

# Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name <b>Michigan Public Power Agency</b>	County <b>Ingham</b>
Audit Date <b>12/31/05</b>	Opinion Date <b>3/17/06</b>	Date Accountant Report Submitted to State: <b>4/28/06</b>	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

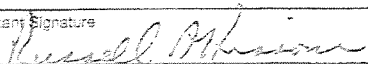
1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- |                              |  |   |
|------------------------------|--|---|
| <input type="checkbox"/> Yes | <input checked="" type="checkbox"/> No | 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.   |
| <input type="checkbox"/> Yes | <input checked="" type="checkbox"/> No | 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).  |
| <input type="checkbox"/> Yes | <input checked="" type="checkbox"/> No | 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).  |
| <input type="checkbox"/> Yes | <input checked="" type="checkbox"/> No | 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.   |
| <input type="checkbox"/> Yes | <input checked="" type="checkbox"/> No | 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).   |
| <input type="checkbox"/> Yes | <input checked="" type="checkbox"/> No | 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.   |
| <input type="checkbox"/> Yes | <input checked="" type="checkbox"/> No | 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year). |
| <input type="checkbox"/> Yes | <input checked="" type="checkbox"/> No | 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).   |
| <input type="checkbox"/> Yes | <input checked="" type="checkbox"/> No | 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).  |

We have enclosed the following:	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.			✓
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGU).			✓

Certified Public Accountant (Firm Name) <b>Virchow, Krause &amp; Company, LLP</b>			
Street Address <b>Ten Terrace Court</b>	City <b>Madison</b>	State <b>WI</b>	ZIP <b>53707</b>
Accountant's Signature 		Date <b>4/27/06</b>	

**MICHIGAN PUBLIC POWER AGENCY**  
Lansing, Michigan

FINANCIAL STATEMENTS

December 31, 2005

# MICHIGAN PUBLIC POWER AGENCY

## NOTES TO FINANCIAL STATEMENTS

December 31, 2005

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## 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 year ended December 31, 2005. 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, 2005, and the changes in its financial position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis on pages 2 - 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.

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 30 - 41 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 year ended December 31, 2005 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.

Madison, Wisconsin  
March 17, 2006

*Virchow, Krause & Company, LLP*

Page 1

**MANAGEMENT'S DISCUSSION  
AND ANALYSIS**

# MICHIGAN PUBLIC POWER AGENCY

## MANAGEMENT'S DISCUSSION AND ANALYSIS December 31, 2005 and 2004

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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 years ending December 31, 2005 and 2004. You are invited to read this narrative in conjunction with MPPA's financial statements.

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### FINANCIAL HIGHLIGHTS

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- MPPA's total net assets increased \$192,757, or 52% from the prior year. This was due to member dues and other revenues in excess of general office operations.
  - MPPA's operating expenses in 2005 were \$31,225,000 higher than in 2004. This is a 29% increase in operating expenses from the prior year. Most of the increase was due to increased fuel purchases for the Campbell No. 3 Project and the Belle River Project and increased energy purchases for the Power Pool Project. These costs were passed on to project participants resulting in an increase in operating revenues of 31,497,000 or about 25%. The net effect was an increase in operating income of \$272,000 compared to the prior year.
  - Total agency assets decreased \$15,131,000 while total liabilities decreased \$15,324,000. These are the result of normal operations including the payment of debt and continuing capital asset improvements and depreciation.
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### OVERVIEW OF THE FINANCIAL STATEMENTS

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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 combined 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

# MICHIGAN PUBLIC POWER AGENCY

MANAGEMENT'S DISCUSSION AND ANALYSIS (cont.)  
December 31, 2005 and 2004

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## **OVERVIEW OF THE FINANCIAL STATEMENTS (cont.)**

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In addition, MPPA members share in the administrative and general costs incurred to operate these projects. During 2005 MPPA established two new projects to account for dispatch services and transmission rights for members.

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 Statements 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 Statements 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**

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An analysis of MPPA's financial position begins with a review of the Combined Balance Sheets, and the Combined Statements 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 Balance Sheets is presented below in Table 1. The Combined Statements 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, 2005 and 2004

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## MPPA FINANCIAL ANALYSIS (cont.)

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**Table 1**  
**Condensed Balance Sheets**

	<u>2005</u>	<u>2004</u>
Current assets	\$ 134,079,495	\$ 138,384,158
Restricted assets	40,574,989	41,591,908
Non-current assets		
Capital assets	236,647,521	246,021,927
Other assets	<u>3,101,915</u>	<u>3,536,735</u>
 Total Assets	 <u>\$ 414,403,920</u>	 <u>\$ 429,534,728</u>
 Current liabilities	 \$ 35,538,507	 \$ 36,894,894
Non-current liabilities		
Deferred revenue to be recognized in future periods	75,464,473	73,902,318
Member capital	4,792,911	1,400,000
Revenue bonds payable, less current portion	<u>298,048,967</u>	<u>316,971,211</u>
Total Liabilities	<u>413,844,858</u>	<u>429,168,423</u>
 Net assets		
Invested in capital assets, net of related debt	(73,081,325)	(76,534,380)
Restricted	26,428,060	25,353,962
Unrestricted	<u>47,212,327</u>	<u>51,546,723</u>
Total Net Assets	<u>559,062</u>	<u>366,305</u>
 Total Liabilities and Net Assets	 <u>\$ 414,403,920</u>	 <u>\$ 429,534,728</u>

## MICHIGAN PUBLIC POWER AGENCY

MANAGEMENT'S DISCUSSION AND ANALYSIS (cont.)  
December 31, 2005 and 2004

### MPPA FINANCIAL ANALYSIS (cont.)

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

	2005	2004
Operating Revenues	\$ 158,255,279	\$ 126,758,248
Non-Operating Revenues	3,435,275	2,585,925
Total Revenues	161,690,554	129,344,173
Depreciation Expense	14,141,068	14,026,683
Other Operating Expenses	123,683,181	92,572,535
Non-Operating Expenses	15,326,386	15,921,910
Total Expenses	153,150,635	122,521,128
Income Before Deferred Revenue	8,539,919	6,823,045
Deferred Revenue to be Recognized in Future Periods Net of Deferred Revenue Recognized in Current Period	(8,347,162)	(6,766,364)
Changes in Net Assets	192,757	56,681
Beginning Net Assets	366,305	309,624
Ending Net Assets	\$ 559,062	\$ 366,305

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. Operating revenues for 2005 increased by 18% compared to 2004. During the same time period the cost of power increased by 32%.

# MICHIGAN PUBLIC POWER AGENCY

MANAGEMENT'S DISCUSSION AND ANALYSIS (cont.)  
December 31, 2005 and 2004

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## **MPPA FINANCIAL ANALYSIS (cont.)**

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### **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 cost of power increased by 7% from 2004 to 2005. Sales to participants increased 10%. The net cash and cash equivalents of the Belle River Project decreased by \$15,209,000 during 2005 mainly as a result of the longer maturity of new investments made after the maturity of shorter dated investments.

### **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 51% increase in sales and a corresponding 51% increase in operating expenses in 2005 compared to 2004. For 2005 purchased power made up 87% of the Power Pool operating costs. For 2005, the operating costs of the Power Pool project exceeded the member billings resulting in the application of deferred revenue from a previous period.

### **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 of that year. \$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, 2005 this projected reported \$960,916 of deferred revenues to be recognized in a future period.

### **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 income for the General Office Operations fund was \$192,757 in 2005 compared to an income of \$56,681 in 2004.

# MICHIGAN PUBLIC POWER AGENCY

MANAGEMENT'S DISCUSSION AND ANALYSIS (cont.)  
December 31, 2005 and 2004

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## **CAPITAL ASSETS**

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MPPA's investment in capital assets as of December 31, 2005 amounts to \$236,647,000 (net of accumulated depreciation). This investment in capital assets includes investment in plants, transmission systems, land, buildings, improvements, machinery and equipment. The total decrease in MPPA's net investment in capital assets for the year was 4.8%. Each project contributed to this differently. The Campbell No. 3 Project net investment in capital assets increased by 9.2% with increased plant improvement initiatives and annual depreciation. The net investment in the Belle River Project capital assets investment decreased by 5.2% as a result of annual depreciation. The Combustion Turbine Project net investment in capital assets decreased by 3.5% as a result of annual depreciation. See Note 5 for additional details.

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## **LONG-TERM DEBT**

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At December 31, 2005, MPPA had total liabilities outstanding of \$413,849,000 of which \$315,814,000 represents bond payments payable. These remaining principal payments on long-term debt, including current amounts due, are as follows:

Campbell No. 3 Project	\$ 22,116,000
Belle River Project	260,756,000
Combustion Turbine #1 Project	<u>32,942,000</u>
Total	<u>\$ 315,814,000</u>

See Note 6 for additional details.

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## **ECONOMIC CONDITIONS**

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The 2005 budget was adopted amid steady national and state economies. The member-cities' economies have shown varying amounts of growth in both demand and energy. 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.

# **MICHIGAN PUBLIC POWER AGENCY**

MANAGEMENT'S DISCUSSION AND ANALYSIS (cont.)  
December 31, 2005 and 2004

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## **CURRENTLY KNOWN FACTS**

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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 took legal action that resulted in settlement agreements which required that MPPA's rights under the Consumers Transmission Agreement be honored and performed by METC, or any subsequent purchaser of METC or a substantial portion of the transmission facilities. The settlement agreement also provided for the purchase of all additional 95 MW of transmission assets by MPPA, for which the purchase price is \$6,717,000. Detroit Edison has transferred its transmission system to ITC. MPPA's agreements with Detroit Edison have been assigned by ITC.

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## **CONTACTING MPPA'S FINANCIAL MANAGEMENT**

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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 Sheets Follows**

**MICHIGAN PUBLIC POWER AGENCY**

COMBINED BALANCE SHEETS

December 31, 2005

(With Comparative Totals for the Year Ended December 31, 2004)

**ASSETS**

	Campbell No. 3 Project	Belle River Project	Power Pool Project	Combustion Turbine #1	Dispatch Project	Transmission Project	General Office Operation	2005	(Memorandum Only) 2004
<b>CURRENT ASSETS</b>									
Cash and Cash Equivalents									
Project account	\$ 6,980,700	\$ 17,235,674	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 24,216,374	\$ 42,014,349
Operation and maintenance account	1,289,867	11,345,209	-	5,538,143	10,596	176,389	-	18,360,204	14,138,131
Operation and maintenance reserve account	250,000	-	-	-	-	-	-	250,000	250,000
Fuel reserve account	800,000	-	-	-	-	-	-	800,000	800,000
Other	-	-	990,432	-	-	-	505,723	1,496,155	2,900,652
Total Cash and Cash Equivalents	<u>9,320,567</u>	<u>28,580,883</u>	<u>990,432</u>	<u>5,538,143</u>	<u>10,596</u>	<u>176,389</u>	<u>505,723</u>	<u>45,122,733</u>	<u>60,103,132</u>
Investments - Project Account									
US Government Agency notes	-	65,018,030	-	-	-	-	-	65,018,030	51,336,602
Accrued interest receivable	11,166	861,266	-	9,759	-	-	-	882,191	618,397
Accounts receivable	1,816,935	5,001,720	6,573,174	402,217	92,564	180,593	21,722	14,088,925	17,152,692
Fuel inventory	655,204	5,339,408	-	274,160	-	-	-	6,268,772	6,476,484
Materials and supplies inventory	-	2,465,006	-	233,838	-	-	-	2,698,844	2,696,851
Total Current Assets	<u>11,803,872</u>	<u>107,266,313</u>	<u>7,563,606</u>	<u>6,458,117</u>	<u>103,160</u>	<u>356,982</u>	<u>527,445</u>	<u>134,079,495</u>	<u>138,384,158</u>
<b>RESTRICTED ASSETS</b>									
Debt service account	3,159,913	20,886,059	-	1,710,441	-	-	-	25,756,413	25,346,158
Construction account	223,450	-	-	2,759,756	-	3,157,325	-	6,140,531	7,813,169
Reserve and contingency account	-	8,663,060	-	-	-	-	-	8,663,060	8,416,698
Scholarship fund	-	-	-	-	-	-	14,985	14,985	15,883
Total Restricted Assets	<u>3,383,363</u>	<u>29,549,119</u>	<u>-</u>	<u>4,470,197</u>	<u>-</u>	<u>3,157,325</u>	<u>14,985</u>	<u>40,574,989</u>	<u>41,591,908</u>
<b>NON-CURRENT ASSETS</b>									
Capital Assets									
Utility plant in service	48,234,138	447,924,172	2,495,233	25,823,739	-	-	798,372	525,275,654	520,628,271
Allowance for depreciation	(25,088,898)	(257,984,494)	(2,495,233)	(2,623,595)	-	-	(435,913)	(288,628,133)	(274,606,344)
Total Capital Assets	<u>23,145,240</u>	<u>189,939,678</u>	<u>-</u>	<u>23,200,144</u>	<u>-</u>	<u>-</u>	<u>362,459</u>	<u>236,647,521</u>	<u>246,021,927</u>
Other Assets									
Deferred bond issue costs - net	226,142	2,151,736	-	724,037	-	-	-	3,101,915	3,536,735
Prepaid long-term lease (deferred obligation)	-	274,000	-	-	-	-	(274,000)	-	-
Total Non-Current Assets	<u>23,371,382</u>	<u>192,365,414</u>	<u>-</u>	<u>23,924,181</u>	<u>-</u>	<u>-</u>	<u>88,459</u>	<u>239,749,436</u>	<u>249,558,662</u>
<b>TOTAL ASSETS</b>	<u>\$ 38,558,617</u>	<u>\$ 329,180,846</u>	<u>\$ 7,563,606</u>	<u>\$ 34,852,495</u>	<u>\$ 103,160</u>	<u>\$ 3,514,307</u>	<u>\$ 630,889</u>	<u>\$ 414,403,920</u>	<u>\$ 429,534,728</u>

**MICHIGAN PUBLIC POWER AGENCY**

COMBINED BALANCE SHEETS

December 31, 2005

(With Comparative Totals for the Year Ended December 31, 2004)

	Campbell No. 3 Project	Belle River Project	Power Pool Project	Combustion Turbine #1	Dispatch Project	Transmission Project	General Office Operation	2005	(Memorandum Only) 2004
<b>LIABILITIES AND NET ASSETS</b>									
<b>CURRENT LIABILITIES</b>									
Accounts payable and accrued expenses	\$ 1,206,113	\$ 3,311,175	\$ 4,980,999	\$ 108,820	\$ 103,160	\$ -	\$ 56,842	\$ 9,767,109	\$ 11,535,117
Current Liabilities Payable from Restricted Assets									
Accrued interest payable	539,913	6,611,059	-	840,441	-	-	-	7,991,413	8,408,894
Current portion of revenue bonds	2,620,000	14,275,000	-	870,000	-	-	-	17,765,000	16,935,000
Scholarship fund	-	-	-	-	-	-	14,985	14,985	15,883
Total Current Liabilities Payable from Restricted Assets	3,159,913	20,886,059	-	1,710,441	-	-	14,985	25,771,398	25,359,777
Total Current Liabilities	4,366,026	24,197,234	4,980,999	1,819,261	103,160	-	71,827	35,538,507	36,894,894
<b>NON-CURRENT LIABILITIES</b>									
Deferred revenue to be recognized in future periods	14,697,079	58,502,475	1,125,207	960,916	-	178,796	-	75,464,473	73,902,318
Capital contribution of members	-	-	1,457,400	-	-	3,335,511	-	4,792,911	1,400,000
Revenue bonds payable, less current portion	19,495,512	246,481,137	-	32,072,318	-	-	-	298,048,967	316,971,211
Total Non-Current Liabilities	34,192,591	304,983,612	2,582,607	33,033,234	-	3,514,307	-	378,306,351	392,273,529
Total Liabilities	38,558,617	329,180,846	7,563,606	34,852,495	103,160	3,514,307	71,827	413,844,858	429,168,423
<b>NET ASSETS</b>									
Invested in capital assets, net of related debt and obligations	1,479,320	(68,390,723)	-	(6,258,381)	-	-	88,459	(73,081,325)	(76,534,380)
Restricted	2,620,000	22,938,060	-	870,000	-	-	-	26,428,060	25,353,962
Unrestricted	(4,099,320)	45,452,663	-	5,388,381	-	-	470,603	47,212,327	51,546,723
Total Net Assets	-	-	-	-	-	-	559,062	559,062	366,305
<b>TOTAL LIABILITIES AND NET ASSETS</b>	\$ 38,558,617	\$ 329,180,846	\$ 7,563,606	\$ 34,852,495	\$ 103,160	\$ 3,514,307	\$ 630,889	\$ 414,403,920	\$ 429,534,728

See accompanying notes to financial statements.

**MICHIGAN PUBLIC POWER AGENCY**

COMBINED STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

Year Ended December 31, 2005

(With Comparative Totals for the Year Ended December 31, 2004)

	Campbell No. 3 Project	Belle River Project	Power Pool Project	Combustion Turbine No.1	Dispatch Project	Transmission Project	General Office Operation	2005	(Memorandum Only) 2004
<b>OPERATING REVENUES</b>									
Sales to participants	\$ 13,941,319	\$ 74,633,083	\$ 62,406,428	\$ 4,706,540	\$ 1,475,209	\$ 179,461	\$ -	\$ 157,342,040	\$ 125,926,429
Allowances for sellbacks	-	(211,811)	-	-	-	-	-	(211,811)	-
Net sales to participants	13,941,319	74,421,272	62,406,428	4,706,540	1,475,209	179,461	-	157,130,229	125,926,429
Sales of excess transmission	-	211,811	-	-	-	-	-	211,811	-
Other	-	-	-	-	-	-	913,239	913,239	831,819
Total Operating Revenues	<u>13,941,319</u>	<u>74,633,083</u>	<u>62,406,428</u>	<u>4,706,540</u>	<u>1,475,209</u>	<u>179,461</u>	<u>913,239</u>	<u>158,255,279</u>	<u>126,758,248</u>
<b>OPERATING EXPENSES</b>									
Cost of Power									
Production	7,195,251	33,497,431	-	1,452,946	-	-	-	42,145,628	38,922,777
Purchased	2,133,755	3,499,612	54,114,187	-	1,407,476	-	-	61,155,030	39,529,927
Total Cost of Power	9,329,006	36,997,043	54,114,187	1,452,946	1,407,476	-	-	103,300,658	78,452,704
Transmission	114,309	1,642,473	7,009,147	8,312	-	-	-	8,774,241	5,884,823
General and administrative	613,184	8,469,574	1,313,587	439,311	67,733	4,013	700,880	11,608,282	8,235,008
Depreciation	1,365,285	11,881,241	358	858,935	-	-	35,249	14,141,068	14,026,683
Total Operating Expenses	<u>11,421,784</u>	<u>58,990,331</u>	<u>62,437,279</u>	<u>2,759,504</u>	<u>1,475,209</u>	<u>4,013</u>	<u>736,129</u>	<u>137,824,249</u>	<u>106,599,218</u>
Operating Income (Loss)	<u>2,519,535</u>	<u>15,642,752</u>	<u>(30,851)</u>	<u>1,947,036</u>	<u>-</u>	<u>175,448</u>	<u>177,110</u>	<u>20,431,030</u>	<u>20,159,030</u>
<b>NONOPERATING REVENUES (EXPENSES)</b>									
Interest cost incurred	(1,079,825)	(13,222,118)	(65,986)	(1,680,881)	-	-	-	(16,048,810)	(16,817,786)
Amortization of financing-related costs	(193,335)	976,532	-	(60,773)	-	-	-	722,424	895,876
Investment income	373,796	4,078,706	50,648	268,125	-	3,348	15,647	4,790,270	3,391,575
Net change in fair value of investments	-	(1,354,995)	-	-	-	-	-	(1,354,995)	(805,650)
Total Nonoperating Revenues (Expenses)	<u>(899,364)</u>	<u>(9,521,875)</u>	<u>(15,338)</u>	<u>(1,473,529)</u>	<u>-</u>	<u>3,348</u>	<u>15,647</u>	<u>(11,891,111)</u>	<u>(13,335,985)</u>
Income (Loss) Before Deferred Revenue	1,620,171	6,120,877	(46,189)	473,507	-	178,796	192,757	8,539,919	6,823,045
Deferred revenue to be recognized in future periods	(1,620,171)	(6,120,877)	-	(473,507)	-	(178,796)	-	(8,393,351)	(6,868,287)
Deferred revenue recognized in current period	-	-	46,189	-	-	-	-	46,189	101,923
<b>CHANGE IN NET ASSETS</b>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>192,757</u>	<u>192,757</u>	<u>56,681</u>
NET ASSETS - Beginning of Year							366,305	366,305	309,624
<b>NET ASSETS - END OF YEAR</b>							<u>\$ 559,062</u>	<u>\$ 559,062</u>	<u>\$ 366,305</u>

See accompanying notes to financial statements.

**Statements of Cash Flows** Follows

**MICHIGAN PUBLIC POWER AGENCY**

COMBINED STATEMENTS OF CASH FLOWS  
Year Ended December 31, 2005  
(With Comparative Totals for the Year Ended December 31, 2004)

	Campbell No. 3 Project	Belle River Project	Power Pool Project	Combustion Turbine #1	Dispatch Project	Transmission Project	General Office Operation	2005	(Memorandum Only) 2004
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>									
Received from customers	\$ 13,202,645	\$ 70,180,243	\$ 64,104,377	\$ 4,695,702	\$ 1,382,645	\$ 177,054	\$ 969,560	\$ 154,712,226	\$ 121,260,694
Paid to suppliers for goods and services	(9,530,741)	(46,112,390)	(65,484,190)	(2,063,732)	(1,329,745)	(2,218)	(435,330)	(124,958,346)	(86,824,599)
Paid to employees for services	(90,821)	(248,060)	(334,509)	(65,546)	(42,304)	(1,795)	(236,527)	(1,019,562)	(959,591)
Net Cash Flows From Operating Activities:	<u>3,581,083</u>	<u>23,819,793</u>	<u>(1,714,322)</u>	<u>2,566,424</u>	<u>10,596</u>	<u>173,041</u>	<u>297,703</u>	<u>28,734,318</u>	<u>33,476,504</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>									
Acquisition and construction of utility plant	(3,329,333)	(667,980)	-	(15,326)	-	-	-	(4,012,639)	(3,465,491)
Capital contributions of participating members	-	-	57,400	-	-	3,157,325	-	3,214,725	1,400,000
Principal payment on revenue bonds	(2,485,000)	(13,610,000)	-	(840,000)	-	-	-	(16,935,000)	(15,015,000)
Interest paid on revenue bonds	(1,148,163)	(13,554,461)	-	(1,697,681)	-	-	-	(16,400,305)	(17,193,986)
Other	-	24,000	(65,986)	-	-	-	(45,587)	(87,573)	(8,027)
Net Cash Flows from Capital and Related Financing Activities	<u>(6,962,496)</u>	<u>(27,808,441)</u>	<u>(8,586)</u>	<u>(2,553,007)</u>	<u>-</u>	<u>3,157,325</u>	<u>(45,587)</u>	<u>(34,220,792)</u>	<u>(34,282,504)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>									
Long-term investments purchased	-	(22,000,500)	-	-	-	-	-	(22,000,500)	(41,444,336)
Long-term investments sold	-	6,964,077	-	-	-	-	-	6,964,077	46,957,009
Investment income	373,329	3,815,639	50,648	267,866	-	3,348	14,749	4,525,579	3,525,793
Net Cash Flows From Investing Activities	<u>373,329</u>	<u>(11,220,784)</u>	<u>50,648</u>	<u>267,866</u>	<u>-</u>	<u>3,348</u>	<u>14,749</u>	<u>(10,510,844)</u>	<u>9,038,466</u>
<b>Net Change in Cash and Cash Equivalents</b>	<b>(3,008,084)</b>	<b>(15,209,432)</b>	<b>(1,672,260)</b>	<b>281,283</b>	<b>10,596</b>	<b>3,333,714</b>	<b>266,865</b>	<b>(15,997,318)</b>	<b>8,232,466</b>
CASH AND CASH EQUIVALENTS - Beginning of Year	<u>15,712,014</u>	<u>73,339,434</u>	<u>2,662,692</u>	<u>9,727,057</u>	<u>-</u>	<u>-</u>	<u>253,843</u>	<u>101,695,040</u>	<u>93,462,574</u>
<b>CASH AND CASH EQUIVALENTS - END OF YEAR</b>	<b><u>\$ 12,703,930</u></b>	<b><u>\$ 58,130,002</u></b>	<b><u>\$ 990,432</u></b>	<b><u>\$ 10,008,340</u></b>	<b><u>\$ 10,596</u></b>	<b><u>\$ 3,333,714</u></b>	<b><u>\$ 520,708</u></b>	<b><u>\$ 85,697,722</u></b>	<b><u>\$ 101,695,040</u></b>

**MICHIGAN PUBLIC POWER AGENCY**

COMBINED STATEMENTS OF CASH FLOWS  
Year Ended December 31, 2005  
(With Comparative Totals for the Year Ended December 31, 2004)

	Campbell No. 3 Project	Belle River Project	Power Pool Project	Combustion Turbine #1	Dispatch Project	Transmission Project	General Office Operation	2005	(Memorandum Only) 2004
<b>RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH FLOWS FROM OPERATING ACTIVITIES</b>									
Operating income (loss)	\$ 2,519,535	\$ 15,642,752	\$ (30,851)	\$ 1,947,036	\$ -	\$ 175,448	\$ 177,110	\$ 20,431,030	\$ 20,159,030
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities									
Depreciation	1,365,285	11,881,241	358	858,935	-	-	35,249	14,141,068	14,026,683
Changes in assets and liabilities									
Accounts receivables	(738,674)	2,332,166	1,697,949	(10,838)	(92,564)	(2,407)	56,321	3,241,953	(5,497,554)
Fuel inventory	(167,332)	523,248	-	(148,203)	-	-	-	207,713	398,317
Materials and supplies inventory	-	-	-	(1,993)	-	-	-	(1,993)	(7,520)
Deferred revenue	-	(6,785,006)	-	-	-	-	-	(6,785,006)	-
Accounts payable and accrued expense	602,269	225,392	(3,381,778)	(78,513)	103,160	-	29,023	(2,500,447)	4,397,548
<b>NET CASH FLOWS FROM OPERATING ACTIVITIES</b>	<b>\$ 3,581,083</b>	<b>\$ 23,819,793</b>	<b>\$ (1,714,322)</b>	<b>\$ 2,566,424</b>	<b>\$ 10,596</b>	<b>\$ 173,041</b>	<b>\$ 297,703</b>	<b>\$ 28,734,318</b>	<b>\$ 33,476,504</b>
<b>RECONCILIATION OF CASH AND CASH EQUIVALENTS TO THE BALANCE SHEET</b>									
Current Assets	\$ 9,320,567	\$ 28,580,883	\$ 990,432	\$ 5,538,143	\$ 10,596	\$ 176,389	\$ 505,723	45,122,733	60,103,132
Restricted Assets	3,383,363	29,549,119	-	4,470,197	-	3,157,325	14,985	40,574,989	41,591,908
<b>TOTAL CASH AND CASH EQUIVALENTS</b>	<b>\$ 12,703,930</b>	<b>\$ 58,130,002</b>	<b>\$ 990,432</b>	<b>\$ 10,008,340</b>	<b>\$ 10,596</b>	<b>\$ 3,333,714</b>	<b>\$ 520,708</b>	<b>\$ 85,697,722</b>	<b>\$ 101,695,040</b>

# MICHIGAN PUBLIC POWER AGENCY

## NOTES TO FINANCIAL STATEMENTS

December 31, 2005

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### NOTE 1 – NATURE OF OPERATIONS

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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, 2005, 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, five are participants in the Combustion Turbine No.1 Project, one participates in the Dispatch Project and all participate in the Transmission 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, Combustion Turbine No. 1, Dispatch and Transmission 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 Governmental Accounting Standards Board (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.

As required by GASB Statement No. 34, net assets are classified into three components – invested in capital assets, net of related debt; restricted; and unrestricted. These classifications are defined as follows:

- *Invested in capital assets, net of related debt and other obligations* – 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, obligations, 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.

# MICHIGAN PUBLIC POWER AGENCY

## NOTES TO FINANCIAL STATEMENTS December 31, 2005

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### **NOTE 1 – NATURE OF OPERATIONS (cont.)**

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#### ***BASIS OF PRESENTATION*** (cont.)

- *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”.

#### ***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***

MPPA distinguishes 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 MPPA's principal ongoing operations. The principal operating revenues of MPPA are charges to members for sales and services. Operating expenses for MPPA 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.

# MICHIGAN PUBLIC POWER AGENCY

## NOTES TO FINANCIAL STATEMENTS December 31, 2005

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### **NOTE 1 – NATURE OF OPERATIONS (cont.)**

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#### ***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. The agency capitalizes assets with a cost greater than \$500.

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 for the Belle River Project, Campbell No. 3 Project and the Combustion Turbine No. 1 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, MPPA 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, 2005

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### NOTE 1 – NATURE OF OPERATIONS (cont.)

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#### *DEFERRED REVENUES* (cont.)

In order for MPPA to continue to apply the provisions of FAS No. 71, it must continue to meet the following three criteria: (1) MPPA'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) MPPA's rates must be designed to recover its 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 MPPA'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.

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### NOTE 2 – JOINT PROJECT OWNERSHIP AGREEMENTS

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#### *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, 2005

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### NOTE 2 – JOINT AGREEMENTS (cont.)

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#### ***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, 2005

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### **NOTE 2 – JOINT AGREEMENTS (cont.)**

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#### ***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 2002 MPPA completed 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 is located in Kalkaska County, Michigan. The project included 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 purchased a parcel of land from Coral and entered 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.

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### **NOTE 3 – CASH AND INVESTMENTS**

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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, 2005

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### NOTE 3 – CASH AND INVESTMENTS (cont.)

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#### *CASH AND INVESTMENTS – DECEMBER 31, 2005*

	<u>Carrying Value</u>
Restricted Assets	
Certificates of deposit	\$ 14,500
Money market and mutual funds	40,560,489
	<u>40,574,989</u>
Current Assets	
Cash and cash equivalents	
Certificates of deposit	10,000,000
Money market and mutual funds	35,043,793
Demand and savings deposits	78,940
	<u>45,122,733</u>
U.S. Government Agency notes	65,018,030
	<u>110,140,763</u>
 Total Cash and Investments	 <u>\$ 150,715,752</u>

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.

#### ***CUSTODIAL CREDIT RISK***

##### **Deposits**

Custodial credit risk is the risk that in the event of a financial institution failure, MPPA's deposits may not be returned to MPPA. At December 31, 2005 MPPA had \$33,629,325 in uninsured and uncollateralized deposits. MPPA's investment policy does not require collateralization of deposits but rather restricts the financial institutions that can be used based on the equity and market ratings of the financial institution's debt.

##### **Investments**

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, MPPA will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. All investments held at December 31, 2005 were considered to be in risk category one (investments held in trust on behalf of MPPA), therefore not subject to custodial credit risk. MPPA's policy is to have all investment securities held by its agent in MPPA's name.

# MICHIGAN PUBLIC POWER AGENCY

## NOTES TO FINANCIAL STATEMENTS December 31, 2005

### NOTE 3 – CASH AND INVESTMENTS (cont.)

#### **CREDIT RISK**

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. As of December 31, 2005 MPPA's investments were rated as follows:

<u>Investment Type</u>	<u>Standard &amp; Poor's</u>	<u>Moody's</u>
US Agency Securities	AAA	Aaa
Mutual Funds	AAAm	Aaa

MPPA's investment policy requires that all investments be rated in highest or second highest categories by the national rating agencies.

#### **CONCENTRATIONS OF CREDIT RISK**

Concentration of credit risk is the risk of loss attributed to the magnitude of MPPA's investment in a single issuer.

At December 31, 2005, investments held with issuers, each totaling more than 5 percent of the total portfolio, were concentrated as follows:

<u>Issuer</u>	<u>% of Portfolio</u>
Federal Home Loan Bank	15%
Federal Home Loan Mortgage Corporation	14%
Federal National Mortgage Association	13%

MPPA's investment policy does not limit the amount of the portfolio that can be invested in US government agency securities or any one issuer of such investments.

#### **INTEREST RATE RISK**

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment.

At December 31, 2005 MPPA's investments were as follows:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Maturity In Years</u>		
		<u>Less than 1</u>	<u>1 – 5</u>	<u>Over 5</u>
US Government Agency Securities	\$ 65,018,030	\$ 3,995,640	\$ 61,022,390	\$ -
Mutual Funds	<u>51,878,596</u>	<u>51,878,596</u>	<u>-</u>	<u>-</u>
<b>Total</b>	<u><u>\$ 116,896,626</u></u>	<u><u>\$ 55,874,236</u></u>	<u><u>\$ 61,022,390</u></u>	<u><u>\$ -</u></u>

MPPA's investment policy restricts operational funds to maturities of one year or less, reserve and contingency funds to five years or less and debt service reserve funds to fifteen years or less.

# MICHIGAN PUBLIC POWER AGENCY

## NOTES TO FINANCIAL STATEMENTS December 31, 2005

### NOTE 4 – RESTRICTED ASSETS

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

### NOTE 5 – CHANGES IN CAPITAL ASSETS

A summary of changes in capital assets for 2005 follows:

	Balance 1/1/05	Additions/ Reclassi- fications	Deletions/ Reclassi- fications	Balance 12/31/05
Capital assets not being depreciated:				
Land	\$ 598,889	\$ -	\$ -	\$ 598,889
Capital assets being depreciated:				
Utility Plant in Service	520,029,382	4,745,076	(97,693)	524,676,765
Less: Accumulated Depreciation	<u>(274,606,344)</u>	<u>(14,141,067)</u>	<u>119,278</u>	<u>(288,628,133)</u>
Net Utility Plant	<u>\$ 246,021,927</u>			<u>\$ 236,647,521</u>

### NOTE 6 – LONG-TERM DEBT

#### ***CAMPBELL No. 3 PROJECT REVENUE BONDS***

The following bonds have been issued by MPPA:

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

# MICHIGAN PUBLIC POWER AGENCY

## NOTES TO FINANCIAL STATEMENTS December 31, 2005

### NOTE 6 – LONG-TERM DEBT (cont.)

#### **CAMPBELL No. 3 PROJECT REVENUE BONDS** (cont.)

The following obligations are outstanding at December 31:

	2005
1997A bonds	\$ 11,400,000
Unamortized loss 1997A advanced refunding transaction	(351,644)
Unamortized premium on 1997A bonds	67,156
2002A bonds	11,000,000
	22,115,512
Less: Current portion	(2,620,000)
 Totals	 \$ 19,495,512

MPPA's annual debt service requirements are collected from participating member municipalities and from transfers from the project account during the period preceding the required interest and principal payments. Debt service requirements to be collected during each of the five years following December 31, 2005, and in five-year increments thereafter to maturity, are as follows:

Year Ending December 31,	Principal	Interest	Total
2006	\$ 2,770,000	\$ 935,725	\$ 3,705,725
2007	2,925,000	783,375	3,708,375
2008	3,085,000	622,500	3,707,500
2009	2,570,000	452,825	3,022,825
2010	2,690,000	350,025	3,040,025
2011 – 2012	5,740,000	364,260	6,104,260
 Totals	 \$ 19,780,000	\$ 3,508,710	\$ 23,288,710

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

#### *Long-term liabilities as of December 31, 2005:*

<u>Long-Term Liabilities</u>	1/1/05 Balance	Additions	Reductions	12/31/05 Balance
Revenue bonds	\$ 24,885,000	\$ -	\$ (2,485,000)	\$ 22,400,000
Unamortized loss on advanced refunding transaction	(527,516)	-	175,872	(351,644)
Unamortized premium on bonds	109,986	-	(42,830)	67,156
Current maturities	(2,485,000)	-	(135,000)	(2,620,000)
 Total Long-Term Liabilities	 \$ 21,982,470	\$ -	\$ (2,486,958)	\$ 19,495,512

# MICHIGAN PUBLIC POWER AGENCY

## NOTES TO FINANCIAL STATEMENTS December 31, 2005

### NOTE 6 – LONG-TERM DEBT (cont.)

#### ***BELLE RIVER PROJECT REVENUE BONDS***

The following bonds have been issued by MPPA:

<u>Date</u>	<u>Purpose</u>	<u>Final Maturity</u>	<u>Interest Rates</u>	<u>Original Amount</u>
December 2, 2002	Refund 1993A&B construction bonds	1/1/18	2.35 – 5.25%	\$ 280,180,000

The following obligations are outstanding at December 31:

	<u>2005</u>
2002A bonds	\$ 254,720,000
Unamortized loss 2002A advanced refunding transaction	(11,142,116)
Unamortized premium on 2002A bonds	<u>17,178,253</u>
	260,756,137
Less: Current portion	<u>(14,275,000)</u>
Totals	<u>\$ 246,481,137</u>

MPPA's annual debt service requirements are collected from participating member municipalities and from transfers from the project account during the period preceding the required interest and principal payments. Debt service requirements to be collected during each of the five years following December 31, 2005, and in five-year increments thereafter to maturity, are as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2006	\$ 14,975,000	\$ 12,516,980	\$ 27,491,980
2007	15,685,000	11,810,780	27,495,780
2008	16,505,000	10,987,318	27,492,318
2009	17,350,000	10,142,805	27,492,805
2010	18,265,000	9,231,930	27,496,930
2011 – 2015	106,720,000	30,753,113	137,473,113
2016 – 2017	<u>50,945,000</u>	<u>4,046,175</u>	<u>54,991,175</u>
Totals	<u>\$ 240,445,000</u>	<u>\$ 89,489,101</u>	<u>\$ 329,934,101</u>

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

**MICHIGAN PUBLIC POWER AGENCY**

NOTES TO FINANCIAL STATEMENTS  
December 31, 2005

**NOTE 6 – LONG-TERM DEBT (cont.)**

***BELLE RIVER PROJECT REVENUE BONDS (cont.)***

*Long-term liabilities as of December 31, 2005:*

<u>Long-Term Liabilities</u>	<u>1/1/05 Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>12/31/05 Balance</u>
Revenue bonds	\$ 268,330,000	\$ -	\$ (13,610,000)	\$ 254,720,000
Unamortized loss on advanced refunding transaction	(12,788,377)	-	1,646,261	(11,142,116)
Unamortized premium on bonds	20,118,922	-	(2,940,669)	17,178,253
Current maturities	(13,610,000)	-	(665,000)	(14,275,000)
<b>Total Long-Term Liabilities</b>	<b>\$ 262,050,545</b>	<b>\$ -</b>	<b>\$ (15,569,408)</b>	<b>\$ 246,481,137</b>

***COMBUSTION TURBINE NO. 1 PROJECT REVENUE BONDS***

The following bonds have been issued by MPPA:

<u>Date</u>	<u>Purpose</u>	<u>Final Maturity</u>	<u>Interest Rates</u>	<u>Original Amount</u>
January 10, 2002	Building of turbine	1/1/27	3.75 – 5.4%	\$ 34,645,000

The following obligations are outstanding at December 31:

	<u>2005</u>
2002A bonds	\$ 32,995,000
Less: Unamortized discount on 2002A bonds	(52,682)
	<u>32,942,318</u>
Less: Current portion	(870,000)
<b>Totals</b>	<b>\$ 32,072,318</b>

MPPA's annual debt service requirements are collected from participating member municipalities and from transfers from the project account during the period preceding the required interest and principal payments. Debt service requirements to be collected during each of the five years following December 31, 2005, and in five-year increments thereafter to maturity, are as follows:

## MICHIGAN PUBLIC POWER AGENCY

### NOTES TO FINANCIAL STATEMENTS December 31, 2005

#### NOTE 6 – LONG-TERM DEBT (cont.)

##### **COMBUSTION TURBINE No. 1 PROJECT REVENUE BONDS (cont.)**

Year Ending December 31,	Principal	Interest	Total
2006	\$ 905,000	\$ 1,646,081	\$ 2,551,081
2007	945,000	1,608,750	2,553,750
2008	985,000	1,566,225	2,551,225
2009	1,030,000	1,521,900	2,551,900
2010	1,080,000	1,475,550	2,555,550
2011 – 2015	6,250,000	6,512,100	12,762,100
2016 – 2020	8,075,000	4,689,563	12,764,563
2021 – 2025	10,430,000	2,335,200	12,765,200
2026 – 2027	2,425,000	127,312	2,552,312
Totals	<u>\$ 32,125,000</u>	<u>\$ 21,482,681</u>	<u>\$ 53,607,681</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, 2005:*

<u>Long-Term Liabilities</u>	<u>1/1/05 Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>12/31/05 Balance</u>
Revenues bonds	\$ 33,835,000	\$ -	\$ (840,000)	\$ 32,995,000
Unamortized discount on term bonds	(56,804)	-	4,122	(52,682)
Current maturities	<u>(840,000)</u>	<u>-</u>	<u>(30,000)</u>	<u>(870,000)</u>
Total Long-Term Liabilities	<u>\$ 32,938,196</u>	<u>\$ -</u>	<u>\$ (865,878)</u>	<u>\$ 32,072,318</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, 2005, 2004 and 2003 were approximately \$179,000, \$172,000, and \$139,000, respectively.

# MICHIGAN PUBLIC POWER AGENCY

NOTES TO FINANCIAL STATEMENTS  
December 31, 2005

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## NOTE 8 – CONTRACTS AND COMMITMENTS

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### *CONTRACT WITH CONSUMERS ENERGY*

MPPA contracted with Consumers to purchase fuel coal in order to maintain a stockpile level of 21,261 wet tons (21,527 in 2004) 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.

### *CONTRACT WITH CORAL ENERGY*

MPPA contracted with Coral Energy for natural gas for the CT Project No.1. The contract expires in 2012.

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## NOTE 9 – RISK MANAGEMENT

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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.

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## NOTE 10 – CONCENTRATION OF RISK

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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 one member who is considered a significant customer. They accounted for \$16.7 million (11%) of MPPA revenues in 2005.

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## NOTE 11 – CONTINGENCIES

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MPPA owns certain transmission assets for which it has an operation and maintenance agreement with the International Transmission Company (ITC). Certain amounts which have been billed by ITC and recognized by MPPA as expenses and liabilities are under dispute at this time. In addition, the treatment of MISO revenues related to these assets is being debated. Management and their legal council cannot predict the outcome of future negotiations between the parties on these issues.

# MICHIGAN PUBLIC POWER AGENCY

## NOTES TO FINANCIAL STATEMENTS December 31, 2005

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### NOTE 12 – SUBSEQUENT EVENTS

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In January, 2006, MPPA issued \$9 million of Series A Campbell Project Revenue Bonds to finance all or a portion of improvements to the Campbell generating station, including but not limited to, boiler improvements for the Campbell Project, to acquire a surety bond and to pay the costs of issuing the 2006 Series A Bonds. The bonds, with an interest rate of 5% are payable annually 2014-2016. Repayment of the bonds is pledged by the revenues of the MPPA members participating in the project.

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### NOTE 13 – BOND COVENANT DISCLOSURES

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#### *CAMPBELL No. 3 PROJECT*

#### *Compliance with Funding Requirements*

MPPA is in compliance with bond funding requirements.

#### *Debt Service Coverage*

	<u>2005</u>
Operating revenues	\$ 13,941,319
Other revenues	<u>373,796</u>
	<u>14,315,115</u>
Operating expenses	11,421,784
Less: Depreciation	<u>(1,365,285)</u>
	<u>10,056,499</u>
Net revenues	<u>4,258,616</u>
Debt service	3,699,825
	x <u>1.10</u>
Required revenues	<u>4,069,808</u>
Revenues in Excess of Coverage Requirements	<u><u>\$ 188,808</u></u>

# MICHIGAN PUBLIC POWER AGENCY

NOTES TO FINANCIAL STATEMENTS  
December 31, 2005

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## NOTE 13 – BOND COVENANT DISCLOSURES (cont.)

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### *BELLE RIVER PROJECT*

#### *Compliance with Funding Requirements*

MPPA is in compliance with bond funding requirements.

#### *Debt Service Coverage*

	<u>2005</u>
Operating revenues	\$ 74,633,083
Other revenues	4,078,706
	<u>78,711,789</u>
Operating expenses	58,990,331
Less: Depreciation	<u>(11,881,241)</u>
	<u>47,109,090</u>
Net Revenues	<u>31,602,699</u>
Debt service	<u>27,497,118</u>
Revenues in Excess of Coverage Requirements	<u>\$ 4,105,581</u>

### *COMBUSTION TURBINE NO. 1 PROJECT*

#### *Compliance with Funding Requirements*

MPPA is in compliance with bond funding requirements.

#### *Debt Service Coverage*

	<u>2005</u>
Operating revenues	\$ 4,706,540
Other revenues	268,125
	<u>4,974,665</u>
Operating expenses	2,759,504
Less: Depreciation	<u>(858,935)</u>
	<u>1,900,569</u>
Net Revenues	<u>3,074,096</u>
Debt service	2,550,881
	x 1.10
Required revenues	<u>2,805,969</u>
Revenues in Excess of Coverage Requirements	<u>\$ 268,127</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, 2005

	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, 2005	\$ 3,093,528	\$ -	\$ 2,010,201	\$ 250,000	\$ 800,000	\$ 3,577,585	\$ 5,980,700	\$ 15,712,014
Receipts	-	12,640,420	13,857	-	-	-	-	12,654,277
Investment receipts	49,487	-	270,077	-	-	53,765	-	373,329
Payment of interest on bonds	(1,148,163)	-	-	-	-	-	-	(1,148,163)
Payment of bond principal	(2,485,000)	-	-	-	-	-	-	(2,485,000)
Disbursements	-	(4,787,272)	(7,615,255)	-	-	-	-	(12,402,527)
Transfers – net	3,650,061	(7,853,148)	6,610,987	-	-	(3,407,900)	1,000,000	-
CASH AND INVESTMENTS AT DECEMBER 31, 2005	<u>\$ 3,159,913</u>	<u>\$ -</u>	<u>\$ 1,289,867</u>	<u>\$ 250,000</u>	<u>\$ 800,000</u>	<u>\$ 223,450</u>	<u>\$ 6,980,700</u>	<u>\$ 12,703,930</u>

**MICHIGAN PUBLIC POWER AGENCY**

SCHEDULE OF CHANGES IN FUNDS ESTABLISHED BY THE BELLE RIVER PROJECT REVENUE BOND RESOLUTION  
Year Ended December 31, 2005

	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, 2005	\$ 20,555,241	\$ -	\$ 8,416,698	\$ -	\$ 8,333,846	\$ 87,370,251	\$ 124,676,036
Receipts	-	-	-	75,098,207	(388,766)	-	74,709,441
Investment receipts	325,971	-	246,362	-	219,853	3,023,454	3,815,640
Net Increase (decrease) in fair value of investments	-	-	-	-	-	(1,354,995)	(1,354,995)
Payment of interest on bonds	(13,554,461)	-	-	-	-	-	(13,554,461)
Payment of bond principal	(13,610,000)	-	-	-	-	-	(13,610,000)
Disbursements	-	-	-	-	(44,748,623)	(6,785,006)	(51,533,629)
Transfers – net	<u>27,169,308</u>	<u>-</u>	<u>-</u>	<u>(75,098,207)</u>	<u>47,928,899</u>	<u>-</u>	<u>-</u>
<b>CASH AND INVESTMENTS AT DECEMBER 31, 2005</b>	<b><u>\$ 20,886,059</u></b>	<b><u>-</u></b>	<b><u>\$ 8,663,060</u></b>	<b><u>\$ -</u></b>	<b><u>\$ 11,345,209</u></b>	<b><u>\$ 82,253,704</u></b>	<b><u>\$ 123,148,032</u></b>

## MICHIGAN PUBLIC POWER AGENCY

### DETAILS OF REVENUES AND EXPENSES - CAMPBELL NO. 3 PROJECT

	2005 Budget	2005 Actual	2004 Actual	2005 Actual Over (Under) Budget
<b>OPERATING REVENUES</b>				
Sales to Participants				
Power	\$ 6,233,300	\$ 6,233,731	\$ 5,462,470	\$ 431
Backup capacity	508,000	507,132	566,913	(868)
Transmission	286,000	287,032	350,056	1,032
Energy (fuel)	5,228,900	5,228,940	4,372,165	40
Backup energy	1,627,000	1,626,623	1,034,646	(377)
Transmission utilization	-	57,861	-	57,861
Total Operating Revenue	<u>13,883,200</u>	<u>13,941,319</u>	<u>11,786,250</u>	<u>58,119</u>
<b>OPERATING EXPENSES</b>				
Production				
Fuel	5,228,900	5,228,940	4,372,165	40
Operation	1,555,000	1,553,404	623,849	(1,596)
Maintenance	413,000	412,907	430,643	(93)
Total Production	<u>7,196,900</u>	<u>7,195,251</u>	<u>5,426,657</u>	<u>(1,649)</u>
Purchased Power				
Backup capacity	508,000	507,132	566,913	(868)
Backup energy	1,627,000	1,626,623	1,034,646	(377)
Total Purchased Power	<u>2,135,000</u>	<u>2,133,755</u>	<u>1,601,559</u>	<u>(1,245)</u>
Transmission				
Operation	72,000	56,053	77,220	(15,947)
Maintenance	6,000	395	533	(5,605)
Utilization	-	57,861	-	57,861
Total Transmission	<u>78,000</u>	<u>114,309</u>	<u>77,753</u>	<u>36,309</u>
General and Administrative				
Salaries and wages	171,264	184,797	134,276	13,533
Employee benefits	343,464	148,842	284,135	(194,622)
Outside services	97,402	82,009	93,654	(15,393)
Taxes	60,000	49,525	49,652	(10,475)
Insurance and liability	146,723	115,452	197,552	(31,271)
Meetings and travel	7,944	4,668	7,811	(3,276)
Office supplies	20,268	11,365	10,813	(8,903)
Rents	12,841	7,365	10,059	(5,476)
Miscellaneous	24,507	9,161	5,745	(15,346)
Total General and Administrative	<u>884,413</u>	<u>613,184</u>	<u>793,697</u>	<u>(271,229)</u>

## MICHIGAN PUBLIC POWER AGENCY

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

	<u>2005 Budget</u>	<u>2005 Actual</u>	<u>2004 Actual</u>	<u>2005 Actual Over (Under) Budget</u>
<b>OPERATING EXPENSES (cont.)</b>				
Depreciation	\$ 1,289,256	\$ 1,365,285	\$ 1,263,199	\$ 76,029
Total Operating Expense	<u>11,583,569</u>	<u>11,421,784</u>	<u>9,162,865</u>	<u>(161,785)</u>
Operating Income	<u>2,299,631</u>	<u>2,519,535</u>	<u>2,623,385</u>	<u>219,904</u>
<b>OTHER EXPENSES</b>				
Interest cost incurred	1,079,820	1,079,825	1,216,500	5
Amortization of financing-related costs	<u>193,332</u>	<u>193,335</u>	<u>190,026</u>	<u>3</u>
Total Other Expenses	<u>1,273,152</u>	<u>1,273,160</u>	<u>1,406,526</u>	<u>8</u>
<b>OTHER REVENUES</b>				
Investment income	<u>168,000</u>	<u>373,796</u>	<u>196,521</u>	<u>205,796</u>
Total Other Income	<u>168,000</u>	<u>373,796</u>	<u>196,521</u>	<u>205,796</u>
Income before deferred revenue	<u>\$ 1,194,479</u>	1,620,171	1,413,380	<u>\$ 425,692</u>
Deferred revenue to be recognized in future periods		<u>(1,620,171)</u>	<u>(1,413,380)</u>	
<b>CHANGE IN NET ASSETS</b>		<u>\$ -</u>	<u>\$ -</u>	

## MICHIGAN PUBLIC POWER AGENCY

### DETAILS OF REVENUES AND EXPENSES - BELLE RIVER PROJECT

	2005 Budget	2005 Actual	2004 Actual	2005 Actual Over (Under) Budget
<b>OPERATING REVENUES</b>				
Sales to Participants				
Power	\$ 44,000,000	\$ 43,956,929	\$ 37,726,185	\$ (43,071)
Backup capacity	612,108	726,842	676,213	114,734
Transmission	4,656,000	4,655,866	3,154,780	(134)
Energy (fuel)	22,615,000	22,614,387	24,205,898	(613)
Backup energy	4,218,977	2,772,770	2,256,738	(1,446,207)
Transmission utilization	-	118,100	(107,009)	118,100
Total Sales to Participants	<u>76,102,085</u>	<u>74,844,894</u>	<u>67,912,805</u>	<u>(1,257,191)</u>
Less allowance for sellback				
Transmission	-	(211,811)	-	-
Net Sales to Participants	<u>76,102,085</u>	<u>74,633,083</u>	<u>67,912,805</u>	<u>(1,257,191)</u>
<b>OPERATING EXPENSES</b>				
Production				
Fuel	22,615,000	22,614,387	24,205,898	(613)
Operation	5,000,000	4,965,894	3,435,879	(34,106)
Maintenance	6,000,000	5,917,150	4,035,621	(82,850)
Total Production	<u>33,615,000</u>	<u>33,497,431</u>	<u>31,677,398</u>	<u>(117,569)</u>
Purchased Power				
Backup capacity	612,108	726,842	676,213	114,734
Backup energy	4,218,977	2,772,770	2,256,738	(1,446,207)
Total Purchased Power	<u>4,831,085</u>	<u>3,499,612</u>	<u>2,932,951</u>	<u>(1,331,473)</u>
Transmission				
Operation	1,500,000	1,496,317	598,262	(3,683)
Maintenance	316,800	28,056	5,862	(288,744)
Utilization	-	118,100	(107,009)	118,100
Total Transmission	<u>1,816,800</u>	<u>1,642,473</u>	<u>497,115</u>	<u>(174,327)</u>
General and Administrative				
Salaries and wages	1,103,448	1,195,116	1,028,360	91,668
Employee benefits	4,350,000	4,339,187	2,003,266	(10,813)
Outside services	801,000	800,779	478,913	(221)
Taxes	660,000	602,378	522,581	(57,622)
Insurance and liability	201,453	281,966	200,114	80,513
Meetings and travel	19,224	17,990	23,146	(1,234)
Office supplies	672,024	546,007	659,227	(126,017)
Rents	32,847	(9,125)	(5,110)	(41,972)
Miscellaneous	242,960	695,276	371,164	452,316
Total General and Administrative	<u>8,082,956</u>	<u>8,469,574</u>	<u>5,281,661</u>	<u>386,618</u>

## MICHIGAN PUBLIC POWER AGENCY

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

	2005 Budget	2005 Actual	2004 Actual	2005 Actual Over (Under) Budget
<b>OPERATING EXPENSES (cont.)</b>				
Depreciation	\$ 12,240,000	\$ 11,881,241	\$ 11,868,428	\$ (358,759)
Total Operating Expense	<u>60,585,841</u>	<u>58,990,331</u>	<u>52,257,553</u>	<u>(1,595,510)</u>
Operating Income	<u>15,516,244</u>	<u>15,642,752</u>	<u>15,655,252</u>	<u>338,319</u>
<b>OTHER EXPENSES</b>				
Interest cost incurred	13,222,118	13,222,118	13,886,805	-
Amortization of financing-related costs	<u>(1,246,632)</u>	<u>(976,532)</u>	<u>(1,147,890)</u>	<u>270,100</u>
Total Other Expenses	<u>11,975,486</u>	<u>12,245,586</u>	<u>12,738,915</u>	<u>270,100</u>
<b>OTHER REVENUES</b>				
Investment income	3,000,000	4,078,706	3,057,181	1,078,706
Net change in fair value of investments	<u>-</u>	<u>(1,354,995)</u>	<u>(805,650)</u>	<u>(1,354,995)</u>
Total Other Income	<u>3,000,000</u>	<u>2,723,711</u>	<u>2,251,531</u>	<u>(276,289)</u>
Income (loss) before deferred revenue	<u>\$ 6,540,758</u>	6,120,877	5,167,868	<u>\$ (208,070)</u>
Deferred revenue to be recognized in future periods		<u>(6,120,877)</u>	<u>(5,167,868)</u>	
<b>CHANGE IN NET ASSETS</b>		<u>\$ -</u>	<u>\$ -</u>	

## MICHIGAN PUBLIC POWER AGENCY

### DETAILS OF REVENUES AND EXPENSES - POWER POOL PROJECT

	2005 Budget	2005 Actual	2004 Actual	2005 Actual Over (Under) Budget
<b>OPERATING REVENUES</b>				
Sales to Participants				
Power	\$ 41,500,000	\$ 41,490,326	\$ 29,412,642	\$ (9,674)
Capacity	14,068,000	14,067,635	6,611,923	(365)
Transmission	6,850,000	6,848,467	5,292,738	(1,533)
Total Operating Revenue	<u>62,418,000</u>	<u>62,406,428</u>	<u>41,317,303</u>	<u>(11,572)</u>
<b>OPERATING EXPENSES</b>				
Purchased Power				
Capacity	14,068,000	14,007,042	6,709,034	(60,958)
Energy	40,110,000	40,107,145	28,286,383	(2,855)
Total Purchased Power	<u>54,178,000</u>	<u>54,114,187</u>	<u>34,995,417</u>	<u>(63,813)</u>
Transmission				
Wheeling	7,010,000	7,009,147	5,291,669	(853)
General and Administrative				
Salaries and wages	344,988	388,029	320,738	43,041
Employee benefits	160,308	200,705	147,511	40,397
Outside services	660,000	658,282	610,072	(1,718)
Insurance and liability	10,235	8,976	8,979	(1,259)
Meetings and travel	20,448	15,266	19,923	(5,182)
Office supplies	12,780	11,951	8,205	(829)
Rents	25,240	22,202	21,552	(3,038)
Miscellaneous	13,105	8,176	18,444	(4,929)
Total General and Administrative	<u>1,247,104</u>	<u>1,313,587</u>	<u>1,155,424</u>	<u>66,483</u>
Depreciation	365	358	717	(7)
Total Operating Expense	<u>62,435,469</u>	<u>62,437,279</u>	<u>41,443,227</u>	<u>1,810</u>
Operating Loss	<u>(17,469)</u>	<u>(30,851)</u>	<u>(125,924)</u>	<u>(13,382)</u>
<b>OTHER EXPENSES</b>				
Interest costs incurred	118,116	65,986	-	(52,130)
<b>OTHER REVENUES</b>				
Investment income	36,000	50,648	24,001	14,648
Loss before deferred revenue	<u>\$ (99,585)</u>	(46,189)	(101,923)	<u>\$ 53,396</u>
Deferred revenue recognized in current period		<u>46,189</u>	<u>101,923</u>	
CHANGE IN NET ASSETS		<u>\$ -</u>	<u>\$ -</u>	

## MICHIGAN PUBLIC POWER AGENCY

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

	2005 Budget	2005 Actual	2004 Actual	2005 Actual Over (Under) Budget
<b>OPERATING REVENUES</b>				
Sales to Participants				
Power	\$ 3,693,136	\$ 4,104,513	\$ 3,934,773	\$ 411,377
Transmission	127,200	8,312	16,865	(118,888)
Energy (fuel)	2,017,035	593,715	958,433	(1,423,320)
Total Operating Revenue	<u>5,837,371</u>	<u>4,706,540</u>	<u>4,910,071</u>	<u>(1,130,831)</u>
<b>OPERATING EXPENSES</b>				
Production				
Fuel	2,017,035	593,715	958,433	(1,423,320)
Operation	380,560	806,914	744,519	426,354
Maintenance	66,000	52,317	115,770	(13,683)
Total Production	<u>2,463,595</u>	<u>1,452,946</u>	<u>1,818,722</u>	<u>(1,010,649)</u>
Transmission				
Operation	127,200	8,312	16,865	(118,888)
Maintenance	215,000	-	1,421	(215,000)
Total Transmission	<u>342,200</u>	<u>8,312</u>	<u>18,286</u>	<u>(333,888)</u>
General and Administrative				
Salaries and wages	76,968	162,750	76,854	85,782
Employee benefits	42,336	66,378	65,540	24,042
Outside services	68,784	169,449	89,411	100,665
Taxes		6,763	7,189	6,763
Insurance and liability	2,692	2,361	1,694	(331)
Meetings and travel	9,000	13,617	12,389	4,617
Office supplies	3,384	9,357	3,906	5,973
Rents	6,663	7,794	5,880	1,131
Miscellaneous	15,777	842	268	(14,935)
Total General and Administrative	<u>225,604</u>	<u>439,311</u>	<u>263,131</u>	<u>213,707</u>

## MICHIGAN PUBLIC POWER AGENCY

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

	2005 Budget	2005 Actual	2004 Actual	2005 Actual Over (Under) Budget
<b>OPERATING EXPENSES (cont.)</b>				
Depreciation	\$ 858,000	\$ 858,935	\$ 856,781	\$ 935
Total Operating Expense	<u>3,889,399</u>	<u>2,759,504</u>	<u>2,956,920</u>	<u>(1,129,895)</u>
Operating Income	<u>1,947,972</u>	<u>1,947,036</u>	<u>1,953,151</u>	<u>(936)</u>
<b>OTHER EXPENSES</b>				
Interest cost incurred	1,680,881	1,680,881	1,714,481	-
Amortization of financing-related costs	<u>60,480</u>	<u>60,773</u>	<u>61,988</u>	<u>293</u>
Total Other Expenses	<u>1,741,361</u>	<u>1,741,654</u>	<u>1,776,469</u>	<u>293</u>
<b>OTHER REVENUES</b>				
Investment income	66,000	268,125	110,357	202,125
Net change in fair value of investments	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Other Income	<u>66,000</u>	<u>268,125</u>	<u>110,357</u>	<u>202,125</u>
Income before deferred revenue	<u>\$ 272,611</u>	473,507	287,039	<u>\$ 200,896</u>
Deferred revenue to be recognized in future periods		<u>(473,507)</u>	<u>(287,039)</u>	
<b>CHANGE IN NET ASSETS</b>		<u>\$ -</u>	<u>\$ -</u>	

## MICHIGAN PUBLIC POWER AGENCY

### DETAILS OF REVENUES AND EXPENSES - DISPATCH PROJECT

	<u>2005 Budget</u>	<u>2005 Actual</u>	<u>2004 Actual</u>	<u>2005 Actual Over (Under) Budget</u>
<b>OPERATING REVENUES</b>				
Sales to Participants				
Power	\$ 1,475,900	\$ 1,475,209	\$ -	\$ (691)
Total Operating Revenue	<u>1,475,900</u>	<u>1,475,209</u>	<u>-</u>	<u>(691)</u>
<b>OPERATING EXPENSES</b>				
Purchased Power				
Energy	1,408,000	1,407,476	-	(524)
Total Purchased Power	<u>1,408,000</u>	<u>1,407,476</u>	<u>-</u>	<u>(524)</u>
General and Administrative				
Salaries and wages	42,500	42,304	-	(196)
Employee benefits	25,400	25,382	-	(18)
Meetings and travel	-	47	-	47
Total General and Administrative	<u>67,900</u>	<u>67,733</u>	<u>-</u>	<u>(167)</u>
Total Operating Expense	<u>1,475,900</u>	<u>1,475,209</u>	<u>-</u>	<u>(691)</u>
Operating Income (Loss)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
CHANGE IN NET ASSETS		<u>\$ -</u>	<u>\$ -</u>	

## MICHIGAN PUBLIC POWER AGENCY

### DETAILS OF REVENUES AND EXPENSES - TRANSMISSION PROJECT

	<u>2005 Budget</u>	<u>2005 Actual</u>	<u>2004 Actual</u>	<u>2005 Actual Over (Under) Budget</u>
<b>OPERATING REVENUES</b>				
Sales to Participants				
Transmission	\$ 50,400	\$ 179,461	\$ -	\$ 129,061
Total Operating Revenue	<u>50,400</u>	<u>179,461</u>	<u>-</u>	<u>129,061</u>
<b>OPERATING EXPENSES</b>				
General and Administrative				
Salaries and wages	-	1,796	-	1,796
Employee benefits	-	1,077	-	1,077
Outside services	50,400	1,140	-	(49,260)
Total General and Administrative	<u>50,400</u>	<u>4,013</u>	<u>-</u>	<u>(46,387)</u>
Total Operating Expense	<u>50,400</u>	<u>4,013</u>	<u>-</u>	<u>(46,387)</u>
Operating Income	<u>-</u>	<u>175,448</u>	<u>-</u>	<u>175,448</u>
<b>OTHER REVENUES</b>				
Investment income	-	3,348	-	3,348
Income before deferred revenue	<u>\$ -</u>	<u>\$ 178,796</u>	<u>\$ -</u>	<u>\$ 178,796</u>
Deferred revenue recognized in current period		<u>(178,796)</u>	<u>-</u>	
CHANGE IN NET ASSETS		<u>\$ -</u>	<u>\$ -</u>	

## MICHIGAN PUBLIC POWER AGENCY

### DETAILS OF REVENUES AND EXPENSES - GENERAL OFFICE OPERATION

	2005 Budget	2005 Actual	2004 Actual	2004 Actual Over (Under) Budget
<b>OPERATING REVENUES</b>				
Participant membership fees	\$ 505,908	\$ 504,379	\$ 490,277	\$ (1,529)
Charges for Services				
Projects	131,250	187,268	131,256	56,018
MMEA	240,653	221,592	210,286	(19,061)
Total Operating Revenue	<u>877,811</u>	<u>913,239</u>	<u>831,819</u>	<u>35,428</u>
<b>OPERATING EXPENSES</b>				
General and Administrative				
Salaries and wages	304,812	236,527	296,817	(68,285)
Employee benefits	167,640	141,916	163,250	(25,724)
Outside services	188,270	155,728	141,890	(32,542)
Insurance and liability	6,197	5,435	4,401	(762)
Meetings and travel	29,784	29,493	30,136	(291)
Office supplies	13,368	9,817	9,998	(3,551)
Rents	26,397	23,217	21,047	(3,180)
Miscellaneous	115,713	122,747	97,556	7,034
Total General and Administrative	<u>852,181</u>	<u>724,880</u>	<u>765,095</u>	<u>(127,301)</u>
Depreciation	31,800	35,249	37,558	3,449
Total Operating Expense	<u>883,981</u>	<u>760,129</u>	<u>802,653</u>	<u>(123,852)</u>
Operating Income (Loss)	<u>(6,170)</u>	<u>153,110</u>	<u>29,166</u>	<u>159,280</u>
<b>OTHER REVENUES</b>				
Interest income	-	15,647	3,515	15,647
Prepaid lease income	24,000	24,000	24,000	-
CHANGE IN NET ASSETS	<u>\$ 17,830</u>	<u>\$ 192,757</u>	<u>\$ 56,681</u>	<u>\$ 174,927</u>