

MICHIGAN PUBLIC POWER AGENCY
Lansing, Michigan

FINANCIAL STATEMENTS

December 31, 2007

MICHIGAN PUBLIC POWER AGENCY

NOTES TO FINANCIAL STATEMENTS

December 31, 2007

Independent Auditors' Report	1 – 2
Management's Discussion and Analysis	3 – 9
Balance Sheets	10 – 11
Statements of Revenues, Expenses and Changes in Net Assets	12
Statements of Cash Flows	13 – 14
Notes to Financial Statements	15 – 32
Supplemental Information	
Schedule of Changes in Funds Established by the Campbell No. 3 Project Revenue Bond Resolution	33
Schedule of Changes in Funds Established by the Belle River Project Revenue Bond Resolution	34
Details of Revenues and Expenses – Campbell No. 3 Project	35 – 36
Details of Revenues and Expenses – Belle River Project	37 – 38
Details of Revenues and Expenses – Power Pool Project	39
Details of Revenues and Expenses – Combustion Turbine No. 1 Project	40 – 41
Details of Revenues and Expenses – Dispatch Project	42
Details of Revenues and Expenses – Transmission Project	43
Details of Revenues and Expenses – General Office Operation	44



INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of the business-type activities and each major fund of Michigan Public Power Agency (MPPA) as identified in the accompanying table of contents as of and for the year ended December 31, 2007, which collectively comprise MPPA's basic financial statements. These financial statements are the responsibility of management. Our responsibility is to express opinions on these financial statements based on our audit. The prior year summarized comparative information has been derived from MPPA's 2006 financial statements and, in our report dated April 12, 2007, we expressed unqualified opinions on the respective financial statements of the business-type activities and each major fund.

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 opinions.

In our opinion, the financial statements referred to in the first paragraph present fairly, in all material respects, the respective financial position of the business-type activities and each major fund of MPPA as of December 31, 2007, 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.

As discussed in Note 13, MPPA has changed its reporting for MISO gains and losses for the year ended December 31, 2007. As such, certain line items in the 2006 financial statements have been restated to be consistent with the current year presentation.

The Management's Discussion and Analysis on pages 3 – 9 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 financial statements taken as a whole. The financial information on pages 33 – 44 is presented for purposes of additional analysis and is not a required part of the financial statements of Michigan Public Power Agency. Such information for the year ended December 31, 2007 has been subjected to the auditing procedures applied in our audit of the financial statements and, in our opinion, is fairly stated in all material respects in relation to the combined financial statements taken as a whole. We have also previously audited, in accordance with auditing standards generally accepted in the United State of America, MPPA's basic financial statements for the year ended December 31, 2006, which are not presented with the accompanying financial statements. In our report dated April 12, 2007, we expressed unqualified opinions on the respective financial statements of the business-type activities and each major fund. In our opinion, the 2006 supplemental information is fairly stated in all material respects in relation to the basic financial statements for the year ended December 31, 2006, taken as a whole.

Virchow, Krause & Company, LLP

Madison, Wisconsin
April 28, 2008

**MANAGEMENT'S DISCUSSION
AND ANALYSIS**

MICHIGAN PUBLIC POWER AGENCY

MANAGEMENT'S DISCUSSION AND ANALYSIS December 31, 2007

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, 2007 and 2006. You are invited to read this narrative in conjunction with MPPA's financial statements.

FINANCIAL HIGHLIGHTS

- MPPA's total net assets increased \$110,607, or 16% from the prior year. This was due to member dues and other revenues in excess of general office operations.
 - MPPA's operating expenses in 2007 were \$13,527,000 higher than in 2006. This is a 10% increase in operating expenses from the prior year. Most of the increase was due to an increase in purchased power expense for the Dispatch Project. This cost increase was passed on to project participants resulting in an increase in operating revenues of \$10,942,000 or about 7%. The net effect was a decrease in operating income of \$2,585,000 compared to the prior year.
 - Total agency assets decreased \$12,603,000 while total liabilities decreased \$12,714,000. These are the result of normal operations including the issuance of debt, payment of debt and continuing capital asset improvements and depreciation.
-

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 five power projects:

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

MICHIGAN PUBLIC POWER AGENCY

MANAGEMENT'S DISCUSSION AND ANALYSIS December 31, 2007

OVERVIEW OF THE FINANCIAL STATEMENTS (cont.)

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

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 15 of this report.
-

MPPA FINANCIAL ANALYSIS

An analysis of MPPA's financial position begins with a review of the Balance Sheet, 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 Balance Sheet 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 December 31, 2007

MPPA FINANCIAL ANALYSIS (cont.)

Table 1
Condensed Balance Sheet

	<u>2007</u>	<u>Restated 2006</u>
Current assets	\$ 133,152,303	\$ 141,926,154
Restricted assets	35,400,745	39,754,471
Non-current assets		
Capital assets	240,504,801	239,569,908
Other assets	<u>2,482,953</u>	<u>2,893,591</u>
Total Assets	<u>\$ 411,540,802</u>	<u>\$ 424,144,124</u>
Current liabilities	\$ 44,729,853	\$ 42,976,212
Non-current liabilities		
Deferred revenue to be recognized in future periods	92,623,805	86,717,772
Member Capital	5,757,573	5,653,274
Revenue bonds payable, less current portion	<u>267,631,321</u>	<u>288,109,223</u>
Total Liabilities	<u>410,742,552</u>	<u>423,456,481</u>
Net assets		
Invested in capital assets, net of related debt	(44,198,567)	(58,980,424)
Restricted	28,059,557	26,650,001
Unrestricted	<u>16,937,260</u>	<u>33,018,066</u>
Total Net Assets	<u>798,250</u>	<u>687,643</u>
Total Liabilities and Net Assets	<u>\$ 411,540,802</u>	<u>\$ 424,144,124</u>

MICHIGAN PUBLIC POWER AGENCY

MANAGEMENT'S DISCUSSION AND ANALYSIS December 31, 2007

MPPA FINANCIAL ANALYSIS (cont.)

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

	<u>2007</u>	<u>Restated 2006</u>
Operating Revenues	\$ 163,433,505	\$ 152,491,130
Non-Operating Revenues	7,934,961	25,045,233
Total Revenues	<u>171,368,466</u>	<u>177,536,363</u>
Depreciation Expense	14,753,803	14,390,325
Other Operating Expenses	127,761,875	114,598,365
Non-Operating Expenses	14,244,938	15,013,922
Total Expenses	<u>156,760,616</u>	<u>144,002,612</u>
Income Before Deferred Revenue	14,607,850	33,533,751
Deferred Revenue to be Recognized in Future Periods Net of Deferred Revenue Recognized in Current Period	<u>(14,497,243)</u>	<u>(33,405,170)</u>
Changes in Net Assets	110,607	128,581
Beginning Net Assets	<u>687,643</u>	<u>559,062</u>
Ending Net Assets	<u>\$ 798,250</u>	<u>\$ 687,643</u>

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 2007 increased by 2% compared to 2006. During the same time period the cost of generated and purchased power decreased by 1%.

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. Operating expenses decreased by 2% from 2006 to 2007. Sales to participants decreased 5%.

MICHIGAN PUBLIC POWER AGENCY

MANAGEMENT'S DISCUSSION AND ANALYSIS December 31, 2007

MPPA FINANCIAL ANALYSIS (cont.)

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 1% increase in sales and a corresponding 2% increase in operating expenses in 2007 compared to 2006. For 2007 purchased power made up 96% of the Power Pool operating costs. For 2007, the operating revenues of the Power Pool project exceeded the operating costs resulting in the deferral of revenue to future periods.

Combustion Turbine #1 Project

MPPA owns and operates the Combustion Turbine #1 Project (CT Project) for the benefit of five of its members. The CT Project is a natural-gas fired combustion turbine peaking generating unit which began producing power in 2002. For the year ended December 31, 2007 this project reported \$275,424 of deferred revenues to be recognized in a future period.

Dispatch Project

The dispatch project is setup to facilitate the purchase of capacity and energy from third parties for sale to certain MPPA members. The activity was for the benefit of two members of MPPA in 2007 and one member in 2006.

Transmission Project

All current members of MPPA participate in this project. The members of MPPA provided the initial capital needed to purchase an undivided interest in the transmission grid. This has lowered the transmission cost to MPPA and its 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 income for the General Office Operations fund was \$110,607 in 2007 compared to an income of \$128,581 in 2006.

In addition, MPPA's Board directed MPPA to create a number of Service Committees in 2007. These Service Committees perform the function of easing the process of studying potential projects. The Service Committee also provides a venue for municipal utilities that are not MPPA members to participate in activities that do not require financing or the acquisition of assets. The Service Committees are treated as separate sub accounts under the General Office for accounting purposes.

MICHIGAN PUBLIC POWER AGENCY

MANAGEMENT'S DISCUSSION AND ANALYSIS December 31, 2007

CAPITAL ASSETS

MPPA's investment in capital assets as of December 31, 2007 amounts to \$240,505,000 (net of accumulated depreciation). This investment in capital assets includes investment in plants, transmission systems, land, buildings, improvements, machinery and equipment. MPPA's total net investment in capital assets for the year was virtually unchanged from the previous year. Each project contributed to this differently. The Campbell No. 3 Project net investment in capital assets increased by 14% with increased plant improvement initiatives and annual depreciation. The net investment in capital assets for the other projects declined primarily as a result of annual depreciation.

LONG-TERM DEBT

At December 31, 2007, MPPA had total liabilities outstanding of \$410,743,000 of which \$287,186,000 represents bond payments payable. These remaining principal payments on long-term debt, including current amounts due, are as follows:

Campbell No. 3 Project	\$ 26,614,000
Belle River Project	229,397,000
Combustion Turbine #1 Project	<u>31,175,000</u>
Total	<u>\$ 287,186,000</u>

See Note 6 for additional details.

ECONOMIC CONDITIONS

The 2007 budget was adopted amid a steady national economy, but with a relatively weak state economy. 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 December 31, 2007

CURRENTLY KNOWN FACTS

MPPA's transmission agreements have undergone changes over the past several years. Consumers' Energy has transferred its transmission assets to Michigan Electric Transmission Company (METC), a subsidiary of Consumer's Energy. MPPA undertook 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. The settlement agreement also provided for the purchase of additional transmission assets by MPPA. MPPA closed on this purchase in February, 2006, and is now receiving the benefits of this new purchase on behalf of its members. Also in 2006, ITC Holdings, the parent of ITC, purchased the assets of METC. As of the date of this report, MPPA has seen no change in its treatment or failure of ITC to honor the agreements with MPPA that were transferred to ITC. Detroit Edison has transferred its transmission system to ITC. 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 Sheets Follows

MICHIGAN PUBLIC POWER AGENCY

BALANCE SHEETS

December 31, 2007

(With Comparative Totals for December 31, 2006)

ASSETS

	Campbell No. 3	Belle River	Power Pool	Combustion	Dispatch	Transmission	General Office	Totals	
	Project	Project	Project	Turbine #1	Project	Project	Operation	2007	2006
CURRENT ASSETS									
Cash and Cash Equivalents									
Project account	\$ 7,350,246	\$ 18,679,602	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 26,029,848	\$ 30,743,675
Operation and maintenance account	1,460,881	7,375,875	-	5,230,560	64,920	981,076	-	15,113,312	17,155,183
Operation and maintenance reserve account	250,000	-	-	-	-	-	-	250,000	250,000
Fuel reserve account	800,000	-	-	-	-	-	-	800,000	800,000
Other	-	-	8,243,286	-	-	-	549,354	8,792,640	8,080,496
Total Cash and Cash Equivalents	9,861,127	26,055,477	8,243,286	5,230,560	64,920	981,076	549,354	50,985,800	57,029,354
Investments - Project Account									
US Government Agency notes	-	60,904,220	-	-	-	-	-	60,904,220	64,139,887
Accrued interest receivable	10,605	770,729	-	6,296	-	-	-	787,630	1,017,915
Accounts receivable	611,124	3,870,129	5,647,561	533,091	967,670	12,393	42,913	11,684,881	11,054,526
Fuel inventory	1,045,260	4,422,740	-	337,963	-	-	-	5,805,963	5,880,185
Materials and supplies inventory	-	2,745,660	-	238,149	-	-	-	2,983,809	2,804,287
Total Current Assets	11,528,116	98,768,955	13,890,847	6,346,059	1,032,590	993,469	592,267	133,152,303	141,926,154
RESTRICTED ASSETS									
Debt service account	3,553,447	21,661,370	-	1,754,948	-	-	-	26,969,765	26,424,394
Construction account	-	-	-	-	-	-	-	-	5,315,300
Reserve and contingency account	-	8,416,245	-	-	-	-	-	8,416,245	8,000,001
Scholarship fund	-	-	-	-	-	-	14,735	14,735	14,776
Total Restricted Assets	3,553,447	30,077,615	-	1,754,948	-	-	14,735	35,400,745	39,754,471
NON-CURRENT ASSETS									
Capital Assets									
Utility plant in service	57,823,155	462,115,818	2,505,694	29,549,809	-	3,335,511	1,274,015	556,604,002	540,971,929
Allowance for depreciation	(26,534,427)	(281,945,212)	(2,498,108)	(4,566,234)	-	(41,583)	(513,637)	(316,099,201)	(301,402,021)
Total Capital Assets	31,288,728	180,170,606	7,586	24,983,575	-	3,293,928	760,378	240,504,801	239,569,908
Other Assets									
Deferred bond issue costs - net	301,748	1,566,867	-	614,338	-	-	-	2,482,953	2,893,591
Prepaid long-term lease (deferred obligation)	-	226,000	-	-	-	-	(226,000)	-	-
Total Non-Current Assets	31,590,476	181,963,473	7,586	25,597,913	-	3,293,928	534,378	242,987,754	242,463,499
TOTAL ASSETS	\$ 46,672,039	\$ 310,810,043	\$ 13,898,433	\$ 33,698,920	\$ 1,032,590	\$ 4,287,397	\$ 1,141,380	\$ 411,540,802	\$ 424,144,124

MICHIGAN PUBLIC POWER AGENCY

BALANCE SHEETS

December 31, 2007

(With Comparative Totals for December 31, 2006)

	LIABILITIES AND NET ASSETS							Totals	
	<u>Campbell No. 3 Project</u>	<u>Belle River Project</u>	<u>Power Pool Project</u>	<u>Combustion Turbine #1</u>	<u>Dispatch Project</u>	<u>Transmission Project</u>	<u>General Office Operation</u>	<u>2007</u>	<u>2006</u>
CURRENT LIABILITIES									
Accounts payable and accrued expenses	\$ 426,119	\$ 6,190,216	\$ 8,932,479	\$ 238,911	\$ 999,902	\$ 717,643	\$ 328,395	\$ 17,833,665	\$ 16,537,042
Current Liabilities Payable from Restricted Assets									
Accrued interest payable	616,688	5,905,390	-	804,375	-	-	-	7,326,453	7,774,394
Current portion of revenue bonds	2,925,000	15,685,000	-	945,000	-	-	-	19,555,000	18,650,000
Scholarship fund	-	-	-	-	-	-	14,735	14,735	14,776
Total Current Liabilities Payable from Restricted Assets	3,541,688	21,590,390	-	1,749,375	-	-	14,735	26,896,188	26,439,170
Total Current Liabilities	3,967,807	27,780,606	8,932,479	1,988,286	999,902	717,643	343,130	44,729,853	42,976,212
NON-CURRENT LIABILITIES									
Deferred revenue to be recognized in future periods	19,014,864	69,317,784	2,543,892	1,480,334	32,688	234,243	-	92,623,805	86,717,772
Capital contribution of members	-	-	2,422,062	-	-	3,335,511	-	5,757,573	5,653,274
Revenue bonds payable, less current portion	23,689,368	213,711,653	-	30,230,300	-	-	-	267,631,321	288,109,223
Total Non-Current Liabilities	42,704,232	283,029,437	4,965,954	31,710,634	32,688	3,569,754	-	366,012,699	380,480,269
Total Liabilities	46,672,039	310,810,043	13,898,433	33,698,920	1,032,590	4,287,397	343,130	410,742,552	423,456,481
NET ASSETS									
Invested in capital assets, net of related debt and obligations	4,976,108	(47,433,180)	7,586	(5,577,387)	-	3,293,928	534,378	(44,198,567)	(58,980,424)
Restricted	2,936,759	24,172,225	-	950,573	-	-	-	28,059,557	26,650,001
Unrestricted	(7,912,867)	23,260,955	(7,586)	4,626,814	-	(3,293,928)	263,872	16,937,260	33,018,066
Total Net Assets	-	-	-	-	-	-	798,250	798,250	687,643
TOTAL LIABILITIES AND NET ASSETS	\$ 46,672,039	\$ 310,810,043	\$ 13,898,433	\$ 33,698,920	\$ 1,032,590	\$ 4,287,397	\$ 1,141,380	\$ 411,540,802	\$ 424,144,124

See accompanying notes to financial statements.

MICHIGAN PUBLIC POWER AGENCY

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

Year Ended December 31, 2007

(With Comparative Totals for the Year Ended December 31, 2006)

	Campbell No. 3 Project	Belle River Project	Power Pool Project	Combustion Turbine No.1	Dispatch Project	Transmission Project	General Office Operation	Totals	
								2007	Restated 2006
OPERATING REVENUES									
Sales to participants	\$ 17,072,163	\$ 66,210,211	\$ 57,876,819	\$ 6,116,504	\$ 14,088,468	\$ 1,090,124	\$ -	\$ 162,454,289	\$ 151,634,993
Allowances for sellbacks	-	(2,200,080)	-	-	-	(3,086,721)	-	(5,286,801)	(3,209,629)
Net sales to participants	17,072,163	64,010,131	57,876,819	6,116,504	14,088,468	(1,996,597)	-	157,167,488	148,425,364
Sales of excess transmission	-	2,200,080	-	-	-	3,117,921	-	5,318,001	3,260,069
Other	-	-	-	-	-	-	948,016	948,016	805,697
Total Operating Revenues	<u>17,072,163</u>	<u>66,210,211</u>	<u>57,876,819</u>	<u>6,116,504</u>	<u>14,088,468</u>	<u>1,121,324</u>	<u>948,016</u>	<u>163,433,505</u>	<u>152,491,130</u>
OPERATING EXPENSES									
Cost of Power									
Production	4,197,686	31,938,432	-	2,513,867	-	-	-	38,649,985	38,609,738
Purchased	7,298,103	393,100	55,148,961	-	13,952,268	-	-	76,792,432	62,559,917
Total Cost of Power	11,495,789	32,331,532	55,148,961	2,513,867	13,952,268	-	-	115,442,417	101,169,655
Transmission	210,684	1,411,261	1,140,805	191,999	2,530	1,074,459	-	4,031,738	2,737,051
General and administrative	820,735	4,370,210	1,296,283	780,350	134,285	46,865	838,992	8,287,720	10,691,659
Depreciation	1,660,662	12,039,760	2,355	987,897	-	22,681	40,448	14,753,803	14,390,325
Total Operating Expenses	<u>14,187,870</u>	<u>50,152,763</u>	<u>57,588,404</u>	<u>4,474,113</u>	<u>14,089,083</u>	<u>1,144,005</u>	<u>879,440</u>	<u>142,515,678</u>	<u>128,988,690</u>
Operating Income (Loss)	<u>2,884,293</u>	<u>16,057,448</u>	<u>288,415</u>	<u>1,642,391</u>	<u>(615)</u>	<u>(22,681)</u>	<u>68,576</u>	<u>20,917,827</u>	<u>23,502,440</u>
NONOPERATING REVENUES (EXPENSES)									
Interest cost incurred	(1,233,375)	(11,810,780)	(104,299)	(1,608,750)	-	-	-	(14,757,204)	(15,627,906)
Amortization of financing-related costs	(140,981)	711,412	-	(58,165)	-	-	-	512,266	613,984
Investment income	658,621	5,000,988	335,390	299,948	26,287	42,616	42,031	6,405,881	7,093,645
Net change in fair value of investments	-	1,253,578	-	-	-	-	-	1,253,578	109,659
Sale of emissions	211,382	64,120	-	-	-	-	-	275,502	17,841,929
Total Nonoperating Revenues (Expenses)	<u>(504,353)</u>	<u>(4,780,682)</u>	<u>231,091</u>	<u>(1,366,967)</u>	<u>26,287</u>	<u>42,616</u>	<u>42,031</u>	<u>(6,309,977)</u>	<u>10,031,311</u>
Income (Loss) Before Deferred Revenue	2,379,940	11,276,766	519,506	275,424	25,672	19,935	110,607	14,607,850	33,533,751
Deferred revenue to be recognized in future periods	<u>(2,379,940)</u>	<u>(11,276,766)</u>	<u>(519,506)</u>	<u>(275,424)</u>	<u>(25,672)</u>	<u>(19,935)</u>	-	<u>(14,497,243)</u>	<u>(33,405,170)</u>
CHANGE IN NET ASSETS	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>110,607</u>	<u>110,607</u>	<u>128,581</u>
NET ASSETS - Beginning of Year							<u>687,643</u>	<u>687,643</u>	<u>559,062</u>
NET ASSETS - END OF YEAR							<u>\$ 798,250</u>	<u>\$ 798,250</u>	<u>\$ 687,643</u>

See accompanying notes to financial statements.

Statements of Cash Flows Follows

MICHIGAN PUBLIC POWER AGENCY

STATEMENTS OF CASH FLOWS
Year Ended December 31, 2007

(With Comparative Totals for the Year Ended December 31, 2006)

	Campbell No. 3 Project	Belle River Project	Power Pool Project	Combustion Turbine #1	Dispatch Project	Transmission Project	General Office Operation	Totals	
								2007	Restated 2006
CASH FLOWS FROM OPERATING ACTIVITIES									
Received from customers	\$ 17,641,996	\$ 53,864,532	\$ 61,635,163	\$ 6,047,895	\$ 13,608,636	\$ 1,229,449	\$ 926,392	\$ 154,954,063	\$ 128,123,793
Paid to suppliers for goods and services	(14,807,060)	(36,693,930)	(60,757,596)	(3,386,433)	(13,540,974)	(969,285)	(285,098)	(130,440,376)	(102,057,075)
Paid to employees for services	(115,219)	(275,556)	(374,973)	(234,182)	(51,007)	(11,627)	(335,164)	(1,397,728)	(1,104,052)
Net Cash Flows From Operating Activities:	<u>2,719,717</u>	<u>16,895,046</u>	<u>502,594</u>	<u>2,427,280</u>	<u>16,655</u>	<u>248,537</u>	<u>306,130</u>	<u>23,115,959</u>	<u>24,962,666</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES									
Acquisition and construction of utility plant	(5,572,330)	(5,036,995)	(1,787)	(115,024)	-	-	-	(10,726,136)	(16,419,577)
Sale of emissions	211,382	64,120	-	-	-	-	-	275,502	17,841,929
Capital contributions of participating members	-	-	104,299	-	-	-	-	104,299	860,363
Proceeds from sale of bonds	-	-	-	-	-	-	-	-	9,000,000
Bond issuance costs	-	-	-	-	-	-	-	-	(226,285)
Premium on bond issue	-	-	-	-	-	-	-	-	758,850
Principal payment on revenue bonds	(2,770,000)	(14,975,000)	-	(905,000)	-	-	-	(18,650,000)	(17,765,000)
Interest paid on revenue bonds	(1,309,550)	(12,163,880)	-	(1,627,416)	-	-	-	(15,100,846)	(15,734,555)
Other	-	24,000	(104,299)	-	-	-	(472,214)	(552,513)	(137,800)
Net Cash Flows From Capital and Related Financing Activities	<u>(9,440,498)</u>	<u>(32,087,755)</u>	<u>(1,787)</u>	<u>(2,647,440)</u>	<u>-</u>	<u>-</u>	<u>(472,214)</u>	<u>(44,649,694)</u>	<u>(21,822,075)</u>
CASH FLOWS FROM INVESTING ACTIVITIES									
Long-term investments purchased	-	(8,999,670)	-	-	-	-	-	(8,999,670)	(2,999,900)
Long-term investments sold	-	13,500,000	-	-	-	-	-	13,500,000	4,000,000
Investment income	687,057	5,201,669	335,390	301,116	26,287	42,616	41,990	6,636,125	6,945,412
Net Cash Flows From Investing Activities	<u>687,057</u>	<u>9,701,999</u>	<u>335,390</u>	<u>301,116</u>	<u>26,287</u>	<u>42,616</u>	<u>41,990</u>	<u>11,136,455</u>	<u>7,945,512</u>
Net Change in Cash and Cash Equivalents	(6,033,724)	(5,490,710)	836,197	80,956	42,942	291,153	(124,094)	(10,397,280)	11,086,103
CASH AND CASH EQUIVALENTS - Beginning of Year	19,448,298	61,623,802	7,407,089	6,904,552	21,978	689,923	688,183	96,783,825	85,697,722
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$ 13,414,574</u>	<u>\$ 56,133,092</u>	<u>\$ 8,243,286</u>	<u>\$ 6,985,508</u>	<u>\$ 64,920</u>	<u>\$ 981,076</u>	<u>\$ 564,089</u>	<u>\$ 86,386,545</u>	<u>\$ 96,783,825</u>

MICHIGAN PUBLIC POWER AGENCY

STATEMENTS OF CASH FLOWS
Year Ended December 31, 2007

(With Comparative Totals for the Year Ended December 31, 2006)

	Campbell No. 3 Project	Belle River Project	Power Pool Project	Combustion Turbine #1	Dispatch Project	Transmission Project	General Office Operation	Totals	
								2007	Restated 2006
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH FLOWS FROM OPERATING ACTIVITIES									
Operating income (loss)	\$ 2,884,293	\$ 16,057,448	\$ 288,415	\$ 1,642,391	\$ (615)	\$ (22,681)	\$ 68,576	\$ 20,917,827	\$ 23,502,440
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities									
Depreciation	1,660,662	12,039,760	2,355	987,897	-	22,681	40,448	14,753,803	14,390,325
Changes in assets and liabilities									
Accounts receivable	781,216	(4,719,059)	3,758,344	(68,609)	(479,832)	108,125	(21,624)	(641,439)	(1,474,719)
Fuel inventory	(241,435)	469,716	-	(154,058)	-	-	-	74,223	388,587
Materials and supplies inventory	-	(175,211)	-	(4,311)	-	-	-	(179,522)	(105,443)
Deferred revenue	(211,382)	(7,626,620)	-	-	-	-	-	(7,838,002)	(22,151,869)
Accounts payable and accrued expense	(2,153,637)	849,012	(3,546,520)	23,970	497,102	140,412	218,730	(3,970,931)	10,413,345
NET CASH FLOWS FROM OPERATING ACTIVITIES	\$ 2,719,717	\$ 16,895,046	\$ 502,594	\$ 2,427,280	\$ 16,655	\$ 248,537	\$ 306,130	\$ 23,115,959	\$ 24,962,666
RECONCILIATION OF CASH AND CASH EQUIVALENTS TO THE BALANCE SHEET									
Current Assets	\$ 9,861,127	\$ 26,055,477	\$ 8,243,286	\$ 5,230,560	\$ 64,920	\$ 981,076	\$ 549,354	\$ 50,985,800	\$ 57,029,354
Restricted Assets	3,553,447	30,077,615	-	1,754,948	-	-	14,735	35,400,745	39,754,471
TOTAL CASH AND CASH EQUIVALENTS	\$ 13,414,574	\$ 56,133,092	\$ 8,243,286	\$ 6,985,508	\$ 64,920	\$ 981,076	\$ 564,089	\$ 86,386,545	\$ 96,783,825

MICHIGAN PUBLIC POWER AGENCY

NOTES TO FINANCIAL STATEMENTS December 31, 2007

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, 2007, 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, two 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.

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.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the utility's financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Utilities also have the option of following subsequent private-sector guidance subject to this same limitation. In addition, MPPA meets the criteria and, accordingly, follows the accounting and reporting requirements of Statement of Financial Accounting Standards (FAS) No. 71, "Accounting for the Effects of Certain Types of Regulation."

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, 2007

NOTE 1 – NATURE OF OPERATIONS (cont.)

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”.

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

The basic financial statements include certain prior-year summarized comparative information in total but not at the level of detail required for a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with MPPA’s financial statements for the year ended December 31, 2006, from which the summarized information was derived.

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, 2007

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. 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, 2007

NOTE 1 – NATURE OF OPERATIONS (cont.)

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.

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, 2007

NOTE 2 – JOINT PROJECT OWNERSHIP 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, 2007

NOTE 2 – JOINT PROJECT OWNERSHIP 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 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.

TRANSMISSION PROJECT

In 2005, the MPPA members contributed capital for the purchase of transmission rights in the bulk transmission system. In 2006, MPPA purchased an undivided ownership in certain transmission lines giving rights to use of the bulk transmission system. All thirteen members participate in this project.

MICHIGAN PUBLIC POWER AGENCY

NOTES TO FINANCIAL STATEMENTS December 31, 2006

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.

CASH AND INVESTMENTS – DECEMBER 31, 2007

	<u>Carrying Value</u>
Restricted Assets	
Certificates of deposit	\$ 14,735
Money market and mutual funds	<u>35,386,010</u>
	<u>35,400,745</u>
Current Assets	
Cash and cash equivalents	
Certificates of deposit	15,000,000
Money market and mutual funds	35,597,279
Demand and savings deposits	<u>388,521</u>
	50,985,800
U.S. Government Agency notes	<u>60,904,220</u>
	<u>111,890,020</u>
Total Cash and Investments	<u>\$ 147,290,765</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.

Market values may have changed significantly since the balance sheet date.

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, 2007 MPPA had \$32,120,934 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.

MICHIGAN PUBLIC POWER AGENCY

NOTES TO FINANCIAL STATEMENTS December 31, 2007

NOTE 3 – CASH AND INVESTMENTS (cont.)

CUSTODIAL CREDIT RISK (cont.)

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, 2007 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.

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, 2007 MPPA's investments were rated as follows:

<u>Investment Type</u>	<u>Standard & 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, 2007, 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	11%
Federal National Mortgage Association	12%
Federal Home Loan Mortgage Corporation	14%

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.

MICHIGAN PUBLIC POWER AGENCY

NOTES TO FINANCIAL STATEMENTS December 31, 2007

NOTE 3 – CASH AND INVESTMENTS (cont.)

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, 2007 MPPA's investments were as follows:

Investment Type	Fair Value	Maturity In Years		
		Less than 1	1 – 5	Over 5
US Government Agency Securities	\$ 60,904,220	\$ 21,709,023	\$ 39,195,197	\$ -
Mutual Funds	54,065,612	54,065,612	-	-
Totals	<u>\$ 114,969,832</u>	<u>\$ 75,774,635</u>	<u>\$ 39,195,197</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.

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 2007 follows:

	Balance 1/1/07	Additions/ Reclassi- fications	Deletions/ Reclassi- fications	Balance 12/31/07
Capital assets not being depreciated:				
Land	\$ 598,889	\$ -	\$ -	\$ 598,889
Capital assets being depreciated:				
Utility Plant in Service	540,373,040	15,632,073	-	556,005,113
Less: Accumulated Depreciation	<u>(301,402,021)</u>	<u>(14,753,805)</u>	<u>56,625</u>	<u>(316,099,201)</u>
Net Utility Plant	<u>\$ 239,569,908</u>			<u>\$ 240,504,801</u>

MICHIGAN PUBLIC POWER AGENCY

NOTES TO FINANCIAL STATEMENTS December 31, 2007

NOTE 6 – NON-CURRENT LIABILITIES

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	01/01/09	5.5%	\$ 24,925,000
May 1, 2002	Finance cost of improvements	01/01/13	4.0 – 4.25%	11,000,000
Jan 15, 2006	Finance cost of improvements	01/01/16	5.0%	9,000,000

The following obligations are outstanding at December 31:

	<u>2007</u>
1997A bonds	\$ 6,010,000
Unamortized premium on 1997A bonds	11,590
2002A bonds	11,000,000
2006A bonds	9,000,000
Unamortized premium on 2006A bonds	<u>592,778</u>
	26,614,368
Less: Current portion	<u>(2,925,000)</u>
 Total	 <u><u>\$ 23,689,368</u></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, 2007, and in five-year increments thereafter to maturity, are as follows:

<u>Year Ending December 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2008	\$ 3,085,000	\$ 1,072,500	\$ 4,157,500
2009	2,570,000	902,825	3,472,825
2010	2,690,000	800,025	3,490,025
2011	2,810,000	689,735	3,499,735
2012	2,930,000	574,525	3,504,525
2013 – 2016	<u>9,000,000</u>	<u>900,000</u>	<u>9,900,000</u>
 Totals	 <u><u>\$ 23,085,000</u></u>	 <u><u>\$ 4,939,610</u></u>	 <u><u>\$ 28,024,610</u></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, 2007

NOTE 6 – NON-CURRENT LIABILITIES (cont.)

CAMPBELL No. 3 PROJECT REVENUE BONDS (cont.)

Non-Current liabilities as of December 31, 2007:

	01/01/07 Balance	Additions	Reductions	12/31/07 Balance
Revenue bonds	\$ 28,780,000	\$ -	\$ (2,770,000)	\$ 26,010,000
Unamortized loss on advanced refunding transaction	(175,772)	-	175,772	0
Unamortized premium on bonds	711,630	-	(107,262)	604,368
Current maturities	(2,770,000)	-	(155,000)	(2,925,000)
Deferred revenues	17,024,967	2,379,940	(390,043)	19,064,864
 Total Long-Term Liabilities	 \$ 43,570,825	 \$ 2,379,940	 \$ 3,246,533	 \$ 42,704,232

BELLE RIVER PROJECT REVENUE BONDS

The following bonds have been issued by MPPA:

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

The following obligations are outstanding at December 31:

	2007
2002A bonds	\$ 225,470,000
Unamortized loss 2002A advanced refunding transaction	(8,113,113)
Unamortized premium on 2002A bonds	12,039,766
	229,396,653
Less: Current portion	(15,685,000)
Total	\$ 213,711,653

MICHIGAN PUBLIC POWER AGENCY

NOTES TO FINANCIAL STATEMENTS December 31, 2007

NOTE 6 – NON-CURRENT LIABILITIES (cont.)

BELLE RIVER PROJECT REVENUE BONDS (cont.)

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, 2007, and in five-year increments thereafter to maturity, are as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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	19,220,000	8,276,813	27,496,813
2012	20,225,000	7,268,362	27,493,362
2013– 2017	<u>118,220,000</u>	<u>19,254,112</u>	<u>137,474,112</u>
Totals	<u>\$ 209,785,000</u>	<u>\$ 65,161,340</u>	<u>\$ 274,946,340</u>

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

Non-current liabilities as of December 31, 2007:

	<u>01/01/07 Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>12/31/07 Balance</u>
Revenue bonds	\$ 240,445,000	\$ -	\$ (14,975,000)	\$ 225,470,000
Unamortized loss on advanced refunding transaction	(9,583,651)	-	1,470,538	(8,113,113)
Unamortized premium on bonds	14,505,661	-	(2,465,895)	12,039,766
Current maturities	(14,975,000)	-	(710,000)	(15,685,000)
Deferred revenues	<u>66,242,185</u>	<u>11,276,766</u>	<u>(8,201,167)</u>	<u>69,317,784</u>
Total Non-current Liabilities	<u>\$ 296,634,195</u>	<u>\$ 11,276,766</u>	<u>\$ (24,881,524)</u>	<u>\$ 283,029,437</u>

POWER POOL PROJECT

The non-current liabilities in the power pool project consist of deferred revenues to be recognized in future periods and capital contributions from members. Interest was paid to members of this project at a rate of 4.5% on their January 1 capital contribution balance.

MICHIGAN PUBLIC POWER AGENCY

NOTES TO FINANCIAL STATEMENTS December 31, 2007

NOTE 6 – NON-CURRENT LIABILITIES (cont.)

POWER POOL PROJECT (cont.)

Non-current liabilities as of December 31, 2007:

	01/01/07 Balance	Additions	Reductions	12/31/07 Balance
Deferred revenues	\$ 2,024,386	\$ 519,506	\$ -	\$ 2,543,892
Capital contributions of members	2,317,763	104,299	-	2,422,062
Total Non-current Liabilities	\$ 4,342,149	\$ 623,805	\$ -	\$ 4,965,954

COMBUSTION TURBINE NO. 1 PROJECT REVENUE BONDS

The following bonds have been issued by MPPA:

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

The following obligations are outstanding at December 31:

	2007
2002A bonds	\$ 31,220,000
Less: Unamortized discount on 2002A bonds	(44,700)
Sub-total	31,175,300
Less: Current portion	(945,000)
Total	\$ 30,230,300

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, 2007, and in five-year increments thereafter to maturity, are as follows:

Year Ending December 31,	Principal	Interest	Total
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	1,125,000	1,426,950	2,551,950
2012	1,185,000	1,367,888	2,552,888
2013 – 2017	6,925,000	5,838,525	12,763,525
2018 – 2022	8,945,000	3,819,375	12,764,375
2023 – 2027	9,000,000	1,211,437	10,211,437
Totals	\$ 30,275,000	\$ 18,227,850	\$ 48,502,850

MICHIGAN PUBLIC POWER AGENCY

NOTES TO FINANCIAL STATEMENTS December 31, 2007

NOTE 6 – NON-CURRENT LIABILITIES (cont.)

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

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

Non-current liabilities as of December 31, 2007:

	01/01/07 Balance	Additions	Reductions	12/31/07 Balance
Revenue bonds	\$ 32,125,000	\$ -	\$ (905,000)	\$ 31,220,000
Unamortized discount on term bonds	(48,645)	-	3,945	(44,700)
Current maturities	(905,000)	-	(40,000)	(945,000)
Deferred revenues	1,204,910	275,424	-	1,480,334
Total Non-current Liabilities	\$ 32,376,265	\$ 275,424	\$ (941,055)	\$ 31,710,634

DISPATCH PROJECT

The non-current liabilities in the dispatch project consist of deferred revenues to be recognized in future periods.

Non-current liabilities as of December 31, 2007:

	01/01/07 Balance	Additions	Reductions	12/31/07 Balance
Deferred revenues	\$ 7,016	\$ 25,672	\$ -	\$ 32,688

TRANSMISSION PROJECT

The non-current liabilities in the transmission project consist of deferred revenues to be recognized in future periods and capital contributions from members.

Non-current liabilities as of December 31, 2007:

	01/01/07 Balance	Additions	Reductions	12/31/07 Balance
Deferred revenues	\$ 214,308	\$ 19,935	\$ -	\$ 234,243
Capital contributions of members	3,335,511	-	-	3,335,511
Total Non-current Liabilities	\$ 3,549,819	\$ 19,935	\$ -	\$ 3,569,754

MICHIGAN PUBLIC POWER AGENCY

NOTES TO FINANCIAL STATEMENTS December 31, 2007

NOTE 7 – EMPLOYEE RETIREMENT PLAN

MPPA employees are covered by a defined contribution retirement pension plan, the Michigan Public Power Agency plan (the plan) which is administered by ICMA Retirement Corporation. MPPA makes an annual contribution based on a percentage of employee earnings on behalf of each employee. The plan follows the Standard 401a plan offered by the ICMA-RC. Required contributions by MPPA are 15% of employee salaries. Employees do not make contributions to the plan. The contribution requirements are established and can be amended by the MPPA Board of Commissioners. Total contributions to the plan by MPPA for the years ended December 31, 2007, 2006 and 2005 were approximately \$219,000, \$200,000, and \$179,000, respectively.

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 8,800 wet tons (21,247 in 2006) 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.

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.

MICHIGAN PUBLIC POWER AGENCY

NOTES TO FINANCIAL STATEMENTS December 31, 2007

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 a significant customer that accounted for \$20.6 million (13%) of MPPA revenues in 2007.

NOTE 11 – BOND COVENANT DISCLOSURES

CAMPBELL No. 3 PROJECT

Compliance with Funding Requirements

MPPA is in compliance with bond funding requirements.

Debt Service Coverage

	<u>2007</u>
Operating revenues	\$ 17,072,163
Other revenues	<u>870,003</u>
	<u>17,942,166</u>
Operating expenses	14,187,870
Less: Depreciation	<u>(1,660,662)</u>
	<u>12,527,208</u>
Net revenues	<u>5,414,958</u>
Debt service	4,158,375
	x 1.10
Required revenues	<u>4,574,213</u>
Revenues in Excess of Coverage Requirements	<u>\$ 840,745</u>

MICHIGAN PUBLIC POWER AGENCY

NOTES TO FINANCIAL STATEMENTS
December 31, 2007

NOTE 11 – BOND COVENANT DISCLOSURES (cont.)

BELLE RIVER PROJECT

Compliance with Funding Requirements

MPPA is in compliance with bond funding requirements.

Debt Service Coverage

	<u>2007</u>
Operating revenues	\$ 66,210,211
Other revenues	<u>5,065,108</u>
	<u>71,275,319</u>
Operating expenses	50,152,763
Less: Depreciation	<u>(12,039,760)</u>
	<u>38,113,003</u>
Net Revenues	<u>33,162,316</u>
Debt service	<u>27,495,780</u>
Revenues in Excess of Coverage Requirements	<u>\$ 5,666,536</u>

COMBUSTION TURBINE No. 1 PROJECT

Compliance with Funding Requirements

MPPA is in compliance with bond funding requirements.

Debt Service Coverage

	<u>2007</u>
Operating revenues	\$ 6,116,504
Other revenues	<u>299,948</u>
	<u>6,416,452</u>
Operating expenses	4,474,113
Less: Depreciation	<u>(987,897)</u>
	<u>3,486,216</u>
Net Revenues	<u>2,930,236</u>
Debt service	2,553,750
Required revenues	<u>X 1.10</u>
	<u>2,809,125</u>
Revenues in Excess of Coverage Requirements	<u>\$ 121,111</u>

MICHIGAN PUBLIC POWER AGENCY

NOTES TO FINANCIAL STATEMENTS December 31, 2007

NOTE 12 – RESTATEMENT OF CHANGE IN NET ASSETS

During 2007 MPPA determined that MISO gains and losses should be reported gross in the statement of revenues, expenses and changes in net assets rather than net and reported directly to deferred revenues as in the past. As a result, the 2006 income before deferred revenue and deferred revenue to be recognized in future periods for Campbell No. 3 and Belle River were restated as follows:

	<u>Campbell No. 3</u>	<u>Belle River</u>
Income before deferred revenue as previously reported	\$ 4,037,764	\$ 27,440,952
Restatement for MISO activity	<u>(221,307)</u>	<u>962,059</u>
Income before deferred revenue as restated	<u>\$ 3,816,457</u>	<u>\$ 28,403,011</u>
Deferred revenue to be recognized in future periods as previously reported	\$ (4,037,764)	\$ (27,440,952)
Restatement for MISO activity	<u>221,307</u>	<u>(962,059)</u>
Deferred revenue to be recognized in future periods as restated	<u>\$ (3,816,457)</u>	<u>\$ (28,403,011)</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, 2007

	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, 2007	\$ 3,462,863	\$ -	\$ 1,139,435	\$ 250,000	\$ 800,000	\$ 5,315,300	\$ 8,480,700	\$ 19,448,298
Receipts		17,264,414						17,264,414
Investment receipts	91,302		517,373			78,382		687,057
Proceeds from bonds								-
Payment of interest on bonds	(1,309,550)							(1,309,550)
Payment of bond principal	(2,770,000)							(2,770,000)
Disbursements		(8,033,547)	(11,872,098)					(19,905,645)
Transfers – net	4,078,832	(9,230,867)	11,676,171	-	-	(5,393,682)	(1,130,454)	-
CASH AND INVESTMENTS AT DECEMBER 31, 2007	<u>\$ 3,553,447</u>	<u>\$ -</u>	<u>\$ 1,460,881</u>	<u>\$ 250,000</u>	<u>\$ 800,000</u>	<u>\$ -</u>	<u>\$ 7,350,246</u>	<u>\$ 13,414,574</u>

MICHIGAN PUBLIC POWER AGENCY

SCHEDULE OF CHANGES IN FUNDS ESTABLISHED BY THE BELLE RIVER PROJECT REVENUE BOND RESOLUTION
Year Ended December 31, 2007

	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, 2007	\$ 21,233,490	\$ -	\$ 8,000,001	\$ -	\$ 10,127,336	\$ 86,402,862	\$ 125,763,689
Receipts				59,256,784	3,585,115		62,841,899
Investment receipts	558,550		416,244		330,383	3,896,492	5,201,669
Net Increase (decrease) in fair value of investments						1,253,578	1,253,578
Payment of interest on bonds	(12,163,880)						(12,163,880)
Payment of bond principal	(14,975,000)						(14,975,000)
Disbursements				(38,523,210)	(3,464,301)	(8,897,132)	(50,884,643)
Transfers – net	<u>27,008,210</u>	<u>-</u>	<u>-</u>	<u>(20,733,574)</u>	<u>(3,202,658)</u>	<u>(3,071,978)</u>	<u>-</u>
CASH AND INVESTMENTS AT DECEMBER 31, 2007	<u>\$ 21,661,370</u>	<u>-</u>	<u>\$ 8,416,245</u>	<u>\$ -</u>	<u>\$ 7,375,875</u>	<u>\$ 79,583,822</u>	<u>\$ 117,037,312</u>

MICHIGAN PUBLIC POWER AGENCY

DETAILS OF REVENUES AND EXPENSES - CAMPBELL NO. 3 PROJECT

	2007 Budget	2007 Actual	Restated 2006 Actual	2007 Actual Over (Under) Budget
OPERATING REVENUES				
Sales to Participants				
Power	\$ 6,916,054	\$ 6,124,216	\$ 6,384,245	\$ (791,838)
Backup capacity	588,000	744,695	562,665	156,695
Transmission	384,141	390,594	320,186	6,453
Energy (fuel)	3,891,519	3,042,789	5,560,267	(848,730)
Backup energy	6,555,000	6,553,408	4,076,233	(1,592)
MISO gain (loss)		178,659	(221,307)	178,659
Transmission utilization	-	37,802	28,841	37,802
Total Sales to Participants	<u>18,334,714</u>	<u>17,072,163</u>	<u>16,711,130</u>	<u>(1,262,551)</u>
Less allowance for sellback				
Transmission	-	-	(4,080)	-
Net Sales to Participants	<u>18,334,714</u>	<u>17,072,163</u>	<u>16,707,050</u>	<u>(1,262,551)</u>
Sales of Excess Capacity				
Transmission	-	-	4,080	-
Total Operating Revenue	<u>18,334,714</u>	<u>17,072,163</u>	<u>16,711,130</u>	<u>(1,262,551)</u>
OPERATING EXPENSES				
Production				
Fuel	3,891,519	3,042,789	5,560,267	(848,730)
Operation	929,800	491,225	591,561	(438,575)
Maintenance	908,900	663,672	800,737	(245,228)
Total Production	<u>5,730,219</u>	<u>4,197,686</u>	<u>6,952,565</u>	<u>(1,532,533)</u>
Purchased Power				
Backup capacity	588,000	744,695	562,665	156,695
Backup energy	6,555,000	6,553,408	4,076,232	(1,592)
Total Purchased Power	<u>7,143,000</u>	<u>7,298,103</u>	<u>4,638,897</u>	<u>155,103</u>
Transmission				
Operation	93,516	162,221	35,684	68,705
Maintenance	6,600	10,661	20,055	4,061
Utilization	-	37,802	28,841	37,802
Total Transmission	<u>100,116</u>	<u>210,684</u>	<u>84,580</u>	<u>110,568</u>
General and Administrative				
Salaries and wages	222,240	158,062	201,606	(64,178)
Employee benefits	359,940	304,090	322,881	(55,850)
Outside services	88,650	160,245	135,316	71,595
Taxes	72,000	55,437	55,841	(16,563)
Insurance and liability	160,617	102,683	134,722	(57,934)
Meetings and travel	8,508	6,377	4,601	(2,131)
Office supplies	23,220	14,597	29,081	(8,623)
Rents	19,620	8,467	8,689	(11,153)
Miscellaneous	40,290	10,777	32,959	(29,513)
Total General and Administrative	<u>995,085</u>	<u>820,735</u>	<u>925,696</u>	<u>(174,350)</u>

MICHIGAN PUBLIC POWER AGENCY

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

	<u>2007 Budget</u>	<u>2007 Actual</u>	<u>Restated 2006 Actual</u>	<u>2007 Actual Over (Under) Budget</u>
OPERATING EXPENSES (cont.)				
Depreciation	\$ 1,500,000	\$ 1,660,662	\$ 1,457,930	\$ 160,662
Total Operating Expense	<u>15,468,420</u>	<u>14,187,870</u>	<u>14,059,668</u>	<u>(1,280,550)</u>
Operating Income	<u>2,866,294</u>	<u>2,884,293</u>	<u>2,651,462</u>	<u>17,999</u>
OTHER EXPENSES				
Interest cost incurred	1,233,372	1,233,375	1,354,475	3
Amortization of financing-related costs	<u>141,415</u>	<u>140,981</u>	<u>139,704</u>	<u>(434)</u>
Total Other Expenses	<u>1,374,787</u>	<u>1,374,356</u>	<u>1,494,179</u>	<u>(431)</u>
OTHER REVENUES				
Investment income	330,000	658,621	949,297	328,621
Sale of emission allowances	<u>109,600</u>	<u>211,382</u>	<u>1,709,877</u>	<u>101,782</u>
Total Other Income	<u>439,600</u>	<u>870,003</u>	<u>2,659,174</u>	<u>430,403</u>
Income before deferred revenue	<u>\$ 1,931,107</u>	2,379,940	3,816,457	<u>\$ 448,833</u>
Deferred revenue to be recognized in future periods		<u>(2,379,940)</u>	<u>(3,816,457)</u>	
CHANGE IN NET ASSETS		<u>\$ -</u>	<u>\$ -</u>	

MICHIGAN PUBLIC POWER AGENCY

DETAILS OF REVENUES AND EXPENSES - BELLE RIVER PROJECT

	2007 Budget	2007 Actual	Restated 2006 Actual	2007 Actual Over (Under) Budget
OPERATING REVENUES				
Sales to Participants				
Power	\$ 41,767,633	\$ 37,929,727	\$ 38,822,285	\$ (3,837,906)
Backup capacity	300,000	60,717	52,507	(239,283)
Transmission	3,688,956	4,342,249	7,011,056	653,293
Energy (fuel)	20,214,330	22,971,752	22,311,230	2,757,422
Backup energy	12,479,908	332,383	259,437	(12,147,525)
MISO gain (loss)		574,549	962,059	574,549
Transmission utilization	-	(1,166)	(15,027)	(1,166)
Total Sales to Participants	<u>78,450,827</u>	<u>66,210,211</u>	<u>69,403,547</u>	<u>(12,240,616)</u>
Less allowance for sellback				
Transmission	-	(2,200,080)	(665,925)	-
Net Sales to Participants	<u>78,450,827</u>	<u>64,010,131</u>	<u>68,737,622</u>	<u>(12,240,616)</u>
Sales of Excess Capacity				
Transmission	-	2,200,080	665,925	2,200,080
Total Operating Revenue	<u>78,450,827</u>	<u>66,210,211</u>	<u>69,403,547</u>	<u>(10,040,536)</u>
OPERATING EXPENSES				
Production				
Fuel	20,214,330	22,971,752	22,311,230	2,757,422
Operation	3,348,000	2,290,583	2,477,668	(1,057,417)
Maintenance	5,400,000	6,676,097	5,583,966	1,276,097
Total Production	<u>28,962,330</u>	<u>31,938,432</u>	<u>30,372,864</u>	<u>2,976,102</u>
Purchased Power				
Backup capacity	300,000	60,717	52,507	(239,283)
Backup energy	12,479,908	332,383	259,437	(12,147,525)
Total Purchased Power	<u>12,779,908</u>	<u>393,100</u>	<u>311,944</u>	<u>(12,386,808)</u>
Transmission				
Operation	674,568	930,759	722,546	256,191
Maintenance	636,000	481,668	786,743	(154,332)
Utilization	-	(1,166)	(15,027)	(1,166)
Total Transmission	<u>1,310,568</u>	<u>1,411,261</u>	<u>1,494,262</u>	<u>100,693</u>
General and Administrative				
Salaries and wages	1,684,476	384,754	1,492,528	(1,299,722)
Employee benefits	3,511,968	956,716	2,965,096	(2,555,252)
Outside services	614,908	1,251,876	1,312,661	636,968
Taxes	684,000	470,449	520,528	(213,551)
Insurance and liability	281,731	288,167	457,373	6,436
Meetings and travel	21,612	18,918	14,697	(2,694)
Office supplies	748,212	1,327,998	756,600	579,786
Rents	91,500	34,810	21,882	(56,690)
Miscellaneous	248,954	(363,478)	(599,099)	(612,432)
Total General and Administrative	<u>7,887,361</u>	<u>4,370,210</u>	<u>6,942,266</u>	<u>(3,517,151)</u>

MICHIGAN PUBLIC POWER AGENCY

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

	2007 Budget	2007 Actual	Restated 2006 Actual	2007 Actual Over (Under) Budget
OPERATING EXPENSES (cont.)				
Depreciation	\$ 12,000,000	\$ 12,039,760	\$ 11,920,957	\$ 39,760
Total Operating Expense	<u>62,940,167</u>	<u>50,152,763</u>	<u>51,042,293</u>	<u>(12,787,404)</u>
Operating Income	<u>15,510,660</u>	<u>16,057,448</u>	<u>18,361,254</u>	<u>2,746,868</u>
OTHER EXPENSES				
Interest cost incurred	11,810,780	11,810,780	12,516,980	-
Amortization of financing-related costs	<u>(711,412)</u>	<u>(711,412)</u>	<u>(813,203)</u>	<u>-</u>
Total Other Expenses	<u>11,099,368</u>	<u>11,099,368</u>	<u>11,703,777</u>	<u>-</u>
OTHER REVENUES				
Investment income	4,500,000	5,000,988	5,503,823	500,988
Net change in fair value of investments	-	1,253,578	109,659	1,253,578
Sale of emission allowances	<u>-</u>	<u>64,120</u>	<u>16,132,052</u>	<u>64,120</u>
Total Other Income	<u>4,500,000</u>	<u>6,318,686</u>	<u>21,745,534</u>	<u>1,818,686</u>
Income (loss) before deferred revenue	<u>\$ 8,911,292</u>	11,276,766	28,403,011	<u>\$ 4,565,554</u>
Deferred revenue to be recognized in future periods		<u>(11,276,766)</u>	<u>(28,403,011)</u>	
CHANGE IN NET ASSETS		<u>\$ -</u>	<u>\$ -</u>	

MICHIGAN PUBLIC POWER AGENCY

DETAILS OF REVENUES AND EXPENSES - POWER POOL PROJECT

	2007 Budget	2007 Actual	2006 Actual	2007 Actual Over (Under) Budget
OPERATING REVENUES				
Sales to Participants				
Power	\$ 46,285,449	\$ 40,416,255	\$ 39,274,156	\$ (5,869,194)
Capacity	13,704,823	16,495,511	17,188,549	2,790,688
Transmission	3,548,600	965,053	808,496	(2,583,547)
Total Operating Revenue	<u>63,538,872</u>	<u>57,876,819</u>	<u>57,271,201</u>	<u>(5,662,053)</u>
OPERATING EXPENSES				
Purchased Power				
Capacity	13,704,823	16,494,864	17,183,851	2,790,041
Energy	44,545,238	38,654,097	37,108,018	(5,891,141)
Total Purchased Power	<u>58,250,061</u>	<u>55,148,961</u>	<u>54,291,869</u>	<u>(3,101,100)</u>
Transmission				
Wheeling	<u>72,000</u>	<u>1,140,805</u>	<u>826,514</u>	<u>1,068,805</u>
General and Administrative				
Salaries and wages	449,008	374,973	405,434	(74,035)
Employee benefits	261,144	213,024	229,688	(48,120)
Outside services	627,681	636,426	665,590	8,745
Insurance and liability	14,442	10,156	10,096	(4,286)
Meetings and travel	26,604	17,809	15,752	(8,795)
Office supplies	19,956	13,865	21,938	(6,091)
Rents	42,354	23,620	25,682	(18,734)
Miscellaneous	13,358	6,410	15,290	(6,948)
Total General and Administrative	<u>1,454,547</u>	<u>1,296,283</u>	<u>1,389,470</u>	<u>(158,264)</u>
Depreciation	<u>-</u>	<u>2,355</u>	<u>519</u>	<u>2,355</u>
Total Operating Expense	<u>59,776,608</u>	<u>57,588,404</u>	<u>56,508,372</u>	<u>(2,188,204)</u>
Operating Loss	<u>3,762,264</u>	<u>288,415</u>	<u>762,829</u>	<u>(3,473,849)</u>
OTHER EXPENSES				
Interest costs incurred	<u>110,400</u>	<u>104,299</u>	<u>110,370</u>	<u>(6,101)</u>
OTHER REVENUES				
Investment income	<u>108,000</u>	<u>335,390</u>	<u>246,720</u>	<u>227,390</u>
Loss before deferred revenue	<u>\$ 3,759,864</u>	519,506	899,179	<u>\$ (3,240,358)</u>
Deferred revenue to be recognized in future periods		(519,506)	(899,179)	
Deferred revenue recognized in current period		<u>-</u>	<u>-</u>	
CHANGE IN NET ASSETS		<u>\$ -</u>	<u>\$ -</u>	

MICHIGAN PUBLIC POWER AGENCY

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

	2007 Budget	2007 Actual	2006 Actual	2007 Actual Over (Under) Budget
OPERATING REVENUES				
Sales to Participants				
Power	\$ 5,056,402	\$ 4,173,019	\$ 4,060,752	\$ (883,383)
Transmission	93,600	191,999	158,971	98,399
Energy (fuel)	1,752,000	1,751,486	495,447	(514)
Total Operating Revenue	<u>6,902,002</u>	<u>6,116,504</u>	<u>4,715,170</u>	<u>(785,498)</u>
OPERATING EXPENSES				
Production				
Fuel	1,752,000	1,674,954	568,082	(77,046)
Operation	566,736	566,730	753,604	(6)
Maintenance	402,160	272,183	35,258	(129,977)
Total Production	<u>2,720,896</u>	<u>2,513,867</u>	<u>1,356,944</u>	<u>(207,029)</u>
Transmission				
Operation	110,362	191,999	157,908	81,637
Maintenance	-	-	1,063	-
Total Transmission	<u>110,362</u>	<u>191,999</u>	<u>158,971</u>	<u>81,637</u>
General and Administrative				
Salaries and wages	302,266	234,182	193,450	(68,084)
Employee benefits	85,632	131,244	87,200	45,612
Outside services	253,000	252,121	271,441	(879)
Taxes		2,935	8,288	2,935
Insurance and liability	114,743	113,555	1,892	(1,188)
Meetings and travel	12,336	25,869	17,127	13,533
Office supplies	6,540	9,321	6,709	2,781
Rents	13,884	9,018	6,039	(4,866)
Miscellaneous	1,909	2,105	1,105	196
Total General and Administrative	<u>790,310</u>	<u>780,350</u>	<u>593,251</u>	<u>(9,960)</u>

MICHIGAN PUBLIC POWER AGENCY

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

	2007 Budget	2007 Actual	2006 Actual	2007 Actual Over (Under) Budget
OPERATING EXPENSES (cont.)				
Depreciation	\$ 940,800	\$ 987,897	\$ 954,742	\$ 47,097
Total Operating Expense	<u>4,562,368</u>	<u>4,474,113</u>	<u>3,063,908</u>	<u>(88,255)</u>
Operating Income	<u>2,339,634</u>	<u>1,642,391</u>	<u>1,651,262</u>	<u>(697,243)</u>
OTHER EXPENSES				
Interest cost incurred	1,608,750	1,608,750	1,646,081	-
Amortization of financing-related costs	<u>58,165</u>	<u>58,165</u>	<u>59,515</u>	<u>-</u>
Total Other Expenses	<u>1,666,915</u>	<u>1,666,915</u>	<u>1,705,596</u>	<u>-</u>
OTHER REVENUES				
Investment income	216,000	299,948	298,328	83,948
Net change in fair value of investments	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Other Income	<u>216,000</u>	<u>299,948</u>	<u>298,328</u>	<u>83,948</u>
Income before deferred revenue	<u>\$ 888,719</u>	275,424	243,994	<u>\$ (613,295)</u>
Deferred revenue to be recognized in future periods		<u>(275,424)</u>	<u>(243,994)</u>	
CHANGE IN NET ASSETS		<u>\$ -</u>	<u>\$ -</u>	

MICHIGAN PUBLIC POWER AGENCY

DETAILS OF REVENUES AND EXPENSES - DISPATCH PROJECT

	2007 Budget	2007 Actual	2006 Actual	2007 Actual Over (Under) Budget
OPERATING REVENUES				
Sales to Participants				
Power	\$ 14,114,352	\$ 14,088,468	\$ 3,355,360	\$ (25,884)
Total Operating Revenue	<u>14,114,352</u>	<u>14,088,468</u>	<u>3,355,360</u>	<u>(25,884)</u>
OPERATING EXPENSES				
Purchased Power				
Energy	14,000,000	13,952,268	3,244,572	(47,732)
Total Purchased Power	<u>14,000,000</u>	<u>13,952,268</u>	<u>3,244,572</u>	<u>(47,732)</u>
Transmission	-	2,530	-	2,530
General and Administrative				
Salaries and wages	52,176	51,007	47,930	(1,169)
Employee benefits	33,912	33,155	31,154	(757)
Outside services	13,787	40,324	20,947	26,537
Taxes	-	-	-	-
Insurance and liability	1,863	1,309	1,476	(554)
Meetings and travel	3,492	2,582	2,523	(910)
Office supplies	2,592	2,014	2,418	(578)
Rents	5,502	3,067	3,748	(2,435)
Miscellaneous	1,028	827	592	(201)
Total General and Administrative	<u>114,352</u>	<u>134,285</u>	<u>110,788</u>	<u>19,933</u>
Total Operating Expense	<u>14,114,352</u>	<u>14,089,083</u>	<u>3,355,360</u>	<u>(27,799)</u>
OTHER REVENUES				
Investment income	-	26,287	7,016	26,287
Net change in fair value of investments	-	-	-	-
Total Other Income	<u>-</u>	<u>26,287</u>	<u>7,016</u>	<u>26,287</u>
Income before deferred revenue	<u>\$ -</u>	<u>25,672</u>	<u>7,016</u>	<u>\$ 53,176</u>
Deferred revenue to be recognized in future periods		<u>(25,672)</u>	<u>(7,016)</u>	
CHANGE IN NET ASSETS		<u>\$ -</u>	<u>\$ -</u>	

MICHIGAN PUBLIC POWER AGENCY

DETAILS OF REVENUES AND EXPENSES - TRANSMISSION PROJECT

	2007 Budget	2007 Actual	2006 Actual	2007 Actual Over (Under) Budget
OPERATING REVENUES				
Sales to Participants				
Transmission	\$ 1,125,796	\$ 1,090,124	\$ 178,585	\$ (35,672)
Total Sales to Participants	<u>1,125,796</u>	<u>1,090,124</u>	<u>178,585</u>	<u>(35,672)</u>
Less Allowances for Sellback				
Transmission	2,100,000	3,086,721	2,539,624	986,721
Sales of Excess Capacity				
Transmission	2,100,000	3,117,921	2,590,064	1,017,921
Total Operating Revenue	<u>1,125,796</u>	<u>1,121,324</u>	<u>229,025</u>	<u>(4,472)</u>
OPERATING EXPENSES				
Transmission				
Operation	1,075,000	1,074,459	172,724	(541)
Maintenance	-	-	-	-
Total Transmission	<u>1,075,000</u>	<u>1,074,459</u>	<u>172,724</u>	<u>(541)</u>
General and Administrative				
Salaries and wages	600	11,627	4,683	11,027
Employee benefits	396	7,558	3,044	7,162
Outside services	49,200	235	48,293	(48,965)
Taxes	-	-	-	-
Insurance and liability	-	-	-	-
Meetings and travel	600	415	281	(185)
Office supplies	-	30	-	30
Rents	-	-	-	-
Miscellaneous	-	27,000	-	27,000
Total General and Administrative	<u>50,796</u>	<u>46,865</u>	<u>56,301</u>	<u>(3,931)</u>
Depreciation	22,700	22,681	18,901	(19)
Total Operating Expense	<u>1,148,496</u>	<u>1,144,005</u>	<u>247,926</u>	<u>(4,491)</u>
OTHER REVENUES				
Investment income	-	42,616	54,414	42,616
Net change in fair value of investments	-	-	-	-
Total Other Income	<u>-</u>	<u>42,616</u>	<u>54,414</u>	<u>42,616</u>
Income before deferred revenue	<u>\$ (22,700)</u>	19,935	35,513	<u>\$ 46,922</u>
Deferred revenue to be recognized in future periods		<u>(19,935)</u>	<u>(35,513)</u>	
CHANGE IN NET ASSETS		<u>\$ -</u>	<u>\$ -</u>	

MICHIGAN PUBLIC POWER AGENCY

DETAILS OF REVENUES AND EXPENSES - GENERAL OFFICE OPERATION

	2007 Budget	2007 Actual	2006 Actual	2007 Actual Over (Under) Budget
OPERATING REVENUES				
Participant membership fees	\$ 463,753	\$ 463,331	\$ 457,492	\$ (422)
Charges for Services				
Projects	116,250	129,877	116,244	13,627
Committees	95,000	94,876		(124)
MMEA	246,408	259,932	231,961	13,524
Total Operating Revenue	<u>921,411</u>	<u>948,016</u>	<u>805,697</u>	<u>26,605</u>
OPERATING EXPENSES				
General and Administrative				
Salaries and wages	335,196	335,164	255,499	(32)
Employee benefits	217,877	218,332	166,075	455
Outside services	95,000	94,420	79,537	(580)
Insurance and liability	4,955	3,476	4,263	(1,479)
Meetings and travel	35,472	31,824	23,058	(3,648)
Office supplies	13,092	22,593	25,503	9,501
Rents	27,780	15,386	19,383	(12,394)
Miscellaneous	142,392	141,797	124,569	(595)
Total General and Administrative	<u>871,764</u>	<u>862,992</u>	<u>697,887</u>	<u>(8,772)</u>
Depreciation	37,986	40,448	37,276	2,462
Total Operating Expense	<u>909,750</u>	<u>903,440</u>	<u>735,163</u>	<u>(6,310)</u>
Operating Income (Loss)	<u>11,661</u>	<u>44,576</u>	<u>70,534</u>	<u>32,915</u>
OTHER REVENUES				
Interest income	-	42,031	34,047	42,031
Prepaid lease income	36,000	24,000	24,000	(12,000)
CHANGE IN NET ASSETS	<u>\$ 47,661</u>	<u>\$ 110,607</u>	<u>\$ 128,581</u>	<u>\$ 62,946</u>