,990	14,992	32,334	2
Prepaid lease income	24,000	24,000	24,000	-
CHANGE IN NET ASSETS	<u>\$ 8,789</u>	<u>\$ (16,911)</u>	<u>\$ (133,936)</u>	<u>\$ (25,700)</u>