MICHIGAN SOUTH CENTRAL POWER AGENCY

Coldwater, Michigan

FINANCIAL STATEMENTS

Including Independent Auditors' Report

As of and for the Years Ended June 30, 2018 and 2017

MICHIGAN SOUTH CENTRAL POWER AGENCY

TABLE OF CONTENTS
As of and for the Years Ended June 30, 2018 and 2017

BAKER TILLY

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of Michigan South Central Power Agency, as of and for the years ended June 30, 2018 and 2017, and the related notes to the financial statements, which collectively comprise the Michigan South Central Power Agency's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

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 relevant to the Michigan South Central Power 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 Michigan South Central Power 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.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Michigan South Central Power Agency as of June 30, 2018 and 2017, and the respective changes in financial position and 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 24, 2018

MANAGEMENT’S DISCUSSION AND ANALYSIS

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, 2018 and 2017. 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 also 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.

AGENCY FINANCIAL ANALYSIS

Fiscal year 2018 was a busy year, operationally and financially. This year marked the thirteenth 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 1, 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 $142,000 in fiscal year 2018 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 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 5.3 MW of hydro generation were placed in service during the summer of 2017. During December 2017, The Agency began receiving power from an AMP Solar Project that will be approximately 1.2 MW of power when completed during Fiscal 2019.

The Agency has entered into multiple fixed price purchase power agreements through AMP. The Agency has secured contracts for 5 MW on-peak starting January 1, 2018 through December 31, 2020, 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. The Agency has also secured an additional 5 MW on-peak starting January 2018 and ending in December 2018, additionally, the counterparty has retained the right to put another 5 MW on-peak to the Agency for calendar years 2019 and 2020.

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 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. The purchase and installation cost was $16.6 million dollars and was completed the summer of 2016. $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 1), 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 concluded that its Endicott coal generation facility no longer provided the most economical power resource to its members. This resulted in a write-off of early retirement of Project 1 of $19.1 million.

On September 26, 2016, the Agency entered into an agreement to receive $4.1 million for salvage rights to the Endicott facility (Project 1). The Agency was also required to pay $400,000 to the contractor for the contracted salvage work. The net amount of $3.7 million was received and recorded as deferred revenue, pending the completion of all terms of the contract.

On June 30, 2017, the Agency sold its member substations to each individual member as allowed per the substation agreements.

Effective June 30, 2017, the Agency elected to recognize and defer estimated MISO Transmission and related costs from changes to transmission agreements arising from the early retirement of Project 1. These costs will be finalized and adjusted when billed by MISO.

AGENCY FINANCIAL ANALYSIS (cont.)

On October 31, 2017, the Agency completed the sale of its Endicott facility (Project 1) for a net amount of $3.7 million, including all land and buildings at that site. This contract was recorded as deferred revenue in Fiscal 2017.

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.

Table 1

Condensed Balance Sheets

	2018	2017	2016
Current assets	$ 20,377,566	$ 22,859,533	$ 15,380,174
Noncurrent assets	12,694,260	12,137,940	11,531,305
Utility plant	20,390,922	22,156,300	23,251,265
Total Assets	53,462,748	57,153,773	50,162,744
Deferred Outflow of Resources	571,899	1,150,848	1,862,984
Total Assets and Deferred Outflows of Resources	$ 54,034,647	$ 58,304,621	$ 52,025,728
Current liabilities	$ 5,033,424	$ 7,626,725	$ 6,452,164
Noncurrent liabilities	12,466,296	14,183,722	17,497,283
Total Liabilities	17,499,720	21,810,447	23,949,447
Deferred Inflows of Resources	11,824,655	15,070,562	4,319,577
Net Position			
Net Investment in capital assets	7,060,922	7,921,300	8,126,265
Restricted for debt service	500,234	485,878	472,875
Restricted for pensions	485,736	-	-
Unrestricted	16,663,380	13,016,434	15,157,564
Total Net Position	24,710,272	21,423,612	23,756,704
Total Liabilities, Deferred Inflows of Resources and Net Position	$ 54,034,647	$ 58,304,621	$ 52,025,728

AGENCY FINANCIAL ANALYSIS (cont.)

Table 2

Condensed Statements of Revenues, Expenses and Changes in Net Position

	2018	2017	2016
Operating Revenues	$ 50,272,122	$ 46,570,736	$ 45,913,578
Depreciation expense	535,159	628,168	2,289,681
Other operating expenses	47,645,439	43,549,006	44,811,176
Total Operating Expenses	48,180,598	44,177,174	47,100,857
Operating Income (Loss)	2,091,524	2,393,562	(1,187,279)
Investment and miscellaneous income	819,410	182,620	129,010
Net increase (decrease) in fair value of investments	(188,465)	(175,153)	72,283
Interest and amortization expense	(413,644)	(323,997)	(280,298)
Member equity refund	(1,495,756)	(4,020,000)	-
Other income and (expense)	2,473,591	(502,650)	(19,090,292)
Total Non-Operating Revenue (Expenses)	1,195,136	(4,839,180)	(19,169,297)
Income (Loss) Before Contributions	3,286,660	(2,445,618)	(20,356,576)
Capital Contributions	-	112,526	455,459
Change in Net Position	3,286,660	(2,333,092)	(19,901,117)
NET POSITION – Beginning of Year	21,423,612	23,756,704	43,657,821
NET POSITION – END OF YEAR	$ 24,710,272	$ 21,423,612	$ 23,756,704

AGENCY FINANCIAL ANALYSIS (cont.)

Table 3

Condensed Statements of Cash Flows

	2018	2017	2016
Received sales to members and others	$ 49,373,937	$ 49,090,351	$ 46,083,785
Paid to suppliers for goods and services	(48,184,379)	(45,521,666)	(35,741,659)
Paid to employees for services	(761,983)	(1,587,411)	(4,254,694)
Cash Flows from Operating Activities	427,575	1,981,274	6,087,432
Capital expenditures for utility plant	(110,364)	(133,853)	(1,507,819)
Debt retired	(905,000)	(890,000)	(875,000)
Capital contribution received	-	112,526	455,459
Proceeds received from Endicott salvage rights	-	4,100,000	-
Removal costs of property retired	(200,000)	(400,000)	-
Proceeds from the sale of property	314,174	97,500	-
Interest payments on long-term debt	(405,884)	(316,389)	(277,653)
Cash Flows from Capital and Related Financing Activities	(1,307,074)	2,569,784	(2,205,013)
Cash Flows from Investing Activities	600,940	(2,181,017)	(4,385,183)
Net Change in Cash and Cash Equivalents	(278,599)	2,370,041	(502,764)
CASH AND CASH EQUIVALENTS - Beginning of Year	13,221,422	10,851,381	11,354,145
CASH AND CASH EQUIVALENTS - END OF YEAR	$ 12,942,683	$ 13,221,422	$ 10,851,381

BALANCE SHEETS

"Current assets" decreased by $2.5 million during fiscal year 2018, with unrestricted cash decreasing $.3 million, accounts receivable decreasing $.4 million and regulatory assets decreasing $2.6 million due to expensing deferral transmission items. Prepaid items and other current assets increased $.8 million primarily due to funds held at MISO. "Current assets" increased by $7.5 million during fiscal year 2017, with unrestricted cash increasing $3.9 million primarily relating to the Endicott salvage rights contract, regulatory assets increasing $3.0 million due to the deferral of transmission items related to the retirement of Project 1 and accounts receivable increasing $.6 million

BALANCE SHEETS (cont.)

"Noncurrent assets" increased by $.6 million in total during fiscal 2018 due to long-term investments increasing by $.1 million and pension assets increasing by $.5 million. "Noncurrent assets" increased by $.6 million in total during fiscal 2017 due to long-term investments increasing by $.6 million.

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 decrease in fiscal 2018's utility plant number of $1.8 million is primarily due to the sale of the Agency's Endicott Facility (Project 1) and other assets at a net book value of $1.4 million, with an additional $.1 million of projects capitalized (including construction in progress) during the year, offset by $.5 million of depreciation recorded for the year. The decrease in fiscal 2017's utility plant number of $1.1 million is primarily due to the sale of the Agency's member substation facilities to its' members at a net book value of $.6 million, with an additional $.1 million of projects capitalized (including construction in progress) during the year, offset by $.6 million of depreciation recorded for the year.

Deferred Outflows of Resources decreased by $.6 million during fiscal 2018 due the current year impact of GASB 68 on pension activities. Deferred Outflows of Resources decreased by $.7 million during fiscal 2017 due to the Agency reducing its workforce caused by the early retirement of Project 1 and the resulting current year impact of GASB 68 on pension activities.

Total Liabilities decreased by $2.6 million during fiscal 2018. Accounts payable decreased $2.6 million as previously accrued transmission items related to the Project 1 retirement were expensed, compensation and related accruals decreased $.1 million, noncurrent accrued liabilities decreased $1.7 million primarily due to the pension liability decreasing by $.8 million from current year impact of GASB 68 on pension activities and long-term debt decreased by .9 million. Total Liabilities decreased by $2.1 million during fiscal 2017. Noncurrent accrued liabilities decreased $3.3 million primarily due to the pension liability decreasing by $2.4 million due to the Agency reducing its workforce caused by closing the Endicott Project 1 Facility and the resulting current year impact of GASB 68 on pension activities, long-term debt decreased by .9 million, accounts payable increased $1.8 million as transmission items related to the retirement of Project 1 were accrued offset by compensation and related accruals decreased $.6 million relating to the early retirement of Project 1.

Deferred Inflows of Resources decreased $3.2 million during fiscal 2018, primarily from a decrease of $2.5 million as deferred transmission funds were expensed and an decrease of $3.7 million of deferred revenue relating to the Endicott salvage rights contract recognized with the sale of the Project 1 facility, offset by member rate stabilization funds which increased by $2.7 million, primarily due to a member equity refund of $1.5 million, contributions of $2.2 million added by the members, offset by $1.0 million drawn for member usage and an increase of $.3 million from current year GASB 68 pension activities. Deferred Inflows of Resources increased $10.8 million during fiscal 2017 as member rate stabilization funds increased by $4.1 million, primarily due to a member equity refund of $4.0 million, contributions of $.4 million added by the members, offset by $.2 million drawn for member usage, $.1 million used for capital contributions, an decrease of $.1 million resulting from current year GASB 68 pension activities, offset by an increase of $3.1 million for deferred transmission and utilization funds and an increase of $3.7 million of deferred revenue relating to the Endicott salvage rights contract.

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

Fiscal 2018 operating revenues increased by 7.9 percent and expenses increased by 9.1 percent versus fiscal 2017. Fiscal 2018 operating revenues were higher than fiscal 2017 and expenses were higher than fiscal 2017 primarily due to higher volumes resulting in higher third-party purchases. Fiscal 2017 operating revenues increased by 1.4 percent and expenses decreased by 6.2 percent versus fiscal 2016. Fiscal 2017 operating revenues were slightly higher than fiscal 2016 and expenses were lower than fiscal 2016 primarily due to lower maintenance and depreciation costs resulting from the early retirement of the Agency's Endicott facility (Project 1).

Operating income decreased slightly by $.3 million in Fiscal 2018. Operating income increased $3.6 million in Fiscal 2017 and was higher primarily due to depreciation being significantly lower resulting from the early retirement of the Agency's Endicott facility (Project 1).

"Investment and miscellaneous income" of $.8 million for Fiscal 2018 was primarily due to interest proceeds from a transmission-related recovery of $.6 million and $.2 million as maturing investments were either reinvested or held in short-term investments both of which continued to see higher yields as the economy improves. "Investment and miscellaneous income" increased $.1 million for Fiscal 2017.

“Net increase (decrease) in the fair market of investments” of $.2 million in Fiscal 2018 was due unrealized losses caused by several interest rate hikes decreasing the market value of investments held at June 30, 2018. The Agency has continued its policy of holding investments to maturity so as minimize the effect of mark to market changes.

“Member equity refund” of $1.5 million for fiscal 2018 were refunds of prior years' equity that were distributed to the members' rate stabilization funds during the year. “Member equity refund” of $4.0 million for fiscal 2017 were refunds of prior years' equity that were distributed to the members' rate stabilization funds during the year.

"Other income and expense" of $2.5 million for fiscal 2018 was primarily due to sale of the Agency's Endicott Project I facility and related assets. "Other income and expense" of $.5 million for fiscal 2017 was primarily due to the sale of the Agency's member substations to each individual member for a nominal fee.

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 2018, the "Cash and cash equivalents" amount decreased by $.3 million. For fiscal 2017, the "Cash and cash equivalents" amount increased $2.4 million as pre-collected liquid funds are being held in advance of anticipated short-term expenditures.

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, 2018 and 2017. Further details can be found in the Footnotes to the Financial Statements, under "Aggregate Bond Service Coverage."

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, 168 Division Street, Coldwater, MI 49036.

MICHIGAN SOUTH CENTRAL POWER AGENCY

BALANCE SHEETS
As of June 30, 2018 and 2017

ASSETS AND DEFERRED OUTFLOWS OF RESOURCES

	2018	2017
CURRENT ASSETS		
Unrestricted cash and investments	$ 14,165,275	$ 14,523,001
Restricted cash and investments	539,634	517,518
Accounts receivable	3,960,353	4,377,623
Interest receivable	54,382	37,910
Prepayments and other current assets	964,489	156,530
Regulatory assets	693,433	3,246,951
Total Current Assets	20,377,566	22,859,533
NONCURRENT ASSETS		
Unrestricted investments	12,208,524	12,137,940
Net pension asset	485,736	-
Total Noncurrent Assets	12,694,260	12,137,940
CAPITAL ASSETS		
Utility plant (including construction work in progress)	25,289,074	28,788,485
Accumulated depreciation	(4,898,152)	(6,632,185)
Total Net Capital Assets	20,390,922	22,156,300
Total Assets	53,462,748	57,153,773
DEFERRED OUTFLOWS OF RESOURCES RELATED TO PENSIONS	571,899	1,150,848
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	$ 54,034,647	$ 58,304,621

LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION

	2018	2017
CURRENT LIABILITIES		
Accounts payable	$ 3,942,578	$ 6,493,752
Compensation and related amounts	131,446	196,333
Current Liabilities Payable from Restricted Assets		
Current portion of long-term debt	920,000	905,000
Accrued interest payable	39,400	31,640
Total Current Liabilities	5,033,424	7,626,725
NONCURRENT LIABILITIES		
Long-term debt	12,410,000	13,330,000
Net pension liability	-	768,836
Supplemental retirement obligation	56,296	84,886
Total Noncurrent Liabilities	12,466,296	14,183,722
Total Liabilities	17,499,720	21,810,447
DEFERRED INFLOWS OF RESOURCES		
Deferred rate stabilization	10,731,967	8,024,676
Deferred transmission utilization	579,395	3,106,385
Deferred Endicott revenue	-	3,700,000
Deferred inflows related to pensions	513,293	239,501
Total Deferred Inflows of Resources	11,824,655	15,070,562
NET POSITION		
Net investment in capital assets	7,060,922	7,921,300
Restricted for debt service	500,234	485,878
Restricted for pensions	485,736	-
Unrestricted	16,663,380	13,016,434
Total Net Position	24,710,272	21,423,612
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION	$ 54,034,647	$ 58,304,621

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, 2018 and 2017

	2018	2017
OPERATING REVENUES		
Sales to members	$ 49,976,625	$ 46,423,023
Sales to others	295,497	90,754
Other income	-	56,959
Total Operating Revenues	50,272,122	46,570,736
OPERATING EXPENSES		
Operations	45,854,224	41,074,312
Maintenance	110,388	817,663
Administration and general	1,667,233	1,657,031
Depreciation	535,159	628,168
Other expense	13,594	-
Total Operating Expenses	48,180,598	44,177,174
Operating Income	2,091,524	2,393,562
NONOPERATING REVENUES (EXPENSES)		
Investment and miscellaneous income	819,410	182,620
Net decrease in the fair value of investments	(188,465)	(175,153)
Interest expense on long-term debt	(413,644)	(323,997)
Gain on sale of assets	3,524,613	94,957
Loss on sale of assets	(1,051,022)	(597,607)
Member equity refund	(1,495,756)	(4,020,000)
Total Nonoperating Expenses	1,195,136	(4,839,180)
Income (Loss) before Contributions	3,286,660	(2,445,618)
CAPITAL CONTRIBUTIONS	-	112,526
CHANGE IN NET POSITION	3,286,660	(2,333,092)
NET POSITION - Beginning of Year	21,423,612	23,756,704
NET POSITION - END OF YEAR	$ 24,710,272	$ 21,423,612

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, 2018 and 2017

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Received from sales to members and others	$ 49,373,937	$ 49,090,351
Paid to suppliers for goods and services	(48,184,379)	(45,521,666)
Paid to employees for services	(761,983)	(1,587,411)
Net Cash Flows from Operating Activities	427,575	1,981,274
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Capital expenditures for utility plant	(110,364)	(133,853)
Debt retired	(905,000)	(890,000)
Proceeds received from Endicott salvage rights	-	4,100,000
Capital contribution received	-	112,526
Cost of removal of property retired	(200,000)	(400,000)
Proceeds from sale of property	314,174	97,500
Interest payments on long-term debt	(405,884)	(316,389)
Cash Flows from Capital and Related Financing Activities	(1,307,074)	2,569,784
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sales and maturities of investments	2,472,151	3,214,010
Purchases of investments	(2,671,889)	(5,508,783)
Interest received	800,678	113,756
Cash Flows from Investing Activities	600,940	(2,181,017)
Net Change in Cash and Cash Equivalents	(278,559)	2,370,041
CASH AND CASH EQUIVALENTS – Beginning of Year	13,221,422	10,851,381
CASH AND CASH EQUIVALENTS – END OF YEAR	$ 12,942,863	$ 13,221,422
NONCASH INVESTING ACTIVITY		
Unrealized gains (losses) on investments	$ 186,205	$ (110,021)
NONCASH CAPITAL AND RELATED FINANCING ACTIVITIES		
Gain on sale of assets	$ 3,524,613	$ 94,957
Loss on sale of assets	$ (1,051,022)	$ (597,607)
Member equity (draw) refund to rate stabilization	$ 1,495,756	$ 4,020,000

	2018	2017
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH FLOWS FROM OPERATING ACTIVITIES		
Operating income (loss)	$ 2,091,524	$ 2,393,562
Noncash items included in operating income (loss)		
Depreciation	535,159	628,168
Changes in assets, deferred outflows, liabilities, and deferred inflows		
Accounts receivable	417,270	(571,745)
Inventory	-	2,153
Prepayments and other current assets	(807,959)	18,984
Regulatory assets	2,553,518	(2,976,361)
Pension related deferrals and liabilities	(401,831)	(1,727,692)
Accounts payable	(2,551,174)	1,825,946
Compensation and related amounts	(64,887)	(673,993)
Postemployment retirement benefit	(28,590)	(28,608)
Deferred inflows of resources	(1,315,455)	3,090,860
NET CASH FLOWS FROM OPERATING ACTIVITIES	$ 427,575	$ 1,981,274
RECONCILIATION OF CASH AND CASH EQUIVALENTS TO THE BALANCE SHEET		
Unrestricted cash and investments	$ 14,165,275	$ 14,523,001
Restricted cash and investments	539,634	517,518
Unrestricted investments	12,208,524	12,137,940
Total Cash and Investments	26,913,433	27,178,459
Less: Noncash equivalents	(13,970,570)	(13,957,037)
CASH AND CASH EQUIVALENTS	$ 12,942,863	$ 13,221,422

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 public 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 purchased from the Agency. The Agency's power supply comes from multiple sources including the Agency's Project IV generators, power purchased from the MISO Market, power purchase agreements from other utility companies and from the individual members existing generation facilities. Prior to May 31, 2016, The Agency generated energy from its Project I facility, which consisted 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, however the transmission assets remain in use. In addition, 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 costs related to the retirement 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.

USE OF ESTIMATES

Preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (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 methods and inputs as outlined in Note 2. 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. Fair 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.

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, renewable energy credits and deposits made to MISO. The balance of the deposit made to MISO as of June 30, 2018 was $900,000.

Regulatory Assets and Regulatory Deferred 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 provides for the deferral of costs and revenues which will be recognized through future rate adjustments. See Notes 5, 6, 7 and 8 for details.

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 (asset). Details of the account are included in Note 11.

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. There were no interest charges to construction for the years ended June 30, 2018 and 2017.

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
Substation plant (composite) – Sold in fiscal year 2017	30
Transmission facilities (composite)	55
Buildings	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 asset (liability), deferred outflows of resources, deferred inflows of resources, 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 Inflows of Resources

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. See Notes 6, 7, 8, and 11 for details.

Compensation and Related Amounts

Under terms of employment, full-time employees accrue paid time off (PTO) on a bi-weekly basis determined by years of service. Unused PTO may be accumulated annually to a maximum of 240 hours. One time annually, any accumulated hours in excess of 240 hours will be calculated at the employees' current hourly rate and contributed to their health care savings plan. Upon termination, all remaining PTO hours will be calculated at the employees' hourly rate in effect as of the termination date and contributed to the employees' health care savings plan. PTO benefits earned but not yet taken have been recorded in the financial statements.

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.

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.

EFFECT OF NEW ACCOUNTING STANDARDS ON CURRENT PERIOD FINANCIAL STATEMENTS

GASB has approved GASB Statement No. 83, *Certain Asset Retirement Obligations,* Statement No. 84, *Fiduciary Activities,* Statement No. 87, *Leases,* Statement No. 88, *Certain Disclosures Related to Debt, including direct borrowings and Direct Placements,* and Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period.* 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.

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 fair value adjustments.

Michigan Cooperative Liquid Assets Securities System (MI CLASS) reports the fair value of its underlying assets annually. Participants in the MI CLASS have the right to withdraw their funds in total upon notice. At June 30, 2018, the fair value of the MI CLASS' assets were substantially equal to the Agency's share. As of June 30, 2018, the Agency held a balance of $6,122,337 in MI CLASS. MI CLASS is rated AAAm by Standard and Poor's.

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, 2018 are as follows:

> Market approach – asset- class- based matrix

Investment Type	Total	Level 1	Level 2	Level 3
U.S. Government Agency Securities	$ 8,107,563	$ -	$ 8,107,563	$ -
Governmental Mutual Funds	157,681	157,681	-	-
Municipal Bonds	2,956,442	-	2,956,442	-
Totals	$ 11,221,686	$ 157,681	$ 11,064,005	$ -

The investment in the Fidelity Money Market Government Portfolio – Class II is measured at net asset value (NAV) per share of ownership. As of June 30, 2018 the fair value of the investment was $6,669,615. The investment in the Fidelity Money Market Government Portfolio operates like a money market account and can be drawn upon request.

NOTE 2 – CASH AND INVESTMENTS (cont.)

FAIR VALUE (cont.)

The valuation methods for recurring fair value measurements as of June 30, 2017 are as follows:

> Market approach – asset- class- based matrix

Investment Type	Total	Level 1	Level 2	Level 3
U.S. Government Agency Securities	$ 7,223,597	$ -	$ 7,223,597	$ -
Governmental Mutual Funds	323,553	323,553	-	-
Municipal Bonds	3,798,814	-	3,798,814	-
Repurchase Agreement – FNMA & FHLMC	12,950,435	-	12,950,435	-
Totals	$ 24,296,399	$ 323,553	$ 23,972,846	$ -

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, 2018 and 2017 of the Agency's total bank balances, $2,926,568 and $2,988,301, known to be individually exposed to custodial credit risk was $0 and $2,218, 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.

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, 2018 and 2017, 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.

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, 2018, the Agency's investments were rated as follows:

Investment Type	Standard & Poor's	Moody's
U.S. Government Agency Securities	AA+	Aaa
Municipal Bonds	AA-	Aa1- Aa3
Michigan CLASS	AAAm	N/R

As of June 30, 2017, the Agency's investments were rated as follows:

Investment Type	Standard & Poor's	Moody's
U.S. Government Agency Securities	AA+	Aaa
Municipal Bonds	AA – AA-	Aa1- Aa3

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, 2018 and 2017, the investment portfolio was concentrated as follows:

		Percentage of Investment Portfolio	
Investment Type	Issuer	2018	2017
U.S. Government Agency Securities	Federal Home Loan Bank	11%	11%
U.S. Government Agency Securities	Federal Farm Credit Bank	8%	12%
U.S. Government Agency Securities	Federal Home Loan Mortgage Corp	13%	5%
U.S. Government Agency Securities	Fannie Mae	-%	45%

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. No noncompliance with the policy was noted as of June 30, 2018 or 2017. Securities which are explicitly backed by the full faith and credit of the United States Government shall not be aggregated when measuring portfolio concentration.

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, 2018, the Agency's investments were as follows:

		Maturity	
Investment Type	Fair Value	Less than 1 Year	1 – 5 Years
U.S. Government Agency Securities	$ 8,107,563	$ 298,295	$ 7,809,268
Municipal Bonds	2,956,442	1,463,752	1,492,690
Totals	$ 11,064,005	$ 1,762,047	$ 9,301,958

As of June 30, 2017, the Agency's investments were as follows:

		Maturity	
Investment Type	Fair Value	Less than 1 Year	1 – 5 Years
U.S. Government Agency Securities	$ 7,223,597	$ -	$ 7,223,597
Municipal Bonds	3,798,814	1,100,001	2,698,813
Repurchase Agreement – Agency Securities	12,950,435	12,950,435	-
Totals	$ 23,972,846	$ 14,050,436	$ 9,922,410

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 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.

RESTRICTED NET POSITION

The following calculation supports the restricted net position:

	2018	2017
Restricted Assets		
Bond Service Fund	$ 539,634	$ 517,518
Net Pension Asset	485,736	-
Current Liabilities Payable from Restricted Assets	(39,400)	(31,640)
Total Restricted Net Position	$ 985,970	$ 485,878

The purpose of the restricted net position is as follows:

	2018	2017
Debt Service	$ 500,234	$ 485,878
Net Pension Asset	485,736	-
Total Restricted Net Position	$ 985,970	$ 485,878

NOTE 4 – CHANGES IN CAPITAL ASSETS

A summary of changes in capital assets for 2018 and 2017 follows:

	2018			
	Balance 7/1/17	Additions/ Reclassifications	Deletions/ Reclassifications	Balance 6/30/18
Capital assets, not being depreciated				
Land	$ 1,403,519	$ -	$ 424,223	$ 979,296
Construction work in progress	13,777	110,363	85,033	39,107
Total Capital Assets, Not Being Depreciated	1,417,296	110,363	509,256	1,018,403
Capital assets being depreciated				
Project I (composite) – Generation Station/ Transmission	8,785,094	-	1,406,677	7,378,417
Project IV	16,602,440	-	-	16,602,440
General Plant	1,970,496	85,033	1,778,874	276,655
Menominee/Oconto	13,159	-	-	13,159
Total Capital Assets Being Depreciated	27,371,189	85,033	3,185,551	24,270,671
Total Capital Assets	28,788,485	195,396	3,694,807	25,289,074
Less: Accumulated depreciation				
Project I (composite) – Generation Station/ Transmission	4,437,951	128,444	975,803	3,590,592
Project IV	732,648	382,252	-	1,114,900
General Plant	1,454,129	21,831	1,293,389	182,571
Menominee/Oconto	7,457	2,632	-	10,089
Total Accumulated Depreciation	6,632,185	535,159	2,269,192	4,898,152
Net Capital Assets	$ 22,156,300			$ 20,390,922

NOTE 4 – CHANGES IN CAPITAL ASSETS (cont.)

	2017			
	Balance 7/1/16	Additions/ Reclassifications	Deletions/ Reclassifications	Balance 6/30/17
Capital assets, not being depreciated				
Land	$ 1,403,519	$ -	$ -	$ 1,403,519
Construction work in progress	-	133,853	(120,076)	13,777
Total Capital Assets, Not Being Depreciated	1,403,519	133,853	(120,076)	1,417,296
Capital assets being depreciated				
Project I (composite) – Generation Station/ Transmission	14,905,806	97,526	(6,218,238)	8,785,094
Project IV	16,602,440	-	-	16,602,440
General Plant	2,281,044	22,550	(333,098)	1,970,496
Menominee/Oconto	13,159	-	-	13,159
Total Capital Assets Being Depreciated	33,802,449	120,076	(6,551,336)	27,371,189
Total Capital Assets	35,205,968	253,929	(6,671,412)	28,788,485
Less: Accumulated depreciation				
Project I (composite) – Generation Station/ Transmission	9,878,889	179,195	(5,620,133)	4,437,951
Project IV	350,397	382,251	-	732,648
General Plant	1,717,960	66,722	(330,553)	1,454,129
Menominee/Oconto	7,457	-	-	7,457
Total Accumulated Depreciation	11,954,703	628,168	(5,950,686)	6,632,185
Net Capital Assets	$ 23,251,265			$ 22,156,300

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 2018 and 2017 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, liability or deferred inflow of resources 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, 2018 and 2017 are as follows:

	2018	2017
Regulatory Assets		
Cost to be billed once allocation is determined	$ 693,433	$ 3,246,951

The change in the components of regulatory assets for the years ended June 30, 2018 and 2017 are as follows:

	2018	2017
Accrued vacation, sick leave and severance costs	$ 29,067	$ (174,799)
ITC Utilization estimate	(1,000,000)	1,000,000
ITC KVAR estimate	(55,595)	44,775
MISO back billed transmission cost estimate	(1,526,990)	2,106,385
Net Increase (Decrease) in Regulatory Costs	(2,553,518)	2,976,361
Balance at Beginning of Year	3,246,951	270,590
Balance at End of Year	$ 693,433	$ 3,246,951

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 2018 and 2017, the Board approved the accumulation of funds in advance of payment related to an estimated expense of MISO transmission costs under a revised tariff after the shutdown of Project I during fiscal 2016 of $491,598 and $2,106,385, respectively.

During fiscal 2017, the Board approved the accumulation of funds in advance of payment related to an annual transmission utilization charge.

During fiscal 2017, the Board approved the accumulation and the Agency expensed funds collected in advance of payment related to the severance cost of Agency employees of $222,106.

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, 2018 and 2017 is as follows:

	2018	2017
Balance at Beginning of Year	$ 3,106,385	$ 137,030
Resources accumulated	491,598	2,969,355
Resources recognized	3,018,588	-
Balance at End of Year	$ 579,395	$ 3,106,385

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 balance is shown as a deferred inflow of resources on the balance sheets.

During fiscal 2018, the Board elected to distribute $1,495,756 in connection with a settled dispute before the Federal Energy Regulatory Commission (FERC) related to Seams Elimination Cost Adjustment (SECA) charges incurred in 2002 and 2003 that were charged incorrectly. The distribution was deposited into the member rate stabilization fund according to the member’s Project I participation percentage.

During fiscal 2017, the Board elected to distribute $4,020,000 in connection with the closing of the Endicott plant. The distribution was deposited into the member rate stabilization fund according to the member’s Project I participation percentage.

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
2018	$ 8,024,676	$ 3,594,569	$ 135,974	$ 1,023,252	$ 10,731,967
2017	3,883,171	4,440,055	58,320	356,870	8,024,676

NOTE 8 – DEFERRED ENDICOTT REVENUE

During fiscal 2017, the Agency received $4,100,000 from a third party for the rights to salvage the Endicott facility. In agreement with the terms of the contract, the Agency was required to pay $400,000 to the contractor who is contracted to perform the salvage work. During fiscal 2018, the remaining $3,700,000 was recognized into revenues. The deferred inflows of resources related to these salvage rights was presented on the balance sheets as $3,700,000 for fiscal 2017. In fiscal 2018 this amount was recognized as revenue net of the $200,000 for certain removal costs incurred.

NOTE 9 – LONG-TERM OBLIGATIONS

MSCPA has issued the following revenue bonds:

Date	Purpose	Final Maturity	Interest Rates	Original Issue	Outstanding Amount 6/30/18
February 10, 2014	Project IV	February 1, 2021	Variable	$ 16,000,000	$ 13,330,000

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

Year	Principal	Interest	Total
2019	$ 920,000	$ 464,874	$ 1,384,874
2020	935,000	432,829	1,367,829
2021	11,475,000	239,359	11,714,359
Totals	$ 13,330,000	$ 1,137,062	$ 14,467,062

The interest payments shown above for the variable rate debt outstanding are estimated at 3.54%. 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, 2018 is as follows:

	Balance 7/1/17	Additions	Retirements	Balance 6/30/18	Due Within One Year
Long-term debt	$ 14,235,000	$ -	$ 905,000	$ 13,330,000	$ 920,000
Pension liability (asset)	768,836	-	1,254,572	(485,736)	-
Supplemental retirement obligation	113,926	448	29,039	85,335	29,039
Total Long-term Obligations	$ 15,117,762	$ -	$ 2,188,611	$ 12,929,599	$ 949,039

NOTE 9 – LONG-TERM OBLIGATIONS (cont.)

Long-term obligation activity for the year ended June 30, 2017 is as follows:

	Balance 7/1/16	Additions	Retirements	Balance 6/30/17	Due Within One Year
Long-term debt	$ 15,125,000	$ -	$ 890,000	$ 14,235,000	$ 905,000
Pension liability	3,148,789	-	2,379,953	768,836	-
Supplemental retirement obligation	142,533	432	29,039	113,926	29,040
Total Long-term Obligations	$ 18,416,322	$ 432	$ 3,298,992	$ 15,117,762	$ 934,040

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:

	2018	2017
Capital Assets		
Utility plant in service and work in progress	$ 25,289,074	$ 28,788,485
Allowance for depreciation	(4,898,152)	(6,632,185)
Sub-totals	20,390,922	22,156,300
Less: Capital related debt	(13,330,000)	(14,235,000)
Total Net Investment in Capital Assets	$ 7,060,922	$ 7,921,300

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), a 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

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 by accessing the MERS website at www.mersofmich.com.

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.

NOTE 11 – EMPLOYEE RETIREMENT PLAN (cont.)

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

Agent Defined Benefit Multiple-Employer Plan (cont.)

Employees Covered by Benefit Terms. At the December 31, 2017 and 2016 valuation date, the following employees were covered by the benefit terms:

	2017	2016
Inactive employees or beneficiaries currently receiving benefits	32	30
Inactive employees entitled to but not yet receiving benefits	23	23
Active employees	6	8
Totals	61	61

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 88% and 21% as of June 30, 2018 and 2017, respectively. One division that is open to new employees has an annual employer contribution amount of 86% and 49% during fiscal 2018 and 2017, respectively.

Net Pension Liability (Asset). The employer's Net Pension Liability (Asset) was measured as of December 31, 2017 and 2016. 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, 2017 and 2016 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	55.5%	5.02%
Global Fixed Income	18.5%	2.18%
Real Assets	13.5%	4.23%
Diversifying Strategies	12.5%	6.56%

NOTE 11 – EMPLOYEE RETIREMENT PLAN (cont.)

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

Agent Defined Benefit Multiple-Employer Plan (cont.)

Discount Rate. The discount rate used to measure the total pension liability is 7.75% as of the December 31, 2017 and 2016 actuarial reports. 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.

Changes in Net Pension Liability (Asset)

Calculating Net Pension Liability (Asset) 2017

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (Asset) (a) - (b)
Balances at 12/31/16	$ 13,415,538	$ 12,646,702	$ 768,836
Changes for the Year			
Service cost	40,721	-	40,721
Interest on total pension liability	1,011,978	-	1,011,978
Changes in benefits	-	-	-
Difference between expected and actual experience	(20,360)	-	(20,360)
Changes in assumptions	-	-	-
Employer contributions	-	664,832	(664,832)
Employee contributions	-	-	-
Net investment income	-	1,681,314	(1,681,314)
Benefit payments, including employee refunds	(756,243)	(756,243)	-
Administrative expense	-	(26,590)	26,590
Other changes	32,645	-	32,645
Net Changes	308,741	1,563,313	(1,254,572)
Balance as of 12/31/2017	$ 13,724,279	$ 14,210,015	$ (485,736)

Note: Immaterial differences may occur due to rounding.

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 (Asset) (cont.)

Calculating Net Pension Liability 2016

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) - (b)
Balances at 12/31/15	$ 15,106,202	$ 11,957,413	$ 3,148,789
Changes for the Year			
Service cost	49,447	-	49,447
Interest on total pension liability	1,118,827	-	1,118,827
Changes in benefits	-	-	-
Difference between expected and actual experience	(2,240,529)	-	(2,240,529)
Changes in assumptions	-	-	-
Employer contributions	-	758,929	(758,929)
Employee contributions	-	-	-
Net investment income	-	1,345,778	(1,345,778)
Benefit payments, including employee refunds	(1,388,901)	(1,388,901)	-
Administrative expense	-	(26,517)	26,517
Other changes	770,492	-	770,492
Net Changes	(1,690,664)	689,289	(2,379,953)
Balance as of 12/31/2016	$ 13,415,538	$ 12,646,702	$ 768,836

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

The following presents the Net Pension Liability (Asset) of the employer, calculated using the discount rate of 8.00%, as well as what the employer's Net Pension Liability (Asset) 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 2017

	1% Decrease	Current Discount Rate	1% Increase
Total Pension Liability (a)	$ 15,221,017	$ 13,724,279	$ 12,458,468
Fiduciary Net Position (b)	14,210,015	14,210,015	14,210,015
Net Pension Liability (Asset) (a-b)	$ 1,011,002	$ (485,736)	$ (1,751,547)

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 (Asset) to Changes in the Discount Rate (cont.)

The following presents the Net Pension Liability (Asset) of the employer, calculated using the discount rate of 8.00%, as well as what the employer's Net Pension Liability (Asset) 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 2016

	1% Decrease	Current Discount Rate	1% Increase
Total Pension Liability (a)	$ 14,963,444	$ 13,415,538	$ 12,108,107
Fiduciary Net Position (b)	12,646,702	12,646,702	12,646,702
Net Pension Liability (Asset) (a-b)	$ 2,316,742	$ 768,836	$ (538,595)

Note: The discount rate shown for GASB 68 purposes is higher than the MERS assumed rate of return. This is because for GASB 68 purposes, the discount rate must be gross of administrative expenses, whereas for funding purposes it is net of administrative expenses.

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

The employer recognized pension expense (credit) of $186,827 and ($964,554) as of June 30, 2018 and 2017, respectively. The employer reported deferred outflows and inflows of resources related to pensions from the following sources:

	2017		2016	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences in experience	$ -	$ (179,626)	$ -	$ (239,501)
Differences in assumptions	279,781	-	373,041	-
Net difference between projected and actual investment earnings	-	(333,667)	409,514	-
Contributions subsequent to the measurement date*	292,118	-	368,293	-
Totals	$ 571,899	$ (513,293)	$ 1,150,848	$ (239,501)

* 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 (Asset) 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 Outflows of Resources	Deferred Inflows of Resources
2018	$ 93,261	$ (22,460)
2019	93,261	(59,746)
2020	93,259	(289,933)
2021	-	(141,154)
Totals	$ 279,781	$ (513,293)

For calendar years 2017 and 2016, the Agency's annual pension cost of $664,832 and $758,929, respectively, for the MERS was equal to the Agency's required and actual contributions.

The 2017 required contribution was determined as part of the December 31, 2016 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 2016; (b) projected salary increases of 3.75% in 2016; and (c) additional projected salary increases ranging from 0% to 11.0% in 2016 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 2016 required contribution was determined as part of the December 31, 2015 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) 8.00% investment rate of return in 2015; (b) projected salary increases of 3.00% in 2015; and (c) additional projected salary increases ranging from 0% to 11.0% in 2015 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 $4,890 and $13,080 in 2018 and 2017, 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, 2016	$ 408	$ 29,039	$ 142,533	7,117.4%
June 30, 2017	432	29,039	113,926	6,722.0%
June 30, 2018	448	29,039	85,335	6,481.9%

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 1.04% and 0.78% for the years ended June 30, 2018 and 2017, 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, Inc. (AMP) to secure long-term power supply for the future. Completed projects include one base load coal generation facility and a gas generation project and two hydro generation projects. Additionally, one solar generation project is partially completed and is anticipated to be fully completed during Fiscal 2019.

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 hydro generation projects consist of five hydro generation facilities on existing lock and dam facilities located on the Ohio River, with the last facility completed in Fiscal 2018. 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, 43.54 MW of the gas project, 18.7 MW of the hydro projects and 1.2 MW of the solar project.

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 5 MW on-peak starting in January 2018 and ending in December 2020, 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. The Agency has also secured an additional 5 MW on-peak starting January 2018 and ending in December 2018, additionally, the counterparty has retained the right to put another 5 MW on-peak to the Agency for calendar years 2019 and 2020.

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.

NOTE 13 – 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 14 – 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, 2018 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.

NOTE 15 – 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, 2017.

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

NOTE 15 – AGGREGATE BOND SERVICE COVERAGE (cont.)

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, 2018

NET REVENUES		
Operating Revenues		$ 50,272,122
Less: Operating Expenses		
Operations	$ (45,854,224)	
Maintenance	(110,388)	
Administration and General (a)	(1,637,233)	
Other expenses	(13,594)	
Total		(47,615,439)
Plus:		
Investment and miscellaneous income	$ 819,410	
Gain on sale of assets	3,524,613	
Total		4,344,023
Less:		
Pension payments made 7/1/17 to 6/30/18	$ (588,657)	
Add GASB 68 pension expense	186,827	
Gain (loss) on market adjustment of emissions allowances	31,244	
Total		(370,586)
TOTAL NET REVENUES, AS DEFINED		$ 6,630,120
DEBT SERVICE		$ 1,310,844
COVERAGE OF DEBT SERVICE BY NET REVENUES		506%

NOTE 15 – AGGREGATE BOND SERVICE COVERAGE (cont.)

June 30, 2017

NET REVENUES		
Operating Revenues		$ 46,570,736
Less: Operating Expenses		
Operations	$ (41,074,312)	
Maintenance	(817,663)	
Administration and General (a)	(1,597,031)	
Total		(43,489,006)
Plus:		
Investment and miscellaneous income	$ 182,620	
Gain on investments	750	
Gain on sale of assets	94,957	
Total		278,327
Less:		
Pension payments made 7/1/16 to 6/30/17	$ (763,138)	
Add GASB 68 pension expense	(964,554)	
Gain (loss) on market adjustment of emissions allowances	27,082	
Total		(1,700,610)
TOTAL NET REVENUES, AS DEFINED		$ 1,659,447
DEBT SERVICE		$ 1,206,389
COVERAGE OF DEBT SERVICE BY NET REVENUES		138%

(a) Excludes payment in lieu of taxes totaling $30,000 and $60,000, in fiscal year 2018 and 2017, respectively.

NOTE 16 – SIGNIFICANT CUSTOMERS

The Agency has three members who are considered significant customers. These members accounted for 95% and 94% of operating revenues for years ended June 30, 2018 and 2017.

REQUIRED SUPPLEMENTARY INFORMATION

MICHIGAN SOUTH CENTRAL POWER AGENCY

SCHEDULE OF CHANGES IN THE NET PENSION LIABILITY (ASSET) - GASB STATEMENT NO. 68
As of June 30, 2018

	2018	2017	2016	2015
Total Pension Liability				
Service cost	$ 40,721	$ 49,447	$ 215,708	$ 251,719
Interest	1,011,978	1,118,827	1,113,807	1,048,428
Changes of benefit terms	-	-	-	-
Difference between expected and actual experience	(20,360)	(2,240,529)	(359,251)	-
Changes of assumptions	-	-	559,563	-
Benefit payments including employee refunds	(756,243)	(1,388,901)	(546,321)	(449,023)
Other	32,645	770,492	34,805	32,764
Net Change in Total Pension Liability	308,741	(1,690,664)	1,018,311	883,888
Total Pension Liability beginning	13,415,538	15,106,202	14,087,891	13,204,003
Total Pension Liability ending	$ 13,724,279	$ 13,415,538	$ 15,106,202	$ 14,087,891
Plan Fiduciary Net Position				
Contributions-employer	$ 664,832	$ 758,929	$ 716,430	715,363
Contributions-employee	-	-	-	-
Net Investment income	1,681,314	1,345,778	(185,247)	707,308
Benefit payments including employee refunds	(756,243)	(1,388,901)	(546,321)	(449,023)
Administrative expense	(26,590)	(26,517)	(26,658)	(26,134)
Net Change in Plan Fiduciary Net Position	1,563,313	689,289	(41,796)	947,514
Plan Fiduciary Net Position beginning	12,646,702	11,957,413	11,999,209	11,051,695
Plan Fiduciary Net Position ending	$ 14,210,015	$ 12,646,702	$ 11,957,413	$ 11,999,209
Employer Net Pension Liability (Asset)	$ (485,736)	$ 768,836	$ 3,148,789	$ 2,088,682
Plan Fiduciary Net Position as a percentage of the Total Pension Liability	103.5%	94.3%	79.2%	85.2%
Covered Employee Payroll	694,398	1,909,529	3,347,364	3,582,831
Employer's Net Pension Liability (Asset) as a percentage of covered employee payroll	-70.0%	40.3%	94.1%	58.3%

Notes to schedule:

Above data is based on measurement date of December 31, which does not tie to the fiscal year.

See independent auditors' report.

MICHIGAN SOUTH CENTRAL POWER AGENCY

SCHEDULE OF EMPLOYER CONTRIBUTIONS -
MUNICIPAL EMPLOYEES' RETIREMENT SYSTEM OF MICHIGAN
For the Year Ended June 30, 2018

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
6/30/15	$ 355,363	$ 704,740	$ (349,377)	$ 3,437,851	20%
6/30/16	356,430	733,197	(376,767)	3,160,330	23%
6/30/17	373,847	763,138	(389,291)	870,444	88%
6/30/18	291,139	588,657	(297,518)	592,631	99%

NOTES TO SCHEDULE
For the Year Ended June 30, 2018

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

* Actuarially Determined Contribution is found in the actuarial valuation in Table 5 for the plan year ended December 31 during the fiscal year.

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.

For amounts reported in 2016 and later, the asset valuation method used is 5 years rather than the 10 years used to determine amounts reported prior to 2016.

See independent auditors' report.