MICHIGAN SOUTH CENTRAL POWER AGENCY

Litchfield, Michigan

FINANCIAL STATEMENTS

Including Independent Auditors' Report

As of and for the Years Ended June 30, 2016 and 2015

MICHIGAN SOUTH CENTRAL POWER AGENCY

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As of and for the Years Ended June 30, 2016 and 2015

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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, 2016 and 2015, 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, 2016 and 2015, and the respective changes in 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.

Other Matter

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the required supplementary information as listed in the table of contents 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 who 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 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 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.

Baker Tilly Virchow Krause, LLP

Madison, Wisconsin
August 25, 2016

MANAGEMENT'S DISCUSSION AND ANALYSIS

MICHIGAN SOUTH CENTRAL POWER AGENCY

MANAGEMENT'S DISCUSSION AND ANALYSIS
As of and for the Years Ended June 30, 2016 and 2015
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, 2016 and 2015. 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.

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 2016 was a busy year, operationally and financially. This year marked the eleventh 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 $70,000 in fiscal year 2016 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.

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 44 MW share of the American Municipal Power Fremont Energy Center (AFEC), a 12 MW share of the Prairie State Energy Campus, 18.7 MW of two AMP Hydro projects consisting of five hydro generation locations on existing lock and dam facilities located on the Ohio River. Regarding the hydro units, 13.4 MW of the hydro generation was in service by the end of fiscal 2016, the remaining generation locations are under construction and are anticipated to be on line by the end of the first quarter of calendar 2017.

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.

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 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.

Effective June 1, 2016, the Agency retired and decommissioned its 55 MW Endicott facility (Project I), including ceasing operation of its Fractionized Tire-Derived Fuel (FTF) facility 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. This resulted in a write-off of early retirement of Project I of $19.1 million.

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.

AGENCY FINANCIAL ANALYSIS (cont.)

Table 1
Condensed Balance Sheets

	2016	2015	2014
Current assets	$ 15,380,174	$ 18,499,814	$ 21,101,943
Noncurrent assets	11,531,305	15,522,297	10,824,539
Utility plant	23,251,265	44,562,825	33,737,131
Total Assets	50,162,744	78,584,936	65,663,613
Deferred Outflow of Resources	1,862,984	496,465	-
Total Assets and Deferred Outflows of Resources	$ 52,025,728	$ 79,081,401	$ 65,663,613
Current liabilities	$ 6,452,164	$ 6,878,586	$ 5,446,878
Non-current liabilities	17,497,283	24,890,759	12,645,575
Total Liabilities	23,949,447	31,769,345	18,092,453
Deferred Inflows of Resources	4,319,577	3,654,235	3,643,242
Net Position			
Net Investment in capital assets	8,126,265	29,488,158	28,918,169
Restricted for debt service	472,875	444,313	651
Unrestricted	15,157,564	13,725,350	15,009,098
Total Net Position	23,756,704	43,657,821	43,927,918
Total Liabilities, Deferred Inflows of Resources and Net Position	$ 52,025,728	$ 79,081,401	$ 65,663,613

AGENCY FINANCIAL ANALYSIS (cont.)

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

	2016	2015	2014
Operating revenues	$ 45,913,578	$ 55,638,148	$ 70,037,047
Depreciation expense	2,289,681	2,161,560	1,700,177
Other operating expenses	44,811,176	51,900,561	62,689,767
Total Operating Expenses	47,100,857	54,062,121	64,389,944
Operating income	(1,187,279)	1,576,027	5,647,103
Investment and miscellaneous income	201,293	66,359	61,303
Interest and amortization expense	(280,298)	(83,101)	(918)
Debt Issuance Costs	-	(13,034)	(81,515)
Other income and (expense)	(19,090,292)	(21,980)	420
Total Non-Operating Expenses	(19,169,297)	(51,756)	(20,710)
Income Before Contributions	(20,356,576)	1,524,271	5,626,393
Capital Contributions	455,459	-	-
Change in Net Position	(19,901,117)	1,524,271	5,626,393
NET POSITION – Beginning of Year	43,657,821	43,927,918	38,301,525
Cumulative effect of a change in accounting principle	-	(1,794,368)	-
NET POSITION – END OF YEAR	$ 23,756,704	$ 43,657,821	$ 43,927,918

AGENCY FINANCIAL ANALYSIS (cont.)

Table 3
Condensed Statements of Cash Flows

	2016	2015	2014
Received sales to members and others	$ 46,083,785	$ 56,687,360	$ 63,296,078
Paid to suppliers for goods and services	(35,741,659)	(48,314,934)	(56,216,062)
Paid to employees for services	(4,254,694)	(6,219,621)	(5,121,409)
Cash Flows from Operating Activities	6,087,432	2,152,805	1,958,607
Capital expenditures for utility plant	(1,507,819)	(11,600,025)	(9,433,719)
Debt issuance costs	-	(13,034)	(81,515)
Debt retired	(875,000)	-	-
Capital contribution received	455,459	-	-
Proceeds from debt issue	-	11,060,000	4,940,000
Interest payments on long term debt	(277,653)	(149,677)	(20,622)
Cash Flows from Capital and Related Financing Activities	(2,205,013)	(702,736)	(4,595,856)
Cash Flows from Investing Activities	(4,385,183)	(2,617,065)	1,070,216
Net Change in Cash and Cash Equivalents	(502,764)	(1,166,996)	(1,567,033)
CASH AND CASH EQUIVALENTS - Beginning of Year	11,354,145	12,521,141	14,088,174
CASH AND CASH EQUIVALENTS - END OF YEAR	$ 10,851,381	$ 11,354,145	$ 12,521,141

BALANCE SHEETS

"Current assets" decreased by $3.1 million during fiscal year 2016, primarily due to other current assets decreasing $3.8 million due to inventory decreasing by $2.3 million as inventories were used up with the retirement of Project I, regulatory assets decreasing $1.5 million as previously deferred items were expensed, unrestricted cash increasing $.5 million and accounts receivable increasing by $.2 million.

"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.

BALANCE SHEETS (cont.)

"Noncurrent assets" decreased by $4.0 million in total during fiscal 2016. Long-term investments increased by $4.4 million and restricted investments decreased by $.9 million. Regulatory assets decreased by $7.5 million resulting from writing off a deferred earnout agreement in connection with the fractionized tire derived fuel facility that was removed from service.

"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. 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 2016's utility plant number of $21.3 million is primarily due to early retirement of the Agency's Endicott Facility (Project I) of a net book value of $19.1 million, offset by $0.1 million of projects capitalized (including construction in progress) during the year, offset by $2.3 million of depreciation recorded for the year.

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.

Deferred Outflows of Resources increased by $1.4 million during fiscal 2016 resulting from the current year effects of GASB 68 on pension activities. Deferred Outflows of Resources increased by $.5 million during fiscal 2015 resulting from the implementation of GASB 68.

Total Liabilities decreased by $7.8 million during fiscal 2016. Other non- current accrued liabilities decreased $7.5 million due to the write-off of deferred FTF earnout revenue due to the fractionized tire derived fuel facility being removed from service, pension liability increased by $1.1 million resulting from the current year effects of GASB 68, long-term debt decreased by .9 million, accounts payable decreased by $.9 million and compensation and related accruals increased by $.4 million.

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.

Deferred Inflows of Resources increased $.7 million during fiscal 2016 as member rate stabilization funds increased by $.9 million, consisting of $3.0 million added by the members, offset by $1.6 million drawn for member usage and $.5 million used for capital contributions, an increase of $.3 million resulting from current year GASB 68 pension activities, offset by a decrease of $.5 million for deferred transmission utilization funds.

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

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.

Fiscal 2016 operating revenues decreased 17.5 percent and expenses also decreased 12.9 percent versus fiscal 2015. Fiscal 2016 operating revenues and expenses were significantly lower than fiscal 2015 primarily due to reductions to purchased power costs resulting from lower natural gas pricing and savings resulting from the early retirement of the Agency's Endicott facility (Project I).

Fiscal 2015 operating revenues decreased 20.6 percent and expenses decreased 16.0 percent versus fiscal 2014. Fiscal 2015 operating revenues and expenses were significantly lower than fiscal 2014 primarily as a result of the turbine major during fiscal 2014 was not repeated during fiscal 2015 and the expiration of two purchased power contracts.

Operating income decreased $2.8 million in Fiscal 2016. Fiscal 2016 operating income was lower as the Agency discontinued funding its capital reserve in the latter part of Fiscal 2015.

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.

"Investment and miscellaneous income" increased $.1 million for Fiscal 2016. "Investment and miscellaneous income" was unchanged for Fiscal 2015.

"Other income and expense" of $19.1 million for fiscal 2016 was primarily due to the early retirement of the Agency's Endicott facility (Project I). "Other income and expense" was negligible for fiscal 2015.

"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 2016, the "Cash and cash equivalents" amount decreased $0.5 million. 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.

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, 2016. Further details can be found in the Footnotes to the Financial Statements, under "Aggregate Bond Service Coverage."

FUTURE ECONOMIC EVENTS

The Agency is participating in an AMP Solar project of 1.2 MW that is under development and is anticipated to be completed by the end of calendar 2016.

With the retirement of the Agency's Endicott facility and with loads demands increasing near the end of calendar 2017, the Agency has entered into two fixed price purchase power agreements. Currently, the Agency has secured fixed-priced contracts for 10 MW on-peak starting January 1, 2018 through December 31, 2025 and for 5 MW on-peak starting January 1, 2018 through December 31, 2030.

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, 2016 and 2015

ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	2016	2015
CURRENT ASSETS		
Unrestricted cash and cash equivalents	$ 10,595,454	$ 10,104,398
Restricted cash and investments	496,907	465,700
Accounts receivable	3,805,878	3,610,119
Interest receivable	34,178	16,689
Inventory	2,153	2,278,873
Prepayments and other current assets	175,014	213,337
Regulatory assets - current portion	270,590	1,810,698
Total Current Assets	15,380,174	18,499,814
NONCURRENT ASSETS		
Unrestricted investments	11,531,305	7,062,012
Restricted investments	-	925,333
Regulatory assets	-	7,534,952
Total Noncurrent Assets	11,531,305	15,522,297
CAPITAL ASSETS		
Utility plant (including construction work in progress)	35,205,968	120,924,102
Accumulated depreciation	(11,954,703)	(76,361,277)
Total Net Capital Assets	23,251,265	44,562,825
Total Assets	50,162,744	78,584,936
DEFERRED OUTFLOWS OF RESOURCES RELATED TO PENSIONS	1,862,984	496,465
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	$ 52,025,728	$ 79,081,401

LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION

	2016	2015
CURRENT LIABILITIES		
Accounts payable	$ 4,667,806	$ 5,535,431
Compensation and related amounts	870,326	446,768
Current Liabilities Payable from Restricted Assets		
Current portion of long-term debt	890,000	875,000
Accrued interest payable	24,032	21,387
Total Current Liabilities	6,452,164	6,878,586
NONCURRENT LIABILITIES		
Long-term debt	14,235,000	15,125,000
Net pension liability	3,148,789	2,088,682
Supplemental retirement obligation	113,494	142,125
Other accrued liabilities	-	7,534,952
Total Noncurrent Liabilities	17,497,283	24,890,759
Total Liabilities	23,949,447	31,769,345
DEFERRED INFLOWS OF RESOURCES		
Deferred rate stabilization	3,883,171	3,004,235
Deferred transmission utilization	137,030	650,000
Deferred inflows related to pensions	299,376	-
Total Deferred Inflows of Resources	4,319,577	3,654,235
NET POSITION		
Net investment in capital assets	8,126,265	29,488,158
Restricted for debt service	472,875	444,313
Unrestricted	15,157,564	13,725,350
Total Net Position	23,756,704	43,657,821
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION	$ 52,025,728	$ 79,081,401

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, 2016 and 2015

	2016	2015
OPERATING REVENUES		
Sales to members	$ 44,323,033	$ 48,975,322
Sales to others	1,174,554	5,929,617
Other income	415,991	733,209
Total Operating Revenues	45,913,578	55,638,148
OPERATING EXPENSES		
Operations	40,444,629	47,257,677
Maintenance	2,008,446	2,460,571
Administration and general	2,358,101	2,182,313
Depreciation	2,289,681	2,161,560
Total Operating Expenses	47,100,857	54,062,121
Operating Income (Loss)	(1,187,279)	1,576,027
NONOPERATING REVENUES (EXPENSES)		
Investment and miscellaneous income	129,010	75,381
Net increase (decrease) in the fair value of investments	72,283	(9,022)
Interest expense on long-term debt	(280,298)	(83,101)
Debt issuance costs	-	(13,034)
Loss on the early retirement of Project I	(19,090,292)	-
Loss on disposal of assets	-	(21,980)
Total Nonoperating Expenses	(19,169,297)	(51,756)
Income (Loss) before Contributions	(20,356,576)	1,524,271
CAPITAL CONTRIBUTIONS	455,459	-
CHANGE IN NET POSITION	(19,901,117)	1,524,271
NET POSITION - Beginning of Year	43,657,821	43,927,918
Cumulative effect of a change in accounting principle	-	(1,794,368)
NET POSITION - END OF YEAR	$ 23,756,704	$ 43,657,821

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, 2016 and 2015

	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Received from sales to members and others	$ 46,083,785	$ 56,687,360
Paid to suppliers for goods and services	(35,741,659)	(48,314,934)
Paid to employees for services	(4,254,694)	(6,219,621)
Net Cash Flows from Operating Activities	6,087,432	2,152,805
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Capital expenditures for utility plant	(1,507,819)	(11,600,025)
Debt retired	(875,000)	-
Capital contribution received	455,459	-
Debt issuance costs	-	(13,034)
Proceeds from debt issue	-	11,060,000
Interest payments on long-term debt	(277,653)	(149,677)
Cash Flows from Capital and Related Financing Activities	(2,205,013)	(702,736)
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sales and maturities of investments	5,618,514	3,243,137
Purchases of investments	(10,187,501)	(5,921,399)
Interest received	183,804	61,197
Cash Flows from Investing Activities	(4,385,183)	(2,617,065)
Net Change in Cash and Cash Equivalents	(502,764)	(1,166,996)
CASH AND CASH EQUIVALENTS – Beginning of Year	11,354,145	12,521,141
CASH AND CASH EQUIVALENTS – END OF YEAR	$ 10,851,381	$ 11,354,145
NONCASH INVESTING ACTIVITY		
Unrealized gains (losses) on investments	$ 65,108	$ (5,611)
NONCASH CAPITAL AND RELATED FINANCING ACTIVITIES		
Loss on the early retirement of Project I	$ (19,090,262)	$ -
Loss on disposal of assets	$ -	$ (21,980)
Member equity draw from rate stabilization	$ (1,955,459)	$ -

		2016		2015
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH FLOWS FROM OPERATING ACTIVITIES				
Operating income (loss)	$	(1,187,279)	$	1,576,027
Noncash items included in operating income (loss)				
Depreciation		2,289,681		2,161,560
Changes in assets, deferred outflows, liabilities, and deferred inflows				
Accounts receivable		(195,759)		1,038,219
Inventory		2,276,720		(1,214,370)
Prepayments and other current assets		38,323		71,194
Regulatory assets		1,540,108		(474,244)
Pension related deferrals and liabilities		(7,036)		(202,151)
Accounts payable		571,781		(849,104)
Compensation and related amounts		423,558		34,681
Post employment retirement benefit		(28,631)		-
Deferred inflows of resources		365,966		10,993
NET CASH FLOWS FROM OPERATING ACTIVITIES	$	6,087,432	$	2,152,805

		2016		2015
RECONCILIATION OF CASH AND CASH EQUIVALENTS TO THE BALANCE SHEET				
Unrestricted cash and cash equivalents	$	10,595,454	$	10,104,398
Restricted cash and investments		496,907		465,700
Restricted investments		-		925,333
Unrestricted investments		11,531,305		7,062,012
Total Cash and Investments		22,623,666		18,557,443
Less: Noncash equivalents		(11,772,285)		(7,203,298)
CASH AND CASH EQUIVALENTS	$	10,851,381	$	11,354,145

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

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

The financial statements of Michigan South Central Power Agency (the Agency) have been prepared in conformity with accounting principles generally accepted in the United States of America as applied to enterprise funds of governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

The significant accounting principles and policies utilized by the Agency are described below.

REPORTING ENTITY

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. The Project I Endicott facility was taken offline and retired during fiscal 2016, the transmission assets remain in use. The Agency operated the fractional tire facility (FTF) which was built on land adjacent to Project I. The FTF is a heat technology which utilized waste heat from the Project I coal burning facility to covert tires into gas which was used as fuel to generate electricity. The FTF was also retired during fiscal 2016. 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 costs of Project I.

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

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.

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. 72, - *Fair Value Measurement and Application*. This statement establishes accounting and financial reporting standards for measuring fair value of the Agency's assets and liabilities. The Agency adopted this statement effective July 1, 2015.

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.

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.

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.)

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 the Agency 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. As of June 30, 2016, the Agency held no coal, limestone, or scrap steel inventory.

Prepayments and Other Current 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, *Codification of Accounting and Financial Reporting Guidance Contained in Pre - November 30, 1989 FASB and other AICPA Pronouncements*. 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, 2016 and 2015 was $0 and $82,237, 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.

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.)

Capital Assets – Utility Plant (cont.)

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

	Years
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
Project IV structure	50
Project IV equipment	40

Pensions

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 of Michigan (MERS) 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.

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 net pension liability. Details of the account are included in Note 11.

Compensation 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.

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.)

Long-term Obligations

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

Other 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) which is also a regulatory asset under GASB Statement No. 62. In conjunction with the closing of the Endicott facility and the FTF, the Agency is no longer liable to make payments under the earn-out agreement, therefore the liability and regulatory asset were removed.

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.

Capital Contributions

Cash and capital assets are contributed to the Agency from members. The acquisition value of property contributed to the Agency is reported as revenue on the statements of revenues, expenses, and changes in net position.

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.

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

EFFECT OF NEW ACCOUNTING STANDARDS ON CURRENT PERIOD FINANCIAL STATEMENTS

GASB has approved GASB 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,* Statement No.76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments,* Statement No.77, *Tax Abatement Disclosures,* Statement No. 78, *Provisions Provided through Certain Multiple-Employer Defined Benefit Pension Plans,* Statement No. 79, *Certain External Investment Pools and Pool Participants,* Statement No. 80, *Blending Requirements for Certain Component Units – an amendment of GASB Statement No. 14,* Statement No. 81, *Irrevocable Split-Interest Agreements,* and Statement No 82, *Pension Issues – an amendment of GASB Statements No. 67, No. 68 and No. 73.* When they become effective, application of these standards may restate portions of these financial statements.

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.

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, 2016 and 2015 of the Agency's total bank balances $2,175,550 and $2,110,764, known to be individually exposed to custodial credit risk was $12,094 and $606, respectively.

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.

NOTE 2 – CASH AND INVESTMENTS (cont.)

CUSTODIAL CREDIT RISK (cont.)

Investments

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, 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, 2016 and 2015, 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.

CREDIT RISK

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

As of June 30, 2016, the Agency's investments were rated as follows:

Investment Type	Standard & Poor's	Moody's
US Government Agency Securities	AA+	Aaa
Governmental Mutual Funds	AAA	Aaa
Municipal Bonds	AA – AA-	Aa1

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

Investment Type	Standard & Poor's	Moody's
US Government Agency Securities	AA+	Aaa
Governmental Mutual Funds	AAA	Aaa

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, 2016 and 2015, the investment portfolio was concentrated as follows:

		Percentage of Investment Portfolio	
Investment Type	Issuer	2016	2015
US Government Agency Securities	Federal Home Loan Bank	5%	17%
US Government Agency Securities	Federal Farm Credit Bank	5%	0%

NOTE 2 – CASH AND INVESTMENTS (cont.)

CONCENTRATION OF CREDIT RISK (cont.)

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.

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, 2016, the Agency's investments were as follows:

		Maturity	
Investment Type	Fair Value	Less than 1 Year	1 – 5 Years
US Government Agency Securities	$ 6,307,325	$ -	$ 6,307,325
Governmental Mutual Funds	2,445,730	2,445,730	-
Municipal Bonds	3,381,232	-	3,381,232
Repurchase Agreement – FNMA & FHLMC	8,313,530	8,313,530	-
Totals	$ 20,447,817	$ 10,759,260	$ 9,688,557

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

		Maturity	
Investment Type	Fair Value	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	$ 16,495,789	$ 11,250,554	$ 5,245,235

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.

NOTE 2 – CASH AND INVESTMENTS (cont.)

FAIR VALUE

The Agency 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.

The valuation methods for recurring fair value measurements as of June 30, 2016 are as follows:

> Market approach – valuation through pricing techniques as provided by IDC

Investment Type	Total	Level 1	Level 2	Level 3
US Government Agency Securities	$ 6,307,325	$ -	$ 6,307,325	$ -
Governmental Mutual Funds	2,445,730	2,445,730	-	-
Municipal Bonds	3,381,232	-	3,381,232	-
Repurchase Agreement – FNMA & FHLMC	8,313,530	-	8,313,530	-
Totals	$ 20,447,817	$ 2,445,730	$ 18,002,087	$ -

The valuation methods for recurring fair value measurements as of June 30, 2015 are as follows:

> Market approach – valuation through pricing techniques as provided by IDC

Investment Type	Total	Level 1	Level 2	Level 3
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	$ 16,495,789	$ 1,340,143	$ 15,155,646	$ -

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 balance sheet 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:

	2016	2015
Restricted Assets		
Bond Service Fund	$ 496,907	$ 465,700
Construction Fund	-	925,333
Total Restricted Assets	496,907	1,391,033
Less: Restricted Assets Not Funded by Revenues		
Construction Fund	-	(925,333)
Current Liabilities Payable from Restricted Assets	(24,032)	(21,387)
Total Restricted Net Position	$ 472,875	$ 444,313

NOTE 4 – CHANGES IN CAPITAL ASSETS

A summary of changes in capital assets for 2016 and 2015 follows:

	2016			
	Balance 7/1/15	Additions/ Reclassifications	Deletions/ Reclassifications	Balance 6/30/16
Capital assets, not being depreciated				
Land	$ 1,403,519	$ -	$ -	$ 1,403,519
Construction work in progress	16,888,226	78,414	(16,966,640)	-
Total Capital Assets, Not Being Depreciated	18,291,745	78,414	(16,966,640)	1,403,519
Capital assets being depreciated				
Project I (composite) – Generation Station	97,093,928	364,200	(82,552,322)	14,905,806
Project IV	-	16,602,440	-	16,602,440
General Plant	5,525,270	-	(3,244,226)	2,281,044
Menominee/Oconto	13,159	-	-	13,159
Total Capital Assets Being Depreciated	102,632,357	16,966,640	(85,796,548)	33,802,449
Total Capital Assets	120,924,102	17,045,054	(102,763,188)	35,205,968
Less: Accumulated depreciation				
Project I (composite) – Generation Station	71,701,312	1,806,734	(63,629,157)	9,878,889
Project IV	-	350,397	-	350,397
General Plant	4,655,140	129,918	(3,067,098)	1,717,960
Menominee/Oconto	4,825	2,632	-	7,457
Total Accumulated Depreciation	76,361,277	2,289,681	(66,696,255)	11,954,703
Net Capital Assets	$ 44,562,825			$ 23,251,265

NOTE 4 – CHANGES IN CAPITAL ASSETS (cont.)

	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	(260,033)	76,361,277
Net Capital Assets	$ 33,737,131			$ 44,562,825

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 2016 and 2015 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.

NOTE 5 – REGULATORY ASSETS (cont.)

The components of the regulatory assets as of June 30, 2016 and 2015 are as follows:

	2016	2015
Regulatory Assets		
Cost to be billed once allocation is determined	$ 270,590	$ 9,345,650

The change in the components of regulatory assets for the years ended June 30, 2016 and 2015 are as follows:

	2016	2015
Accrued Vacation, sick leave and severance costs	$ 37,252	$ 13,449
ITC Utilization Estimate	(1,611,749)	488,995
ITC KVAR Estimate	34,389	(28,200)
FTF Recovery Earnout	(7,534,952)	-
Net Increase (Decrease) in Regulatory Costs	(9,075,060)	474,244
Balance at Beginning of Year	9,345,650	8,871,406
Balance at End of Year	$ 270,590	$ 9,345,650

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 2016 and 2015, the Board approved the accumulation of funds in advance of payment related to an annual transmission utilization charge.

During fiscal 2016, the Board approved the accumulation of funds in advance of payment related to the buyout of the SEMCO gas line agreement of $925,000.

During fiscal 2016, the Board approved the accumulation of funds in advance of payment related to the severance cost of Agency employees of $800,000.

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.

NOTE 6 – DEFERRED RESOURCES FOR FUTURE OPERATING EXPENSES (cont.)

The change in deferred inflows of resources related to future operating expenses for the years ended June 30, 2016 and 2015 is as follows:

	2016	2015
Balance at Beginning of Year	$ 650,000	$ -
Resources accumulated	3,525,000	650,000
Resources recognized	(4,037,970)	-
Balance at End of Year	$ 137,030	$ 650,000

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.

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:

Fiscal Year	Balance 7/1	Contributions	Interest Accrued	Distributions	Balance 6/30
2016	$ 3,004,235	$ 3,058,851	$ 38,724	$ 2,218,639	$ 3,883,171
2015	3,643,242	397,542	13,084	1,049,633	3,004,235

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.

In conjunction with the closure of the Endicott facility, the Agency is no longer responsible to make payments to Symbiotic under the agreement. The FTF did not earn net revenues over expenses. The regulatory asset and associated liability were removed from the Agency's financial statements during fiscal 2016.

NOTE 9 – LONG-TERM OBLIGATIONS

MSCPA has issued the following revenue bonds:

Date	Purpose	Final Maturity	Interest Rates	Original Issue	Outstanding Amount 6/30/16
Feb. 10, 2014	Project IV	Feb. 1, 2021	Variable	$ 16,000,000	$ 15,125,000

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

Year	Principal	Interest	Total
2017	$ 890,000	$ 288,094	$ 1,178,094
2018	905,000	270,828	1,175,828
2019	920,000	253,147	1,173,147
2020	935,000	235,785	1,170,785
2021	11,475,000	149,671	11,624,671
Totals	$ 15,125,000	$ 1,197,525	$ 16,322,525

The interest payments shown above for the variable rate debt outstanding are estimated at 1.92%. 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, 2016 is as follows:

	Balance 7/1/15	Additions	Retirements	Balance 6/30/16	Due Within One Year
Long-term debt	$ 16,000,000	$ -	$ 875,000	$ 15,125,000	$ 890,000
Pension liability	2,088,682	1,060,107	-	3,148,789	-
Supplemental retirement obligation	171,164	408	29,039	142,533	29,039
Other accrued liabilities	7,534,952	-	7,534,952	-	-
Total Long-term Obligations	$ 25,794,798	$ 1,060,515	$ 8,438,991	$ 18,416,322	$ 919,039

NOTE 9 – LONG-TERM OBLIGATIONS (cont.)

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

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.”

NOTE 10 – NET POSITION (cont.)

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:

	2016	2015
Capital Assets		
Utility plant in service and work in progress	$ 35,205,968	$ 120,924,102
Allowance for depreciation	(11,954,703)	(76,361,277)
Sub-totals	23,251,265	44,562,825
Less: Capital related debt	(15,125,000)	(16,000,000)
Add: Unspent debt proceeds		
Construction fund	-	925,333
Total Net Investment in Capital Assets	$ 8,126,265	$ 29,488,158

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.

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, and GASB No. 71, Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68*, effective July 1, 2015. 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 fiscal year 2015.

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.

NOTE 11 – EMPLOYEE RETIREMENT PLAN

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

Agent Defined Benefit Multiple-Employer Plan (cont.)

Benefits Provided. Benefits provided include plans with a multiplier of 2.0%. 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, 2015 and 2014 valuation date, the following employees were covered by the benefit terms:

	2015	2014
Inactive employees or beneficiaries currently receiving benefits	26	22
Inactive employees entitled to but not yet receiving benefits	9	8
Active employees	42	49
Total	77	79

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 based on annual payroll for closed divisions and were 21% and 20% as of June 30, 2016 and 2015, respectively. One division that is open to new employees has an annual employer contribution amount of 49% during fiscal year 2016 and 28% during fiscal 2015. During 2015 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, 2015 and 2014. The total pension liability used to calculate the Net Pension Liability was determined by an annual actuarial valuation as of those dates.

NOTE 11 – EMPLOYEE RETIREMENT PLAN (cont.)

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

Agent Defined Benefit Multiple-Employer Plan (cont.)

Actuarial Assumptions. The total pension liability in the December 31, 2015 annual actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

- Inflation: 2.5%
- Salary Increases: 3.75% in the long-term and projected to remain constant.
- Investment rate of return: 7.75%, net of investment expense, including inflation. Although no specific price inflation assumptions are needed for the valuation, the 3.75% long-term wage inflation assumption would be consistent with a price inflation of 3%-4%.
- The mortality table used to project the mortality experience of non-disabled plan members is a 50% Male – 50% Female blend of the following tables:

    1. The RP-2014 Healthy Annuitant Mortality Tables, with rates multiplied by 105%
    2. The RP- 2014 Employee Mortality Tables

  The Mortality table used to project the mortality experience of disabled plan members is a 50% Male – 50% Female blend of the RP-2014 Disabled Retiree Mortality Tables.

  These Mortality Tables were first used for the December 31, 2015 actuarial valuations.

- The actuarial assumptions used in valuation were based on the results of the most recent actuarial experience study in 2015. The actuarial experience study covered 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:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
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%

NOTE 11 – EMPLOYEE RETIREMENT PLAN (cont.)

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

Agent Defined Benefit Multiple-Employer Plan (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:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
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 8.00% and 8.25% as of the December 31, 2015 and 2014 actuarial reports, respectively. 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.

NOTE 11 – EMPLOYEE RETIREMENT PLAN (cont.)

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

Agent Defined Benefit Multiple-Employer Plan (cont.)

Changes in Net Pension Liability

Calculating Net Pension Liability 2015

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) - (b)
Balances at 12/31/14	$ 14,087,891	$ 11,999,209	$ 2,088,682
Changes for the Year			
Service Cost	215,708	-	215,708
Interest on Total Pension Liability	1,113,807	-	1,113,807
Changes in benefits	-	-	-
Difference between expected and actual experience	(359,251)	-	(359,251)
Changes in assumptions	559,563	-	559,563
Employer Contributions	-	716,430	(716,430)
Employee Contributions	-	-	-
Net investment income	-	(185,247)	185,247
Benefit payments, including employee refunds	(546,321)	(546,321)	-
Administrative expense	-	(26,658)	26,658
Other changes	34,805	-	34,805
Net Changes	1,018,311	(41,796)	1,060,107
Balances as of 12/31/15	**$ 15,106,202**	**$ 11,957,413**	**$ 3,148,789**

NOTE 11 – EMPLOYEE RETIREMENT PLAN (cont.)

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

Agent Defined Benefit Multiple-Employer Plan (cont.)

Changes in Net Pension Liability (cont.)

Calculating Net Pension Liability 2014

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (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
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 8.00%, as well as what the employer's Net Pension Liability would be using a discount rate that is 1 percentage point lower (7.00%) or 1% higher (9.00%) than the current rate.

Sensitivity to Changes in Discount Rate 2015

	1% Decrease	Current Discount Rate	1% Increase
Total Pension Liability (a)	$ 17,056,401	$ 15,106,202	$ 13,460,653
Fiduciary Net position (b)	11,957,413	11,957,413	11,957,413
Net Pension Liability (a-b)	$ 5,098,988	$ 3,148,789	$ 1,503,240

NOTE 11 – EMPLOYEE RETIREMENT PLAN (cont.)

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

Agent Defined Benefit Multiple-Employer Plan (cont.)

Sensitivity of the Net Pension Liability to Changes in the Discount Rate (cont.)

The following presents the Net Pension Liability of the employer, calculated using the discount rate of 8.25%, as well as what the employer's Net Pension Liability would be using a discount rate that is 1 percentage point lower (7.25%) or 1% higher (9.25%) than the current rate.

Sensitivity to Changes in Discount Rate 2014

	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

Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

The employer recognized pension expense of $726,610 and $502,588 as of June 30, 2016 and 2015, respectively. The employer reported deferred outflows and inflows of resources related to pensions from the following sources:

	2015		2014	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences in experience	$ -	$ (299,376)	$ -	$ -
Differences in assumptions	466,303	-	-	-
Net difference between projected and actual investment earnings	1,032,599	-	149,149	-
Contributions subsequent to the measurement date *	364,082	-	347,316	-
Totals	$ 1,862,984	$ (299,376)	$ 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 subsequent fiscal year.

NOTE 11 – EMPLOYEE RETIREMENT PLAN (cont.)

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

Agent Defined Benefit Multiple-Employer Plan (cont.)

Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions (cont.)

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

Year Ending June 30	Deferred Outflow of Resources	Deferred Inflows of Resources
2017	$ 360,732	$ (59,875)
2018	360,732	(59,875)
2019	360,732	(59,875)
2020	323,445	(59,875)
2021	93,261	(59,876)
Total	$ 1,498,902	$ (299,376)

For calendar years 2015 and 2014, the Agency's annual pension cost of $716,430 and $721,533 respectively, for the MERS was equal to the Agency's required and actual contributions.

The 2015 required contribution was determined as part of the December 31, 2014 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) 7.75% investment rate of return in 2014; (b) projected salary increases of 3.75% in 2014; and (c) additional projected salary increases ranging from 0% to 11.0% in 2014 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.

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.

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. In addition the Agency contributes 15% of the Assistant General Manager's salary beginning in June 2016. The Agency made contributions to the plan of $79,826 and $52,879 in 2016 and 2015, respectively.

NOTE 11 – EMPLOYEE RETIREMENT PLAN (cont.)

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.

Fiscal Year End	Annual Pension Cost	Annual Payments	Net Pension Obligation	Payments as a Percentage of Annual Pension Cost
June 30, 2014	$ 1,733	$ 29,039	$ 199,662	1,675.1%
June 30, 2015	541	29,039	171,164	5,367.7%
June 30, 2016	408	29,039	142,533	7,117.4%

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 0.62% and 0.51% for the years ended June 30, 2016 and 2015, respectively. There are no separately issued statements or reports on this plan.

NOTE 12 – LONG-TERM SUPPLY AGREEMENTS

The Agency and its Members have entered into multiple development agreements with American Municipal Power Ohio (AMP) to secure long-term power supply for the future. Completed projects include one base load coal generation facility and a gas generation project. Additionally, one hydro generation project has been completed and the second hydro project is 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 42.59 MW of this project. The Agency secured an additional 580 KW in June 2016, bringing the cumulative total of 43.54 MW in this project. The Agency also secured an additional 27.98 MW of the gas generation project through May 2015. The hydro generation projects consist of five hydro generation facilities on existing lock and dam facilities located on the Ohio River, four of which are in full operation and the remaining one is expected to be in full operation by the end of 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.

With the retirement of the Endicott Facility in 2016 and load demands increasing by the end of 2017, the Agency has entered into several fixed price purchase power agreements. Currently, the Agency has secured fixed-priced contracts for 10 MW on-peak starting in January, 2018 and ending in December, 2025 and 5 MW on-peak starting in 2018 and ending in December 2030.

NOTE 12 – LONG-TERM SUPPLY AGREEMENTS (cont.)

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. The Agency is participating in an AMP Solar project of 1.2 MW that is under development and is anticipated to be completed by the end of the first quarter of calendar 2017.

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, 2016 and 2015 there were no balances 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.

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, 2016 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 filed Attachment Y with MISO to request its approval to decommission the Endicott facility. MISO approved the Agency’s Attachment Y on January 7, 2016.

NOTE 15 – COMMITMENTS AND CONTINGENCIES (cont.)

ENDICOTT FACILITY DECOMMISSIONING (cont.)

The Agency is providing severance benefits to its employees which will be displaced as a result of the decommissioning. Severance benefits include:

> Severance payment equal to 20 hours pay at the employees hourly rate for each full year of continuous employment with a minimum of 40 hours

> Contribution to a Health Care Savings Program equal to 20 hours pay at the employees hourly rate for each full year of continuous employment with a minimum of 40 hours

> Paid COBRA health insurance coverage to be paid by the Agency for the first three months of premium payments

As of June 30, 2016, the Agency laid off 20 employees who will receive benefits under the severance agreement. Another 22 employees are scheduled to be laid off through August 1, 2017. The Agency will continue to evaluate its staffing needs as remaining tasks are reallocated to remaining employees.

The Agency has accrued an estimate for termination benefits based on terms under the severance agreement outlined above and expected termination dates of $958,931 as of June 30, 2016.

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.

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, 2016.

NOTE 16 – AGGREGATE BOND SERVICE COVERAGE (cont.)

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, 2016

NET REVENUES		
Operating Revenues		$ 45,913,578
Less: Operating Expenses		
Operations	$ 40,444,629	
Maintenance	2,008,446	
Administration and General (a)	2,298,101	
Total		(44,751,176)
Plus:		
Investment and miscellaneous income	$ 129,010	
Net increase in the fair value of investments	65,108	
Gain on investments	7,175	
Total		201,293
Less:		
Pension payments made 7/1/15 to 6/30/16	$ (733,197)	
Add GASB 68 pension expense	726,161	
Total		(7,036)
TOTAL NET REVENUES, AS DEFINED		$ 1,356,659
DEBT SERVICE		$ 1,152,793
COVERAGE OF DEBT SERVICE BY NET REVENUES		118%

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

NOTE 16 – AGGREGATE BOND SERVICE COVERAGE (cont.)

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)	2,122,313	
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	2,334	
Total		68,693
Less:		
Pension payments made 7/1/14 to 6/30/15	$ (704,740)	
Add GASB 68 pension expense	502,588	
Total		(202,152)
TOTAL NET REVENUES, AS DEFINED		$ 3,664,128
DEBT SERVICE		$ 149,677
COVERAGE OF DEBT SERVICE BY NET REVENUES		2,448%

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

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, 2016 and 2015.

REQUIRED SUPPLEMENTARY INFORMATION

MICHIGAN SOUTH CENTRAL POWER AGENCY

REQUIRED SUPPLEMENTAL INFORMATION
As of June 30, 2016

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

	2016	2015
Total Pension Liability		
Service cost	$ 215,708	$ 251,719
Interest	1,113,807	1,048,428
Changes of benefit terms	-	-
Difference between expected and actual experience	(359,251)	-
Changes of assumptions	559,563	-
Benefit payments including employee refunds	(546,321)	(449,023)
Other	34,805	32,764
Net Change in Total Pension Liability	1,018,311	883,888
Total Pension Liability beginning	14,087,891	13,204,003
Total Pension Liability ending	$ 15,106,202	$ 14,087,891
Plan Fiduciary Net Position		
Contributions-employer	$ 716,430	715,363
Contributions-employee	-	-
Net Investment income	(185,247)	707,308
Benefit payments including employee refunds	(546,321)	(449,023)
Administrative expense	(26,658)	(26,134)
Net Change in Plan Fiduciary Net Position	(41,796)	947,514
Plan Fiduciary Net Position beginning	11,999,209	11,051,695
Plan Fiduciary Net Position ending	$ 11,957,413	$ 11,999,209
Employer Net Pension Liability	$ 3,148,789	$ 2,088,682
Plan Fiduciary Net Position as a percentage of the Total Pension Liability	79.2%	85.2%
Covered Employee Payroll	3,160,330	3,437,851
Employer's Net Pension Liability as a percentage of covered employee payroll	99.6%	60.8%

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

SCHEDULE OF EMPLOYER CONTRIBUTIONS -
MUNICIPAL EMPLOYEES' RETIREMENT SYSTEM OF MICHIGAN
For the Year Ended June 30, 2016

Fiscal Year Ending	Actuarially Required Contributions	Contributions in Relation to the Actuarially Required Contributions	Contribution Deficiency (Excess)	Covered Payroll	Contributions as a Percentage of Covered Payroll
12/31/14	$ 355,363	$ 715,363	$ (360,000)	$ 3,437,851	21%
12/31/15	373,860	733,197	(359,337)	3,160,330	23%

Notes to Schedule

Actuarial cost method	Entry Age
Amortization method	Level percentage of payroll, open
Remaining amortization period	25 years
Asset valuation method	5 year smoothed
Inflation	2.5%
Salary Increases	3.8%
Investment rate of return	7.75%
Retirement age	60
Mortality	50% Female/50% Male RP-2014 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.

Change in assumptions. For amounts reported in 2015 and later, the expectation of retired life mortality was based on RP-2014 Mortality Tables rather than the 1994 Group Annuity Mortality Table, which was used to determine amounts reported prior to 2015.
Amounts reported in 2015 reflect an adjustment of investment rate of return to more closely reflect actual experience.

See independent auditors' report.