

**MICHIGAN SOUTH CENTRAL
POWER AGENCY**

Litchfield, Michigan

FINANCIAL STATEMENTS

Including Independent Auditors' Report

As of and for the Years Ended June 30, 2015 and 2014

MICHIGAN SOUTH CENTRAL POWER AGENCY

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INDEPENDENT AUDITORS' REPORT

To the Board of Commissioners
Michigan South Central Power Agency
Litchfield, Michigan

Report on the Financial Statements

We have audited the accompanying financial statements of the Michigan South Central Power Agency (the Agency), as of and for the years ended June 30, 2015 and 2014, and the related notes to the financial statements, which collectively comprise the 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.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits 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 auditors' 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 over financial reporting relevant to the Agency'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 Agency'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.

To the Board of Commissioners
Michigan South Central Power Agency

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Agency as of June 30, 2015 and 2014, and the changes in its financial position and its cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1, the Agency adopted the provisions of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*, effective July 1, 2014. The cumulative effect of the change is shown in the current year. Our opinion is not modified with respect to this matter.

Other Matter

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis and Schedules of Funding Progress, Changes in Net Pension Liability and Employer's Contributions information as listed in the table of contents be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary 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 financial statements, and other knowledge we obtained during our audit of the 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.

Baker Tilly Virchow Krause, LLP

Madison, Wisconsin
August 26, 2015

MANAGEMENT'S DISCUSSION AND ANALYSIS

MICHIGAN SOUTH CENTRAL POWER AGENCY

MANAGEMENT'S DISCUSSION AND ANALYSIS As of and for the Years Ended June 30, 2015 and 2014 UNAUDITED

The management of the Michigan South Central Power Agency (the "Agency") offers all persons interested in the Agency's financial position this narrative overview and analysis of the Agency's financial performance during the years ending June 30, 2015 and 2014. Please read this narrative in conjunction with the accompanying financial statements and the accompanying notes to financial statements.

OVERVIEW OF THE FINANCIAL STATEMENTS

Michigan South Central Power Agency is a public body politic and corporate of the State of Michigan. The Agency was organized on March 21, 1978, under the authority of Michigan Public Act 448 of 1976, to supply electricity to member municipalities in South Central Michigan. The Agency has five members: the Cities of Coldwater, Hillsdale, and Marshall; and the Villages of Clinton, and Union City.

This annual report consists of two parts: Management's Discussion and Analysis (this section) and the basic financial statements. These statements are prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. The Agency uses the Uniform System of Accounts prescribed by the Federal Energy Regulatory Commission.

The Balance Sheet reports year end assets, deferred outflows, liabilities, deferred inflows and net position balances based on the original cost adjusted for any depreciation, amortization or unrealized gains/losses as appropriate. The Statement of Revenues, Expenses and Changes in Net Position presents information showing how the Agency's net position changed due to the Agency's business activity. The Statement of Cash Flows reports the cash provided and used for operating activities, as well as other cash sources such as investment income and cash payments for capital additions.

The Agency has implemented GASB Statement No. 65 resulting in the reclassification of certain assets and liabilities to deferred outflows and inflows of resources in the financial statements for fiscal 2014 and fiscal 2013.

The Agency has implemented GASB Statement No. 68, resulting in recording various items in the financial statements for fiscal 2015, including deferred outflows of resources, pension liability and a cumulative effect of a change in accounting principle net position adjustment.

AGENCY FINANCIAL ANALYSIS

Fiscal year 2015 was a busy year, operationally and financially. This year marked the tenth full year of Agency operations as a "Market Participant" in the Midcontinent Independent System Operator (MISO) Midwest Market Initiative energy market. This market, which commenced on April 1st, 2005, is meant to coordinate the provision of reliable, cost-effective energy.

Late in fiscal year 2004, the Agency began a relationship with American Municipal Power of Ohio (AMP) in order to facilitate the Agency's MISO market participation. For approximately \$57,000 in fiscal year 2015 annual fees, the Agency is able to utilize the services of AMP's energy control center. This arrangement has allowed the Agency to avoid creating and staffing its own control center.

MICHIGAN SOUTH CENTRAL POWER AGENCY

MANAGEMENT'S DISCUSSION AND ANALYSIS
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AGENCY FINANCIAL ANALYSIS (cont.)

The relationship with AMP has broadened to include the acceptance of the Agency's members as full AMP members in July of 2006 and services such as power supply planning and resource management, including the Agency's members participation in a 43 MW share of the American Municipal Power Fremont Energy Center (AFEC) and a 12 MW share of the Prairie State Energy Campus as well as several bi-lateral bridge power contracts.

Beginning in fiscal 2014, the Agency entered into purchase power agreements with N.E.W. Hydro, LLC to secure long-term hydro power supply for a twenty year term. The agreements are for 5.75 MW from two hydro units located on the Menominee River and another 3.64 MW from two hydro units located in Oconto Falls on the Oconto River in Wisconsin.

On July 25, 2013, the Agency completed a purchase of a Fractionized Tire-Derived Fuel (FTF) facility located in Litchfield, Michigan. This purchase will enable the Agency to have the ability to use a secondary alternative fuel source for its Endicott facility.

In the fall of 2013, The Agency's Endicott facility performed a turbine major outage for which the Agency had been billing and deferring member resources in prior years that were released during fiscal 2014 when the major was completed.

On February 10, 2014, the Agency entered into Project IV, consisting of agreements to purchase and install three natural gas generators and facilities capable of producing 13 MW of power. This purchase and installation is estimated at \$16.6 million dollars to be completed the summer of 2015. \$16 million was funded with a floating rate bond with an option to fix the rate if desired in the future.

An analysis of the Agency's financial position begins with the review of the Balance Sheet, the Statement of Revenues, Expenses and Changes in Net Position and the Statement of Cash Flows report information. A summary of the Agency's Balance Sheet is presented in Table 1. The Statement of Revenues, Expenses and Changes in Net Position are summarized in Table 2 and Table 3 presents a summary of the Statement of Cash Flows.

MICHIGAN SOUTH CENTRAL POWER AGENCY

MANAGEMENT'S DISCUSSION AND ANALYSIS
As of and for the Years Ended June 30, 2015 and 2014
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AGENCY FINANCIAL ANALYSIS (cont.)

Table 1
Condensed Balance Sheets

	2015	2014	2013
Current assets	\$ 18,499,814	\$ 21,101,943	\$ 23,104,356
Noncurrent assets	15,522,297	10,824,539	11,301,568
Utility plant	44,562,825	33,737,131	19,360,902
Total Assets	78,584,936	65,663,613	53,766,826
Deferred Outflow of Resources	496,465	-	-
Total Assets and Deferred Outflows of Resources	\$ 79,081,401	\$ 65,663,613	\$ 53,766,826
Current liabilities	\$ 6,878,586	\$ 5,446,878	\$ 4,812,320
Non-current liabilities	24,890,759	12,645,575	197,929
Total Liabilities	31,769,345	18,092,453	5,010,249
Deferred Inflows of Resources	3,654,235	3,643,242	10,455,052
Net Position			
Net Investment in capital assets	29,488,158	28,918,169	19,360,902
Restricted for debt service	444,313	651	-
Unrestricted	13,725,350	15,009,098	18,940,623
Total Net Position	43,657,821	43,927,918	38,301,525
Total Liabilities, Deferred Inflows of Resources and Net Position	\$ 79,081,401	\$ 65,663,613	\$ 53,766,826

See accompanying independent auditors' report.

MICHIGAN SOUTH CENTRAL POWER AGENCY

MANAGEMENT'S DISCUSSION AND ANALYSIS
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AGENCY FINANCIAL ANALYSIS (cont.)

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

	2015	2014	2013
Operating revenues	\$ 55,638,148	\$ 70,037,047	\$ 54,805,738
Depreciation expense	2,161,560	1,700,177	2,823,618
Other operating expenses	<u>51,900,561</u>	<u>62,689,767</u>	<u>51,073,235</u>
Total Operating Expenses	<u>54,062,121</u>	<u>64,389,944</u>	<u>53,896,853</u>
Operating income	<u>1,576,027</u>	<u>5,647,103</u>	<u>908,885</u>
Investment and miscellaneous income	66,359	61,303	206,385
Interest and amortization expense	(83,101)	(918)	-
Debt Issuance Costs	(13,034)	(81,515)	-
Other income and (expense)	(21,980)	420	(216,494)
Member equity refund	<u>-</u>	<u>-</u>	<u>(5,090,860)</u>
Total Non-Operating Expenses	<u>(51,756)</u>	<u>(20,710)</u>	<u>(5,100,969)</u>
Change in Net Position	1,524,271	5,626,393	(4,192,084)
NET POSITION – Beginning of Year	43,927,918	38,301,525	42,493,609
Cumulative effect of a change in accounting principle	<u>(1,794,368)</u>	<u>-</u>	<u>-</u>
NET POSITION – END OF YEAR	<u>\$ 43,657,821</u>	<u>\$ 43,927,918</u>	<u>\$ 38,301,525</u>

See accompanying independent auditors' report.

MICHIGAN SOUTH CENTRAL POWER AGENCY

MANAGEMENT'S DISCUSSION AND ANALYSIS
As of and for the Years Ended June 30, 2015 and 2014
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AGENCY FINANCIAL ANALYSIS (cont.)

Table 3
Condensed Statements of Cash Flows

	2015	2014	2013
Received sales to members and others	\$ 56,037,360	\$ 62,546,078	\$ 54,511,853
Received from members for future operating expenses	650,000	750,000	1,500,000
Paid to suppliers for goods and services	(48,314,934)	(56,216,062)	(49,385,951)
Paid to employees for services	(6,219,621)	(5,121,409)	(4,707,248)
Cash Flows from Operating Activities	2,152,805	1,958,607	1,918,654
Capital expenditures for utility plant	(11,600,025)	(9,433,719)	(2,070,979)
Debt issuance costs	(13,034)	(81,515)	-
Proceeds from debt issue	11,060,000	4,940,000	-
Interest payments on long term debt	(149,677)	(20,622)	-
Cash Flows from Capital and Related Financing Activities	(702,736)	(4,595,856)	(2,070,979)
Cash Flows from Investing Activities	(2,617,065)	1,070,216	(104,188)
Net Change in Cash and Cash Equivalents	(1,166,996)	(1,567,033)	(48,137)
CASH AND CASH EQUIVALENTS			
- Beginning of Year	12,521,141	14,088,174	14,136,311
CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 11,354,145	\$ 12,521,141	\$ 14,088,174

BALANCE SHEETS

“Current assets” decreased by \$2.6 million during fiscal year 2015, with unrestricted cash decreasing \$3.6 million primarily due to acquiring longer term investments, restricted cash increasing \$.5 million, accounts receivable decreasing by \$1.0 million and other current assets increased by \$1.6 million, primarily due to inventory increasing \$1.2 million and regulatory assets increasing \$.5 million. “Current assets” decreased by \$2.0 million during fiscal year 2014, with cash decreasing \$1.1 million, accounts receivable decreasing by \$.1 million and other current assets decreased by \$.8 million, primarily due to expensing prepayments of \$1.0 million that were previously collected for the turbine major performed in the fall of 2013, offset by inventory increasing \$.1 million and regulatory assets increasing \$.1 million.

See accompanying independent auditors' report.

MICHIGAN SOUTH CENTRAL POWER AGENCY

MANAGEMENT'S DISCUSSION AND ANALYSIS
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BALANCE SHEETS (cont.)

"Noncurrent assets" increased by \$4.7 million in total during fiscal 2015. Long-term investments increased by \$3.9 million and restricted investments increased by \$.8 million. "Noncurrent assets" decreased by \$.5 million in total during fiscal 2014. Long-term investments decreased \$1.6 million, restricted investments increased by \$.1 million. Prepaid renewable energy credits and prepaid BTU's to be derived from an alternative fuel source decreased by \$5.2 million and other prepayments and non-current assets decreased by \$1.3 million as these costs were capitalized as part of the fiscal 2014 purchase of the fractionized tire derived fuel facility. Regulatory assets increased by \$7.5 million representing a deferred earnout agreement in connection with the fractionized tire derived fuel facility purchase.

The Agency's commitment to maintaining and improving the plant in order to provide reliable, value-based electricity to its members is reflected in the stability of the utility plant balance. The change in fiscal 2015's utility plant number of \$10.8 million is primarily due to \$13.0 million of projects capitalized (including construction in progress) during the year, offset by \$2.2 million of depreciation recorded for the year. The primary additions were to the Project IV three natural gas generators (construction in progress) of \$11.6 million. The change in fiscal 2014's utility plant number of \$14.4 million is primarily due to \$16.1 million of projects capitalized (including construction in progress) during the year, offset by \$1.7 million of depreciation recorded for the year. The primary additions were the purchase of the fractionized tire-derived fuel facility located adjacent to Project I with an additional capitalized cost of \$12.0 million and the Project IV three natural gas generators (construction in progress) of \$5.0 million.

Deferred Outflows of Resources increased by \$.5 million during fiscal 2015 resulting from the implementation of GASB 68.

Total Liabilities increased by \$13.7 million during fiscal 2015. Accounts payable increased by \$.5 million, compensation and related accruals increased by \$.1 million, bonds payable increased by \$11.1 million as the Agency completed its draws on its construction bond for the Project IV three natural gas generators and pension liability increased by \$2.1 million resulting from the implementation of GASB 68. Total Liabilities increased by \$13.1 million during fiscal 2014. Accounts payable increased by \$.6 million, compensation and related accruals increased by \$.1 million, Bonds payable increased by \$4.9 million consisting of draws on a construction bond for the Project IV three natural gas generators and other non-current accrued liabilities increased consisting of deferred FTF earnout increased by \$7.5 million reflecting the future earnout agreement associated with the fractionized tire derived fuel purchase.

Deferred Inflows of Resources were unchanged during fiscal 2015 as member rate stabilization funds decreased by \$.6 million, offset by an increase of \$.6 million for deferred transmission utilization funds. Deferred Inflows of Resources decreased by \$6.8 million during fiscal 2014 as member rate stabilization funds decreased by \$4.5 million due to utilizing these funds for both the turbine major \$3.0 million and \$1.5 million used for member rate stabilization. Deferred resources for future maintenance decreased by \$2.3 million as this deferred revenue was recognized in fiscal 2014 along with the turbine major expenses.

MICHIGAN SOUTH CENTRAL POWER AGENCY

MANAGEMENT'S DISCUSSION AND ANALYSIS
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STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

Fiscal 2015 operating revenues decreased by 20.6 percent and expenses increased by 16.0 percent versus fiscal 2014. Fiscal 2015 operating revenues and expenses were significantly lower than fiscal 2014 primarily due as the turbine major during fiscal 2014 was not repeated during fiscal 2015 and the expiration of two purchased power contracts. Fiscal 2014 operating revenues increased by 27.8 percent and expenses increased by 19.5 percent versus fiscal 2013. Fiscal 2014 operating revenues and expenses were significantly higher than fiscal 2013 primarily due to completing the turbine major in the fall of 2013, higher purchased power costs as new projects came on line, along with additional purchased power contracts.

Operating income decreased in Fiscal 2015. Fiscal 2015 operating income was lower as the Agency discontinued funding its capital reserve during the latter part of Fiscal 2015 and member rate stabilization funds used were not as significant as during fiscal 2014. Operating income increased in Fiscal 2014 due to two items; capital reserve funding was offset by lower depreciation and member rate stabilization funds were used to offset the cost of the turbine major.

"Investment and miscellaneous income" was unchanged for Fiscal 2015. "Investment and miscellaneous income" dropped significantly in Fiscal 2014 as investment income was no longer earned on the prepaid RECS and BTU's with the purchase of the tire derived facility.

"Other income and expense" was negligible for fiscal 2015. "Other income and expense" was negligible for fiscal 2014, but included debt issuance costs of \$.1 million in connection with the construction bond for the Project IV generators.

"Cumulative effect of a change in accounting principle" of \$1.8 million for fiscal 2015 related to prior years' effect resulting from the implementation of GASB 68.

STATEMENTS OF CASH FLOWS

"Cash and cash equivalents" are defined as investments which mature in 90 days or less, plus immediately accessible bank accounts. For fiscal 2015, the "Cash and cash equivalents" amount decreased \$1.2 million. The large items were draws on a construction bond for Project IV of \$11.1 million, offset by capital expenditures for that project. For fiscal 2014, the "Cash and cash equivalents" amount decreased \$1.6 million. The large items were a construction bond for Project IV of \$4.9 million, offset by capital expenditures for that project and the fractionized tire facility purchase completed during the year.

MICHIGAN SOUTH CENTRAL POWER AGENCY

MANAGEMENT'S DISCUSSION AND ANALYSIS
As of and for the Years Ended June 30, 2015 and 2014
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DEBT SERVICE COVERAGE

The Agency's bond documents required the Agency to maintain certain restrictive financial covenants, the most restrictive being the requirement that net revenues must equal at least 110% of the aggregate bond service for the year. The Agency met or exceeded all bond covenants for the years ended June 30, 2015. Further details can be found in the Footnotes to the Financial Statements, under "Aggregate Bond Service Coverage."

FUTURE ECONOMIC EVENTS

The Agency has entered into purchase power agreements with AMP for two hydro generation projects with a total generation capacity of 18.7 MW. These projects currently consist of five hydro generation locations on existing lock and dam facilities located on the Ohio River and are expected to be in full operation by the end of calendar 2016. Four of these units are under construction and one existing unit becomes part of the project when the Meldahl facility becomes operational.

During the June 25, 2015 board meeting, the Agency approved the decommissioning of its Endicott facility effective June 1, 2016, due to industry changes and environmental factors influencing the market to the point where the Agency has concluded that its Endicott coal generation facility no longer provides the most economical power resource to its members. The Agency has filed Attachment Y with MISO and is awaiting a response to either proceed with decommissioning or remain operating to ensure system reliability in the area. As such, the Agency will not record an impairment of its Endicott facility until final approval is received from MISO and Endicott's operations cease. The Endicott facility had an estimated net book value of \$20,830,000 as of June 30, 2015.

The Agency contracted with SEMCO Gas Energy Company to construct facilities to supply natural gas to the Endicott facility. The agreement states that a fixed quantity of natural gas would be required to be purchased for a period of 15 years. If MISO approves the decommissioning of Endicott, MSCPA has expressed intent to purchase the facilities constructed by SEMCO based on a buyout agreement to be negotiated at a later date.

CONTACTING AGENCY MANAGEMENT

This financial report is designed to provide our members, investors, and creditors with a general overview of Michigan South Central Power Agency's finances. Questions concerning any of the information provided in this report or requests for additional information should be addressed to Michigan South Central Power Agency, 720 Herring Rd., Litchfield, MI 49252.

MICHIGAN SOUTH CENTRAL POWER AGENCY

BALANCE SHEETS
As of June 30, 2015 and 2014

	<u>2015</u>	<u>2014</u>
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES		
CURRENT ASSETS		
Unrestricted cash and cash equivalents	\$ 10,104,398	\$ 13,750,213
Restricted cash and investments	465,700	6,377
Unrestricted investments		
Accounts receivable	3,610,119	4,648,338
Interest receivable	16,689	11,527
Inventory	2,278,873	1,064,503
Prepayments and other current assets	213,337	284,531
Regulatory assets - current portion	<u>1,810,698</u>	<u>1,336,454</u>
Total Current Assets	<u>18,499,814</u>	<u>21,101,943</u>
NONCURRENT ASSETS		
Unrestricted investments	7,062,012	3,168,549
Restricted investments	925,333	121,038
Regulatory assets	<u>7,534,952</u>	<u>7,534,952</u>
Total Noncurrent Assets	<u>15,522,297</u>	<u>10,824,539</u>
CAPITAL ASSETS		
Utility plant (including construction work in progress)	120,924,102	108,196,881
Accumulated depreciation	<u>(76,361,277)</u>	<u>(74,459,750)</u>
Total Net Capital Assets	<u>44,562,825</u>	<u>33,737,131</u>
TOTAL ASSETS	<u>78,584,936</u>	<u>65,663,613</u>
DEFERRED OUTFLOWS OF RESOURCES	<u>496,465</u>	<u>-</u>
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	<u>\$ 79,081,401</u>	<u>\$ 65,663,613</u>

**LIABILITIES, DEFERRED INFLOWS OF
RESOURCES AND NET POSITION**

	2015	2014
CURRENT LIABILITIES		
Accounts payable	\$ 5,535,431	\$ 5,057,563
Compensation and related amounts	446,768	383,589
Current Liabilities Payable from Restricted Assets		
Current portion of long-term debt	875,000	-
Accrued interest payable	21,387	5,726
Total Current Liabilities	6,878,586	5,446,878
NONCURRENT LIABILITIES		
Long-term debt	15,125,000	4,940,000
Net pension liability	2,088,682	-
Supplemental retirement obligation	142,125	170,623
Other accrued liabilities	7,534,952	7,534,952
Total Noncurrent Liabilities	24,890,759	12,645,575
Total Liabilities	31,769,345	18,092,453
DEFERRED INFLOWS OF RESOURCES		
Deferred rate stabilization	3,004,235	3,643,242
Deferred transmission utilization	650,000	-
Total Deferred Inflows of Resources	3,654,235	3,643,242
NET POSITION		
Net investment in capital assets	29,488,158	28,918,169
Restricted for debt service	444,313	651
Unrestricted	13,725,350	15,009,098
Total Net Position	43,657,821	43,927,918
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION	\$ 79,081,401	\$ 65,663,613

See accompanying notes to financial statements and independent auditors' report.

MICHIGAN SOUTH CENTRAL POWER AGENCY

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION For the Years Ended June 30, 2015 and 2014

	2015	2014
OPERATING REVENUES		
Sales to members	\$ 48,975,322	\$ 58,180,108
Sales to others	5,929,617	11,676,554
Other income	733,209	180,385
Total Operating Revenues	55,638,148	70,037,047
 OPERATING EXPENSES		
Operations	47,257,677	51,696,121
Maintenance	2,460,571	8,907,011
Administration and general	2,182,313	2,086,635
Depreciation	2,161,560	1,700,177
Total Operating Expenses	54,062,121	64,389,944
 Operating Income	1,576,027	5,647,103
 NONOPERATING REVENUES (EXPENSES)		
Investment and miscellaneous income	75,381	72,368
Net decrease in the fair value of investments	(9,022)	(11,065)
Interest expense on long-term debt	(83,101)	(918)
Debt issuance costs	(13,034)	(81,515)
Gain (loss) on disposal of assets	(21,980)	420
Total Nonoperating Expenses	(51,756)	(20,710)
 CHANGE IN NET POSITION	1,524,271	5,626,393
 NET POSITION - Beginning of Year	43,927,918	38,301,525
 Cumulative effect of a change in accounting principle	(1,794,368)	-
 NET POSITION - END OF YEAR	\$ 43,657,821	\$ 43,927,918

See accompanying notes to financial statements and independent auditors' report.

MICHIGAN SOUTH CENTRAL POWER AGENCY

STATEMENTS OF CASH FLOWS For the Years Ended June 30, 2015 and 2014

	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES		
Received from sales to members and others	\$ 56,037,360	\$ 62,546,078
Received from members for future operating expenses	650,000	750,000
Paid to suppliers for goods and services	(48,314,934)	(56,216,062)
Paid to employees for services	(6,219,621)	(5,121,409)
Net Cash Flows from Operating Activities	2,152,805	1,958,607
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Capital expenditures for utility plant	(11,600,025)	(9,433,719)
Debt issuance costs	(13,034)	(81,515)
Proceeds from debt issue	11,060,000	4,940,000
Interest payments on long-term debt	(149,677)	(20,622)
Cash Flows From Capital and Related Financing Activities	(702,736)	(4,595,856)
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sales and maturities of investments	3,243,137	2,835,386
Purchases of investments	(5,921,399)	(1,836,649)
Interest received	61,197	71,479
Cash Flows from Investing Activities	(2,617,065)	1,070,216
Net Change in Cash and Cash Equivalents	(1,166,996)	(1,567,033)
CASH AND CASH EQUIVALENTS – Beginning of Year	12,521,141	14,088,174
CASH AND CASH EQUIVALENTS – END OF YEAR	\$ 11,354,145	\$ 12,521,141
NONCASH INVESTING ACTIVITY		
Unrealized gains (losses) on investments	\$ 5,611	\$ 49,333
NONCASH CAPITAL AND RELATED FINANCING ACTIVITIES		
Interest charged to construction	\$ 82,237	\$ 25,430
Transfer prepaid renewable energy credits and other commodities to utility plant	\$ -	\$ 5,223,300
Transfer other assets to utility plant	\$ -	\$ 1,342,272

	<u>2015</u>	<u>2014</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH FLOWS FROM OPERATING ACTIVITIES		
Operating income	\$ 1,576,027	\$ 5,647,103
Noncash items included in operating income		
Depreciation	2,161,560	1,700,177
Changes in assets and liabilities		
Accounts receivable	1,038,219	70,841
Inventory	(1,214,370)	(72,015)
Prepayments and other current assets	71,194	943,319
Regulatory assets	(474,244)	(7,604,221)
Pension related deferrals and liabilities	(202,151)	-
Accounts payable	(849,104)	483,225
Compensation and related amounts	34,681	38,098
Other accrued liabilities	-	7,563,890
Deferred inflows of resources	10,993	(6,811,810)
	<u>10,993</u>	<u>(6,811,810)</u>
NET CASH FLOWS FROM OPERATING ACTIVITIES	<u>\$ 2,152,805</u>	<u>\$ 1,958,607</u>
RECONCILIATION OF CASH AND CASH EQUIVALENTS TO THE BALANCE SHEET		
Unrestricted cash and cash equivalents	\$ 10,104,398	\$ 13,750,213
Restricted cash and investments	465,700	6,377
Restricted investments	925,333	121,038
Unrestricted investments	7,062,012	3,168,549
Total Cash and Investments	18,557,443	17,046,177
Less: Long-term investments	(7,203,298)	(4,525,036)
TOTAL CASH AND CASH EQUIVALENTS	<u>\$ 11,354,145</u>	<u>\$ 12,521,141</u>

See accompanying notes to financial statements and independent auditors' report.

MICHIGAN SOUTH CENTRAL POWER AGENCY

NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended June 30, 2015 and 2014

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND NATURE OF OPERATIONS

The Michigan South Central Power Agency (the Agency) is a body politic and corporate, of the State of Michigan organized on March 21, 1978, under the authority of Michigan Public Act 448 of 1976 (the Act), to supply electricity to member municipalities in south central Michigan. The Act provides that the Agency will establish rates and charges so as to produce revenues sufficient to cover costs (excluding depreciation and amortization expense) including debt service, but it may not operate its projects for profit, except insofar as any such profit will insure to the benefit of the public.

The Agency's member municipalities are the Cities of Coldwater, Hillsdale and Marshall and the Villages of Clinton and Union City. Each member is a municipal corporation, organized under the laws of the State of Michigan, which owns and operates a municipal electric system. The member municipalities presently supply their customers with power and energy generated from the Agency's Project I, from the municipalities' existing generating facilities and with power purchased from other utility companies. Project I consists of a 55 MW coal fired generation facility and related transmission and substation equipment. During fiscal year 2014, the Agency purchased the fractional tire facility (FTF) which was built on land adjacent to Project I. The FTF is a new heat technology which utilizes waste heat from the Project I coal burning facility to convert tires into gas which is used as fuel to generate electricity. Project IV consists of three natural gas fired peaking units capable of producing 13 megawatts of power. Coldwater is the only participant in Project IV.

Each member municipality has entered into the following agreements with the Agency:

- > Economic Dispatch Agreement, which provides for the dispatch by the Agency of power and energy from certain existing generating facilities of the member municipalities on an economic basis and the member municipalities are required to sell to the Agency power generated by their facilities, defined as dedicated capacity.
- > The Power Sales Contract, which requires the Agency to provide, and the member municipalities to purchase from the Agency, all of the members' bulk power supply, as defined in the contracts.
- > The Substation Agreement requires the Agency to provide, and the municipalities to purchase, services of the municipalities' substation facilities for transmission, transformation and delivery of electric power and energy from the Agency to the municipalities.
- > Each member is also obligated to pay its share of the Agency's operating of Project I.

MEASUREMENT FOCUS, BASIS OF ACCOUNTING AND FINANCIAL STATEMENT PRESENTATION

The financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used. Revenues, expenses, gains, losses, assets, and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place.

MICHIGAN SOUTH CENTRAL POWER AGENCY

NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended June 30, 2015 and 2014

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND NATURE OF OPERATIONS (cont.)

MEASUREMENT FOCUS, BASIS OF ACCOUNTING AND FINANCIAL STATEMENT PRESENTATION (cont.)

The Agency's accounts are maintained in accordance with the Uniform System of Accounts of the Federal Energy Regulatory Commission, as required by the Power Sales Contracts with the member municipalities, and in conformity with accounting principles generally accepted in the United States of America. A separate set of plant accounts is maintained for each of the Agency's projects.

GASB issued Statement No. 68 – *Accounting and Financial Reporting for Pensions - an amendment of GASB Statement No. 27* and Statement No. 71 – *Pension Transition for Contributions Made Subsequent to the Measurement Date- an amendment of GASB Statement No. 68*, in June 2012 and November 2013, respectively. These statements establish accounting and financial reporting standards for the accounting and reporting of the Agency's agent multiple employer pension plan. This statement replaces the requirements of Statement No. 27, *Accounting for Pensions by State and Local Governmental Employer*. The Agency adopted these statements effective July 1, 2014. The cumulative impact of implementation is shown in Note 18.

USE OF ESTIMATES

Preparation of financial statements in conformity with generally accepted accounting principles in the United States (GAAP) 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.

ASSETS, DEFERRED OUTFLOWS OF RESOURCES, LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION

Cash Equivalents

For purposes of the statement of cash flows, cash equivalents include checking accounts, savings accounts and institutional liquid assets, with initial maturities of three months or less from the date of acquisition.

Investments

Investments are stated at fair value, which is the amount at which an investment could be exchanged in a current transaction between willing parties. Fair values are based on quoted market prices. No investments are reported at amortized cost. Adjustments necessary to record investments at fair value are recorded in the operating statement as increases or decreases in investment income. Market values may have changed significantly after year end.

MICHIGAN SOUTH CENTRAL POWER AGENCY

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended June 30, 2015 and 2014

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND NATURE OF OPERATIONS (cont.)

ASSETS, DEFERRED OUTFLOWS OF RESOURCES, LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION (cont.)

Restricted Assets

Mandatory segregations of assets are presented as restricted assets. Such segregations are required by bond agreements and other external parties. Current liabilities payable from these restricted assets are so classified.

Accounts Receivable and Allowance for Doubtful Accounts

Accounts receivable are stated at the amount billed to members and non-members. Allowance for doubtful accounts is not considered necessary as MSCPA has not historically experienced delays in payments for service rendered.

Inventory

Fuel inventory is stated at average carrying cost and consists of coal, limestone and fuel oil. Scrap steel inventory, a byproduct of the FTF process, is held for sale and marked to market value at year end.

Prepayments and Other Assets

These balances represent payments in the current year that will benefit future periods, the net cash surrender value of key retired employees' life insurance, and renewable energy credits.

Regulatory Assets and Deferred Inflows of Resources

The Agency has adopted the provisions for regulatory accounting as outlined in GASB Statement No. 62. This statement incorporates the provisions of FASB ASC 980, *Regulated Operation*, which provides for the deferral of costs and revenues which will be recognized through future rate adjustments. A deferred inflow of resources represents an acquisition of net position that applies to a future period and therefore will not be recognized as an inflow of resources (revenue) until that future time.

Capital Assets – Utility Plant

The Agency capitalizes assets with an original cost of \$5,000 or more and a useful life of at least two years. The cost of utility plant includes direct and overhead costs. Interest incurred during construction is reflected in the capitalized value of assets, net of interest earned on the invested proceeds over the same period. Total interest charged to construction for the years ended June 30, 2015 and 2014 was \$82,237 and \$25,430, respectively.

When property subject to depreciation is retired or otherwise disposed of in the normal course of business, its cost, together with the cost of removal less salvage, is charged to accumulated depreciation.

The cost of maintenance, repairs and replacements of minor items of property is charged to maintenance expense. The cost of replacements of property is charged to utility plant accounts.

MICHIGAN SOUTH CENTRAL POWER AGENCY

NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended June 30, 2015 and 2014

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND NATURE OF OPERATIONS (cont.)

ASSETS, DEFERRED OUTFLOWS OF RESOURCES, LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION (cont.)

Utility plant in service is depreciated using the straight-line method over the following useful lives:

	<u>Years</u>
Project I (composite) – Endicott Generation Station	30
FTF structures	20
FTF equipment	10
Substation plant (composite)	30
Transmission facilities (composite)	55
Administrative and maintenance building	10 – 50
Transportation equipment	3 – 5
Furniture and fixtures	5 – 10

Deferred Outflows of Resources

A deferred outflow of resources represents a consumption of net position that applies to a future period and will not be recognized as an outflow of resources (expense) until that future time. Deferred outflows relate to the GASB Statement No. 68 pension liability. Details of the account are included in Note 11.

Compensated Absences and Related Amounts

Under terms of employment, non-union employees are granted twelve sick and personal days per year on January 1st. This time cannot be carried over from year to year. However, the balance remaining of personal leave, up to five days, is transferred into the health care savings plan at year end. Vacation time does accrue for all employees, and up to one week (Union) or one-half of the annual accrual (non-union) may be carried over at year end. Sick leave and vacation benefits earned but not yet taken have been recorded in the financial statements. Union employees are granted three personal days per year which cannot be carried over from year to year.

The current portion of the supplemental retirement obligation, detailed in Note 11, is included with compensation and related amounts on the balance sheet.

Long-term Obligations

Long-term debt and other obligations are reported as liabilities.

Accrued Liabilities

An expense or obligation that the Agency has incurred but not yet paid, including future payments required from the earn-out agreement with Symbiotic Energy (Symbiotic) is also a regulatory asset under GASB No. 62.

MICHIGAN SOUTH CENTRAL POWER AGENCY

NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended June 30, 2015 and 2014

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND NATURE OF OPERATIONS (cont.)

ASSETS, DEFERRED OUTFLOWS OF RESOURCES, LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION (cont.)

Net Pension Liability

For purposes of measuring the Net Pension Liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Municipal Employees Retirement System (MERS) of Michigan and additions to/deductions from MERS' fiduciary net position have been determined on the same basis as they are reported by MERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

REVENUES AND EXPENSES

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

Agency billings are rendered and recorded monthly based on month end metered usage. No accrual for unbilled service is necessary. As all payments are received from Agency members for current service, no allowance for doubtful accounts is considered necessary.

TAXES

The Agency is exempt from State and Federal income taxes.

COMPARATIVE DATA

Certain amounts presented in the prior year data may have been reclassified in order to be consistent with the current year's presentation.

EFFECT OF NEW ACCOUNTING STANDARDS ON CURRENT PERIOD FINANCIAL STATEMENTS

GASB has approved GASB Statement No. 72, *Fair Value Measurement and Application*, Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*, Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, and Statement No.76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. When they become effective, application of these standards may restate portions of these financial statements.

MICHIGAN SOUTH CENTRAL POWER AGENCY

NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended June 30, 2015 and 2014

NOTE 2 – CASH AND INVESTMENTS

The Agency may make investments in U.S. Government and Federal Agency obligations, investment grade bonds, commercial paper rated at the highest classification established by at least two standard rating services, money market mutual funds, repurchase agreements, and pooled investment funds. The Agency's investment policy follows Michigan Public Act 20.

Investments are stated at fair value, which is the amount at which an investment could be exchanged in a current transaction between willing parties. Fair values are based on quoted market prices. No investments are reported at amortized cost. Adjustments necessary to record investments at fair value are recorded in the operating statement as increases or decreases in investment income. Market values may have changed significantly after year end.

As of June 30, 2015, deposits in each local and area bank are insured by the FDIC in the amount of \$250,000 for time and savings accounts (including NOW accounts) and \$250,000 for demand deposit accounts (interest and noninterest bearing accounts). The difference between the bank balance and carrying amount is due to outstanding checks, deposits in transit and/or market value adjustments.

CUSTODIAL CREDIT RISK

Deposits

Custodial credit risk is the risk that in the event of a financial institution failure, the Agency's deposits may not be returned to the Agency.

As of June 30, 2015 and 2014, of the Agency's total bank balances of \$2,110,764 and \$1,885,693, respectively, less than \$1,000 were exposed to custodial credit risk.

To minimize risk, the Agency's investment policy states, the Agency may only utilize depositories that have been authorized in the Banking and Depository Resolution.

Investments

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Agency will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party.

As of June 30, 2015 and 2014, no investments were exposed to custodial credit risk.

The Agency's investment policy limits investing to security types that have been authorized by the Board and in compliance with the Michigan Public Act 20 as amended.

MICHIGAN SOUTH CENTRAL POWER AGENCY

NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended June 30, 2015 and 2014

NOTE 2 – CASH AND INVESTMENTS (cont.)

CREDIT RISK

Credit risk is the risk an issuer or other counterparty to an investment will not fulfill its obligations.

As of June 30, 2015, the Agency's investments were rated as follows:

Investment Type	Standard & Poor's	Moody's
US Agency securities	AA+	Aaa

As of June 30, 2014, the Agency's investments were rated as follows:

Investment Type	Standard & Poor's	Moody's
US Agency securities	AA+	Aaa
Municipal bonds	AA-	Aa3

The Agency also held Governmental mutual funds at Fifth Third Bank that were not rated at June 30, 2015 and 2014.

The Agency's investment policy limits investing to security types that have been authorized by the Board and in compliance with the Michigan Public Act 20 as amended.

CONCENTRATION OF CREDIT RISK

Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. At June 30, 2015 and 2014, the investment portfolio was concentrated as follows:

Investment Type	Issuer	Percentage of Investment Portfolio	
		2015	2014
US Government Agency Securities	Federal Home Loan Bank	17%	7%

This Agency's investment policy specifies that no single issuer shall comprise greater than 25% of the overall portfolio, excluding securities collateralizing the repurchase agreement, when measured at the last investment purchase date. Securities which are explicitly backed by the full faith and credit of the United States Government shall not be aggregated when measuring portfolio concentration.

MICHIGAN SOUTH CENTRAL POWER AGENCY

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended June 30, 2015 and 2014

NOTE 2 – CASH AND INVESTMENTS (cont.)

INTEREST RATE RISK

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

As of June 30, 2015, the Agency's investments were as follows:

Investment Type	Fair Value	Maturity	
		Less than 1 Year	1 – 5 Years
US Government Agency Securities	\$ 5,245,235	\$ -	\$ 5,245,235
Governmental Mutual Funds	1,340,143	1,340,143	-
Repurchase Agreement – FNMA & FHLMC	9,910,411	9,910,411	-
Totals	<u>\$ 16,495,789</u>	<u>\$ 11,250,554</u>	<u>\$ 5,245,235</u>

As of June 30, 2014, the Agency's investments were as follows:

Investment Type	Fair Value	Maturity	
		Less than 1 Year	1 – 5 Years
US Government Agency Securities	\$ 2,596,629	\$ 300,270	\$ 2,296,359
Governmental Mutual Funds	227,056	227,056	-
Municipal Bonds	205,878	205,878	-
Repurchase Agreement – FNMA & FHLMC	12,238,766	12,238,766	-
Totals	<u>\$ 15,268,329</u>	<u>\$ 12,971,970</u>	<u>\$ 2,296,359</u>

This Agency's investment policy specifies operating funds shall be maintained in liquid investments such as money market funds, municipal investment pools, and savings accounts. Investments greater than five years are not allowed, however, upon the recommendation and approval of funds held for capital purposes, not expected to be paid within five years, may be invested in securities which mature in ten years or less.

MICHIGAN SOUTH CENTRAL POWER AGENCY

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended June 30, 2015 and 2014

NOTE 3 – RESTRICTED ASSETS

Restricted Accounts

Certain proceeds of the Agency's debt, as well as certain resources set aside for their repayment, are classified as restricted assets on the statements of net position because their use is limited. The following accounts are reported as restricted assets:

Bond Service Fund - Used to pay the current portion of the bond principal and interest.

Construction Fund - Used to report debt proceeds restricted for use in construction.

Restricted Net Position

The following calculation supports the restricted net position:

	<u>2015</u>	<u>2014</u>
Restricted Assets		
Bond Service Fund	\$ 465,700	\$ 6,377
Construction Fund	<u>925,333</u>	<u>121,038</u>
Total Restricted Assets	<u>1,391,033</u>	<u>127,415</u>
Less: Restricted Assets Not Funded by Revenues		
Construction Fund	<u>(925,333)</u>	<u>(121,038)</u>
Current Liabilities Payable from Restricted Assets	<u>(21,387)</u>	<u>(5,726)</u>
Total Restricted Net Position	<u>\$ 444,313</u>	<u>\$ 651</u>

MICHIGAN SOUTH CENTRAL POWER AGENCY

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended June 30, 2015 and 2014

NOTE 4 – CHANGES IN CAPITAL ASSETS

A summary of changes in capital assets for 2015 and 2014 follows:

	2015			
	Balance 7/1/14	Additions/ Reclassifications	Deletions/ Reclassifications	Balance 6/30/15
Capital assets, not being depreciated				
Land	\$ 1,403,519	\$ -	\$ -	\$ 1,403,519
Construction work in progress	5,331,487	13,021,192	(1,464,453)	16,888,226
Total Capital Assets, Not Being Depreciated	6,735,006	13,021,192	(1,464,453)	18,291,745
Capital assets being depreciated				
Project I (composite) –				
Generation Station	95,925,260	1,410,022	(241,354)	97,093,928
General Plant	5,523,456	54,473	(52,659)	5,525,270
Menominee/Oconto	13,159	-	-	13,159
Total Capital Assets Being Depreciated	101,461,875	1,464,495	(294,013)	102,632,357
Total Capital Assets	108,196,881	14,485,687	(1,758,466)	120,924,102
Less: Accumulated depreciation				
Project I (composite) –				
Generation Station	69,925,743	2,000,242	(224,673)	71,701,312
General Plant	4,531,814	158,686	(35,360)	4,655,140
Menominee/Oconto	2,193	2,632	-	4,825
Total Accumulated Depreciation	74,459,750	2,161,560	(260,032)	76,361,277
Net Capital Assets	\$ 33,737,131			\$ 44,562,825

MICHIGAN SOUTH CENTRAL POWER AGENCY

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended June 30, 2015 and 2014

NOTE 4 – CHANGES IN CAPITAL ASSETS (cont.)

	2014			
	Balance 7/1/13	Additions/ Reclassifications	Deletions/ Reclassifications	Balance 6/30/14
Capital assets, not being depreciated				
Land	\$ 1,403,519	\$ -	\$ -	\$ 1,403,519
Construction work in progress	2,393,948	16,076,406	(13,138,867)	5,331,487
Total Capital Assets, Not Being Depreciated	3,797,467	16,076,406	(13,138,867)	6,735,006
Capital assets being depreciated				
Project I (composite) –				
Generation Station	82,869,792	13,055,468	-	95,925,260
General Plant	5,464,491	70,240	(11,275)	5,523,456
Menominee/Oconto	-	13,159	-	13,159
Total Capital Assets Being Depreciated	88,334,283	13,138,867	(11,275)	101,461,875
Total Capital Assets	92,131,750	29,215,273	(13,150,142)	108,196,881
Less: Accumulated depreciation				
Project I (composite) –				
Generation Station	68,403,098	1,522,645	-	69,925,743
General Plant	4,367,750	175,339	(11,275)	4,531,814
Menominee/Oconto	-	2,193	-	2,193
Total Accumulated Depreciation	72,770,848	1,700,177	(11,275)	74,459,750
Net Capital Assets	\$ 19,360,902			\$ 33,737,131

NOTE 5 – REGULATORY ASSETS

Regulatory assets consist of costs incurred by the Agency which were not billed to the member municipalities during the period in which they were incurred.

Certain costs incurred during fiscal 2015 and 2014 were deferred until the appropriate allocation between members can be determined.

GAAP allows these items to be removed from the statements of revenues, expenses and changes in net position, and recorded as an asset or liability in the year in which they were incurred. These items are then recognized in future years when the items are included as allowable costs for rate-making purposes.

The components of the regulatory assets as of June 30, 2015 and 2014 are as follows:

	2015	2014
Regulatory Assets		
Cost to be billed once allocation is determined	\$ 9,345,650	\$ 8,871,406

MICHIGAN SOUTH CENTRAL POWER AGENCY

NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended June 30, 2015 and 2014

NOTE 5 – REGULATORY ASSETS (cont.)

The change in the components of regulatory assets for the years ended June 30, 2015 and 2014 are as follows:

	2015	2014
Accrued Vacation and Sick Leave	\$ 13,449	\$ 16,738
Base Load Feasibility Project	-	(250,390)
ITC Utilization Estimate	488,995	290,692
ITC KVAR Estimate	(28,200)	12,229
FTF Recovery Earnout	-	7,534,952
Net Increase (Decrease) in Regulatory Costs	474,244	7,604,221
Balance at Beginning of Year	8,871,406	1,267,185
Balance at End of Year	\$ 9,345,650	\$ 8,871,406

NOTE 6 – DEFERRED RESOURCES FOR FUTURE OPERATING EXPENSES

Based on various known circumstances the Board approves the accumulation of funds in advance of a major future operating expense.

During fiscal 2014 a substantial turbine maintenance project was completed. Leading up to the major maintenance, the Board approved the accumulation of funds in advance.

During fiscal 2015, the Board approved the accumulation of funds in advance of payment related to an annual transmission utilization charge.

GAAP allows these resources to be deferred, recorded on the balance sheet when collected and recognized as revenues in a future period when the operating costs are incurred.

The change in deferred inflows of resources related to future operating expenses for the years ended June 30, 2015 and 2014 is as follows:

	2015	2014
Balance at Beginning of Year	\$ -	\$ 2,300,000
Resources accumulated	650,000	750,000
Resources recognized	-	(3,050,000)
Balance at End of Year	\$ 650,000	\$ -

MICHIGAN SOUTH CENTRAL POWER AGENCY

NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended June 30, 2015 and 2014

NOTE 7 – DEFERRED RATE STABILIZATION

Management of the Agency has implemented a rate stabilization plan to provide its members with rate relief in future periods, through the withdrawal of members' accumulated resources.

During fiscal year 2014, the board approved the distributions of the rate stabilization fund to finance the turbine maintenance project.

The Agency anticipates the member contributions will be distributed to its members in an indeterminable period in the future out of currently available unrestricted funds. Accordingly, the Agency has established a deferred inflow of resources as follows:

<u>Fiscal Year</u>	<u>Balance 7/1</u>	<u>Contributions</u>	<u>Interest Accrued</u>	<u>Distributions</u>	<u>Balance 6/30</u>
2015	\$ 3,643,242	\$ 397,542	\$ 13,084	\$ 1,049,633	\$ 3,004,235
2014	8,155,052	886,233	22,749	5,420,792	3,643,242

NOTE 8 – FRACTIONAL TIRE FACILITY EARN-OUT AGREEMENT

As part of the FTF purchase, the Agency entered into an earn-out agreement with Symbiotic which will require the Agency to pay a sum of money to Symbiotic as the facility generates net revenues. The future cost has been set up as a regulatory asset and associated liability has been set up to show the future payments required to Symbiotic. The cost will be recognized when the facility generates net revenues over expenses (as outlined in the agreement) and the liability will decrease at the same time as the payments are made. This allows the Agency to re-coup the related technology costs from their members as the related liability is being paid.

NOTE 9 – LONG-TERM OBLIGATIONS

MSCPA has issued the following revenue bonds:

<u>Date</u>	<u>Purpose</u>	<u>Final Maturity</u>	<u>Interest Rates</u>	<u>Original Issue</u>	<u>Outstanding Amount 6/30/15</u>
Feb. 10, 2014	Project IV	Feb. 1, 2021	Variable	\$ 16,000,000	\$ 16,000,000

MICHIGAN SOUTH CENTRAL POWER AGENCY

NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended June 30, 2015 and 2014

NOTE 9 – LONG-TERM OBLIGATIONS (cont.)

The annual debt service requirements of the remaining bonds to maturity are as follows:

Year	Principal	Interest	Total
2016	\$ 875,000	\$ 257,378	\$ 1,132,378
2017	890,000	242,236	1,132,236
2018	905,000	227,528	1,132,528
2019	920,000	212,573	1,132,573
2020	935,000	197,889	1,132,889
2021	11,475,000	110,936	11,585,936
Totals	\$ 16,000,000	\$ 1,248,540	\$ 17,248,540

The interest payments shown above for the variable rate debt outstanding are estimated at 1.64%. The variable rate is determined by the One-Month LIBOR rate plus the five year Bank Margin of 1.45%.

Management's intention is to refinance the 2014 revenue bonds prior to their maturity in 2021.

Long-Term Obligations Summary

Long-term obligation activity for the year ended June 30, 2015 is as follows:

	Balance 7/1/14	Additions	Retirements	Balance 6/30/15	Due Within One Year
Long-term debt	\$ 4,940,000	\$11,060,000	\$ -	\$ 16,000,000	\$ 875,000
Pension Liability	-	2,804,045	715,363	2,088,682	-
Supplemental retirement obligation	199,662	541	29,039	171,164	29,039
Other accrued liabilities	7,534,952	-	-	7,534,952	-
Total Long-term Obligations	\$ 12,674,614	\$ 13,864,586	\$ 744,402	\$ 25,794,798	\$ 904,039

Long-term obligation activity for the year ended June 30, 2014 is as follows:

	Balance 7/1/13	Additions	Retirements	Balance 6/30/14	Due Within One Year
Long-term debt	\$ -	\$ 4,940,000	\$ -	\$ 4,940,000	\$ -
Supplemental retirement obligation	226,968	1,733	29,039	199,662	29,039
Other accrued liabilities	-	7,534,952	-	7,534,952	-
Total Long-term Obligations	\$ 226,968	\$ 12,476,685	\$ 29,039	\$ 12,674,614	\$ 29,039

MICHIGAN SOUTH CENTRAL POWER AGENCY

NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended June 30, 2015 and 2014

NOTE 10 – NET POSITION

GASB No. 34 requires the classification of net position 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, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. If there are significant unspent related debt proceeds at year-end, the portion of the debt attributable to the unspent proceeds are not included in the calculation of net investment in capital assets. 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 asset use through external constraints imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.

Unrestricted net position – This component of net position consists of net position that do not meet the definition of “restricted” or “net investment in capital assets.”

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

The following calculation supports the net investment in capital assets:

	2015	2014
Capital Assets		
Utility plant in service and work in progress	\$ 120,924,102	\$ 108,196,881
Allowance for depreciation	<u>(76,361,277)</u>	<u>(74,459,750)</u>
Sub-totals	<u>44,562,825</u>	<u>33,737,131</u>
Less: Capital related debt	<u>(16,000,000)</u>	<u>(4,940,000)</u>
Add: Unspent debt proceeds		
Construction fund	<u>925,333</u>	<u>121,038</u>
Total Net Investment in Capital Assets	<u>\$ 29,488,158</u>	<u>\$ 28,918,169</u>

NOTE 11 – EMPLOYEE RETIREMENT PLAN

MUNICIPAL EMPLOYEES RETIREMENT SYSTEM OF MICHIGAN (MERS)

The Agency contributes to two pension plans administered by the Municipal Employees Retirement System of Michigan (MERS), an public employee retirement system that acts as a common investment and administrative agent for municipalities. Employees hired prior to January 1, 2014 are enrolled in the Agency’s defined benefit multiple-employer plan. Employees hired after January 1, 2014 are enrolled in the Agency’s defined contribution plan.

MICHIGAN SOUTH CENTRAL POWER AGENCY

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended June 30, 2015 and 2014

NOTE 11 – EMPLOYEE RETIREMENT PLAN (cont.)

MUNICIPAL EMPLOYEES RETIREMENT SYSTEM OF MICHIGAN (MERS) (cont.)

Agent Defined Benefit Multiple-Employer Plan

The Agency implemented GASB No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*, effective July 1, 2014. The cumulative effect of the change in net position due to the change in accounting standard is shown as a change in beginning net position for 2015. The prior year balances for deferred outflows of resources and the net pension liability were not restated due to the measurement date used for the calculation of the balances and the timing of information received by MERS. For this reason, prior year pension footnote disclosures are included under GASB No. 27.

Plan Description. The employer's defined benefit pension plan provides certain retirement, disability and death benefits to plan members and beneficiaries. The employer participates in the MERS. MERS is an agent multiple employer, statewide public employee pension plan established by the Michigan Legislature under Public Act 135 of 1945 and administered by a nine member Retirement Board. MERS issues a publicly available financial report that includes financial statements and required supplementary information. This report may be obtained accessing the MERS website at www.mersofmich.com.

Benefits Provided. Benefits provided include plans with multipliers ranging from 2.0% to 2.25%. Vesting periods are 10 years for all divisions. Normal retirement age is 60 with reduced early retirement options at 50 with 25 years of service or at age 55 with 15 years of service. The union also has an unreduced early retirement option at age 55 with 30 years of service. Final average compensation is calculated based on 5 years. Members do not contribute to the plan.

Employees Covered by Benefit Terms. At the December 31, 2014 valuation date, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	22
Inactive employees entitled to but not yet receiving benefits	8
Active employees	<u>49</u>
Total	<u>79</u>

The pension plan is closed to new employees with the exception of division 11 for the General Manager.

Contributions. The employer is required to contribute amounts at least equal to the actuarially determined rate, as established by the MERS Retirement Board. The actuarially determined rate is the estimated amount necessary to finance the cost of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The employer may establish contribution rates to be paid by its covered employees. Employer contributions are 28% based on annual payroll for closed divisions. One division that is open to new employees has an annual employer contribution amount of 28%. During the year one employee was transferred from a closed division to the open division.

Net Pension Liability. The employer's Net Pension Liability was measured as of December 31, 2014, and the total pension liability used to calculate the Net Pension Liability was determined by an annual actuarial valuation as of that date.

MICHIGAN SOUTH CENTRAL POWER AGENCY

NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended June 30, 2015 and 2014

NOTE 11 – EMPLOYEE RETIREMENT PLAN (cont.)

MUNICIPAL EMPLOYEES RETIREMENT SYSTEM OF MICHIGAN (MERS) (cont.)

Actuarial Assumptions. The total pension liability in the December 31, 2014 annual actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

- > Inflation: 3%-4%
- > Salary Increases: 4.5% in the long-term (1%, 2% and 3% for calendar years 2014, 2015 and 2016, respectively)
- > Investment rate of return: 8.0%, net of investment expense, including inflation. Although no specific price inflation assumptions are needed for the valuation, the 4.5% long-term wage inflation assumption would be consistent with a price inflation of 3%-4%.
- > Mortality rates used were based on the 1994 Group Annuity Mortality Table of a 50% Male and 50% Female blend. For disabled retirees, the regular mortality table is used with a 10-year set forward in ages to reflect the higher expected mortality rates of disabled members.
- > The actuarial assumptions used in valuation were based on the results of the most recent actuarial experience study in 2008. (MERS Retirement Board is currently conducting an actuarial experience study covering the period from January 1, 2009, through December 31, 2013.)
- > The long-term expected rate of return on pension plan investments was determined using a model method in which the best-estimate ranges of expected future real rates of return (expected returns, net of investment and administrative expenses and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Global Equity	57.5%	5.02%
Global Fixed Income	20.0%	2.18%
Real Assets	12.5%	4.23%
Diversifying Strategies	10.0%	6.56%

Discount Rate. The discount rate used to measure the total pension liability is 8.0%. The projection of cash flows used to determine the discount rate assumes that employer and employee contributions will be made at the rates agreed upon for employees and the actuarially determined rates for employers. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to pay all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

MICHIGAN SOUTH CENTRAL POWER AGENCY

NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended June 30, 2015 and 2014

NOTE 11 – EMPLOYEE RETIREMENT PLAN (cont.)

MUNICIPAL EMPLOYEES RETIREMENT SYSTEM OF MICHIGAN (MERS) (cont.)

Changes in Net Pension Liability

Calculating Net Pension Liability

	Increase (Decrease)		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability
	(a)	(b)	(a) - (b)
Balances at 12/31/13	\$ 13,204,003	\$ 11,051,695	\$ 2,152,308
Changes for the Year			
Service Cost	251,719	-	251,719
Interest on Total Pension Liability	1,048,428	-	1,048,428
Changes in benefits	-	-	-
Difference between expected and actual experience	-	-	-
Changes in assumptions	-	-	-
Employer Contributions	-	715,363	(715,363)
Employee Contributions	-	-	-
Net investment income	-	707,308	(707,308)
Benefit payments, including employee refunds	(449,023)	(449,023)	-
Administrative expense	-	(26,134)	26,134
Other changes	32,764	-	32,764
	883,888	947,514	(63,626)
Net Changes	883,888	947,514	(63,626)
Balances as of 12/31/14	\$ 14,087,891	\$ 11,999,209	\$ 2,088,682

Sensitivity of the Net Pension Liability to Changes in the Discount Rate. The following presents the Net Pension Liability of the employer, calculated using the discount rate of 8%, as well as what the employer's Net Pension Liability would be using a discount rate that is 1 percentage point lower (7%) or 1% higher (9%) than the current rate.

Sensitivity to Changes in Discount Rate

	1% Decrease	Current Discount Rate	1% Increase
Total Pension Liability (a)	\$ 15,894,028	\$ 14,087,891	\$ 12,557,398
Fiduciary Net position (b)	11,999,209	11,999,209	11,999,209
Net Pension Liability (a-b)	\$ 3,894,819	\$ 2,088,682	\$ 558,189

MICHIGAN SOUTH CENTRAL POWER AGENCY

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended June 30, 2015 and 2014

NOTE 11 – EMPLOYEE RETIREMENT PLAN (cont.)

MUNICIPAL EMPLOYEES RETIREMENT SYSTEM OF MICHIGAN (MERS) (cont.)

Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions. For the year ended June 30, 2015, the employer recognized pension expense of \$502,588. The employer reported deferred outflows and inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences in experience	\$ -	\$ -
Differences in assumptions	-	-
Net difference between projected and actual investment earnings	149,149	-
Contributions subsequent to the measurement date *	347,316	-
 Totals	\$ 496,465	\$ -

* The amount reported as deferred outflows of resources resulting from contributions subsequent to the measurement date will be recognized as a reduction in the Net Pension Liability for the year ending June 30, 2016.

Amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ending June 30	
2016	\$ 37,287
2017	37,287
2018	37,287
2019	37,287

For fiscal 2014 and 2013, the Agency's annual pension cost of \$721,533 and \$705,047, respectively, for the MERS was equal to the Agency's required and actual contributions.

The 2014 required contribution was determined as part of the December 31, 2013 actuarial valuation using the entry age normal cost method. This method seeks to provide a level pattern of cost as a percentage of salary throughout an employee's working lifetime. The actuarial assumptions included: (a) 8.0% investment rate of return in 2013, 2012, and 2011; (b) projected salary increases of 4.5% in 2013, 2012, and 2011; and (c) additional projected salary increases ranging from 0% to 13.0% in 2013, 2012, and 2011, depending on age, attributable to seniority and merit. A level percentage of payroll amortization is used, with an amortization period not to exceed 30 years.

MICHIGAN SOUTH CENTRAL POWER AGENCY

NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended June 30, 2015 and 2014

NOTE 11 – EMPLOYEE RETIREMENT PLAN (cont.)

MUNICIPAL EMPLOYEES RETIREMENT SYSTEM OF MICHIGAN (MERS) (cont.)

<u>Valuation Date</u>	<u>Actuarial Asset Values</u>	<u>Actuarial Accrued Liability (AAL)</u>	<u>Unfunded AAL (UAAL)</u>	<u>Funded Ratio</u>	<u>Covered Payroll</u>	<u>UAAL as a Percentage of Covered Payroll</u>
December 31, 2011	\$ 9,743,852	\$ 11,160,959	\$ 1,417,107	87.3%	\$ 3,147,625	45.0%
December 31, 2012	10,688,839	11,965,588	1,276,749	89.3	3,243,268	39.4
December 31, 2013	11,735,131	13,149,284	1,414,153	89.2	3,419,740	41.4

DEFINED CONTRIBUTION PLAN

All full time employees hired after January 1, 2014, excluding the General Manager, are entered into the defined contribution plan administered by MERS. The MERS Defined Contribution Plan is a qualified retirement plan under Section 401(a) of the Internal Revenue Code. Employee and employer contributions are deposited into the employee's individual account and invested under their direction. Participants of the plan can make payments into the plan as desired. The Agency contributes 8% of the participant's wages starting November 2014. The Agency made contributions to the plan of \$52,879 in 2015.

SUPPLEMENTAL RETIREMENT PLAN

The Agency has entered into a supplemental retirement plan with a key employee to provide defined cash benefits for fifteen years after retirement, or specified benefits to a designated beneficiary in the event of death. This plan was approved by the Board of Commissioners, who has the authority to negotiate any changes in benefits. This plan is funded on a pay as you go basis by the Agency and is ultimately financed by a key employee life insurance policy payable to the Agency. The key employee retired on June 30, 2006 and began collecting benefits on July 1, 2006.

<u>Fiscal Year End</u>	<u>Annual Pension Cost</u>	<u>Annual Payments</u>	<u>Net Pension Obligation</u>	<u>Payments as a Percentage of Annual Pension Cost</u>
June 30, 2012	\$ 14,601	\$ 29,039	\$ 246,931	198.9%
June 30, 2013	9,076	29,039	226,968	320.0%
June 30, 2014	1,733	29,039	199,662	1,675.1%
June 30, 2015	541	29,039	171,164	5,367.7%

The net pension obligation is calculated at year end based on the present value of future cash flows. The assumptions include the known fixed future payments and five year average investment return of 0.32% and 0.45% for the years ended June 30, 2015 and 2014, respectively. There are no separately issued statements or reports on this plan.

MICHIGAN SOUTH CENTRAL POWER AGENCY

NOTES TO FINANCIAL STATEMENTS

As of and for the Years Ended June 30, 2015 and 2014

NOTE 12 – LONG-TERM SUPPLY AGREEMENTS

The Agency and its Members have entered into multiple development agreements with AMP to secure long-term power supply for the future. Completed projects include one base load coal generation facility and a gas generation project, along with two hydro generation projects under development at various stages of completion. Unit 1 of the Prairie State coal facility became operational in June 2012; unit 2 became operational near the end of 2012. The AMP Fremont Energy Center (AFEC) gas generation became operational in January 2012 with the Agency acquiring 42.96 MW of this project. The Agency also secured an additional 27.98 MW of the gas generation project through May 2015. The hydro generation projects, which currently involve the development of five hydro generation facilities on existing lock and dam facilities located on the Ohio River, are expected to be in full operation by the end of 2016 (individual units in 2015 and 2016). The Agency and its Members have entered into long-term capacity and power purchase agreements with AMP for a total of 12 MW of the base load coal project and 18.7 MW of the hydro projects.

Because some of these projects would not be in commercial operation until 2015, the Agency entered into multiple bridge contracts to secure power supply for the interim. Currently, the Agency secured fixed-priced contracts for 15 MW that started in January, 2009 and ended in December, 2012, 20 MW full service and 10 MW on-peak for 2013, and 15 MW full service and 5 MW on-peak for 2014.

The Agency has also entered into purchase power agreements with N.E.W. Hydro, LLC to secure long-term hydro power supply for a twenty year term beginning in fiscal 2014. The agreements are for 5.75 MW from two hydro units located on the Menominee River and another 3.64 MW from two hydro units located in Oconto Falls on the Oconto River in Wisconsin.

NOTE 13 – MARKET PARTICIPATION

The Agency is a participant in the Midwest Independent System Operator (MISO) energy market. MISO invoices the Agency for net generation sales or power purchases. These invoices are subject to future true-ups based on improved data. True-ups typically occur at various periods after the actual date of service. At year end the Agency is unable to estimate the amount of future adjustments relating to periods prior to year end. The Agency has a \$2,500,000 line of credit with MISO. At June 30, 2015 there was no balance drawn.

NOTE 14 – RISK MANAGEMENT

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

MICHIGAN SOUTH CENTRAL POWER AGENCY

NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended June 30, 2015 and 2014

NOTE 15 – COMMITMENTS AND CONTINGENCIES

The Agency has entered into contracts related to work to be commenced and completed subsequent to year end. Any service provided as of June 30, 2015 has been accrued in these financial statements.

From time to time, the agency is party to various pending claims and legal proceedings. Although the outcome of such matters cannot be forecasted with certainty, it is the opinion of management and the agency's legal counsel that the likelihood of a material adverse effect on the agency's financial position or results of operations is remote.

ENDICOTT FACILITY DECOMMISSIONING

During the June 25, 2015 board meeting the Agency approved the decommissioning of its Endicott facility effective June 1, 2016. Industry changes and environmental factors have influenced the market and the Agency has concluded that its Endicott coal generation facility no longer provides the most economical power resource to its members.

The Agency has filed Attachment Y with MISO to request its approval to decommission the Endicott facility and is currently awaiting a response. MISO could deny the decommissioning and require the facility to continue to operate to ensure system reliability in the area. As such, the Agency will not record an impairment of its Endicott facility until final approval is received from MISO and Endicott's operations cease. The Endicott facility had an estimated net book value of \$20,830,000 as of June 30, 2015.

Additionally, the Agency contracted with SEMCO Gas Energy Company to construct facilities to supply natural gas to the Endicott facility. The agreement states that a fixed quantity of natural gas would be required to be purchased for a period of 15 years. If MISO approves the decommissioning of Endicott, the Agency has expressed intent to purchase the facilities constructed by SEMCO based on a buyout agreement to be negotiated at a later date.

SEAMS ELIMINATION COST ASSESSMENT

The Agency was included in a FERC filing where Midwest ISO and PJM transmission owners sought to recover a Seams Elimination Cost Assessment (SECA) from all load serving entities in connection with the FERC's decision to eliminate the transmission rate for transactions that cross the MISO – PJM seam. The Agency's SECA charges paid totaled approximately \$1 million. Previously, the Agency secured a FERC order which identified Constellation Energy as the proper obligator of these charges. As a result, Constellation Energy owes a refund to the Agency for SECA charges it paid. An appeal filed by Constellation Energy was denied by FERC and to date no further appeals have been or are anticipated to be taken. The Agency anticipates recovery from Constellation Energy, though a final refund and accumulated interest has yet to be determined.

NOTE 16 – AGGREGATE BOND SERVICE COVERAGE

Section 12 of the Power Supply System Revenue Bond Resolution (the Resolution) dated February 5, 2014, requires – The Agency agrees that while any of the bonds are outstanding it shall from time to time fix rates and other charges for electric power and energy and any services or facilities furnished by the System at levels that, together with other current income, are reasonably expected to produce Net Revenues equal to at least 110% of debt service coming due on the Bonds in each fiscal year. The rates and charges shall be reviewed not less than once a year and shall be fixed and revised from time to time by the Agency as may be necessary to produce these amounts, and it is hereby covenanted and agreed to fix and maintain rates and charges for services furnished by the System at all times sufficient to provide for the foregoing.

MICHIGAN SOUTH CENTRAL POWER AGENCY

NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended June 30, 2015 and 2014

NOTE 16 – AGGREGATE BOND SERVICE COVERAGE (cont.)

To comply with the requirements of the above Section of the Resolution, the Agency has prepared the Aggregate Bond Service Coverage Calculation for the twelve months ended June 30, 2015.

Definitions of the following terms included in the calculation discussed in the paragraph above are as indicated in Section 1 Definitions:

Adjusted Net Revenues
Net Revenues
Revenues
System

All references to Generally Accepted Accounting Principles in the above definitions are generally those currently in existence, except for those that are inconsistent with the Resolution, in which case the terms of the Resolution control.

June 30, 2015

NET REVENUES

Operating Revenues		\$	55,638,148
Less: Operating Expenses			
Operations	\$	47,257,677	
Maintenance		2,460,571	
Administration and General (a)		<u>2,122,313</u>	
Total			(51,840,561)
Plus:			
Investment and miscellaneous income	\$	75,381	
Net decrease in the fair value of investments		(9,022)	
Gain on disposal of assets		<u>2,334</u>	
Total			<u>68,693</u>
Less:			
Pension payments made 7/1/14 to 6/30/15	\$	(704,740)	
Add GASB 68 pension expense		<u>502,588</u>	
Total			<u>(202,152)</u>
TOTAL NET REVENUES, AS DEFINED		\$	<u><u>3,664,128</u></u>
DEBT SERVICE		\$	<u><u>149,677</u></u>
COVERAGE OF DEBT SERVICE BY NET REVENUES			<u><u>2,448%</u></u>

(a) Excludes payment in lieu of taxes totaling \$60,000.

MICHIGAN SOUTH CENTRAL POWER AGENCY

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended June 30, 2015 and 2014

NOTE 17 – SIGNIFICANT CUSTOMERS

The Agency has three members who are considered significant customers. These members accounted for 93% of operating revenues for years ended June 30, 2015 and 2014.

NOTE 18 – CUMULATIVE EFFECT OF A CHANGE IN ACCOUNTING PRINCIPLE

The Agency adopted GASB Statement No. 68 effective July 1, 2014. The cumulative impact of implementation is reflected as a change in net position as follows:

Net pension liability July 1, 2014	\$ 2,152,308
Deferred outflows July 1, 2014	<u>(357,940)</u>
Cumulative Effect of a Change in Accounting Principle	<u>\$ 1,794,368</u>

Additional information required for retroactive implementation was not provided by the pension plan.

REQUIRED SUPPLEMENTARY INFORMATION

MICHIGAN SOUTH CENTRAL POWER AGENCY

REQUIRED SUPPLEMENTAL INFORMATION
As of June 30, 2014

Schedule of Funding Progress – GASB Statement No. 27

<u>Valuation Date</u>	<u>Actuarial Asset Values</u>	<u>Actuarial Accrued Liability (AAL)</u>	<u>Unfunded AAL (UAAL)</u>	<u>Funded Ratio</u>	<u>Covered Payroll</u>	<u>UAAL as a Percentage of Covered Payroll</u>
December 31, 2011	\$ 9,743,852	\$ 11,160,959	\$ 1,417,107	87.3%	\$ 3,147,625	45.0%
December 31, 2012	10,688,839	11,965,588	1,276,749	89.3	3,243,268	39.4
December 31, 2013	11,735,131	13,149,284	1,414,153	89.2	3,419,740	41.4

See independent auditors' report.

MICHIGAN SOUTH CENTRAL POWER AGENCY

REQUIRED SUPPLEMENTAL INFORMATION
As of June 30, 2015

Schedule of Changes in the Net Pension Liability - GASB Statement No. 68

Total Pension Liability

Service cost	\$	251,719
Interest		1,048,428
Changes of benefit terms		-
Difference between expected and actual experience		-
Changes of assumptions		-
Benefit payments including employee refunds		(449,023)
Other		<u>32,764</u>
Net Change in Total Pension Liability		<u>883,888</u>
Total Pension Liability beginning		<u>13,204,003</u>
Total Pension Liability ending	\$	<u><u>14,087,891</u></u>

Plan Fiduciary Net Position

Contributions-employer	\$	715,363
Contributions-employee		-
Net Investment income		707,308
Benefit payments including employee refunds		(449,023)
Administrative expense		<u>(26,134)</u>
Net Change in Plan Fiduciary Net Position		<u>947,514</u>
Plan Fiduciary Net Position beginning		<u>11,051,695</u>
Plan Fiduciary Net Position ending	\$	<u><u>11,999,209</u></u>

Employer Net Pension Liability **\$** 2,088,682

Plan Fiduciary Net Position as a percentage of the

Total Pension Liability 85%

Covered Employee Payroll 3,437,851

**Employer's Net Pension Liability as a percentage
of covered employee payroll** 61%

Notes to schedule:

Above dates are based on measurement date of December 31st, which does not tie to the fiscal year.

See independent auditors' report.

MICHIGAN SOUTH CENTRAL POWER AGENCY

REQUIRED SUPPLEMENTAL INFORMATION

As of June 30, 2015

Schedule of Employer's Contributions - GASB Statement No. 68

Actuarial determined contributions *	\$	355,363
Contributions in relation to the actuarially determined contribution		<u>715,363</u>
Contribution deficiency (excess)	\$	<u>(360,000)</u>
Covered Employee Payroll	\$	3,437,851
Contributions as a percentage of covered employee payroll		21%

Notes to Schedule

Actuarial cost method	Entry Age
Amortization method	Level percentage of payroll, open
Remaining amortization period	25 years
Asset valuation method	10 year smoothed
Inflation	3.5%
Salary Increases	4.5%
Investment rate of return	8.0%
Retirement age	60
Mortality	50% Female/50% Male 1994 Group Annuity Mortality Table

Above dates are based on measurement date of December 31st, which does not tie to the fiscal year.

* Actuarially Determined Contribution is found in the actuarial valuation in Table 5.