



809 Centennial Way
Lansing, Michigan 48917

FINANCIAL STATEMENTS

December 31, 2017

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, 2017 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 an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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 opinion.

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, 2017 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.

Emphasis of Matter

As discussed in Note 1 to the basic financial statements, the Michigan Public Power Agency has elected to change its method of accounting for what was previously reported as regulatory deferred inflows of resources for fiscal year 2017. Our opinion is not modified with respect to this matter.

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, 2016 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated April 3, 2017. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2016 is consistent, in all material respects, with the audited financial statements from which it has been derived.



March 20, 2018

**MANAGEMENT'S DISCUSSION
AND ANALYSIS**

MICHIGAN PUBLIC POWER AGENCY

MANAGEMENT'S DISCUSSION AND ANALYSIS December 31, 2017

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, 2017 and 2016. 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, 2017

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, 2017

MPPA FINANCIAL ANALYSIS (cont.)

Table 1
Statement of Net Position

	<u>2017</u>	<u>2016</u>
Current Assets	\$ 101,372,161	\$ 101,966,555
Non-Current Assets		
Capital assets	234,168,584	244,747,566
Other assets	39,476,370	39,455,973
Total Assets	<u>375,017,115</u>	<u>386,170,094</u>
Deferred Outflows of Resources	<u>464,661</u>	<u>730,245</u>
Current Liabilities		
Accrued Interest Payable	2,097,143	2,859,169
Revenue Bonds Payable - Current	31,985,000	30,485,000
Other Current Liabilities	18,635,101	20,300,493
Total Current Liabilities	<u>52,717,244</u>	<u>53,644,662</u>
Non-Current Liabilities		
Liabilities payable from restricted assets	-	-
Member capital	17,446,908	17,781,663
Revenue bonds payable, less current portion	62,951,059	97,328,298
Total Non-Current Liabilities	<u>80,397,967</u>	<u>115,109,961</u>
Total Liabilities	<u>133,115,211</u>	<u>168,754,623</u>
Deferred Inflows of Resources	<u>-</u>	<u>216,577,134</u>
Net Position		
Net investment in capital assets	139,771,286	117,766,646
Restricted	48,838,772	-
Unrestricted	53,756,507	(116,198,067)
Total Net Position	<u>\$ 242,366,565</u>	<u>\$ 1,568,579</u>

MICHIGAN PUBLIC POWER AGENCY

MANAGEMENT'S DISCUSSION AND ANALYSIS December 31, 2017

MPPA FINANCIAL ANALYSIS (cont.)

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

	<u>2017</u>	<u>2016</u>
Gross Operating Revenues	\$ 205,857,969	\$ 210,432,825
Change in Deferred Revenues	-	(24,708,641)
Non-Operating Revenues	634,181	642,834
Total Revenues	<u>206,492,150</u>	<u>186,367,018</u>
Depreciation Expense	19,644,814	19,150,176
Other Operating Expenses	158,619,181	161,589,501
Non-Operating Expenses	4,007,304	5,456,653
Total Expenses	<u>182,271,299</u>	<u>186,196,330</u>
Change in Net Position	\$ 24,220,852	\$ 170,687
Impact of Change in Accounting	216,577,134	-
Beginning Net Position	<u>1,568,579</u>	<u>1,397,892</u>
Ending Net Position	<u>\$ 242,366,565</u>	<u>\$ 1,568,579</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 on page 17.

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 2017 share of the plant generation was 311,459 MWH. The total operating costs for the plant were \$50.26/MWH. Increased availability of the plant is the primary driver for the increase in MWHs over 2016's generation of 206,815 MWH at \$65.39/MWH.

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 2017 share of the plant generation was 1,283,386 MWH. The total operating costs for the plant were \$63.44/MWH. Compared to 2016's generation of 1,214,908 MWH's at \$69.24/MWH, increased availability of the plant account for a majority of the variance.

MICHIGAN PUBLIC POWER AGENCY

MANAGEMENT'S DISCUSSION AND ANALYSIS December 31, 2017

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. 2017 plant generation was 17,951 MWH compared with 2016's generation of 44,522 MWH. The natural gas-fired plant serves as a peaking power plant and generation will vary from year to year.

Energy Services Project

The Energy Services Project facilitates the purchase of capacity and energy from third parties for sale to twenty-one member municipalities. During 2017 the Energy Services Project provided 1,545,726 MWHs of energy to its members at an average energy cost of \$38.69/MWH.

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 2017, MPPA purchased a total of 111,131 MWH of renewable energy for the benefit of its members.

Transmission Project

The Transmission Project was created to purchase an undivided interest in the transmission grid 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 2017 share of the plant generation was 162,765 MWH. The total operating costs for the plant were \$55.18/MWH compared with 2016's generation of 139,299 MWH at \$46.27/MWH.

MICHIGAN PUBLIC POWER AGENCY

MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2017

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, 2017 amounts to \$234,168,584 (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, 2017, MPPA had a total of \$133,155,211 in total outstanding liabilities. Of this amount, the following represents bond payments payable:

Long Term Debt- Bonds

Campbell #3 Project	\$	17,930,000
Belle River Project		26,125,000
Combustion Turbine #1 Project		19,545,866
AMP Fremont Energy Center Project (AFEC)		31,335,193
	\$	<u>94,936,059</u>

See Note 6 for additional details.

MICHIGAN PUBLIC POWER AGENCY

MANAGEMENT'S DISCUSSION AND ANALYSIS December 31, 2017

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, 2017

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. MPPA members recently made a 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.

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, 2017
(With Comparative Totals for December 31, 2016)

	CAMPBELL NO. 3	BELLE RIVER	CT PROJECT	TRANSMISSION PROJECT	LANDFILL PROJECT	AFEC PROJECT	ENERGY SVCS PROJECT	GENERAL OFFICE	TOTALS 2017	TOTALS 2016
CURRENT ASSETS										
Cash & Cash Equivalents										
Operation & Maintenance Account	\$ 2,130,369	\$ 9,540,618	\$ 971,727	\$ 479,204	\$ 798,831	\$ 631,998	\$ 2,134,712	\$ -	\$ 16,687,459	\$ 22,899,193
Project Account	2,471,640	9,682,988	2,524,401	-	-	4,046,559	-	-	18,725,588	15,295,146
Working Capital/Other	-	-	-	-	-	-	5,593,467	2,291,586	7,885,053	2,041,592
Total Cash and Cash Equivalents	4,602,009	19,223,606	3,496,128	479,204	798,831	4,678,557	7,728,179	2,291,586	43,298,100	40,235,931
Restricted Cash- Debt Service										
Accrued Interest Receivable	2,101,136	26,904,772	1,945,629	-	-	1,347,131	-	-	32,298,668	33,413,284
Accounts Receivable	28,544	36,332	7,021	1,167	1,673	6,767	12,732	4,103	98,339	81,081
Fuel Inventory	2,159,944	10,381,559	495,775	294,426	46,386	727,201	3,126,540	78,932	17,310,763	19,696,668
Materials and Supplies Inventory	1,142,754	3,561,488	147,480	-	-	-	-	-	4,851,722	4,802,628
Total Current Assets	10,034,387	63,511,505	6,202,854	774,797	846,890	6,759,656	10,867,451	2,374,621	101,372,161	101,966,555
NON-CURRENT ASSETS										
Capital Assets										
Utility Plant	91,955,154	555,362,097	30,452,481	3,335,511	-	30,982,927	125,430	-	712,213,600	703,042,566
Building and Land	244,547	154,027	48,500	-	-	715,950	-	1,682,744	2,845,768	2,760,150
Depreciation	(46,571,355)	(413,687,319)	(14,573,273)	(268,397)	-	(4,524,110)	(125,430)	(1,140,900)	(480,890,784)	(461,055,150)
Net Property & Equipment	45,628,346	141,828,805	15,927,708	3,067,114	-	27,174,767	-	541,844	234,168,584	244,747,566
Other Assets										
Prepaid Bond Insurance Costs	-	-	74,100	-	-	-	-	-	74,100	102,133
Prepaid Expenses & Deposits	1,383,978	3,890,000	-	-	-	771,120	-	2,050	6,047,148	6,255,098
Prepaid Long Term Lease	-	-	-	-	-	-	-	-	-	-
Investments- Unrestricted	6,706,342	2,481,215	982,438	86,586	351,324	1,362,337	2,458,002	289,631	14,717,875	14,647,694
Restricted Cash	-	-	33,663	-	-	18,877	-	-	52,540	33,928
Debt Service Reserve	-	-	-	-	-	-	-	-	1,050,000	1,050,000
O & M / Fuel Reserve	1,050,000	-	-	-	-	-	-	-	3,676,261	369,181
Contingency/Construction	-	3,391,651	-	-	-	284,610	-	-	-	-
Total Restricted Cash	1,050,000	3,391,651	33,663	-	-	303,487	-	-	4,778,801	1,453,109
Restricted Investments										
Debt Service Reserve	-	-	1,530,814	-	-	2,132,579	-	-	3,663,393	3,605,171
Contingency/Construction	-	10,195,053	-	-	-	-	-	-	10,195,053	13,392,768
Total Non-Current Assets	54,768,666	161,786,724	18,548,723	3,153,700	351,324	31,744,290	2,458,002	833,525	273,644,954	284,203,539
TOTAL ASSETS	64,803,053	225,298,229	24,751,577	3,928,497	1,198,214	38,503,946	13,325,453	3,208,146	375,017,115	386,170,094
DEFERRED OUTFLOWS OF RESOURCES										
	-	-	464,661	-	-	-	-	-	464,661	730,245
CURRENT LIABILITIES										
Accounts payable and Accrued Exp.	1,089,253	9,328,539	132,887	538,404	1,045,594	638,261	5,036,035	826,129	18,635,101	20,300,493
Liabilities payable from Restricted Assets	-	-	-	-	-	-	-	-	-	-
Accrued interest payable	205,299	685,781	463,875	-	-	742,188	-	-	2,097,143	2,859,169
Revenue Bonds Payable- Current	3,785,000	26,125,000	1,475,000	-	-	600,000	-	-	31,985,000	30,485,000
Total Current Liabilities	5,079,552	36,139,320	2,071,762	538,404	1,045,594	1,980,449	5,036,035	826,129	52,717,244	53,644,662
NON-CURRENT LIABILITIES										
Capital Contributions	1,383,978	3,890,000	-	3,335,511	133,505	-	8,080,361	623,553	17,446,908	17,781,663
Revenue Bonds Payable less current portion	14,145,000	-	18,070,866	-	-	30,735,193	-	-	62,951,059	97,328,298
Scholarship fund payable from Restr.Assets	-	-	-	-	-	-	-	-	-	-
Total Non-Current Liabilities	15,528,978	3,890,000	18,070,866	3,335,511	133,505	30,735,193	8,080,361	623,553	80,397,967	115,109,961
TOTAL LIABILITIES	20,608,530	40,029,320	20,142,628	3,873,915	1,179,099	32,715,642	13,116,396	1,449,682	133,115,211	168,754,623
DEFERRED INFLOWS OF RESOURCES										
									-	216,577,134
NET POSITION										
Net Investment in Capital Assets	27,698,346	115,703,805	(3,079,397)	3,067,114	-	(4,160,426)	-	541,844	139,771,286	117,766,646
Restricted- Debt Service	1,895,837	26,218,991	1,481,754	-	-	604,943	-	-	30,201,525	30,201,525
Restricted- Debt Service Reserve	-	-	1,564,477	-	-	2,151,456	-	-	3,715,933	3,715,933
Restricted- Reserve & Contingency	1,050,000	13,586,704	-	-	-	284,610	-	-	14,921,314	14,921,314
Unrestricted (Deficit)	13,550,340	29,759,409	5,106,776	(3,012,532)	19,115	6,907,721	209,057	1,216,620	53,756,507	(116,198,067)
TOTAL NET POSITION	\$ 44,194,523	\$ 185,268,909	\$ 5,073,610	\$ 54,582	\$ 19,115	\$ 5,788,304	\$ 209,057	\$ 1,758,464	\$ 242,366,565	\$ 1,568,579

MICHIGAN PUBLIC POWER AGENCY
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
Year Ended December 31, 2017
(With Comparative Totals for December 31, 2016)

	Campbell No. 3 Project	Belle River Project	Combustion Turbine No.1	Transmission Project	Landfill Project	AFEC Project	Energy Services Project	General Office Operation	Totals	
									2017	2016
OPERATING REVENUES										
Gross Sales	\$ 15,652,915	\$ 85,975,647	\$ 5,534,898	\$ 831,015	\$ 11,331,663	\$ 8,981,274	\$ 78,888,162	\$ -	\$ 207,195,574	\$ 212,001,957
Joint zone revenue	-	-	-	3,672,515	-	-	-	-	3,672,515	4,215,712
Transmission revenue distribution	-	(4,563,990)	-	(3,625,816)	-	-	-	-	(8,189,806)	(8,802,428)
Other	-	-	-	-	-	-	-	3,179,686	3,179,686	3,017,584
Total Gross Revenue	15,652,915	81,411,657	5,534,898	877,714	11,331,663	8,981,274	78,888,162	3,179,686	205,857,969	210,432,825
Change in Deferred Inflows										(24,708,641)
Net Operating Revenues	15,652,915	81,411,657	5,534,898	877,714	11,331,663	8,981,274	78,888,162	3,179,686	205,857,969	185,724,184
OPERATING EXPENSES										
Cost of power - produced	9,238,565	37,857,647	1,235,402	-	-	6,365,833	-	-	54,697,447	53,742,781
Cost of power - purchased	-	-	-	-	11,216,782	(477,514)	65,359,689	-	76,098,957	81,782,480
Miso Market Overhead Fees	(5,327)	(139,449)	6,612	-	-	-	443,117	-	304,952	754,588
Transmission	1,076,273	2,417,382	803,519	753,885	-	325,277	11,843,411	-	17,219,748	15,731,215
General and administrative	701,167	3,979,514	786,615	123,829	114,881	330,227	1,241,946	3,019,899	10,298,077	9,578,437
Depreciation	2,698,801	14,861,923	1,161,920	22,681	-	842,935	-	56,554	19,644,814	19,150,176
Total Operating Expenses	13,709,479	58,977,017	3,994,068	900,397	11,331,663	7,386,758	78,888,162	3,076,453	178,263,996	180,739,677
Operating Income (Loss)	1,943,437	22,434,640	1,540,830	(22,683)	0	1,594,517	(0)	103,233	27,593,974	4,984,507
NONOPERATING REVENUES (EXPENSES)										
Interest cost incurred	(432,238)	(1,371,563)	(927,750)	-	-	(1,484,375)	-	-	(4,215,925)	(5,718,338)
Amortization of financing-related costs	-	31,300	92,250	-	-	85,073	-	-	208,622	261,684
Investment income	100,583	387,686	45,761	2,810	6,208	58,755	44,500	11,271	657,575	584,502
Net change in fair value of investments	(27,123)	(43,018)	(10,553)	202	(1,672)	(16,111)	(11,700)	(811)	(110,786)	(58,742)
Prepaid lease income	-	11,200	-	-	-	-	-	76,192	87,392	117,072
Sale of emissions	-	-	-	-	-	-	-	-	-	-
Total Nonoperating Revenues (Expenses)	(358,777)	(984,395)	(800,292)	3,012	4,536	(1,356,658)	32,800	86,652	(3,373,121)	(4,813,819)
CHANGE IN NET POSITION	\$ 1,584,660	\$ 21,450,245	\$ 740,539	\$ (19,671)	\$ 4,536	\$ 237,859	\$ 32,800	\$ 189,884	\$ 24,220,852	\$ 170,687
Impact of Change in Accounting	42,609,864	163,818,665	4,333,072	74,251	14,578	5,550,446	176,258	-	216,577,134	-
NET POSITION - Beginning of Year	-	-	-	-	-	-	-	1,568,579	1,568,579	1,397,892
NET POSITION - END OF YEAR	\$ 44,194,523	\$ 185,268,909	\$ 5,073,610	\$ 54,582	\$ 19,115	\$ 5,788,304	\$ 209,057	\$ 1,758,463	\$ 242,366,565	\$ 1,568,579

MICHIGAN PUBLIC POWER AGENCY

STATEMENTS OF CASH FLOWS
Year Ended December 31, 2017
(With Comparative Totals for December 31, 2016)

	Campbell No. 3 Project	Belle River Project	Combustion Turbine #1	Transmission Project	Landfill Project	AFEC Project	Energy Services Project	General Office Operation	Totals	
									2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES										
Received from customers	\$ 15,694,571	\$ 83,392,234	\$ 5,488,889	\$ 883,947	\$ 11,325,986	\$ 8,509,363	\$ 79,794,252	\$ 3,154,633	\$ 208,243,875	\$ 208,167,276
Paid to suppliers for goods and services	(11,239,549)	(44,758,074)	(2,413,037)	(874,637)	(11,350,696)	(6,078,592)	(79,380,294)	(2,614,019)	(158,708,898)	(157,469,564)
Paid to employees for services	(125,670)	(195,661)	(143,189)	(54,111)	(57,200)	(98,897)	(512,900)	(216,801)	(1,404,429)	(1,292,472)
Net Cash Flows From (Used in) Operating Activities:	4,329,352	38,438,500	2,932,663	(44,801)	(81,910)	2,331,875	(98,942)	323,813	48,130,549	49,405,239
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES										
Acquisition and construction of utility plant	(867,567)	(7,307,806)	(595,546)	-	-	(92,475)	-	-	(8,863,394)	(23,463,733)
Sale of emissions	-	-	-	-	-	-	-	-	-	-
Capital contributions of (distributions to) participating members	-	-	-	-	-	-	-	(124,755)	(124,755)	83,368
Net proceeds from sale of bonds	-	-	-	-	-	-	-	-	-	-
Principal payment on revenue bonds	(5,570,000)	(24,820,000)	(1,405,000)	-	-	(580,000)	-	-	(32,375,000)	(28,470,000)
Interest paid on revenue bonds	(496,014)	(2,023,088)	(962,875)	-	-	(1,495,975)	-	-	(4,977,952)	(6,456,788)
Other	-	21,200	(116,823)	-	-	-	-	(19,426)	(115,049)	122,108
Net Cash Flows From (Used in) Capital and Related Financing Activities	(6,933,581)	(34,129,693)	(3,080,244)	-	-	(2,168,450)	-	(144,181)	(46,456,150)	(58,185,044)
CASH FLOWS FROM INVESTING ACTIVITIES										
Long-term investments purchased	(1,590,319)	0	(1,028,003)	(86,586)	(351,324)	(1,374,994)	(2,458,002)	(289,631)	(7,178,859)	(9,652,318)
Long-term investments sold	1,868,441	3,060,139	1,002,637	165,438	333,407	1,134,421	2,331,860	351,828	10,248,171	9,487,194
Investment income	71,654	341,469	33,505	2,672	3,816	40,137	28,115	8,166	529,532	528,536
Net Cash Flows From Investing Activities	349,776	3,401,609	8,138	81,525	(14,101)	(200,436)	(98,028)	70,362	3,598,844	363,412
Net Change in Cash and Cash Equivalents	(2,254,454)	7,710,415	(139,443)	36,723	(96,011)	(37,012)	(196,969)	249,994	5,273,243	(8,416,394)
CASH AND CASH EQUIVALENTS - Beginning of Year	10,007,599	41,809,613	5,614,863	442,481	894,842	6,366,186	7,925,148	2,041,592	75,102,323	83,518,716
CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 7,753,145	\$ 49,520,028	\$ 5,475,420	\$ 479,204	\$ 798,831	\$ 6,329,175	\$ 7,728,179	\$ 2,291,586	\$ 80,375,567	\$ 75,102,323
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH FLOWS FROM OPERATING ACTIVITIES										
Operating income (loss)	1,943,437	22,434,640	1,540,830	(22,681)	(0)	1,594,516	(0)	103,233	27,593,974	29,693,146
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities										
Depreciation	2,698,801	14,861,923	1,161,920	22,681	-	842,935	-	56,554	19,644,815	19,150,177
Changes in assets and liabilities										
Accounts receivable	41,656	1,980,578	(46,008)	6,232	(5,677)	(471,911)	906,090	(25,053)	2,385,906	(2,265,547)
Fuel inventory	(98,557)	-	49,463	-	-	-	-	-	(49,095)	(223,384)
Materials and supplies inventory	-	28,899	193,495	-	-	-	-	-	222,394	18,534
Prepaid items and deposits	-	-	-	-	-	-	-	(2,050)	(2,050)	-
Deferred Inflows of resources	-	-	-	-	-	-	-	-	-	-
Accounts payable and accrued expense	(255,984)	(867,540)	32,964	(51,034)	(76,233)	366,335	(1,005,032)	191,129	(1,665,395)	3,032,315
NET CASH FLOWS FROM OPERATING ACTIVITIES	4,329,352	38,438,500	2,932,663	(44,801)	(81,910)	2,331,875	(98,942)	323,813	48,130,549	49,405,239
RECONCILIATION OF CASH AND CASH EQUIVALENTS TO THE BALANCE SHEET										
Current Assets	4,602,009	19,223,606	3,496,128	479,204	798,831	4,678,557	7,728,179	2,291,586	43,298,100	40,235,930
Restricted Assets	3,151,136	30,296,422	1,979,291	-	-	1,650,617	-	-	37,077,468	34,866,393
TOTAL CASH AND CASH EQUIVALENTS	\$ 7,753,145	\$ 49,520,028	\$ 5,475,420	\$ 479,204	\$ 798,831	\$ 6,329,175	\$ 7,728,179	\$ 2,291,586	\$ 80,375,567	\$ 75,102,323

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MICHIGAN PUBLIC POWER AGENCY

NOTES TO FINANCIAL STATEMENTS

December 31, 2017

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.

MPPA implemented Governmental Account Standards Board Statement No. 72, *Fair Value Measurement and Application* during the year ended December 31, 2016. GASB Statement No. 72 enhances comparability of financial statements among governments by requiring measurement of certain assets and liabilities at fair value using a consistent and more detailed definition of fair value and acceptable valuation techniques. The Statement also enhances fair value application guidance and related disclosures to provide information to financial statement users about the impact of fair value measurements on a government's financial position. Additional disclosures surrounding how the MPPA categorizes its investments within the fair value hierarchy are disclosed in Note 3.

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.

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.

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.

MICHIGAN PUBLIC POWER AGENCY

NOTES TO FINANCIAL STATEMENTS December 31, 2017

NOTE 1 – NATURE OF OPERATIONS (cont.)

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, 2016, from which the summarized information was derived. Please see page 17 for additional information on changes in accounting related to the comparative statements for 2016 and 2017.

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.

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.

MICHIGAN PUBLIC POWER AGENCY

NOTES TO FINANCIAL STATEMENTS
December 31, 2017

NOTE 1 – NATURE OF OPERATIONS (cont.)

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.

Unamortized Premiums and Discounts

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

MICHIGAN PUBLIC POWER AGENCY

NOTES TO FINANCIAL STATEMENTS December 31, 2017

NOTE 1 – NATURE OF OPERATIONS (cont.)

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 change in accounting has not been applied to the 2016 statements. Beginning net position has been increased by \$216,577,134 previously reported as deferred inflows of resources. Had this change been applied to the year ended December 31, 2016, the change in deferred inflows reported in net operating revenues would have been zero and the change in net position would have been \$24,708,640. Total net position as of December 31, 2016 would have been \$218,145,713.

The Agency feels 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 10th 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, 2017

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' 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.

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, 2017

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 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.

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 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, and an undivided ownership interest in certain transmission lines on the METC transmission system.

MICHIGAN PUBLIC POWER AGENCY

NOTES TO FINANCIAL STATEMENTS
December 31, 2017

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 transmission lines 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 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, 2017

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	\$ 8,951,234
Agency Notes	4,907,211
Commercial Paper	-
Money Market Funds	<u>35,742,857</u>
	49,601,302
Current Assets	
Cash & Cash Equivalents	30,911,751
Unrestricted Assets Invested	
U.S. Treasury Notes	7,461,232
Agency Notes	7,256,643
Commercial Paper	4,000,000
Money Market Funds	<u>9,720,962</u>
	28,438,837
Total Cash & Investments	<u>\$ 108,951,890</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, 2017

NOTE 3 – CASH AND INVESTMENTS (cont.)

Fair Value Measurement (con't)

As of December 31, 2017, 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	\$ -	\$ 16,412,466	\$ -	\$ 16,412,466
Federal Home Loan Mortgage Association Notes	-	5,695,500	-	5,695,500
Fannie Mae Mortgage Association Notes	-	5,200,049	-	5,200,049
Freddie Mac Mortgage Backed Securities	-	1,268,305	-	1,268,305
Commercial Paper	-	4,000,000	-	4,000,000
Total Investments by Fair Value Level	\$ -	\$ 32,576,320	\$ -	\$ 32,576,320

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, 2017, MPPA had \$30,650,307 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, 2017, MPPA had \$14,740,162 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, 2017

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, 2017, 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, 2017

NOTE 3 – CASH AND INVESTMENTS (cont.)

Interest Rate Risk (cont.)

At December 31, 2017, MPPA's investments were as follows:

Investment Type	Fair Value	Maturity in years	
		Less than 1 year	1-5 years
US Treasury	\$ 16,412,466	\$ 5,779,641	\$ 10,632,825
Agency Notes	12,163,854	3,924,945	8,238,909
Commercial Paper	4,000,000	4,000,000	-
	<u>\$ 32,576,320</u>	<u>\$ 13,704,586</u>	<u>\$ 18,871,734</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 01/01/2017	Additions & Reclasses	Deletions & Reclasses	Balance 12/31/2017
Capital assets being depreciated:				
Building & Land	\$ 2,760,150	\$ 85,619		\$ 2,845,768
Utility Plant in Service	703,042,566	9,195,496.03	(24,463)	712,213,600
Construction Work in Progress	-	-	-	-
Less: Accumulated Depreciation	(461,055,149)	(19,899,582)	63,949	(480,890,784)
 Net Utility Plant	 \$ 244,747,566	 \$ (10,618,467)	 \$ 39,486	 \$ 234,168,584

MICHIGAN PUBLIC POWER AGENCY

NOTES TO FINANCIAL STATEMENTS
December 31, 2017

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 12/31/2017:

2013 Series A Bonds	17,930,000
Unamortized premium on bonds	-
	<u>17,930,000</u>
Less: Current Portion	(3,785,000)
Total \$	<u>14,145,000</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 in the remaining years following December 31, 2017 are as follows:

<u>Year Ending December 31</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	3,875,000	344,989	4,219,989
2019	3,960,000	255,793	4,215,793
2020	4,055,000	164,537	4,219,537
2021	4,145,000	71,219	4,216,219
	<u>\$ 16,035,000</u>	<u>\$ 836,537</u>	<u>\$ 16,871,537</u>

MICHIGAN PUBLIC POWER AGENCY

NOTES TO FINANCIAL STATEMENTS
December 31, 2017

NOTE 6 – NON-CURRENT LIABILITIES (cont.)

CAMPBELL No. 3 PROJECT REVENUE BONDS (cont.)

Non-Current Liabilities as of December 31, 2017:

	01/01/2017 Balance	Additions	Reductions	12/31/2017 Balance
Revenue Bonds	\$ 23,500,000	\$ -	\$ (5,570,000)	\$ 17,930,000
Unamortized Premium on Bonds	-	-	-	-
Current Maturities	(3,680,000)	(105,000)	-	(3,785,000)
Capital Contributions	1,383,978	-		1,383,978
Total Non-Current Liabilities	\$ 21,203,978	\$ (105,000)	\$ (5,570,000)	\$ 15,528,978

Belle River Project Revenue Bonds

The following bonds have been issued by MPPA:

<u>Date</u>	<u>Purpose</u>	<u>Final Maturity</u>	<u>Interest Rates</u>	<u>Original Amount</u>
December 2, 2002	Refund 1993 A&B Bonds	1/1/2018	2.35-5.25%	\$ 280,180,000

The following obligations are outstanding at 12/31/2017:

2002 Series A Bonds	\$ 26,125,000
Unamortized premium on Bonds	-
Less: Current Portion	(26,125,000)
Total	\$ -

MICHIGAN PUBLIC POWER AGENCY

NOTES TO FINANCIAL STATEMENTS
December 31, 2017

NOTE 6 – NON-CURRENT LIABILITIES (cont.)

Non-current Liabilities as of December 31, 2017:

	01/01/2017	Additions	Reductions	12/31/2017
	Balance			Balance
Revenue Bonds	\$ 50,945,000	\$ -	\$ (24,820,000)	\$ 26,125,000
Unamortized Premium	214,983	-	(214,983)	-
Current Maturities	(24,820,000)	(1,305,000)	-	(26,125,000)
Capital Contributions	4,100,000	-	(210,000)	3,890,000
Total Non-Current Liabilities	\$ 30,439,983	\$ (1,305,000)	\$ (25,244,983)	\$ 3,890,000

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>
06/19/2012	Combined Cycle Plant Purchase	01/01/2043	3.5%-5.0%	\$ 32,520,000

The following obligations are outstanding at 12/31/2017:

2012 A Bonds	\$ 30,035,000
Unamortized Premium on bonds	1,300,193
	<u>31,335,193</u>
Less: Current Portion	(600,000)
Total	\$ 30,735,193

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, 2017, and in five-year increments thereafter to maturity, are as follows:

MICHIGAN PUBLIC POWER AGENCY

NOTES TO FINANCIAL STATEMENTS
December 31, 2017

NOTE 6 – NON-CURRENT LIABILITIES (cont.)

AFEC Project Revenue Bonds (cont.)

Year Ending December 31	Principal	Interest	Total
2018	630,000	1,457,375	2,087,375
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
2038-2043	9,025,000	1,397,500	10,422,500
	<u>\$ 29,435,000</u>	<u>\$ 22,686,100</u>	<u>\$ 52,121,100</u>

Non-current Liabilities as of December 31, 2017:

	01/01/2017 Balance	Additions	Reductions	12/31/2017 Balance
Revenue Bonds	\$ 30,615,000	\$ -	\$ (580,000)	\$ 30,035,000
Unamortized Premium on Bonds	1,385,266		(85,073)	1,300,193
Current Maturities	(580,000)	(20,000)	-	(600,000)
Total Non-Current Liabilities	<u>\$ 31,420,266</u>	<u>\$ (20,000)</u>	<u>\$ (665,073)</u>	<u>\$ 30,735,193</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, 2017

NOTE 6 – NON-CURRENT LIABILITIES (cont.)

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

The following obligations are outstanding at 12/31/2017:

2011 A Bonds	\$	18,555,000
Unamortized Premium on bonds		990,866
		19,545,866
Less: Current Portion		(1,475,000)
Total	\$	18,070,866

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, 2017, and in the final five years to maturity are as follows:

Year Ending December 31	Principal	Interest	Total
2018	1,550,000	854,000	2,404,000
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
2023-2026	8,520,000	1,091,250	9,611,250
	\$ 17,080,000	\$ 4,546,750	\$ 21,626,750

Non-current Liabilities as of December 31, 2017:

	01/01/2017		12/31/2017	
	Balance	Additions	Reductions	Balance
Revenue Bonds	\$ 19,960,000	\$ -	\$ (1,405,000)	\$ 18,555,000
Unamortized Premium on Bonds	1,193,049	-	(202,183)	990,866
Current Maturities	(1,405,000)	(70,000)	-	(1,475,000)
Total Non-Current Liabilities	\$ 19,748,049	\$ (70,000)	\$ (1,607,183)	\$ 18,070,866

MICHIGAN PUBLIC POWER AGENCY

NOTES TO FINANCIAL STATEMENTS
December 31, 2017

NOTE 6 – NON-CURRENT LIABILITIES (cont.)

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, 2017:

	01/01/2017 Balance	Additions	Reductions	12/31/2017 Balance
Capital Contributions of Members	8,080,361	-	-	8,080,361
Total Non-Current Liabilities	\$ 8,080,361	\$ -	\$ -	\$ 8,080,361

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, 2017:

	01/01/2017 Balance	Additions	Reductions	12/31/2017 Balance
Capital Contributions of Members	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, 2017:

	01/01/2017 Balance	Additions	Reductions	12/31/2017 Balance
Capital Contributions of Members	3,335,511	-	-	3,335,511
Total Non-Current Liabilities	\$ 3,335,511	\$ -	\$ -	\$ 3,335,511

MICHIGAN PUBLIC POWER AGENCY

NOTES TO FINANCIAL STATEMENTS

December 31, 2017

NOTE 6 – NON-CURRENT LIABILITIES (cont.)

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, 2017:

	01/01/2017 Balance	Additions	Reductions	12/31/2017 Balance
Capital Contributions of Members	748,308		(124,755)	623,553
Total Non-Current Liabilities	<u>\$ 748,308</u>	<u>\$ -</u>	<u>\$ (124,755)</u>	<u>\$ 623,553</u>

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, 2017, 2016, and 2015 were approximately \$227,000, \$266,000, and \$272,000, respectively.

NOTE 8 – CONTRACTS AND COMMITMENTS

Contract with Consumers Energy

MPPA contracted with Consumers to purchase fuel coal to maintain a stockpile level of 16,004 wet tons for the Campbell Unit No. 3 plant for the 2017 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.

MICHIGAN PUBLIC POWER AGENCY

NOTES TO FINANCIAL STATEMENTS

December 31, 2017

NOTE 8 – CONTRACTS AND COMMITMENTS (cont.)

Contract with Detroit Edison

MPPA's share of the stockpile of coal for the Belle River plant equals 260,540 tons

Contract with Fellon-McCord

In late 2016, MPPA discontinued its agreement with Fellon-McCord to manage natural gas purchases for the CT Project No.1. The process is now managed by MPPA staff under its risk management policy. Fellon-McCord continues to provide scheduling services and market intelligence to MPPA.

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 1, 2030 total approximately \$214,500,000.

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.

NOTE 10 – CONCENTRATION OF RISK

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

MPPA has two members who are considered significant customers that accounted for \$95.3 million (46.3%) of MPPA gross revenues in 2017.

MICHIGAN PUBLIC POWER AGENCY

NOTES TO FINANCIAL STATEMENTS
December 31, 2017

NOTE 11 – BOND COVENANT DISCLOSURES

Campbell No. 3 Project- Compliance with Funding Requirements

	<u>2017</u>
Gross operating revenues	\$ 15,652,915
Other revenues	73,460
	<hr/> 15,726,375
Operating expenses	13,709,479
Less: Depreciation	(2,698,801)
	<hr/> 11,010,679
Net revenues	<hr/> \$ 4,715,697
Debt service (principal & interest)	4,217,238
Required revenues (1.1x debt service)	4,638,962
Revenues in Excess of Coverage Requirements	<hr/> <hr/> \$ 76,735

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, 2017

NOTE 11 – BOND COVENANT DISCLOSURES (cont.)

Belle River Project

Compliance with Funding Requirements

	<u>2017</u>
Gross operating revenues	\$ 81,411,657
Other revenues	355,868
	<hr/> 81,767,525
Operating expenses	58,977,017
Less: Depreciation	(14,861,923)
	<hr/> 44,115,094
Net revenues	<hr/> \$ 37,652,431
Debt service (principal & interest)	27,496,563
Required revenues (1.0x debt service)	27,496,563
Revenues in Excess of Coverage Requirements	<hr/> \$ 10,155,868

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, 2017

NOTE 11 – BOND COVENANT DISCLOSURES (cont.)

Combustion Turbine No. 1 Project

Compliance with Funding Requirements

	<u>2017</u>
Gross operating revenues	\$ 5,534,898
Other revenues	35,208
	<hr/> 5,570,106
Operating expenses	3,994,068
Less: Depreciation	(1,161,920)
	<hr/> 2,832,148
Net revenues	<hr/> \$ 2,737,959
Debt service (principal, interest, reserve contribution)	2,452,750
Required revenues (1.1x debt service)	2,698,025
Revenues in Excess of Coverage Requirements	<hr/> <hr/> \$ 39,934

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, 2017

NOTE 11 – BOND COVENANT DISCLOSURES (cont.)

AFEC Project

Compliance with Funding Requirements

	<u>2017</u>
Gross operating revenues	\$ 8,981,274
Other revenues	42,644
	<hr/> 9,023,918
Operating expenses	7,386,758
Less: Depreciation	(842,935)
	<hr/> 6,543,823
Net revenues	<hr/> \$ 2,480,095
Debt service (principal & interest)	2,084,375
Required revenues (1.1x debt service)	2,292,813
Revenues in Excess of Coverage Requirements	<hr/> <hr/> \$ 187,282

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, 2017

	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, 2017	\$ -	\$ 2,162,370	\$ 250,000	\$ 800,000	\$ 3,951,142	\$ 9,828,551	\$ 0	\$ 16,992,063
Transfers in	-	12,137,640	-	-	4,207,500	1,217,872	-	17,563,012
Receipts	15,694,571	-	-	-	-	-	-	15,694,571
Investment receipts	-	63,145	-	-	8,509	-	-	71,654
Proceeds from Bonds	-	-	-	-	-	-	-	-
Payment of interest on bonds	-	-	-	-	(496,014)	-	-	(496,014)
Payment of bond principal	-	-	-	-	(5,570,000)	-	-	(5,570,000)
Capital disbursements	-	(867,567)	-	-	-	-	-	(867,567)
Disbursements	-	(11,365,219)	-	-	-	-	-	(11,365,219)
Transfer out	(15,694,571)	-	-	-	-	(1,868,441)	-	(17,563,012)
Cash and Investments at December 31,2017	<u>\$ -</u>	<u>\$ 2,130,369</u>	<u>\$ 250,000</u>	<u>\$ 800,000</u>	<u>\$ 2,101,136</u>	<u>\$ 9,177,982</u>	<u>\$ 0</u>	<u>\$ 14,459,487</u>

MICHIGAN PUBLIC POWER AGENCY

SCHEDULE OF CHANGES IN FUNDS ESTABLISHED BY THE BELLE RIVER PROJECT REVENUE BOND RESOLUTION Year Ended December 31, 2017

	Revenue Account	Operation and Maintenance Account	Debt Service Account	Reserve and Contingency Account	Project Account	Totals
Cash and investments at January 1, 2017	\$ -	\$ 11,657,213	\$ 26,216,669	\$ 13,477,339	\$ 6,194,799	\$ 57,546,020
Transfers in	-	52,573,244	27,392,400	-	9,800,000	89,765,644
Receipts	83,392,234	-	-	-	-	83,392,234
Investment receipts	-	31,716	138,790	109,365	61,598	341,469
Payment of interest on bonds	-	-	(2,023,088)	-	-	(2,023,088)
Payment of bond principal	-	-	(24,820,000)	-	-	(24,820,000)
Capital disbursements	-	(7,307,806)	-	-	-	(7,307,806)
Disbursements	-	(44,932,535)	-	-	-	(44,932,535)
Transfers out	<u>(83,392,234)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(6,373,409)</u>	<u>(89,765,644)</u>
Cash and Investments at December 31, 2017	<u>\$ -</u>	<u>\$ 12,021,833</u>	<u>\$ 26,904,772</u>	<u>\$ 13,586,703</u>	<u>\$ 9,682,988</u>	<u>\$ 62,196,295</u>

MICHIGAN PUBLIC POWER AGENCY

SCHEDULE OF CHANGES IN FUNDS ESTABLISHED BY THE COMBUSTION TURBINE PROJECT REVENUE BOND RESOLUTION Year Ended December 31, 2017

	Revenue Account	Operation and Maintenance Account	Debt Service Account	Debt Service Reserve Account	Project Account	Totals
Cash and investments at January 1, 2017	\$ -	\$ 1,466,122	\$ 1,907,704	\$ 1,503,246	\$ 3,225,676	\$ 8,102,748
Transfers in	-	2,800,278	2,395,900	-	1,295,347	6,491,526
Receipts	5,488,889	-	-	-	-	5,488,889
Investment receipts	-	(26,078)	9,900	61,231	(11,548)	33,505
Payment of interest on bonds	-	-	(962,875)	-	-	(962,875)
Payment of bond principal	-	-	(1,405,000)	-	-	(1,405,000)
Capital disbursements	-	(712,369)	-	-	-	(712,369)
Disbursements	-	(2,556,226)	-	-	-	(2,556,226)
Transfers out	(5,488,889)	-	-	-	(1,002,637)	(6,491,526)
Cash and Investments at December 31,2017	<u>\$ -</u>	<u>\$ 971,727</u>	<u>\$ 1,945,629</u>	<u>\$ 1,564,477</u>	<u>\$ 3,506,839</u>	<u>\$ 7,988,672</u>

MICHIGAN PUBLIC POWER AGENCY

SCHEDULE OF CHANGES IN FUNDS ESTABLISHED BY THE AFEC PROJECT REVENUE BOND RESOLUTION Year Ended December 31, 2017

	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, 2017	\$ -	\$ 694,656	\$ 1,337,769	\$ 2,135,853	\$ 284,610	\$ 5,167,641	\$ 9,620,530
Transfers in	-	6,173,395	2,078,700	-	-	1,391,689	9,643,784
Receipts	8,509,363	-	-	-	-	-	8,509,363
Investment receipts	-	33,910	6,637	15,602.90	-	(16,013)	40,137
Proceeds from bonds	-	-	-	-	-	-	-
Payment of interest on bonds	-	-	(1,495,975)	-	-	-	(1,495,975)
Payment of bond principal	-	-	(580,000)	-	-	-	(580,000)
Capital disbursements	-	(92,475)	-	-	-	-	(92,475)
Disbursements	-	(6,177,488)	-	-	-	-	(6,177,488)
Transfers out	(8,509,363)	-	-	-	-	(1,134,421)	(9,643,784)
Cash and Investments at December 31, 2017	<u>\$ -</u>	<u>\$ 631,998</u>	<u>\$ 1,347,131</u>	<u>\$ 2,151,456</u>	<u>\$ 284,610</u>	<u>\$ 5,408,896</u>	<u>\$ 9,824,091</u>

**MICHIGAN PUBLIC POWER AGENCY
CAMPBELL #3 PROJECT
Statement of Revenues, Expenses and Changes in Net Position
12 MONTHS ENDED 12/31/2017 AND 2016**

	2017 ACTUAL	UNAUDITED 2017 BUDGET	OVER (UNDER) 2017 BUDGET	2016 ACTUAL
OPERATING REVENUE				
Power	\$ 6,957,359	\$ 7,272,452	\$ (315,093)	\$ 7,230,496
Transmission	1,118,445	478,690	639,755	1,256,976
Energy	7,577,110	8,479,919	(902,809)	5,036,662
Transmission Utilization	0	837,837	(837,837)	0
TOTAL GROSS REVENUE	15,652,915	17,068,898	(1,415,983)	13,524,134
CHANGE IN DEFERRED INFLOWS	-	-	-	(1,691,917)
TOTAL NET REVENUE	15,652,915	17,068,898	(1,415,983)	11,832,217
OPERATING EXPENSE				
Production				
Fuel	7,577,110	8,479,919	(902,809)	5,036,662
Operations & Maintenance	1,661,455	1,960,400	(298,945)	1,859,278
MISO Market OH Fee	(5,327)	34,000	(39,327)	34,162
	<u>9,233,238</u>	<u>10,474,319</u>	<u>(1,241,081)</u>	<u>6,930,102</u>
TRANSMISSION				
Operations & Maintenance	320,474	310,000	10,474	309,281
Utilization Charge (Credit)	755,799	837,837	(82,038)	778,969
	<u>1,076,273</u>	<u>1,147,837</u>	<u>(71,564)</u>	<u>1,088,250</u>
ADMINISTRATIVE & GENERAL				
CECo	402,040	461,000	(58,960)	518,817
MPPA				
- Salaries and Benefits	179,451	197,928	(18,477)	168,270
- Outside Services	68,726	87,705	(18,979)	48,223
- All Other A & G	50,950	57,871	(6,921)	52,322
Total A&G expense	<u>701,167</u>	<u>804,504</u>	<u>(103,337)</u>	<u>787,632</u>
Depreciation	2,698,801	2,579,520	119,281	2,596,855
TOTAL OPERATING EXPENSE	13,709,479	15,006,180	(1,296,702)	11,402,840
OPERATING INCOME (LOSS)	1,943,437	2,062,718	(119,281)	429,377
OTHER EXPENSE				
Amortization	-	-	-	-
Debt Issuance Costs	-	-	-	-
Interest expense	432,238	432,238	(1)	538,150
TOTAL OTHER EXPENSE	432,238	432,238	(1)	538,150
OTHER REVENUE				
Interest income	100,583	92,000	8,583	138,772
Investment gain (loss)	(27,123)	-	(27,123)	(29,999)
Miscellaneous	-	-	-	-
TOTAL OTHER REVENUE (EXP)	73,460	92,000	(18,540)	108,773
CHANGE IN NET POSITION	\$ 1,584,660	\$ 1,722,480	\$ (137,820)	\$ -
Impact of Change in Accounting	42,609,864			
NET POSITION- BEGINNING OF YEAR	-			
NET POSITION- END OF YEAR	\$ 44,194,523			

**MICHIGAN PUBLIC POWER AGENCY
BELLE RIVER PROJECT
Statement of Revenues, Expenses and Changes in Net Position
12 MONTHS ENDED 12/31/2017 AND 2016**

	2017 ACTUAL	UNAUDITED 2017 BUDGET	OVER (UNDER) 2017 BUDGET	2016 ACTUAL
OPERATING REVENUE				
Power	\$ 47,462,307	\$ 48,854,397	\$ (1,392,090)	\$ 49,321,572
Transmission	9,860,055	4,925,816	4,934,239	9,912,076
Energy	28,653,284	31,015,016	(2,361,732)	29,514,514
Transmission Utilization	0	4,900,000	(4,900,000)	0
Transmission Revenue Distribution	(4,563,990)	(4,914,456)	350,466	(4,632,296)
TOTAL GROSS REVENUE	81,411,657	84,780,773	(3,369,116)	84,115,866
CHANGE IN DEFERRED INFLOWS	-	-	-	(21,745,578)
TOTAL NET REVENUE	81,411,657	84,780,773	(3,369,116)	62,370,288
OPERATING EXPENSE				
Production				
Fuel	28,653,284	31,015,016	(2,361,732)	29,514,514
Operations & Maintenance	9,204,363	9,690,904	(486,541)	9,772,530
MISO Market OH Fee	(139,449)	180,000	(319,449)	179,308
	37,718,198	40,885,920	(3,167,722)	39,466,353
TRANSMISSION				
Operations & Maintenance	2,256,280	2,451,126	(194,846)	2,285,484
Utilization Charge (Credit)	4,725,092	4,900,000	(174,908)	4,667,147
ITC Revenue Distribution	(4,563,990)	(4,914,456)	350,466	(4,632,296)
	2,417,382	2,436,670	(19,288)	2,320,335
ADMINISTRATIVE & GENERAL				
DECo	3,034,751	2,976,636	58,115	2,658,992
ITC	402,663	561,000	(158,337)	483,341
MPPA				
- Salaries & Benefits	283,439	330,284	(46,845)	250,108
- Outside Services	182,047	207,563	(25,516)	154,679
- All Other A & G	76,613	86,138	(9,525)	87,446
Total A&G expense	3,979,514	4,161,621	(182,107)	3,634,566
Depreciation	14,861,923	14,750,000	111,923	14,639,946
TOTAL OPERATING EXPENSE	58,977,017	62,234,211	(3,257,194)	60,061,199
OPERATING INCOME (LOSS)	22,434,640	22,546,562	(111,922)	2,309,088
OTHER EXPENSE				
Amortization	(31,300)	(31,295)	(5)	(76,046)
Interest expense	1,371,563	1,371,563	(1)	2,674,613
TOTAL OTHER EXPENSE	1,340,263	1,340,268	(5)	2,598,567
OTHER REVENUE (EXPENSE)				
Interest income	387,686	175,000	212,686	262,583
Investment gain (loss)	(43,018)	-	(43,018)	16
Miscellaneous	11,200	8,960	2,240	26,880
TOTAL OTHER REVENUE (EXP)	355,868	183,960	171,908	289,479
CHANGE IN NET POSITION	\$ 21,450,245	\$ 21,390,254	\$ 59,991	\$ -
Impact of Change in Accounting	163,818,665			
NET POSITION- BEGINNING OF YEAR	-			
NET POSITION- END OF YEAR	\$ 185,268,909			

MICHIGAN PUBLIC POWER AGENCY
AFEC PROJECT
Statement of Revenues, Expenses and Changes in Net Position
12 MONTHS ENDED 12/31/2017 AND 2016

	2017 ACTUAL	UNAUDITED 2017 BUDGET	OVER (UNDER) 2017 BUDGET	2016 ACTUAL
OPERATING REVENUE				
Power	\$ 8,981,274	\$ 7,739,254	\$ 1,242,020	\$ 6,445,684
Capacity	0	1,462,818	(1,462,818)	0
TOTAL GROSS REVENUE	<u>8,981,274</u>	<u>9,202,072</u>	<u>(220,798)</u>	<u>6,445,684</u>
CHANGE IN DEFERRED INFLOWS	-	-	-	(400,691)
TOTAL NET REVENUE	<u>8,981,274</u>	<u>9,202,072</u>	<u>(220,798)</u>	<u>6,044,993</u>
OPERATING EXPENSE				
Production				
Fuel	4,447,105	4,402,931	44,174	3,618,698
Fixed O & M	1,656,686	1,659,941	(3,255)	1,960,982
Variable O & M	262,042	268,195	(6,153)	218,692
PJM Replacement Pwr	62,988	75,000	(12,012)	45,084
Reactive Revenue Distribution	(110,159)	(110,159)	(0)	(110,159)
Capacity Credit	(1,483,921)	(1,497,788)	13,867	(2,815,194)
MISO Capacity Purchase	1,053,577	1,462,818	(409,241)	433,621
	<u>5,888,319</u>	<u>6,260,938</u>	<u>(372,619)</u>	<u>3,351,724</u>
TRANSMISSION				
LMP Price Differential	325,277	251,920	73,357	203,634
ADMINISTRATIVE & GENERAL				
AMP	94,404	113,275	(18,872)	80,793
MPPA				
- Salaries and Benefits	145,674	162,543	(16,869)	142,950
- Outside Services	48,635	62,929	(14,294)	37,265
- All Other A & G	41,514	45,052	(3,538)	39,248
Total A&G expense	<u>330,227</u>	<u>383,799</u>	<u>(53,572)</u>	<u>300,256</u>
Depreciation	842,935	823,000	19,935	823,781
TOTAL OPERATING EXPENSE	<u>7,386,758</u>	<u>7,719,657</u>	<u>(332,899)</u>	<u>4,679,395</u>
OPERATING INCOME (LOSS)	<u>1,594,517</u>	<u>1,482,415</u>	<u>112,101</u>	<u>1,365,598</u>
OTHER EXPENSE				
Amortization	(85,073)	(85,073)	0	(86,403)
Interest expense	1,484,375	1,484,375	-	1,507,575
TOTAL OTHER EXPENSE	<u>1,399,302</u>	<u>1,399,302</u>	<u>0</u>	<u>1,421,172</u>
OTHER REVENUE				
Interest income	58,755	34,000	24,755	63,035
Investment gain (loss)	(16,111)	-	(16,111)	(7,461)
Miscellaneous	-	-	-	-
TOTAL OTHER REVENUE	<u>42,644</u>	<u>34,000</u>	<u>8,644</u>	<u>55,574</u>
CHANGE IN NET POSITION	<u>\$ 237,859</u>	<u>\$ 117,113</u>	<u>\$ 120,745</u>	<u>\$ -</u>
Impact of Change in Accounting	5,550,446			
NET POSITION- BEGINNING OF YEAR	-			
NET POSITION- END OF YEAR	<u>\$ 5,788,304</u>			

**MICHIGAN PUBLIC POWER AGENCY
COMBUSTION TURBINE PROJECT
Statement of Revenues, Expenses and Changes in Net Position
12 MONTHS ENDED 12/31/2017 AND 2016**

	2017 ACTUAL	UNAUDITED 2017 BUDGET	OVER (UNDER) 2017 BUDGET	2016 ACTUAL
OPERATING REVENUE				
Power	\$ 3,758,619	\$ 3,858,349	\$ (99,730)	\$ 3,603,692
Transmission	1,197,687	1,476,906	(279,219)	1,402,779
Energy	578,592	900,891	(322,299)	1,194,991
TOTAL GROSS REVENUE	5,534,898	6,236,146	(701,248)	6,201,463
CHANGE IN DEFERRED INFLOWS	-	-	-	(842,722)
TOTAL NET REVENUE	5,534,898	6,236,146	(701,248)	5,358,741
OPERATING EXPENSE				
Production				
Fuel	578,592	900,891	(322,299)	1,194,991
Operations & Maintenance	656,810	663,130	(6,320)	566,432
MISO Market OH Fee	6,612	7,538	(926)	7,115
	1,242,013	1,571,559	(329,546)	1,768,538
TRANSMISSION				
Operations & Maintenance	803,519	1,082,699	(279,180)	1,008,572
ADMINISTRATIVE & GENERAL				
Traverse City	301,942	378,000	(76,058)	194,108
MPPA				
- Salaries & Benefits	211,839	237,630	(25,791)	245,579
- Outside Services	89,229	86,300	2,929	110,330
- All Other A & G	183,605	176,958	6,647	171,336
Total A&G expense	786,615	878,888	(92,273)	721,353
Taxes	-	-	-	-
Depreciation	1,161,920	1,005,000	156,920	1,003,782
TOTAL OPERATING EXPENSE	3,994,068	4,538,146	(544,078)	4,502,244
OPERATING INCOME (LOSS)	1,540,830	1,698,000	(157,170)	856,496
OTHER EXPENSE				
Amortization	(92,250)	(92,250)	-	(99,236)
Interest expense	927,750	998,000	(70,250)	998,000
TOTAL OTHER EXPENSE	835,500	905,750	(70,250)	898,764
OTHER REVENUE				
Interest income	45,761	34,500	11,261	48,647
Investment gain (loss)	(10,553)	-	(10,553)	(6,379)
Miscellaneous	-	-	-	-
TOTAL OTHER REVENUE (EXP)	35,208	34,500	708	42,268
CHANGE IN NET POSITION	\$ 740,539	\$ 826,750	\$ (86,212)	\$ -
Impact of Change in Accounting	4,333,072			
NET POSITION- BEGINNING OF YEAR	-			
NET POSITION- END OF YEAR	\$ 5,073,610			

**MICHIGAN PUBLIC POWER AGENCY
ENERGY SERVICES PROJECT
Statement of Revenues, Expenses and Changes in Net Position
12 MONTHS ENDED 12/31/2017 AND 2016**

	2017 ACTUAL	UNAUDITED 2017 BUDGET	OVER (UNDER) 2017 BUDGET	2016 ACTUAL
OPERATING REVENUE				
Power	\$ 38,185,052	\$ 49,124,221	\$ (10,939,169)	\$ 47,185,924
Capacity	5,549,238	0	5,549,238	3,795,941
Transmission	11,843,411	8,371,290	3,472,121	10,189,698
MISO Energy Market Sales	23,310,461	9,474,245	13,836,216	24,687,935
TOTAL GROSS REVENUE	78,888,162	66,969,756	11,918,406	85,859,498
CHANGE IN DEFERRED INFLOWS	-	-	-	(43,010)
TOTAL NET REVENUE	78,888,162	66,969,756	11,918,406	85,816,488
OPERATING EXPENSE				
Energy & Capacity	44,669,972	47,581,162	(2,911,190)	51,413,370
MISO Market OH Fee	443,117	412,188	30,929	534,003
MISO Energy Market Purch (Sale)	20,689,717	9,474,245	11,215,472	22,672,870
	65,802,805	57,467,595	8,335,210	74,620,244
TRANSMISSION				
Operations & Maintenance	8,876,105	4,954,693	3,921,412	7,042,789
Transmission transfer to TSC	2,967,306	3,416,597	(449,291)	3,146,909
	11,843,411	8,371,290	3,472,121	10,189,698
ADMINISTRATIVE & GENERAL				
MPPA				
- Salaries & Benefits	763,585	629,034	134,551	654,240
- Outside Services	264,854	321,111	(56,258)	224,486
- All Other A & G	213,507	180,726	32,781	170,831
Total A&G expense	1,241,946	1,130,871	111,075	1,049,556
Taxes	-	-	-	-
Depreciation	-	-	-	-
TOTAL OPERATING EXPENSE	78,888,162	66,969,756	11,918,406	85,859,498
OPERATING INCOME (LOSS)	-	-	-	(43,010)
OTHER REVENUE (EXPENSE)				
Interest/Investment income	44,500	40,000	4,500	53,929
Investment gain (loss)	(11,700)	-	(11,700)	(10,919)
Miscellaneous	-	-	-	-
TOTAL OTHER REVENUE (EXP)	32,800	40,000	(7,200)	43,010
CHANGE IN NET POSITION	\$ 32,800	\$ 40,000	\$ (7,200)	\$ -
Impact of Change in Accounting	176,258			
NET POSITION- BEGINNING OF YEAR	-			
NET POSITION- END OF YEAR	\$ 209,057			

**MICHIGAN PUBLIC POWER AGENCY
LANDFILL PROJECT
Statement of Revenues, Expenses and Changes in Net Position
12 MONTHS ENDED 12/31/2017 AND 2016**

	2017 ACTUAL	UNAUDITED 2017 BUDGET	OVER (UNDER) 2017 BUDGET	2016 ACTUAL
OPERATING REVENUE				
Power	\$ 114,881	\$ 102,678	\$ 12,203	\$ 91,564
Energy	11,216,782	11,710,842	(494,060)	10,142,888
Transmission	0	0	0	0
TOTAL GROSS REVENUE	11,331,663	11,813,520	(481,857)	10,234,453
CHANGE IN DEFERRED INFLOWS	-	-	-	(4,554)
TOTAL NET REVENUE	11,331,663	11,813,520	(481,857)	10,229,899
OPERATING EXPENSE				
Purchased Power				
Energy	11,216,782	11,710,842	(494,060)	10,142,888
Capacity	-	-	-	-
MISO Market OH Fee	-	-	-	-
	11,216,782	11,710,842	(494,060)	10,142,888
TRANSMISSION/DISTRIBUTION				
Operations & Maintenance	-	-	-	-
Distribution Charge	-	-	-	-
	-	-	-	-
ADMINISTRATIVE & GENERAL				
MPPA				
- Salaries & Benefits	85,155	66,800	18,355	64,038
- Outside Services	12,243	16,929	(4,686)	8,576
- All Other A & G	17,482	18,949	(1,467)	18,950
Total A&G expense	114,881	102,678	12,203	91,564
Taxes	-	-	-	-
Depreciation	-	-	-	-
TOTAL OPERATING EXPENSE	11,331,663	11,813,520	(481,857)	10,234,453
OPERATING INCOME (LOSS)	-	-	-	(4,554)
OTHER REVENUE (EXPENSE)				
Interest income	6,208	4,600	1,608	6,338
Investment gain (loss)	(1,672)	-	(1,672)	(1,783)
Miscellaneous	-	-	-	-
TOTAL OTHER REVENUE (EXP)	4,536	4,600	(63)	4,554
CHANGE IN NET POSITION	\$ 4,536	\$ 4,600	\$ (63)	\$ -
Impact of Change in Accounting	14,578			
NET POSITION- BEGINNING OF YEAR	-			
NET POSITION- END OF YEAR	\$ 19,115			

**MICHIGAN PUBLIC POWER AGENCY
TRANSMISSION PROJECT
Statement of Revenues, Expenses and Changes in Net Position
12 MONTHS ENDED 12/31/2017 AND 2016**

	2017 ACTUAL	UNAUDITED 2017 BUDGET	OVER (UNDER) 2017 BUDGET	2016 ACTUAL
OPERATING REVENUE				
Transmission Revenue	\$ 831,015	\$ 1,131,682	\$ (300,667)	\$ 988,561
Joint Zone Revenue	3,672,515	4,520,349	\$ (847,834)	4,215,712
Transmission Revenue Distribution	(3,625,816)	(4,480,185)	854,369	(4,170,132)
TOTAL GROSS REVENUE	877,714	1,171,846	(294,132)	1,034,141
CHANGE IN DEFERRED INFLOWS	-	-	-	19,835
TOTAL NET REVENUE	877,714	1,171,846	(294,132)	1,053,976
OPERATING EXPENSE				
TRANSMISSION				
Operations & Maintenance	722,685	1,024,334	(301,649)	889,526
Operation Joint Zone	31,200	31,200	-	31,200
Utilization Charge (Credit)	-	-	-	-
	753,885	1,055,534	(301,649)	920,726
ADMINISTRATIVE & GENERAL				
MPPA				
- Salaries & Benefits	80,541	71,748	8,793	76,298
- Outside Services	24,881	23,001	1,880	18,229
- All Other A & G	18,408	21,563	(3,155)	18,888
Total A&G expense	123,829	116,312	7,517	113,415
Taxes	-	-	-	-
Depreciation	22,681	22,680	1	22,681
TOTAL OPERATING EXPENSE	900,397	1,194,526	(294,130)	1,056,823
OPERATING INCOME (LOSS)	(22,683)	(22,680)	(1)	(2,846)
OTHER REVENUE (EXPENSE)				
Interest income	2,810	2,500	310	3,713
Investment gain (loss)	202	-	202	(866)
Miscellaneous	-	-	-	-
TOTAL OTHER REVENUE (EXP)	3,012	2,500	512	2,846
CHANGE IN NET POSITION	\$ (19,671)	\$ (20,180)	\$ 510	\$ -
Impact of Change in Accounting	74,251			
NET POSITION- BEGINNING OF YEAR	-			
NET POSITION- END OF YEAR	\$ 54,582			

MICHIGAN PUBLIC POWER AGENCY
GENERAL FUND INCOME STATEMENT
Statement of Revenues, Expenses and Changes in Net Position
12 MONTHS ENDED 12/31/2017 AND 2016

	OVER (UNDER)			
	2017 ACTUAL	2017 BUDGET	2017 BUDGET	2016 ACTUAL
OPERATING REVENUE				
Participant Dues & Assessments	\$ 762,599	\$ 758,816	\$ 3,783	\$ 727,119
Charges for Services:			-	
Allocated expenses (Projects)	137,508	137,508	-	135,012
MMEA charges	295,931	285,497	10,434	257,866
Total Committee Revenues	1,942,067	2,130,596	(188,529)	1,857,088
Miscellaneous	41,580	36,900	4,680	40,500
TOTAL OPERATING REVENUE	3,179,686	3,349,317	(169,631)	3,017,584
OPERATING EXPENSE				
MMEA- direct expenses	248,536	237,497	11,039	209,866
Service Committee- direct expenses	1,875,304	2,059,656	(184,352)	1,787,347
Salaries & Benefits	319,887	346,383	(26,496)	304,879
Office supplies & expense	14,668	19,080	(4,412)	16,567
Insurance	15,240	13,992	1,248	18,677
Outside Services	107,445	193,233	(85,788)	117,868
Meeting & Travel	25,484	31,000	(5,516)	19,101
Rent & Building Maint.	29,962	38,724	(8,762)	55,008
Miscellaneous	6,150	6,150	-	2,005
Dues & Assessments	377,223	377,973	(750)	348,776
Total A&G expense	3,019,899	3,323,688	(303,789)	2,880,095
Depreciation - Office Equip	24,474	22,700	1,774	23,107
Depreciation - Building	32,080	40,303	(8,223)	40,024
TOTAL OPERATING EXPENSE	3,076,453	3,386,691	(310,238)	2,943,226
OTHER INCOME				
Interest income	11,271	6,775	4,496	7,486
Investment Gain (Loss)	(811)	-	(811)	(1,350)
Recognized Bldg Lease Income	76,192	74,193	1,999	90,192
	86,652	80,968	5,684	96,328
	-	-	-	-
CHANGE IN NET POSITION	\$ 189,884	\$ 43,594	\$ 146,291	\$ 170,687

March 20, 2018

To the Audit Committee
Michigan Public Power Agency

We have audited the financial statements of the Michigan Public Power Agency (MPPA) as of and for the year ended December 31, 2017 and have issued our report thereon dated March 20, 2018. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility Under U.S. Generally Accepted Auditing Standards

As stated in our engagement letter dated November 16, 2017, our responsibility, as described by professional standards, is to express an opinion about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities. Our responsibility is to plan and perform the audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement.

As part of our audit, we considered the internal control of the Michigan Public Power Agency. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

We are responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures specifically to identify such matters.

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you in our meeting about planning matters on January 23, 2018.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the Michigan Public Power Agency are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year, except for MPPA's decision to no longer apply regulated operations accounting to the project funds; however, MPPA may select to use this accounting method selectively in future years. See Note 1 to the financial statements for more information.

We noted no transactions entered into by MPPA during the year for which there is a lack of authoritative guidance or consensus.

We noted no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. There were no significant balances, amounts, or disclosures in the financial statements based on sensitive management estimates.

The disclosures in the financial statements are neutral, consistent, and clear.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Disagreements with Management

For the purpose of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. As a result of audit procedures, we identified one uncorrected misstatement - the compensated absence liability in the general office operations fund was overstated by \$36,728. Management has determined that its effect is immaterial to the financial statements taken as a whole. MPPA has determined it to be a necessary business practice to accrue for holiday leave that would be subject to employee redemption as of the first day of any given calendar year. While these funds are not due and payable until the first day of 2018, MPPA has opted to record the expense in 2017 and maintain sufficient balances in its accrued expenses fund to offset this potential outflow.

Significant Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, business conditions affecting MPPA, and business plans and strategies that may affect the risks of material misstatement with management each year prior to our retention as MPPA's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition of our retention.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated March 20, 2018.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a “second opinion” on certain situations. If a consultation involves application of an accounting principle to MPPA’s financial statements or a determination of the type of auditor’s opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

This information is intended solely for the use of the audit committee, the board of commissioners, and management of the Michigan Public Power Agency and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

Plante & Moran, PLLC

A handwritten signature in black ink, appearing to read 'D. Rober', with a long horizontal flourish extending to the right.

Douglas D. Rober, CPA
Partner