



809 Centennial Way
Lansing, Michigan 48917

FINANCIAL STATEMENTS

December 31, 2018

MICHIGAN PUBLIC POWER AGENCY

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Independent Auditor's Report

To the Board of Directors
Michigan Public Power Agency

Report on the Financial Statements

We have audited the accompanying financial statements of each major fund and the business-type activities of the Michigan Public Power Agency (the "Agency") as of and for the year ended December 31, 2018 and the related notes to the financial statements, which collectively comprise the Michigan Public Power Agency's basic financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of each major fund and the business-type activities of the Michigan Public Power Agency as of December 31, 2018 and the respective changes in its financial position and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

To the Board of Directors
Michigan Public Power Agency

Required Supplemental Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, which considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplemental information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Michigan Public Power Agency's basic financial statements. The other supplemental information, as identified in the table of contents, is presented for the purpose of additional analysis and is not a required part of the basic financial statements.

The other supplemental information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the other supplemental information is fairly stated in all material respects in relation to the basic financial statements as a whole.

Report on Summarized Comparative Information

We have previously audited the Michigan Public Power Agency's December 31, 2017 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated March 20, 2018. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2017 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Plante & Moran, PLLC

March 18, 2019

**MANAGEMENT'S DISCUSSION
AND ANALYSIS**

MICHIGAN PUBLIC POWER AGENCY

MANAGEMENT'S DISCUSSION AND ANALYSIS December 31, 2018

The management of the 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 ended December 31, 2018 and 2017. You are invited to read this narrative in conjunction with MPPA's financial statements.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

OVERVIEW OF THE FINANCIAL STATEMENTS

MPPA's operations consist of seven power related projects:

- Campbell No. 3
- Belle River
- Combustion Turbine #1
- Energy Services
- Transmission
- Landfill Renewable Energy
- AMP Fremont Energy Center (AFEC)

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

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 cannot and should not be considered available for any other project.

The Statement of Revenues, Expenses, and Changes in Net Position presents information showing how MPPA's net position changed during the most recent year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of 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 Statement of Cash Flows reports 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.

MICHIGAN PUBLIC POWER AGENCY

MANAGEMENT'S DISCUSSION AND ANALYSIS December 31, 2018

OVERVIEW OF THE FINANCIAL STATEMENTS (cont'd)

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.

MPPA FINANCIAL ANALYSIS

An analysis of MPPA's financial position begins with a review of the Statement of Net Position and the Statement of Revenues, Expenses and Changes in Net Position report information. These two statements report MPPA's net position and changes therein. Great care must be taken when evaluating MPPA's financial position and results of operations when using the 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 Statement of Net Position is presented below in Table 1. The Statement of Revenues, Expenses and Changes in Net Position is summarized in Table 2.

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

MICHIGAN PUBLIC POWER AGENCY

MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2018

MPPA FINANCIAL ANALYSIS (cont.)

**Table 1
Statement of Net Position**

	<u>2018</u>	<u>2017</u>
Current Assets	\$ 89,338,917	\$ 101,372,160
Non-Current Assets		
Capital assets	219,204,108	234,168,584
Other assets	25,671,480	39,476,370
Total Assets	<u>334,214,505</u>	<u>375,017,114</u>
Deferred Outflows of Resources	<u>377,385</u>	<u>464,661</u>
Current Liabilities		
Accrued Interest Payable	1,317,076	2,097,143
Revenue Bonds Payable - Current	6,095,000	31,985,000
Other Current Liabilities	21,434,876	18,635,101
Total Current Liabilities	<u>28,846,952</u>	<u>52,717,244</u>
Non-Current Liabilities		
Liabilities payable from restricted assets	-	-
Member capital	17,075,304	17,446,908
Revenue bonds payable, less current portion	56,536,423	62,951,059
Total Non-Current Liabilities	<u>73,611,727</u>	<u>80,397,967</u>
Total Liabilities	<u>102,458,679</u>	<u>133,115,211</u>
Deferred Inflows of Resources	<u>-</u>	<u>-</u>
Net Position		
Net investment in capital assets	157,010,252	139,771,286
Restricted	9,297,238	48,838,772
Unrestricted	65,825,720	53,756,507
Total Net Position	<u>\$ 232,133,210</u>	<u>\$ 242,366,564</u>

MICHIGAN PUBLIC POWER AGENCY

MANAGEMENT'S DISCUSSION AND ANALYSIS December 31, 2018

MPPA FINANCIAL ANALYSIS (cont.)

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

	<u>2018</u>	<u>2017</u>
Gross Operating Revenues	\$ 166,740,912	\$ 205,857,971
Change in Deferred Revenues	-	-
Non-Operating Revenues	1,163,819	634,181
Total Revenues	<u>167,904,731</u>	<u>206,492,152</u>
Depreciation Expense	20,073,952	19,644,814
Other Operating Expenses	155,576,211	158,619,182
Non-Operating Expenses	2,487,921	4,007,303
Total Expenses	<u>178,138,084</u>	<u>182,271,299</u>
Change in Net Position	\$ (10,233,353)	\$ 24,220,855
Impact of Change in Accounting	-	216,577,130
Beginning Net Position	242,366,564	1,568,579
Ending Net Position	<u>\$ 232,133,210</u>	<u>\$ 242,366,564</u>

In 2017, MPPA elected to no longer defer all of its net revenues but to report them as net position. More information about this change in accounting can be found in Note 1.

Campbell No. 3 Project

MPPA jointly owns 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. MPPA's 2018 share of the plant generation was 277,347 MWH compared with 2017's generation of 311,459 MWH. The total operating costs for the plant were \$55.40/MWH vs \$50.26/MWH in 2017. Plant availability and capacity factor in 2018 for the plant was 85.2% and 78.5% respectively compared to 91.6% availability and 89.0% capacity factor in 2017.

Belle River Project

With eleven of the member communities participating in this project, MPPA jointly owns the Belle River Power Plant with Detroit Edison. MPPA has a 37.22% ownership interest in Belle River Unit No.1, a coal-fired electric generating unit located in St. Clair County, Michigan. MPPA's 2018 share of the plant generation was 1,401,145 MWH compared with 2017's generation of 1,283,386 MWH. The total operating costs for the plant were \$33.11/MWH vs \$63.44/MWH in 2017. Plant availability and capacity factor in 2018 for the plant was 79.2% and 68.9% respectively compared to 74.5% availability and 63.2% capacity factor in 2017. MPPA's bond debt was fully paid on January 2, 2018.

MICHIGAN PUBLIC POWER AGENCY

MANAGEMENT'S DISCUSSION AND ANALYSIS December 31, 2018

MPPA FINANCIAL ANALYSIS (cont.)

Combustion Turbine #1 Project

MPPA owns and operates the Combustion Turbine #1 Project (CT Project) for the benefit of five of its members. The natural gas-fired plant serves as a peaking power plant and generation will vary from year to year. MPPA's 2018 share of the plant generation was 38,368 MWH compared with 2017's generation of 17,951 MWH. Plant availability and capacity factor in 2018 for the plant was 93.4% and 8.20% respectively compared to 95.4% availability and 3.78% capacity factor in 2017.

Energy Services Project

The Energy Services Project facilitates the purchase of capacity and energy from third parties for sale to twenty-one of MPPA's member municipalities. During 2018, the Energy Services Project provided 1,316,448 MWHs of energy to its members at an average energy cost of \$44.61/MWH compared to 1,545,726 MWHs at an average energy cost of \$42.28/MWH in 2017.

Landfill Renewable Energy Project

Fourteen members of MPPA participate in this project which was created to assist members in meeting renewable energy requirements for compliance with Michigan Public Act 295. The members began taking landfill gas energy in 2010 from Energy Developments Ltd (formerly Granger). In 2012, MPPA contracted with and began taking energy from North American Natural Resources (NANR). In 2018, MPPA purchased a total of 126,906 MWH of renewable energy for the benefit of its members.

Transmission Project

The Transmission Project was created to purchase an undivided ownership interest in the METC transmission system with the objective of reducing transmission costs to MPPA and its thirteen members.

AMP Fremont Energy Center Project (AFEC)

MPPA owns a 5.16% interest in a natural gas fired intermediate plant located in Fremont, Sandusky County, Ohio. American Municipal Power is the majority owner of this power plant and serves as the operator. Thirteen of MPPA's municipal members committed to power purchases under the AFEC Project. MPPA's 2018 share of the plant generation was 209,603 MWH compared with 2017's generation of 162,765 MWH. The total operating costs for the plant were \$52.42/MWH vs \$55.18/MWH in 2017. Plant availability and capacity factor in 2018 for the plant was 89.52% and 67.37% respectively compared to 99.2% availability and 77.3% capacity factor in 2017.

MICHIGAN PUBLIC POWER AGENCY

MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2018

MPPA FINANCIAL ANALYSIS (cont.)

General Office Operations

Through this fund, MPPA accounts for the general office operations that cannot be attributed to any one specific project. Member dues are based on the annual budgeted operating costs, with a portion of the operating costs allocated to each project as overhead. Net revenues are used to fund capital improvements to the office building and equipment.

The General Office Operations fund also includes revenue and expenses from numerous service committees. The service committees provide a venue for municipal utilities that are not MPPA members to participate in activities that do not require financing or the acquisition of assets while also exploring and studying potential new projects. The service committees are treated as separate sub-accounts under the General Office Operations for accounting purposes.

CAPITAL ASSETS

MPPA's investment in capital assets as of December 31, 2018 amounts to \$219,204,108 (net of accumulated depreciation). This investment in capital assets includes investment in plants, transmission systems, land, buildings, improvements, machinery and equipment. See Note 5 for additional details.

LONG-TERM DEBT

At December 31, 2018, MPPA had a total of \$102,458,679 in total outstanding liabilities. Of this amount, the following represents bond payments payable:

Long Term Debt- Bonds

Campbell #3 Project	\$	14,095,000
Combustion Turbine #1 Project		17,884,755
AMP Fremont Energy Center Project (AFEC)		<u>30,651,668</u>
	\$	62,631,423

See Note 6 for additional details.

MICHIGAN PUBLIC POWER AGENCY

MANAGEMENT'S DISCUSSION AND ANALYSIS

December 31, 2018

FACTORS AFFECTING THE ELECTRIC UTILITY INDUSTRY

The electric utility industry has been and, in the future, may be affected by a number of factors which could impact the financial condition and competitiveness of electric utilities and joint action agencies, such as MPPA. Such factors include, among others: 1) effects of compliance with rapidly changing environmental, safety, licensing, regulatory and legislative requirements, 2) changes resulting from energy efficiency and demand side management programs on the timing and use of electric energy, 3) other federal and state legislative and regulatory changes, 4) increased competition from independent power producers, marketers and brokers, 5) issues relating to the ability to issue tax exempt obligations, 6) changes from projected future load requirements, 7) increases in costs, shifts in the availability and relative costs of different fuels, 8) inadequate risk management procedures and practices with respect to, among other things, the purchase and sale of energy, fuel and transmission capacity, 9) climate change and the potential contributions made to climate change by coal fired and other fossil fueled generating units, and 10) issues relating to cyber security at MPPA's facilities. Any of these general factors as well as other factors may have an effect on the financial condition of MPPA and its municipal members.

The operations of all generating electric utilities, including some of the Members and joint owners of generating units such as MPPA, are subject to continuing environmental regulation. Federal, state and local standards and procedures which regulate the environmental impact of these operations are subject to change. These changes may arise from continuing legislative, regulatory and judicial action regarding such standards and procedures. Consequently, there is no assurance the electric generating units in operation, or contemplated, will remain subject to the regulation currently in effect, will always maintain compliance with future regulations or will always be able to obtain all required operating permits. An inability to comply with environmental standards could result in reduced operating levels or the complete shutdown of individual electric generating units not in compliance with those environmental standards.

The final Clean Power Plan ("CPP") was issued on August 3, 2015 and published in the Federal Register on October 23, 2015 with the objective of reducing carbon dioxide ("CO₂") emissions from the power sector. The CPP regulates fossil fuel-fired electric utility steam generating units ("EGUs"), which are generally boilers, and natural gas-fired combined-cycle generating units that were in operation or had commenced construction by January 18, 2014, under Clean Air Act Section 111(d). The CPP sets CO₂ emission goals for 47 mainland U.S. states. Under the CPP, each state has flexibility to meet its goal by 2030 through lowering the overall carbon intensity of the power sector in the state.

Although there are no emission limits for individual units under the CPP, Section 111(d) bases the state emission goals on performance rates of 1,305 pounds of CO₂ per MWh for EGUs and 771 pounds of CO₂ per MWh for combined-cycle units. On February 9, 2016, the U.S. Supreme Court stayed implementation of the CPP, pending judicial review by the Court of Appeals. Thus, until the litigation is settled, the timeframes for implementation could be delayed or eliminated altogether.

MICHIGAN PUBLIC POWER AGENCY

MANAGEMENT'S DISCUSSION AND ANALYSIS December 31, 2018

MICHIGAN LEGISLATION

In 2016, with the utility industry facing planned retirements of coal plants and a unique hybrid retail market in Michigan, electric reliability was called into question. This resulted in the Michigan Legislature passing Public Acts 341 and 342. These Acts went into effect on April 20, 2017.

The major impact to MPPA members and the electric utility industry, is a requirement to demonstrate that utilities own or contract for sufficient capacity resources to meet projected electric demand for four years forward. MPPA members recently made their second resource adequacy filing with the MPSC to demonstrate compliance with PA 341.

Act 342 contains a 35% clean energy goal. Utilities can meet this goal thru a combination of renewable energy and energy waste reduction.

The Renewable Energy Standard ramps up from 10% to 12.5% in 2019 and 2020, then to 15% in 2021. After 2021 the governing body of a municipal utility has the authority to determine the proper renewable energy standard for their utility.

A municipal utility's Energy Waste Reduction standard continues to be equivalent to 1.0% of the total annual retail electricity sales in megawatt hours from the preceding year. After 2020 the governing body of the municipal utility has the authority to determine how their utility will address Energy Waste Reduction.

PA 342 does require that each electric utility offer a voluntary green pricing program. Under this program a customer may specify the amount of renewable electricity they desire to purchase. The governing body of a municipal utility has the authority to design the program, and any additional costs incurred may be charged to the customer.

At the end of 2018, the Michigan Municipal Electric Association supported a bill to allow Joint Action Agencies in Michigan to accept members located outside of Michigan, including those located in Canada, if their joining was allowed by the State or Province in which they are located.

In addition, three other bills passed in the lame-duck session that would prevent member retail customers from switching electric providers. This applies to all customers located in the contiguous townships where members serve. Inside the municipality, members protect existing load by simply refusing to grant a franchise to other electric providers.

CONTACTING MPPA'S FINANCIAL MANAGEMENT

This financial report is designed to provide our members, 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 Amy L. DeLeeuw, Chief Financial Officer and Treasurer, Michigan Public Power Agency, 809 Centennial Way, Lansing, MI 48917.

MICHIGAN PUBLIC POWER AGENCY
STATEMENT OF NET POSITION
December 31, 2018
(With Comparative Totals for December 31, 2017)

	CAMPBELL NO. 3	BELLE RIVER	CT PROJECT	TRANSMISSION PROJECT	LANDFILL PROJECT	AFEC PROJECT	ENERGY SVCS PROJECT	GENERAL OFFICE	TOTALS 2018	2017
CURRENT ASSETS										
Cash & Cash Equivalents										
Operation & Maintenance Account	\$ 2,145,269	\$ 12,362,783	\$ 610,755	\$ 291,664	\$ 1,001,491	\$ 877,032	\$ 171,664	\$ -	\$ 17,460,658	\$ 16,687,458
Project Account	2,163,680	18,730,347	2,856,867	-	-	5,317,526	-	-	29,068,420	18,725,588
Working Capital/Other	-	-	-	-	133,505	-	8,280,361	2,261,407	10,675,273	7,885,053
Total Cash and Cash Equivalents	4,308,949	31,093,130	3,467,622	291,664	1,134,996	6,194,558	8,452,025	2,261,407	57,204,351	43,298,099
Restricted Cash- Escrow										
Restricted Cash- Debt Service	2,096,693	-	1,995,658	-	-	1,371,098	-	-	5,463,449	32,298,668
Accrued Interest Receivable	30,846	17,319	7,052	1,166	1,516	3,936	676	3,341	65,852	98,339
Accounts Receivable	2,024,878	9,388,766	928,612	273,696	38,284	538,986	2,990,075	87,258	16,270,555	17,310,763
Fuel Inventory	1,007,548	3,561,488	76,774	-	-	-	-	-	4,645,810	4,851,722
Materials and Supplies Inventory	-	3,173,207	108,778	-	-	-	-	-	3,281,985	3,514,569
Total Current Assets	9,468,914	47,233,910	6,584,496	566,526	1,174,796	8,108,578	13,849,690	2,352,006	89,338,917	101,372,160
NON-CURRENT ASSETS										
Capital Assets										
Utility Plant	93,067,108	558,601,606	30,837,070	3,335,511	-	31,178,329	125,430	-	717,145,054	712,213,600
Building and Land	244,547	154,027	48,500	-	-	715,950	-	1,703,675	2,866,699	2,845,768
Depreciation	(49,145,872)	(429,072,541)	(15,601,710)	(291,078)	-	(5,384,238)	(125,430)	(1,186,776)	(500,807,645)	(480,890,784)
Net Property & Equipment	44,165,783	129,683,092	15,283,860	3,044,433	-	26,510,041	-	516,899	219,204,108	234,168,584
Other Assets										
Prepaid Bond Insurance Costs	-	-	60,182	-	-	-	-	-	60,182	74,100
Prepaid Expenses & Deposits	909,804	3,890,000	-	-	-	771,120	-	49,518	5,620,442	6,047,148
Investments- Unrestricted	6,355,369	2,777,843	885,948	145,065	328,872	1,470,001	2,558,213	318,680	14,839,991	14,717,875
Restricted Cash										
Debt Service Reserve	-	-	652,650	-	-	846,163	-	-	1,498,813	52,540
O & M / Fuel Reserve	1,050,000	-	-	-	-	-	-	-	1,050,000	1,050,000
Contingency/Construction	-	-	-	-	-	284,610	-	-	284,610	3,676,261
Total Restricted Cash	1,050,000	-	652,650	-	-	1,130,773	-	-	2,833,423	4,778,801
Restricted Investments										
Debt Service Reserve	-	-	983,261	-	-	1,334,181	-	-	2,317,442	3,663,393
Contingency/Construction	-	-	-	-	-	-	-	-	-	10,195,053
Total Non-Current Assets	52,480,956	136,350,935	17,865,901	3,189,498	328,872	31,216,116	2,558,213	885,097	244,875,588	273,644,954
TOTAL ASSETS	61,949,870	183,584,845	24,450,397	3,756,024	1,503,668	39,324,694	16,407,903	3,237,103	334,214,505	375,017,114
DEFERRED OUTFLOWS OF RESOURCES										
	-	-	377,385	-	-	-	-	-	377,385	464,661
CURRENT LIABILITIES										
Accounts payable and Accrued Exp.										
	852,147	9,259,467	443,737	381,085	1,332,810	667,539	5,391,744	699,434	19,027,962	18,635,101
Liabilities payable from Restricted Assets										
Accrued interest payable	161,388	-	427,000	-	-	728,688	-	-	1,317,076	2,097,143
Dev. Security Deposit	-	-	-	-	-	-	2,406,914	-	2,406,914	-
Revenue Bonds Payable- Current	3,915,000	-	1,550,000	-	-	630,000	-	-	6,095,000	31,985,000
Total Current Liabilities	4,928,535	9,259,467	2,420,737	381,085	1,332,810	2,026,227	7,798,658	699,434	28,846,952	52,717,244
NON-CURRENT LIABILITIES										
Capital Contributions										
	909,804	3,890,000	-	3,335,511	133,505	-	8,280,361	526,123	17,075,304	17,446,908
Revenue Bonds Payable less current portion	10,180,000	-	16,334,755	-	-	30,021,668	-	-	56,536,423	62,951,059
Total Non-Current Liabilities	11,089,804	3,890,000	16,334,755	3,335,511	133,505	30,021,668	8,280,361	526,123	73,611,727	80,397,967
TOTAL LIABILITIES	16,018,339	13,149,467	18,755,492	3,716,596	1,466,315	32,047,895	16,079,019	1,225,557	102,458,679	133,115,211
DEFERRED INFLOWS OF RESOURCES										
	-	-	-	-	-	-	-	-	-	-
NET POSITION										
Net Investment in Capital Assets										
	30,070,783	129,683,092	(2,163,328)	3,044,433	-	(4,141,627)	-	516,899	157,010,252	139,771,286
Restricted- Debt Service	1,935,305	-	1,568,658	-	-	642,410	-	-	4,146,373	30,201,525
Restricted- Debt Service Reserve	-	-	1,635,911	-	-	2,180,344	-	-	3,816,255	3,715,933
Restricted- Reserve & Contingency	1,050,000	-	-	-	-	284,610	-	-	1,334,610	14,921,314
Unrestricted (Deficit)	12,875,443	40,752,286	5,031,049	(3,005,005)	37,353	8,311,062	328,884	1,494,647	65,825,720	53,756,507
TOTAL NET POSITION	\$ 45,931,531	\$ 170,435,378	\$ 6,072,290	\$ 39,428	\$ 37,353	\$ 7,276,799	\$ 328,884	\$ 2,011,546	\$ 232,133,210	\$ 242,366,564

MICHIGAN PUBLIC POWER AGENCY
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
Year Ended December 31, 2018
(With Comparative Totals for December 31, 2017)

	Campbell No. 3 Project	Belle River Project	Combustion Turbine No.1	Transmission Project	Landfill Project	AFEC Project	Energy Services Project	General Office Operation	Totals	
									2018	2017
OPERATING REVENUES										
Gross Sales	\$ 15,365,003	\$ 46,293,673	\$ 6,930,839	\$ 1,141,250	\$ 12,069,234	\$ 10,988,248	\$ 70,870,505	\$ -	\$ 163,658,752	\$ 202,631,586
Jt Zone Transmission Revenue	-	-	-	3,861,494	-	-	-	-	3,861,494	3,672,515
Jt Zone Transmission Distribution	-	-	-	(3,821,251)	-	-	-	-	(3,821,251)	(3,625,816)
Other	-	-	-	-	-	-	-	3,041,917	3,041,917	3,179,686
Total Gross Revenue	15,365,003	46,293,673	6,930,839	1,181,493	12,069,234	10,988,248	70,870,505	3,041,917	166,740,912	205,857,971
OPERATING EXPENSES										
Cost of Energy - produced	8,708,874	39,264,259	2,011,331	-	-	7,257,331	-	-	57,241,795	54,697,448
Cost of Energy & Capacity - purchased	-	-	-	-	11,912,748	(806,136)	58,721,769	-	69,828,381	76,098,957
Miso Market Overhead Fees	41,008	191,912	13,659	-	-	-	655,125	-	901,703	304,952
Transmission	1,204,502	3,102,946	1,152,733	1,068,672	-	536,607	10,310,729	-	17,376,189	17,219,748
General and administrative	770,631	3,734,556	1,049,117	112,821	156,486	396,198	1,182,883	2,825,451	10,228,144	10,298,077
Depreciation	2,731,608	15,385,221	1,028,438	22,681	-	860,127	-	45,876	20,073,952	19,644,814
Total Operating Expenses	13,456,624	61,678,895	5,255,277	1,204,175	12,069,234	8,244,128	70,870,505	2,871,327	175,650,163	178,263,995
Operating Income (Loss)	1,908,380	(15,385,222)	1,675,562	(22,682)	(0)	2,744,121	0	170,590	(8,909,249)	27,593,976
NONOPERATING REVENUES (EXPENSES)										
Interest cost incurred	(344,989)	-	(854,000)	-	-	(1,457,375)	-	-	(2,656,364)	(4,215,925)
Amortization of financing-related costs	-	-	84,917	-	-	83,526	-	-	168,442	208,622
Investment income	139,403	511,676	87,068	7,544	16,454	112,799	109,170	15,165	999,280	601,262
Net change in fair value of investments	34,213	40,016	5,132	(16)	1,785	5,424	10,657	1,133	98,343	(54,473)
Prepaid lease income	-	-	-	-	-	-	-	66,196	66,196	76,192
Miscellaneous	-	-	-	-	-	-	-	-	-	11,200
Total Nonoperating Revenues (Expenses)	(171,372)	551,691	(676,883)	7,528	18,239	(1,255,626)	119,827	82,494	(1,324,102)	(3,373,119)
CHANGE IN NET POSITION	\$ 1,737,008	\$ (14,833,531)	\$ 998,679	\$ (15,155)	\$ 18,238	\$ 1,488,495	\$ 119,828	\$ 253,083	\$ (10,233,353)	\$ 24,220,855
Impact of Change in Accounting	-	-	-	-	-	-	-	-	-	216,577,130
NET POSITION - Beginning of Year	44,194,523	185,268,909	5,073,610	54,582	19,115	5,788,304	209,057	1,758,463	242,366,564	1,568,579
NET POSITION - END OF YEAR	\$ 45,931,531	\$ 170,435,377	\$ 6,072,290	\$ 39,428	\$ 37,353	\$ 7,276,799	\$ 328,884	\$ 2,011,546	\$ 232,133,210	\$ 242,366,564

MICHIGAN PUBLIC POWER AGENCY

STATEMENTS OF CASH FLOWS
Year Ended December 31, 2018
(With Comparative Totals for December 31, 2017)

	Campbell No. 3 Project	Belle River Project	Combustion Turbine #1	Transmission Project	Landfill Project	AFEC Project	Energy Services Project	General Office Operation	Totals	
									2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES										
Received from customers	\$ 15,500,069	\$ 47,286,467	\$ 6,498,002	\$ 1,202,222	\$ 12,077,336	\$ 11,176,463	\$ 71,006,970	\$ 3,033,592	\$ 167,781,121	\$ 208,243,875
Paid to suppliers for goods and services	(10,696,645)	(45,917,949)	(3,703,826)	(1,290,430)	(11,708,126)	(7,240,663)	(70,007,637)	(2,792,248)	(153,357,525)	(158,708,898)
Paid to employees for services	(130,269)	(214,255)	(139,415)	(48,381)	(73,892)	(114,059)	(507,159)	(207,364)	(1,434,794)	(1,404,429)
Net Cash Flows From (Used in) Operating Activities:	4,673,154	1,154,263	2,654,761	(136,589)	295,317	3,821,742	492,174	33,980	12,988,802	48,130,547
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES										
Acquisition and construction of utility plant	(1,269,044)	(3,239,508)	(384,589)	-	-	(195,402)	-	-	(5,088,543)	(8,863,394)
Sale of emissions	-	-	-	-	-	-	-	-	-	-
Capital contributions of (distributions to) participating members	-	-	-	-	-	-	200,000	(97,430)	102,570	(124,755)
Development Security Escrow	-	-	-	-	-	-	2,406,914	-	2,406,914	-
Principal payment on revenue bonds	(3,835,000)	(26,125,000)	(1,475,000)	-	-	(600,000)	-	-	(32,035,000)	(32,375,000)
Interest paid on revenue bonds	(388,899)	(685,781)	(890,875)	-	-	(1,470,875)	-	-	(3,436,431)	(4,977,952)
Other	-	-	-	-	-	-	-	45,261	45,261	(115,049)
Net Cash Flows From (Used in) Capital and Related Financing Activities	(5,492,944)	(30,050,289)	(2,750,464)	-	-	(2,266,277)	2,606,914	(52,169)	(38,005,228)	(46,456,149)
CASH FLOWS FROM INVESTING ACTIVITIES										
Long-term investments purchased	(1,191,738)	(2,777,843)	(338,394)	(145,065)	(328,872)	(671,603)	(2,558,213)	(318,680)	(8,330,409)	(7,178,859)
Long-term investments sold	1,542,712	12,676,267	982,438	86,586	351,324	1,362,337	2,458,002	289,631	19,749,298	10,248,175
Investment income	171,312	570,705	92,169	7,528	18,397	121,055	131,883	17,059	1,130,108	529,532
Net Cash Flows From Investing Activities	522,285	10,469,129	736,213	(50,952)	40,848	811,789	31,673	(11,989)	12,548,996	3,598,848
Net Change in Cash and Cash Equivalents	(297,504)	(18,426,898)	640,510	(187,541)	336,166	2,367,254	3,130,761	(30,178)	(12,467,430)	5,273,245
CASH AND CASH EQUIVALENTS - Beginning of Year	7,753,145	49,520,029	5,475,420	479,204	798,831	6,329,175	7,728,179	2,291,586	80,375,568	75,102,323
CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 7,455,641	\$ 31,093,130	\$ 6,115,930	\$ 291,664	\$ 1,134,996	\$ 8,696,429	\$ 10,858,940	\$ 2,261,407	\$ 67,908,137	\$ 80,375,568
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH FLOWS FROM OPERATING ACTIVITIES										
Operating income (loss)	1,908,380	(15,385,221)	1,675,562	(22,681)	(0)	2,744,120	(0)	170,592	(8,909,248)	27,593,974
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities										
Depreciation	2,731,608	15,385,221	1,028,438	22,681	-	860,127	-	45,876	20,073,952	19,644,815
Changes in assets and liabilities										
Accounts receivable	135,065	992,794	(432,837)	20,730	8,101	188,215	136,465	(8,325)	1,040,208	2,385,906
Fuel inventory	135,206	-	70,706	-	-	-	-	-	205,912	(49,095)
Materials and supplies inventory	-	230,541	2,043	-	-	-	-	-	232,584	222,394
Prepaid items and deposits	-	-	-	-	-	-	-	(47,468)	(47,468)	(2,050)
Deferred Inflows of resources	-	-	-	-	-	-	-	-	-	-
Accounts payable and accrued expense	(237,106)	(69,072)	310,849	(157,319)	287,216	29,279	355,709	(126,695)	392,861	(1,665,395)
NET CASH FLOWS FROM OPERATING ACTIVITIES	4,673,154	1,154,263	2,654,761	(136,589)	295,317	3,821,742	492,174	33,980	12,988,802	48,130,547
RECONCILIATION OF CASH AND CASH EQUIVALENTS TO THE BALANCE SHEET										
Current Assets	4,308,948	31,093,130	3,467,623	291,664	1,134,996	6,194,558	8,452,025	2,261,407	57,204,352	43,298,100
Restricted Assets	3,146,693	-	2,648,307	-	-	2,501,870	2,406,914	-	10,703,786	37,077,468
TOTAL CASH AND CASH EQUIVALENTS	\$ 7,455,641	\$ 31,093,130	\$ 6,115,930	\$ 291,664	\$ 1,134,996	\$ 8,696,429	\$ 10,858,940	\$ 2,261,407	\$ 67,908,137	\$ 80,375,568

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MICHIGAN PUBLIC POWER AGENCY

NOTES TO FINANCIAL STATEMENTS December 31, 2018

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 twenty-two members, ten are participants in the Campbell No. 3 Project, eleven are participants in the Belle River Project, five are participants in the Combustion Turbine No.1 Project, thirteen participate in the Transmission Project, twenty-one are participants in the Energy Services Project, thirteen participate in the AFEC Project and fourteen participate in the Landfill Renewable Energy Project.

The financial statements of the utility are presented in conformity with accounting principles generally accepted in the United States of America as applicable to governmental units.

In November 2016, The Governmental Accounting Standards Board issued GASB Statement No. 83, *Certain Asset Retirement Obligations*, which establishes criteria for determining the timing and pattern of recognition of a liability and a corresponding deferred outflow of resources for asset retirement obligations. The Agency is currently evaluating the impact the standard will have on the financial statements when adopted. The provisions of this statement are effective for the Agency's financial statements for the 2019 fiscal year.

In June 2017, the GASB issued Statement No. 87, *Leases*, which improves accounting and financial reporting for leases by governments. This statement requires recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources. The Authority is currently evaluating the impact this standard will have on the financial statements when adopted. The provisions of this statement are effective for the Agency's financial statements for the year ending December 31, 2020.

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, Combustion Turbine No. 1, Energy Services, Landfill Renewable Energy, AFEC and Transmission Funds account for the financing and operation of MPPA's interest in the respective projects, whereby 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. Enterprise funds are accounted for on an accruals basis with a flow of economic resources measurement focus.

MICHIGAN PUBLIC POWER AGENCY

NOTES TO FINANCIAL STATEMENTS December 31, 2018

NOTE 1 – NATURE OF OPERATIONS (cont.)

General Office Operations Fund

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

Net Position

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

- *Net investment in capital assets* – This component of net position 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 is 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 position component as the unspent proceeds.
- *Restricted* – This component of net position consists of constraints placed on net position 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 position consists of net position that does not meet the definition of “restricted” or “net investment in capital assets”.

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, 2017, from which the summarized information was derived. Please see Note 1 for additional information on changes in accounting related to the comparative statements for 2017 and 2018.

In January 2017, the Governmental Accounting Standards Board issued Statement No. 84, *Fiduciary Activities*. This statement establishes criteria for identifying fiduciary activities of all state and local governments. An activity meeting the criteria should be reported in a fiduciary fund in the basic financial statements. The Agency is currently evaluating the impact this standard will have on the financial statements when adopted. The provisions of this statement are effective for the Agency’s financial statements for the year ending December 31, 2019.

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 CEO & General Manager exercises budgetary control.

MICHIGAN PUBLIC POWER AGENCY

NOTES TO FINANCIAL STATEMENTS

December 31, 2018

NOTE 1 – NATURE OF OPERATIONS (cont.)

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 with MPPA's principal ongoing operations. The principal operating revenues of MPPA are derived from 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.

Accounts Receivable

Accounts receivable are stated at the net invoice amount billed to MPPA's members. Any outstanding receivables are generally collected in full within 15 days of being invoiced. As such, there has been no allowance for doubtful accounts recorded.

Utility Plant

Additions to and replacements of utility plant are recorded at original cost including any capitalized interest for borrowed funds used to construct the facilities. Depreciation is recorded using the straight-line method using service lives of 3 to 54 years. The agency capitalizes assets with a cost greater than \$500.

Interest is capitalized on utility property acquired with 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 for the Belle River Project is controlled by DTE and is stated at average cost. For the Combustion Turbine Project, the materials and supplies inventory is stated at actual 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.

MICHIGAN PUBLIC POWER AGENCY

NOTES TO FINANCIAL STATEMENTS

December 31, 2018

NOTE 1 – NATURE OF OPERATIONS (cont.)

Unamortized Premiums and Discounts

Bond premiums and discounts are amortized over the life of the bonds based on the effective interest method.

Deferred Outflows of Resources

Losses on advance refundings are classified as deferred outflows of resources and amortized on a straight-line basis over the repayment period of the related debt.

Deferred Inflows of Resources

The Agency previously reported regulatory deferred inflows in accordance with GASB 62, paragraphs 476-500. See the Change in Accounting disclosure for more information.

Change in Accounting

In 2017, the Agency elected to no longer apply this optional method of accounting to its operations but may choose to apply it to specific transactions in the future. As a result of this change in accounting, equity generated from net revenues is no longer deferred. Instead, the equity generated from net revenues is reported as net position. The impact of the change in accounting is presented on the Statement of Revenues, Expenses, and Changes in Net Position.

The Agency's position is that that regulatory accounting is most appropriately used for items that can be amortized into the income statement over the life of plant or designated for a specific future purpose such as rate stabilization or investment in new assets. Because MPPA is a project-based agency, revenues are already designated on project-by-project basis and any future investment in new capital assets would be accomplished through the establishment of a new project. Going forward, MPPA will selectively defer only those revenues which can be amortized into the income statement over the life of plant and will provide a separate schedule detailing those items. Making this change will provide more transparency and clarity for readers of this report.

Taxes

MPPA is exempt from state and federal income taxes.

Compensated Absences

Under terms of employment, employees earn four hours of personal leave per month. Employees can accumulate up to thirty days of personal leave. Employees are paid for unused personal leave upon separation of service. MPPA self-funds short-term disability benefits from the 11th to the 30th day of a covered absence. A separate disability insurance policy compensates employees for covered absences that extend beyond the 30th day.

MICHIGAN PUBLIC POWER AGENCY

NOTES TO FINANCIAL STATEMENTS
December 31, 2018

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.

The Campbell Transmission Agreement provides for MPPA to purchase a 58.06% undivided ownership interest in Consumers' (now METC) 345 kV transmission line, the method of determining certain charges for utilization of the METC/(Consumers) transmission system, for the sale to METC/(Consumers) of planned available transmission capacity in excess of MPPA's need, if available, 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 METC and/or Consumers. Each participant is obligated to pay its share of the operating and debt service costs of the Project.

On January 30, 2013, MPPA completed financing via a private placement bond through BMO Harris Bank N.A. in the amount of \$23,500,000. The funds were used to finance capital improvements to the Campbell 3 power plant and the installation of necessary environmental controls.

Belle River Unit No. 1

On December 1, 1982, MPPA and 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:

MICHIGAN PUBLIC POWER AGENCY

NOTES TO FINANCIAL STATEMENTS

December 31, 2018

NOTE 2 – JOINT PROJECT OWNERSHIP AGREEMENTS (cont.)

Belle River Unit No. 1 (cont.)

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 345 kV Transmission Line (now ITC), for ITC/(Edison) to operate the transmission lines, for the sharing of operating costs, and for the sale of planned excess transmission capacity to ITC/(Edison), if any.

MPPA entered into the Belle River Transmission Ownership and Operating Agreement with Consumers' (now METC), dated December 1, 1982, as amended, which provides MPPA with a 90% undivided ownership interest in certain METC/(Consumers) designated transmission lines, for METC/(Consumers) to operate the transmission lines, for the sharing of operating costs, and for the sale to METC/(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 natural gas facilities, a 69kV electrical line tap and associated equipment to deliver the output of the CT Project No. 1 to the transmission system, and an undivided ownership interest in certain transmission lines on the METC transmission system.

MICHIGAN PUBLIC POWER AGENCY

NOTES TO FINANCIAL STATEMENTS
December 31, 2018

NOTE 2 – JOINT PROJECT OWNERSHIP AGREEMENTS (cont.)

Combustion Turbine Project No. 1 (cont.)

In late 2012, MPPA entered into a long-term supply agreement with ANR Pipeline Company (ANR). ANR owns and operates an existing interstate natural gas pipeline system which transports natural gas to markets located in Michigan near the plant. MPPA has established an interconnection between its facilities at the plant and the natural gas pipeline facilities of ANR to provide for the transportation of natural gas necessary to operation of the plant.

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 345kV transmission lines in the METC system giving rights to use of the bulk transmission system. Thirteen members participate in this Project.

AMP Fremont Energy Center Project (AFEC)

In June 2012, MPPA completed its purchase of a 5.16% interest in a natural gas fired electric facility located in Fremont, Sandusky County, Ohio. American Municipal Power, Inc. is the majority owner of this power plant and serves as the operator. Thirteen of MPPA's municipal members committed to power purchases under the AFEC project. MPPA issued \$32,520,000 in revenue bonds to finance the purchase.

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, 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, 2018

NOTE 3 – CASH AND INVESTMENTS (cont.)

MPPA's investment in US Government and Agency debt obligations, Municipal Bonds and other permitted investments at year end consists of:

	<u>Fair Value</u>
Restricted Assets	
U.S. Treasury Notes	\$ 2,317,442
Agency Notes	
Commercial Paper	-
Money Market Funds	6,962,260
	<u>9,279,702</u>
Current Assets	
Cash & Cash Equivalents	26,832,665
Unrestricted Assets Invested	
U.S. Treasury Notes	10,041,954
Agency Notes	6,671,448
Commercial Paper	709,052
Money Market Funds	31,530,750
	<u>48,953,204</u>
Total Cash & Investments	<u>\$ 85,065,571</u>

Fair Value Measurement

MPPA categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. Investments that are measured at fair value using the net asset value per share (or its equivalent) as a practical expedient are not classified in the fair value hierarchy.

In instances, whereby inputs used to measure fair value fall into different levels in the above fair value hierarchy, fair value measurements in their entirety are categorized based on the lowest level input that is significant to the valuation. MPPA's assessment of the significance of particular inputs to these fair value measurements required judgement and considers factors specific to each asset or liability.

MICHIGAN PUBLIC POWER AGENCY

NOTES TO FINANCIAL STATEMENTS December 31, 2018

NOTE 3 – CASH AND INVESTMENTS (cont.)

Fair Value Measurement (con't)

As of December 31, 2018, the following investments are recorded at fair value using the Matrix Pricing Technique:

<u>Investment</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
U.S. Treasury Notes	\$ -	\$ 12,359,396	\$ -	\$ 12,359,396
Federal Home Loan Mortgage Association Notes	-	2,282,025	-	2,282,025
Federal Farm Credit Bank Notes		199,879		199,879
Fannie Mae Mortgage Association Notes	-	2,918,124	-	2,918,124
Freddie Mac Mortgage Backed Securities	-	1,271,419	-	1,271,419
Commercial Paper	-	709,052	-	709,052
Total Investments by Fair Value Level	\$ -	\$ 19,739,896	\$ -	\$ 19,739,896

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. Deposits in banks are insured by the FDIC in the amount of \$250,000 for all interest-bearing accounts.

At December 31, 2018, MPPA had \$26,569,873 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. At December 31, 2018, MPPA had \$48,953,201 in investments subject to custodial credit risk. All other investments are investments held in trust on behalf of MPPA and 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, 2018

NOTE 3 – CASH AND INVESTMENTS (cont.)

Custodial Credit Risk (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, 2018, MPPA's investments were rated as follows:

<u>Investment Type</u>	<u>Standard & Poor's</u>	<u>Moody's</u>
US Treasury Bonds	AA+	Aaa
US Agency Notes	AA+	Aaa
Money Market Funds	AAA	Aaa
Commercial Paper	A1	P1

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

Concentration of Credit Risk

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

MPPA's investment policy does not limit the amount of the portfolio that can be invested in U.S. 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. 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 ten years or less.

MICHIGAN PUBLIC POWER AGENCY

NOTES TO FINANCIAL STATEMENTS
December 31, 2018

NOTE 3 – CASH AND INVESTMENTS (cont.)

Interest Rate Risk (cont.)

At December 31, 2018, MPPA's investments were as follows:

Investment Type	Fair Value	Maturity in years	
		Less than 1 year	1-5 years
US Treasury	\$ 12,359,396	\$ 1,841,023	\$ 10,518,373
Agency Notes	6,671,448	2,016,887	4,654,561
Commercial Paper	709,052	709,052	-
	<u>\$ 19,739,896</u>	<u>\$ 4,566,962</u>	<u>\$ 15,172,934</u>

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 Statement of Net Position. MPPA is compliant with all bond resolution funding requirements.

NOTE 5 – CHANGES IN CAPITAL ASSETS

A summary of changes in capital assets is as follows:

	Balance 01/01/2018	Additions & Reclasses	Deletions & Reclasses	Balance 12/31/2018
Capital assets being depreciated:				
Building & Land	\$ 2,845,769	\$ 20,931		\$ 2,866,698
Utility Plant in Service	712,238,062	5,018,623	(111,633)	717,145,053
Construction Work in Progress	-	-	-	-
Less: Accumulated Depreciation	(480,915,246)	(19,710,846)	(181,553)	(500,807,646)
Net Utility Plant	<u>\$ 234,168,584</u>	<u>\$ (14,671,292)</u>	<u>\$ (293,186)</u>	<u>\$ 219,204,108</u>

MICHIGAN PUBLIC POWER AGENCY

NOTES TO FINANCIAL STATEMENTS
December 31, 2018

NOTE 6 – NON-CURRENT LIABILITIES

CAMPBELL No. 3 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>
Jan 30, 2013	Finance Cost of Improvements	1/1/2022	2.29%	\$ 23,500,000

The following obligations are outstanding at 12/31/2018:

2013 Series A Bonds	14,095,000
Unamortized premium on bonds	-
	<u>14,095,000</u>
Less: Current Portion	<u>(3,915,000)</u>
Total \$	10,180,000

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 in the remaining years following December 31, 2018 are as follows:

<u>Year Ending December 31</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2019	4,010,000	210,451	4,220,451
2020	4,095,000	118,107	4,213,107
2021	2,075,000	23,759	2,098,759
	<u>\$ 10,180,000</u>	<u>\$ 352,317</u>	<u>\$ 10,532,317</u>

MICHIGAN PUBLIC POWER AGENCY

NOTES TO FINANCIAL STATEMENTS
December 31, 2018

NOTE 6 – NON-CURRENT LIABILITIES (cont.)

CAMPBELL No. 3 PROJECT REVENUE BONDS (cont.)

Non-Current Liabilities as of December 31, 2018:

	01/01/2018			12/31/2018
	Balance	Additions	Reductions	Balance
Revenue Bonds	\$ 17,930,000	\$ -	\$ (3,835,000)	\$ 14,095,000
Unamortized Premium on Bonds	-	-	-	-
Current Maturities	(3,785,000)	(130,000)	-	(3,915,000)
Capital Contributions	1,383,978	(474,174)		909,804
Total Non-Current Liabilities	\$ 15,528,978	\$ (604,174)	\$ (3,835,000)	\$ 11,089,804

AFEC 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>
6/19/2012	Combined Cycle Plant Purchase	1/1/2043	3.5%-5.0%	\$ 32,520,000

The following obligations are outstanding at 12/31/2018:

2012 A Bonds		\$ 29,435,000		
Unamortized Premium on bonds		1,216,668		
		30,651,668		
Less: Current Portion		(630,000)		
Total		<u>\$ 30,021,668</u>		

MICHIGAN PUBLIC POWER AGENCY

NOTES TO FINANCIAL STATEMENTS
December 31, 2018

NOTE 6 – NON-CURRENT LIABILITIES (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 four years following December 31, 2018, and in five-year increments thereafter to maturity, are as follows:

Year Ending December 31	Principal	Interest	Total
2019	655,000	1,429,025	2,084,025
2020	685,000	1,399,550	2,084,550
2021	720,000	1,365,300	2,085,300
2022	755,000	1,329,300	2,084,300
2023-2027	4,350,000	6,074,800	10,424,800
2028-2032	5,545,000	4,882,250	10,427,250
2033-2037	7,070,000	3,351,000	10,421,000
2038-2042	9,025,000	1,397,500	10,422,500
	<u>\$ 28,805,000</u>	<u>\$ 21,228,725</u>	<u>\$ 50,033,725</u>

Non-current Liabilities as of December 31, 2018:

	01/01/2018		12/31/2018	
	Balance	Additions	Reductions	Balance
Revenue Bonds	\$ 30,035,000	\$ -	\$ (600,000)	\$ 29,435,000
Unamortized Premium on Bonds	1,300,193		(83,526)	1,216,668
Current Maturities	(600,000)	(30,000)	-	(630,000)
Total Non-Current Liabilities	<u>\$ 30,735,193</u>	<u>\$ (30,000)</u>	<u>\$ (683,526)</u>	<u>\$ 30,021,668</u>

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>
Jan 10,2002	Building of Turbine	1/1/2027	3.75%-5.40%	\$ 34,645,000
Oct 02,2011	Refinancing of 2002 bonds	1/1/2027	3.00%-5.00%	\$ 26,315,000

MICHIGAN PUBLIC POWER AGENCY

NOTES TO FINANCIAL STATEMENTS
December 31, 2018

NOTE 6 – NON-CURRENT LIABILITIES (cont.)

Combustion Turbine No. 1 Project Revenue Bonds (cont.)

The following obligations are outstanding at 12/31/2018:

2011 A Bonds	\$	17,080,000
Unamortized Premium on bonds		804,755
		17,884,755
Less: Current Portion		(1,550,000)
Total	\$	16,334,755

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 remaining eight years following December 31, 2018 are as follows:

Year Ending December 31	Principal	Interest	Total
2019	1,625,000	776,500	2,401,500
2020	1,710,000	695,250	2,405,250
2021	1,795,000	609,750	2,404,750
2022	1,880,000	520,000	2,400,000
2023	1,975,000	426,000	2,401,000
2024	2,075,000	327,250	2,402,250
2025	2,180,000	223,500	2,403,500
2026	2,290,000	114,500	2,404,500
	\$ 15,530,000	\$ 3,692,750	\$ 19,222,750

MICHIGAN PUBLIC POWER AGENCY

NOTES TO FINANCIAL STATEMENTS
December 31, 2018

NOTE 6 – NON-CURRENT LIABILITIES (cont.)

Non-current Liabilities as of December 31, 2018:

	01/01/2018			12/31/2018	
	Balance	Additions	Reductions	Balance	
Revenue Bonds	\$ 18,555,000	\$ -	\$ (1,475,000)	\$ 17,080,000	
Unamortized Premium on Bonds	990,866	-	(186,111)	804,755	
Current Maturities	(1,475,000)	(75,000)	-	(1,550,000)	
Total Non-Current Liabilities	\$ 18,070,866	\$ (75,000)	\$ (1,661,111)	\$ 16,334,755	

Belle River Project

	01/01/2018			12/31/2018	
	Balance	Additions	Reductions	Balance	
Revenue Bonds	\$ 26,125,000	\$ -	\$ (26,125,000)	\$ -	
Unamortized Premium	-	-	-	-	
Current Maturities	(26,125,000)	26,125,000	-	-	
Capital Contributions	3,890,000	-	-	3,890,000	
Total Non-Current Liabilities	\$ 3,890,000	\$ 26,125,000	\$ (26,125,000)	\$ 3,890,000	

Energy Services Project

The non-current liabilities in the Energy Services Project consist of capital contributions from members.

Non-current Liabilities as of December 31, 2018:

	01/01/2018			12/31/2018	
	Balance	Additions	Reductions	Balance	
Member Deposits	8,080,361	200,000	-	8,280,361	
Total Non-Current Liabilities	\$ 8,080,361	\$ 200,000	\$ -	\$ 8,280,361	

MICHIGAN PUBLIC POWER AGENCY

NOTES TO FINANCIAL STATEMENTS
December 31, 2018

NOTE 6 – NON-CURRENT LIABILITIES (cont.)

Landfill Renewable Energy Project

The non-current Liabilities in the Landfill Project consist of capital contributions from members.

Non-current Liabilities as of December 31, 2018:

	01/01/2018 Balance	Additions	Reductions	12/31/2018 Balance
Member Deposits	133,505	-	-	133,505
Total Non-Current Liabilities	\$ 133,505	\$ -	\$ -	\$ 133,505

Transmission Project

The non-current Liabilities in the Transmission Project consist of capital contributions from members.

Non-current Liabilities as of December 31, 2018:

	01/01/2018 Balance	Additions	Reductions	12/31/2018 Balance
Member Deposits	3,335,511	-	-	3,335,511
Total Non-Current Liabilities	\$ 3,335,511	\$ -	\$ -	\$ 3,335,511

General Office- Energy Efficiency Service Committee

The non-current Liabilities in the Energy Efficiency Service Committee consist of working capital contributions from members.

Non-current Liabilities as of December 31, 2018:

	01/01/2018 Balance	Additions	Reductions	12/31/2018 Balance
Member Deposits	623,553		(97,430)	526,123
Total Non-Current Liabilities	\$ 623,553	\$ -	\$ (97,430)	\$ 526,123

MICHIGAN PUBLIC POWER AGENCY

NOTES TO FINANCIAL STATEMENTS December 31, 2018

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 401(a) 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, 2018, 2017, and 2016 were approximately \$304,000, \$227,000, and \$266,000, respectively.

NOTE 8 – CONTRACTS AND COMMITMENTS

Contract with Consumers Energy

MPPA contracted with Consumers to purchase fuel coal to maintain a stockpile level of 13,886 wet tons for the Campbell Unit No. 3 plant for the 2018 calendar year. The coal is purchased at the prevailing market price at the time of delivery. MPPA also purchased an additional stockpile of coal as a 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 260,540 tons

Future Energy Contracts

The Agency has entered into long-term contracts for the purchase of capacity and energy to meet the anticipated load requirements of the Energy Service Project members. As of year-end, the power commitments for the period from January 1, 2018 – May 31, 2030 total approximately \$267,100,000.

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.

There have been no claims in any of the past three years. MPPA is committed to maintaining adequate amounts of coverage to insure against these risks.

MICHIGAN PUBLIC POWER AGENCY

NOTES TO FINANCIAL STATEMENTS
December 31, 2018

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 three members who are considered significant customers that accounted for \$75.3 million (45.2%) of MPPA gross revenues in 2018.

NOTE 11 – BOND COVENANT DISCLOSURES

Campbell No. 3 Project- Compliance with Funding Requirements

	<u>2018</u>
Gross operating revenues	\$ 15,365,003
Other revenues	173,616
	<hr/> 15,538,619
Operating expenses	13,456,624
Less: Depreciation	(2,731,608)
	<hr/> 10,725,016
Net revenues	<hr/> \$ 4,813,603
Debt service (principal & interest)	4,219,989
Required revenues (1.1x debt service)	4,641,988
Revenues in Excess of Coverage Requirements	<hr/> \$ 171,615

All project revenues net of specified operating expenses are pledged as security of the above revenue bonds until the bonds are retired.

MICHIGAN PUBLIC POWER AGENCY

NOTES TO FINANCIAL STATEMENTS
December 31, 2018

NOTE 11 – BOND COVENANT DISCLOSURES (cont.)

Combustion Turbine No. 1 Project

Compliance with Funding Requirements

	<u>2018</u>
Gross operating revenues	\$ 6,930,839
Other revenues	92,200
	<u>7,023,039</u>
Operating expenses	5,255,277
Less: Depreciation	(1,028,438)
	<u>4,226,839</u>
Net revenues	<u>\$ 2,796,200</u>
Debt service (principal, interest, reserve contribution)	2,454,000
Required revenues (1.1x debt service)	2,699,400
Revenues in Excess of Coverage Requirements	<u>\$ 96,800</u>

All project revenues net of specified operating expenses are pledged as security of the above revenue bonds until the bonds are retired.

MICHIGAN PUBLIC POWER AGENCY

NOTES TO FINANCIAL STATEMENTS
December 31, 2018

NOTE 11 – BOND COVENANT DISCLOSURES (cont.)

AFEC Project

Compliance with Funding Requirements

	<u>2018</u>
Gross operating revenues	\$ 10,988,248
Other revenues	118,223
	<hr/> 11,106,471
Operating expenses	8,244,128
Less: Depreciation	(860,127)
	<hr/> 7,384,000
Net revenues	<hr/> \$ 3,722,471
Debt service (principal & interest)	2,087,375
Required revenues (1.1x debt service)	2,296,113
Revenues in Excess of Coverage Requirements	<hr/> \$ 1,426,359

All project revenues net of specified operating expenses are pledged as security of the above revenue bonds until the bonds are retired.

OTHER SUPPLEMENTAL INFORMATION

MICHIGAN PUBLIC POWER AGENCY

SCHEDULE OF CHANGES IN FUNDS ESTABLISHED BY THE CAMPBELL NO. 3 PROJECT REVENUE BOND RESOLUTION Year Ended December 31, 2018

	Revenue Account	Operation and Maintenance Account	Operation and Maintenance Reserve Account	Fuel Reserve Account	Debt Service Account	Project Account	Construction Account	Totals
Cash and investments at January 1, 2018	\$ -	\$ 2,130,369	\$ 250,000	\$ 800,000	\$ 2,101,136	\$ 9,177,982	\$ -	\$ 14,459,487
Transfers in	-	11,957,502	-	-	4,201,500	883,778	-	17,042,781
Receipts	15,500,069	-	-	-	-	-	-	15,500,069
Investment receipts	-	153,356	-	-	17,956	-	-	171,312
Proceeds from Bonds	-	-	-	-	-	-	-	-
Payment of interest on bonds	-	-	-	-	(388,899)	-	-	(388,899)
Payment of bond principal	-	-	-	-	(3,835,000)	-	-	(3,835,000)
Capital disbursements	-	(1,269,044)	-	-	-	-	-	(1,269,044)
Disbursements	-	(10,826,914)	-	-	-	-	-	(10,826,914)
Transfer out	(15,500,069)	-	-	-	-	(1,542,712)	-	(17,042,781)
Cash and Investments at December 31, 2018	<u>\$ -</u>	<u>\$ 2,145,269</u>	<u>\$ 250,000</u>	<u>\$ 800,000</u>	<u>\$ 2,096,693</u>	<u>\$ 8,519,048</u>	<u>\$ -</u>	<u>\$ 13,811,010</u>

MICHIGAN PUBLIC POWER AGENCY

SCHEDULE OF CHANGES IN FUNDS ESTABLISHED BY THE AFEC PROJECT REVENUE BOND RESOLUTION Year Ended December 31, 2018

	Revenue Account	Operation and Maintenance Account	Debt Service Account	Debt Service Reserve Account	Reserve & Contingency Account	Project Account	Totals
Cash and investments at January 1, 2018	\$ -	\$ 631,998	\$ 1,347,131	\$ 2,151,456	\$ 284,610	\$ 5,408,896	\$ 9,824,091
Transfers in	-	7,716,833	2,081,000	-	-	2,875,724	12,673,557
Receipts	11,176,463	-	-	-	-	-	11,176,463
Investment receipts	-	78,325	13,842	28,888.02	-	-	121,055
Proceeds from bonds	-	-	-	-	-	-	-
Payment of interest on bonds	-	-	(1,470,875)	-	-	-	(1,470,875)
Payment of bond principal	-	-	(600,000)	-	-	-	(600,000)
Capital disbursements	-	(195,402)	-	-	-	-	(195,402)
Disbursements	-	(7,354,722)	-	-	-	-	(7,354,722)
Transfers out	(11,176,463)	-	-	-	-	(1,497,093)	(12,673,557)
Cash and Investments at December 31, 2018	<u>\$ -</u>	<u>\$ 877,032</u>	<u>\$ 1,371,098</u>	<u>\$ 2,180,344</u>	<u>\$ 284,610</u>	<u>\$ 6,787,527</u>	<u>\$ 11,500,611</u>

MICHIGAN PUBLIC POWER AGENCY

SCHEDULE OF CHANGES IN FUNDS ESTABLISHED BY THE COMBUSTION TURBINE PROJECT REVENUE BOND RESOLUTION Year Ended December 31, 2018

	Revenue Account	Operation and Maintenance Account	Debt Service Account	Debt Service Reserve Account	Project Account	Totals
Cash and investments at January 1, 2018	\$ -	\$ 971,727	\$ 1,945,629	\$ 1,564,477	\$ 3,506,839	\$ 7,988,672
Transfers in	-	3,847,270	2,395,500	-	1,237,671	7,480,441
Receipts	6,498,002	-	-	-	-	6,498,002
Investment receipts	-	331	20,404	71,433	-	92,169
Payment of interest on bonds	-	-	(890,875)	-	-	(890,875)
Payment of bond principal	-	-	(1,475,000)	-	-	(1,475,000)
Capital disbursements	-	(365,332)	-	-	(19,257)	(384,589)
Disbursements	-	(3,843,241)	-	-	-	(3,843,241)
Transfers out	(6,498,002)	-	-	-	(982,438)	(7,480,441)
Cash and Investments at December 31,2018	<u>\$ -</u>	<u>\$ 610,755</u>	<u>\$ 1,995,658</u>	<u>\$ 1,635,910</u>	<u>\$ 3,742,815</u>	<u>\$ 7,985,138</u>

**MICHIGAN PUBLIC POWER AGENCY
CAMPBELL #3 PROJECT
Statement of Revenues, Expenses and Changes in Net Position
12 MONTHS ENDED 12/31/2018 AND 2017**

	2018 ACTUAL	UNAUDITED 2018 BUDGET	OVER (UNDER) 2018 BUDGET	2017 ACTUAL
OPERATING REVENUE				
Energy	\$ 7,313,949	\$ 7,252,333	\$ 61,616	\$ 6,957,359
Transmission	1,204,502	1,100,000	104,502	1,118,445
Fuel	6,846,552	6,899,275	(52,723)	7,577,110
TOTAL OPERATING REVENUE	15,365,003	15,251,608	113,395	15,652,915
OPERATING EXPENSE				
Production				
Fuel	6,846,552	6,899,275	(52,723)	7,577,110
Operations & Maintenance	1,862,322	1,741,410	120,912	1,661,455
MISO Market OH Fee	41,008	34,000	7,008	(5,327)
	8,749,882	8,674,685	75,197	9,233,238
TRANSMISSION				
Operations & Maintenance	329,874	320,000	9,874	320,474
Utilization Charge (Credit)	874,628	780,000	94,628	755,799
	1,204,502	1,100,000	104,502	1,076,273
ADMINISTRATIVE & GENERAL				
CECo	450,375	467,229	(16,854)	402,040
MPPA				
- Salaries and Benefits	189,142	211,666	(22,524)	179,451
- Outside Services	68,041	92,570	(24,529)	68,726
- All Other A & G	63,073	65,469	(2,396)	50,950
Total A&G expense	770,631	836,934	(66,303)	701,167
Depreciation	2,731,608	2,802,401	(70,793)	2,698,801
TOTAL OPERATING EXPENSE	13,456,623	13,414,020	42,603	13,709,478
OPERATING INCOME (LOSS)	1,908,380	1,837,588	70,792	1,943,437
OTHER EXPENSE				
Amortization	-	-	-	-
Debt Issuance Costs	-	-	-	-
Interest expense	344,989	344,989	(1)	432,238
TOTAL OTHER EXPENSE	344,989	344,989	(1)	432,238
OTHER REVENUE				
Interest income	139,403	95,000	44,403	100,583
Investment gain (loss)	34,211	-	34,211	(27,123)
Miscellaneous	-	-	-	-
TOTAL OTHER REVENUE (EXP)	173,614	95,000	78,614	73,460
CHANGE IN NET POSITION	\$ 1,737,006	\$ 1,587,599	\$ 149,407	\$ 1,584,660

MICHIGAN PUBLIC POWER AGENCY
BELLE RIVER PROJECT
Statement of Revenues, Expenses and Changes in Net Position
12 MONTHS ENDED 12/31/2018 AND 2017

	2018 ACTUAL	UNAUDITED 2018 BUDGET	OVER (UNDER) 2018 BUDGET	2017 ACTUAL
OPERATING REVENUE				
Energy	\$ 11,647,610	\$ 13,207,951	\$ (1,560,341)	\$ 47,462,307
Transmission	3,491,919	2,468,385	1,023,534	5,296,065
Fuel	31,154,145	28,996,072	2,158,073	28,653,284
Transmission Utilization	0	0	0	0
Transmission Revenue Distribution	0	0	0	0
TOTAL OPERATING REVENUE	46,293,673	44,672,408	1,621,265	81,411,657
OPERATING EXPENSE				
Production				
Fuel	31,154,145	28,996,072	2,158,073	28,653,284
Operations & Maintenance	8,110,114	8,657,412	(547,298)	9,204,363
MISO Market OH Fee	191,912	180,000	11,912	(139,449)
	39,456,171	37,833,484	1,622,687	37,718,198
TRANSMISSION				
Operations & Maintenance	2,449,611	2,268,385	181,226	2,256,280
Utilization Charge (Credit)	5,467,618	4,800,000	667,618	4,725,092
ITC Revenue Distribution	(4,814,284)	(4,600,000)	(214,284)	(4,563,990)
	3,102,946	2,468,385	634,561	2,417,382
ADMINISTRATIVE & GENERAL				
DECo	2,815,893	3,240,569	(424,676)	3,034,751
ITC	387,283	481,500	(94,217)	402,663
MPPA				
- Salaries & Benefits	312,530	329,696	(17,166)	283,439
- Outside Services	124,008	220,848	(96,840)	182,047
- All Other A & G	94,843	97,927	(3,084)	76,613
Total A&G expense	3,734,556	4,370,540	(635,984)	3,979,514
Depreciation	15,385,221	15,000,000	385,221	14,861,923
TOTAL OPERATING EXPENSE	61,678,895	59,672,409	2,006,486	58,977,017
OPERATING INCOME (LOSS)	(15,385,221)	(15,000,001)	(385,220)	22,434,640
OTHER EXPENSE				
Amortization	-	-	-	(31,300)
Interest expense	-	-	-	1,371,563
TOTAL OTHER EXPENSE	-	-	-	1,340,263
OTHER REVENUE (EXPENSE)				
Interest income	511,676	255,000	256,676	387,686
Investment gain (loss)	40,016	-	40,016	(43,018)
Miscellaneous	-	-	-	11,200
TOTAL OTHER REVENUE (EXP)	551,691	255,000	296,691	355,868
CHANGE IN NET POSITION	\$ (14,833,530)	\$ (14,745,001)	\$ (88,529)	\$ 21,450,245

MICHIGAN PUBLIC POWER AGENCY
AFEC PROJECT
Statement of Revenues, Expenses and Changes in Net Position
12 MONTHS ENDED 12/31/2018 AND 2017

	2018 ACTUAL	UNAUDITED 2018 BUDGET	OVER (UNDER) 2018 BUDGET	2017 ACTUAL
OPERATING REVENUE				
Energy & Capacity	\$ 10,988,248	\$ 9,286,511	\$ 1,701,737	\$ 8,981,274
TOTAL OPERATING REVENUE	10,988,248	9,286,511	1,701,737	8,981,274
OPERATING EXPENSE				
Production				
Fuel	5,312,281	4,965,719	346,562	4,447,105
Fixed O & M	1,601,363	1,602,212	(849)	1,656,686
Variable O & M	343,687	259,602	84,085	262,042
PJM Replacement Pwr	(421,374)	75,000	(496,374)	62,988
Reactive Revenue Distribution	(110,159)	(110,159)	(0)	(110,159)
Capacity Credit	(1,675,810)	(1,747,371)	71,561	(1,483,921)
MISO Capacity Purchase	1,401,208	1,401,867	(660)	1,053,577
	6,451,195	6,446,870	4,325	5,888,319
TRANSMISSION				
LMP Price Differential	536,607	158,294	378,313	325,277
ADMINISTRATIVE & GENERAL				
AMP	119,905	91,811	28,094	94,404
MPPA				
- Salaries and Benefits	167,334	179,597	(12,263)	145,674
- Outside Services	52,685	51,877	808	48,635
- All Other A & G	56,275	55,687	588	41,514
Total A&G expense	396,198	378,972	17,226	330,227
Depreciation	860,127	845,000	15,127	842,935
TOTAL OPERATING EXPENSE	8,244,128	7,829,136	414,992	7,386,758
OPERATING INCOME (LOSS)	2,744,120	1,457,375	1,286,745	1,594,516
OTHER EXPENSE				
Amortization	(83,526)	(83,526)	0	(85,073)
Interest expense	1,457,375	1,457,375	-	1,484,375
TOTAL OTHER EXPENSE	1,373,849	1,373,849	0	1,399,302
OTHER REVENUE				
Interest income	112,799	60,000	52,799	58,755
Investment gain (loss)	5,424	-	5,424	(16,111)
Miscellaneous	-	-	-	-
TOTAL OTHER REVENUE	118,223	60,000	58,223	42,644
CHANGE IN NET POSITION	\$ 1,488,494	\$ 143,526	\$ 1,344,968	\$ 237,858

**MICHIGAN PUBLIC POWER AGENCY
COMBUSTION TURBINE PROJECT
Statement of Revenues, Expenses and Changes in Net Position
12 MONTHS ENDED 12/31/2018 AND 2017**

	2018 ACTUAL	UNAUDITED 2018 BUDGET	OVER (UNDER) 2018 BUDGET	2017 ACTUAL
OPERATING REVENUE				
Energy	\$ 4,036,317	\$ 4,072,045	\$ (35,728)	\$ 3,758,619
Transmission	1,546,656	1,269,923	276,733	1,197,687
Fuel	1,347,866	665,915	681,951	578,592
TOTAL OPERATING REVENUE	6,930,839	6,007,883	922,956	5,534,898
OPERATING EXPENSE				
Production				
Fuel	1,347,866	665,915	681,951	578,592
Operations & Maintenance	663,465	734,527	(71,062)	656,810
MISO Market OH Fee	13,659	7,500	6,159	6,612
	2,024,990	1,407,942	617,048	1,242,013
TRANSMISSION				
Operations & Maintenance	1,152,733	876,000	276,733	803,519
ADMINISTRATIVE & GENERAL				
Traverse City	462,665	465,000	(2,335)	301,942
MPPA				
- Salaries & Benefits	206,344	256,572	(50,228)	211,839
- Outside Services	184,956	105,544	79,412	89,229
- All Other A & G	195,153	192,825	2,328	183,605
Total A&G expense	1,049,117	1,019,941	29,176	786,615
Taxes	-	-	-	-
Depreciation	1,028,438	1,020,000	8,438	1,161,920
TOTAL OPERATING EXPENSE	5,255,277	4,323,883	931,394	3,994,068
OPERATING INCOME (LOSS)	1,675,562	1,684,000	(8,438)	1,540,830
OTHER EXPENSE				
Amortization	(84,917)	(84,917)	0	(92,250)
Interest expense	854,000	854,000	-	927,750
TOTAL OTHER EXPENSE	769,083	769,083	0	835,500
OTHER REVENUE				
Interest income	87,068	40,000	47,068	45,761
Investment gain (loss)	5,132	-	5,132	(10,553)
Miscellaneous	-	-	-	-
TOTAL OTHER REVENUE (EXP)	92,200	40,000	52,200	35,208
CHANGE IN NET POSITION	\$ 998,680	\$ 954,917	\$ 43,763	\$ 740,538

**MICHIGAN PUBLIC POWER AGENCY
ENERGY SERVICES PROJECT
Statement of Revenues, Expenses and Changes in Net Position
12 MONTHS ENDED 12/31/2018 AND 2017**

	2018 ACTUAL	UNAUDITED 2018 BUDGET	OVER (UNDER) 2018 BUDGET	2017 ACTUAL
OPERATING REVENUE				
Energy & Capacity	\$ 44,006,192	\$ 50,474,101	\$ (6,467,909)	\$ 43,734,290
Transmission	10,310,729	8,551,041	1,759,688	11,843,411
MISO Energy Market Sales	16,553,584	11,319,776	5,233,808	23,310,461
TOTAL OPERATING REVENUE	70,870,505	70,344,918	525,587	78,888,162
OPERATING EXPENSE				
Energy & Capacity	48,934,773	49,017,459	(82,686)	49,053,395
MISO Market OH Fee	655,125	323,938	331,187	443,117
MISO Energy Market Purch (Sale)	9,786,995	11,319,776	(1,532,781)	16,306,293
	59,376,893	60,661,173	(1,284,280)	65,802,805
TRANSMISSION				
Operations & Maintenance	7,802,516	5,367,485	2,435,031	8,876,105
Transmission transfer to TSC	2,508,212	3,183,556	(675,344)	2,967,306
	10,310,729	8,551,041	1,759,688	11,843,411
ADMINISTRATIVE & GENERAL				
MPPA				
- Salaries & Benefits	740,756	656,816	83,940	763,585
- Outside Services	253,309	281,244	(27,935)	264,854
- All Other A & G	188,818	194,644	(5,826)	213,507
Total A&G expense	1,182,883	1,132,704	50,179	1,241,946
Depreciation	-	-	-	-
TOTAL OPERATING EXPENSE	70,870,505	70,344,918	525,587	78,888,162
OPERATING INCOME (LOSS)	-	-	-	-
OTHER REVENUE (EXPENSE)				
Interest/Investment income	109,170	40,000	69,170	44,500
Investment gain (loss)	10,657	-	10,657	(11,700)
Miscellaneous	-	-	-	-
TOTAL OTHER REVENUE (EXP)	119,827	40,000	79,827	32,800
CHANGE IN NET POSITION	\$ 119,827	\$ 40,000	\$ 79,827	\$ 32,800

**MICHIGAN PUBLIC POWER AGENCY
LANDFILL PROJECT
Statement of Revenues, Expenses and Changes in Net Position
12 MONTHS ENDED 12/31/2018 AND 2017**

	2018 ACTUAL	UNAUDITED 2018 BUDGET	OVER (UNDER) 2018 BUDGET	2017 ACTUAL
OPERATING REVENUE				
Energy	\$ 12,069,234	\$ 11,373,505	\$ 695,729	\$ 11,331,663
TOTAL OPERATING REVENUE	12,069,234	11,373,505	695,729	11,331,663
OPERATING EXPENSE				
Purchased Power				
Energy	11,912,748	11,250,648	662,100	11,216,782
Capacity	-	-	-	-
	11,912,748	11,250,648	662,100	11,216,782
TRANSMISSION/DISTRIBUTION				
Operations & Maintenance	-	-	-	-
Distribution Charge	-	-	-	-
	-	-	-	-
ADMINISTRATIVE & GENERAL				
MPPA				
- Salaries & Benefits	108,329	83,381	24,948	85,155
- Outside Services	22,805	13,280	9,525	12,243
- All Other A & G	25,352	26,196	(844)	17,482
Total A&G expense	156,486	122,857	33,629	114,881
Taxes	-	-	-	-
Depreciation	-	-	-	-
TOTAL OPERATING EXPENSE	12,069,234	11,373,505	695,729	11,331,663
OPERATING INCOME (LOSS)	-	-	-	-
OTHER REVENUE (EXPENSE)				
Interest income	16,454	4,500	11,954	6,208
Investment gain (loss)	1,785	-	1,785	(1,672)
Miscellaneous	-	-	-	-
TOTAL OTHER REVENUE (EXP)	18,240	4,500	13,740	4,537
CHANGE IN NET POSITION	\$ 18,240	\$ 4,500	\$ 13,740	\$ 4,537

**MICHIGAN PUBLIC POWER AGENCY
TRANSMISSION PROJECT
Statement of Revenues, Expenses and Changes in Net Position
12 MONTHS ENDED 12/31/2018 AND 2017**

	2018 ACTUAL	UNAUDITED 2018 BUDGET	OVER (UNDER) 2018 BUDGET	2017 ACTUAL
OPERATING REVENUE				
Transmission Revenue	\$ 1,141,250	\$ 872,410	\$ 268,840	\$ 831,015
Jt Zone Transmission Revenue	3,861,494	3,380,000	481,494	3,672,515
Jt Zone Transmission Distribution	(3,821,251)	(3,339,830)	(481,421)	(3,625,816)
TOTAL OPERATING REVENUE	1,181,493	912,580	268,913	877,714
OPERATING EXPENSE				
TRANSMISSION				
Operations & Maintenance	1,037,472	736,239	301,233	722,685
Operation Joint Zone	31,200	31,200	-	31,200
Utilization Charge (Credit)	-	-	-	-
	1,068,672	767,439	301,233	753,885
ADMINISTRATIVE & GENERAL				
MPPA				
- Salaries & Benefits	70,830	80,828	(9,998)	80,541
- Outside Services	16,747	38,728	(21,981)	24,881
- All Other A & G	25,244	25,591	(347)	18,408
Total A&G expense	112,821	145,147	(32,326)	123,829
Taxes	-	-	-	-
Depreciation	22,681	22,680	1	22,681
TOTAL OPERATING EXPENSE	1,204,174	935,266	268,908	900,396
OPERATING INCOME (LOSS)	(22,681)	(22,686)	5	(22,681)
OTHER REVENUE (EXPENSE)				
Interest income	7,544	2,500	5,044	2,810
Investment gain (loss)	(16)	-	(16)	202
Miscellaneous	-	-	-	-
TOTAL OTHER REVENUE (EXP)	7,528	2,500	5,028	3,012
CHANGE IN NET POSITION	\$ (15,154)	\$ (20,186)	\$ 5,032	\$ (19,670)

**MICHIGAN PUBLIC POWER AGENCY
GENERAL FUND INCOME STATEMENT
Statement of Revenues, Expenses and Changes in Net Position
12 MONTHS ENDED 12/31/2018 AND 2017**

	OVER (UNDER)			
	2018 ACTUAL	2018 BUDGET	2018 BUDGET	2017 ACTUAL
OPERATING REVENUE				
Participant Dues & Assessments	\$ 815,759	\$ 797,996	\$ 17,763	\$ 762,599
Charges for Services:			-	
Allocated expenses (Projects)	139,992	139,992	-	137,508
MMEA charges	348,484	293,745	54,739	295,931
Total Committee Revenues	1,694,842	2,038,612	(343,770)	1,942,067
Miscellaneous	42,840	42,500	340	41,580
TOTAL OPERATING REVENUE	3,041,917	3,312,845	(270,928)	3,179,686
OPERATING EXPENSE				
MMEA- direct expenses	299,879	245,745	54,134	248,536
Service Committee- direct expenses	1,593,993	1,973,681	(379,688)	1,875,304
Salaries & Benefits	312,391	347,653	(35,262)	319,887
Office supplies & expense	16,176	14,412	1,764	14,668
Insurance	21,200	18,555	2,645	15,240
Outside Services	115,510	180,280	(64,770)	107,445
Meeting & Travel	17,227	42,000	(24,773)	25,484
Rent & Building Maint.	18,236	27,624	(9,388)	29,962
Miscellaneous	6,150	6,150	-	6,150
Dues & Assessments	424,688	407,034	17,654	377,223
Total A&G expense	2,825,451	3,263,134	(437,683)	3,019,899
Depreciation - Office Equip	19,770	24,000	(4,230)	24,474
Depreciation - Building	26,106	32,400	(6,294)	32,080
TOTAL OPERATING EXPENSE	2,871,327	3,319,534	(448,207)	3,076,453
OTHER INCOME				
Interest income	15,165	12,000	3,165	11,271
Investment Gain (Loss)	1,133	-	1,133	(811)
Recognized Bldg Lease Income	66,192	66,193	(1)	76,192
	82,490	78,193	4,297	86,652
		-	-	-
CHANGE IN NET POSITION	\$ 253,079	\$ 71,504	\$ 181,576	\$ 189,885