MICHIGAN SOUTH CENTRAL POWER AGENCY

Coldwater, Michigan

FINANCIAL STATEMENTS

Including Independent Auditors' Report

As of and for the Years Ended June 30, 2019 and 2018

MICHIGAN SOUTH CENTRAL POWER AGENCY

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As of and for the Years Ended June 30, 2019 and 2018

INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of Michigan South Central Power Agency, as of and for the years ended June 30, 2019 and 2018, 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, 2019 and 2018, 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 26, 2019

MANAGEMENT'S DISCUSSION AND ANALYSIS

MICHIGAN SOUTH CENTRAL POWER AGENCY

MANAGEMENT'S DISCUSSION AND ANALYSIS
As of and for the Years Ended June 30, 2019 and 2018
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, 2019 and 2018. 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 2019 was a busy year, operationally and financially. This year marked the fourteenth 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 $148,000 in fiscal year 2019 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.

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 2017, the remaining 5.3 MW of hydro generation were placed in service during the summer of 2017. The Agency also receives 1.2 MW of power from an AMP Solar Project that was completed during Fiscal 2019.

AGENCY FINANCIAL ANALYSIS (cont.)

The Agency has entered into multiple fixed price purchase power agreements through AMP. The Agency has secured contracts for 5 MW on-peak that 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 year 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.

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.

On April 17, 2019, the Agency submitted a Generator Interconnection Application to MISO to obtain the right to gain the ability to potentially build a 50 MW generating facility. The application will go through several milestones before the Agency can consider if it wants to pursue this facility. The Agency is recording these costs in a preliminary survey account until the final status of the project is determined.

AGENCY FINANCIAL ANALYSIS (cont.)

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

	2019	2018	2017
Current assets	$ 18,838,313	$ 20,377,566	$ 22,859,533
Noncurrent assets	8,203,292	12,694,260	12,137,940
Utility plant	20,056,764	20,390,922	22,156,300
Total Assets	47,098,369	53,462,748	57,153,773
Deferred Outflow of Resources	1,350,086	571,899	1,150,848
Total Assets and Deferred Outflows of Resources	$ 48,448,455	$ 54,034,647	$ 58,304,621
Current liabilities	$ 5,422,551	$ 5,033,424	$ 7,626,725
Noncurrent liabilities	12,187,752	12,466,296	14,183,722
Total Liabilities	17,610,303	17,499,720	21,810,447
Deferred Inflows of Resources	7,924,107	11,824,655	15,070,562
Net Position			
Net Investment in capital assets	7,646,764	7,060,922	7,921,300
Restricted for debt service	543,137	500,234	485,878
Restricted for pensions	-	485,736	-
Unrestricted	14,724,144	16,663,380	13,016,434
Total Net Position	22,914,045	24,710,272	21,423,612
Total Liabilities, Deferred Inflows of Resources and Net Position	$ 48,448,455	$ 54,034,647	$ 58,304,621

AGENCY FINANCIAL ANALYSIS (cont.)

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

	2019	2018	2017
Operating Revenues	$ 52,454,104	$ 50,272,122	$ 46,570,736
Operating Expenses			
Depreciation expense	529,175	535,159	628,168
Other operating expenses	50,980,156	47,645,439	43,549,006
Total Operating Expenses	51,509,331	48,180,598	44,177,174
Operating Income	944,773	2,091,524	2,393,562
Nonoperating Revenue (Expenses)			
Investment and miscellaneous income	263,893	819,410	182,620
Net increase (decrease) in fair value of investments	249,553	(188,465)	(175,153)
Interest and amortization expense	(496,100)	(413,644)	(323,997)
Member equity refund	(2,758,346)	(1,495,756)	(4,020,000)
Other income and (expense)	-	2,473,591	(502,650)
Total Nonoperating Revenue (Expenses)	(2,741,000)	1,195,136	(4,839,180)
Income Before Contributions	(1,796,227)	3,286,660	(2,445,618)
Capital Contributions	-	-	112,526
Change in Net Position	(1,796,227)	3,286,660	(2,333,092)
NET POSITION – Beginning of Year	24,710,272	21,423,612	23,756,704
NET POSITION - END OF YEAR	$ 22,914,045	$ 24,710,272	$ 21,423,612

AGENCY FINANCIAL ANALYSIS (cont.)

Table 3
Condensed Statements of Cash Flows

	2019	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES	$ 53,243,463	$ 50,373,937	$ 49,090,351
Received sales to members and others			
Paid to suppliers for goods and services	(49,743,569)	(48,184,379)	(45,521,666)
Paid to employees for services	(678,822)	(761,983)	(1,587,411)
Net Cash Flows from Operating Activities	2,821,072	1,427,575	1,981,274
CASH FLOW FROM NONCAPITAL FINANCING ACTIVITIES			
Deferred rate stabilization withdrawal	(4,085,645)	(1,000,000)	-
Member equity draw	(2,758,346)	-	-
Cash Flows from Noncapital Financial Activities	(6,843,991)	(1,000,000)	-
CASH FLOW FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Capital expenditures for utility plant	(412,495)	(110,364)	(133,853)
Debt retired	(920,000)	(905,000)	(890,000)
Capital contribution received	-	-	112,526
Proceeds received from Endicott salvage rights	-	-	4,100,000
Cost of removal of property retired	-	(200,000)	(400,000)
Proceeds from the sale of property	-	314,174	97,500
Interest payments on long term debt	(497,953)	(405,884)	(316,389)
Cash Flows from Capital and Related Financing Activities	(1,830,448)	(1,307,074)	2,569,784
Cash Flows from Investing Activities	2,525,511	600,940	(2,181,017)
Net Change in Cash and Cash Equivalents	(3,327,856)	(278,559)	(2,370,041)
CASH AND CASH EQUIVALENTS - Beginning of Year	12,942,863	13,221,422	10,851,381
CASH AND CASH EQUIVALENTS- END OF YEAR	$ 9,615,007	$ 12,942,683	$ 13,221,422
NONCASH INVESTING ACTIVITY			
Unrealized gains (losses) on investments	$ 257,533	$ (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) to rate stabilization	$ -	$ 1,495,756	$ 4,020,000

BALANCE SHEETS

"Current assets" decreased by $1.5 million during fiscal year 2019, with unrestricted cash decreasing $1.2 million primarily due to member rate stabilization withdrawals of $4.1 million and equity refunds of $2.8 million, accounts receivable decreasing $.2 million and regulatory assets increasing $.2 million. Prepaid items and other current assets decreased $.4 million primarily due a decrease in funds held at MISO. "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.

"Noncurrent assets" decreased by $4.5 million in total during fiscal 2019 due to long-term investments decreasing by $4.2 million, preliminary survey increasing by $.2 million due to a survey for a future power supply/capacity asset and pension assets decreasing by $.5 million. "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.

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 increase in fiscal 2019's utility plant number of $.3 million is primarily due to projects capitalized (including construction in progress) during the year, offset by $.5 million of depreciation recorded for the year. 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.

Deferred Outflows of Resources increased by $.8 million during fiscal 2019 due the current year impact of GASB 68 on pension activities. Deferred Outflows of Resources decreased by $.6 million during fiscal 2018 due the current year impact of GASB 68 on pension activities

Total Liabilities decreased by $.1 million during fiscal 2019. Accounts payable was flat, compensation and related accruals increased $.3 million as any severance payments due to the ending of employment contracts or terminations not yet paid have been accrued into the financial statements, non-current accrued liabilities increased $.7 million primarily due to the pension liability increasing by $.7 million from current year impact of GASB 68 on pension activities and long-term debt decreased by $.9 million. 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, non-current 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.

BALANCE SHEETS (cont.)

Deferred Inflows of Resources decreased $3.9 million during fiscal 2019, primarily due to member rate stabilization funds which decreased by $3.5 million, due to a member refunds of $4.1 million, contributions of $1.1 million added by the members, $.2 million of interest, offset by $0.7 million drawn for member usage and a decrease of $.4 million from current year GASB 68 pension activities. 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 was 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.

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

Fiscal 2019 operating revenues increased by 4.3 percent and expenses increased by 6.9 percent versus fiscal 2018. Fiscal 2019 operating revenues and expenses were higher than fiscal 2018 primarily due to higher volumes resulting in higher third-party purchases. Fiscal 2018 operating revenues increased by 7.9 percent and expenses increased by 9.1 percent versus fiscal 2017. Fiscal 2018 operating revenues and expenses were higher than fiscal 2017 primarily due to higher volumes resulting in higher third-party purchases.

Operating income decreased slightly by $1.1 million in Fiscal 2019. Operating income decreased slightly by $.3 million in Fiscal 2018.

"Investment and miscellaneous income" of $.3 million for Fiscal 2019 was primarily due to 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" of $.8 million for Fiscal 2018 was primarily due to interest proceeds from a transmission-related recovery of $.6 million and $.2 million from investment income as the economy improved.

“Net increase (decrease) in the fair market of investments” of $.4 million in Fiscal 2019 was due to unrealized gains as interest rate reductions increased the market value of investments held at June 30, 2019. 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 $2.8 million for fiscal 2019 were refunds of prior years’ equity that were distributed to the members during the year. “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.

"Other income and expense" of $.5 million for fiscal 2019 was primarily due interest expense on long-term debt. "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.

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 2019, the "Cash and cash equivalents" amount decreased by $3.3 million, primarily due to the members' rate stabilization and member equity withdrawals of $6.8 million, offset by net cash inflow from other activities of $3.5 million. For fiscal 2018, the "Cash and cash equivalents" amount decreased by $.3 million.

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, 2019 and 2018. 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, 2019 and 2018

ASSETS AND DEFERRED OUTFLOWS OF RESOURCES

	2019	2018
CURRENT ASSETS		
Unrestricted cash and investments	$ 12,998,637	$ 14,165,275
Restricted cash and investments	580,684	539,634
Accounts receivable	3,749,634	3,960,353
Interest receivable	62,759	54,382
Prepayments and other current assets	546,344	964,489
Regulatory assets	900,255	693,433
Total Current Assets	18,838,313	20,377,566
NONCURRENT ASSETS		
Unrestricted investments	7,985,814	12,208,524
Preliminary survey and investigation	217,478	-
Net pension asset	-	485,736
Total Noncurrent Assets	8,203,292	12,694,260
CAPITAL ASSETS		
Utility plant (including construction work in progress)	25,484,091	25,289,074
Accumulated depreciation	(5,427,327)	(4,898,152)
Total Net Capital Assets	20,056,764	20,390,922
Total Assets	47,098,369	53,462,748
DEFERRED OUTFLOWS OF RESOURCES RELATED TO PENSIONS	1,350,086	571,899
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	$ 48,448,455	$ 54,034,647

LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION

		2019		2018
CURRENT LIABILITIES				
Accounts payable	$	3,985,850	$	3,942,578
Compensation and related amounts		464,154		131,446
Current Liabilities Payable from Restricted Assets				
Current portion of long-term debt		935,000		920,000
Accrued interest payable		37,547		39,400
Total Current Liabilities		5,422,551		5,033,424
NONCURRENT LIABILITIES				
Long-term debt		11,475,000		12,410,000
Net pension liability		684,861		-
Supplemental retirement obligation		27,891		56,296
Total Noncurrent Liabilities		12,187,752		12,466,296
Total Liabilities		17,610,303		17,499,720
DEFERRED INFLOWS OF RESOURCES				
Deferred rate stabilization		7,224,961		10,731,967
Deferred transmission utilization		579,395		579,395
Deferred inflows related to pensions		119,751		513,293
Total Deferred Inflows of Resources		7,924,107		11,824,655
NET POSITION				
Net investment in capital assets		7,646,764		7,060,922
Restricted for debt service		543,137		500,234
Restricted for pensions		-		485,736
Unrestricted		14,724,144		16,663,380
Total Net Position		22,914,045		24,710,272
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION	$	48,448,455	$	54,034,647

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, 2019 and 2018

	2019	2018
OPERATING REVENUES		
Sales to members	$ 52,523,941	$ 52,052,185
Sales to others	278,159	295,497
Other income	47,500	-
Net rate stabilization application (deferral)	(395,496)	(2,075,560)
Total Operating Revenues	52,454,104	50,272,122
OPERATING EXPENSES		
Operations	48,941,379	45,854,224
Maintenance	41,045	110,388
Administration and general	1,997,732	1,667,233
Depreciation	529,175	535,159
Other expense	-	13,594
Total Operating Expenses	51,509,331	48,180,598
Operating Income	944,773	2,091,524
NONOPERATING REVENUES (EXPENSES)		
Investment and miscellaneous income	263,893	819,410
Net increase (decrease) in the fair value of investments	249,553	(188,465)
Interest expense on long-term debt	(496,100)	(413,644)
Gain on sale of assets	-	3,524,613
Loss on sale of assets	-	(1,051,022)
Member equity refund	(2,758,346)	(1,495,756)
Total Nonoperating Expenses	(2,741,000)	1,195,136
CHANGE IN NET POSITION	(1,796,227)	3,286,660
NET POSITION - Beginning of Year	24,710,272	21,423,612
NET POSITION - END OF YEAR	$ 22,914,045	$ 24,710,272

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, 2019 and 2018

	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES		
Received from sales to members and others	$ 53,243,463	$ 50,373,937
Paid to suppliers for goods and services	(49,743,569)	(48,184,379)
Paid to employees for services	(678,822)	(761,983)
Net Cash Flows from Operating Activities	2,821,072	1,427,575
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Deferred rate stabilization withdrawal	(4,085,645)	(1,000,000)
Member equity draw	(2,758,346)	-
Cash Flows from Noncapital Financing Activities	(6,843,991)	(1,000,000)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Capital expenditures for utility plant	(412,495)	(110,364)
Debt retired	(920,000)	(905,000)
Cost of removal of property retired	-	(200,000)
Proceeds from sale of property	-	314,174
Interest payments on long-term debt	(497,953)	(405,884)
Cash Flows from Capital and Related Financing Activities	(1,830,448)	(1,307,074)
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sales and maturities of investments	2,277,675	2,472,151
Purchases of investments	-	(2,671,889)
Interest received	247,836	800,678
Cash Flows from Investing Activities	2,525,511	600,940
Net Change in Cash and Cash Equivalents	(3,327,856)	(278,559)
CASH AND CASH EQUIVALENTS – Beginning of Year	12,942,863	13,221,422
CASH AND CASH EQUIVALENTS – END OF YEAR	$ 9,615,007	$ 12,942,863
NONCASH INVESTING ACTIVITY		
Unrealized gains (losses) on investments	$ 257,233	$ (186,205)
NONCASH CAPITAL AND RELATED FINANCING ACTIVITIES		
Gain on sale of assets	$ -	$ 3,524,613
Loss on sale of assets	$ -	$ (1,051,022)
Member equity (draw) refund to rate stabilization	$ -	$ 1,495,756

	2019	2018
RECONCILIATION OF OPERATING INCOME TO NET CASH FLOWS FROM OPERATING ACTIVITIES		
Operating income	$ 944,773	$ 2,091,524
Noncash items included in operating income		
Depreciation	529,175	535,159
Changes in assets, deferred outflows, liabilities, and deferred inflows		
Accounts receivable	210,719	417,270
Prepayments and other current assets	418,145	(807,959)
Regulatory assets	-	2,553,518
Pension related deferrals and liabilities	(1,132)	(401,831)
Accounts payable	(163,550)	(2,551,174)
Compensation and related amounts	332,708	(64,887)
Postemployment retirement benefit	(28,405)	(28,590)
Deferred inflows of resources	578,639	(315,455)
NET CASH FLOWS FROM OPERATING ACTIVITIES	$ 2,821,072	$ 1,427,575
RECONCILIATION OF CASH AND CASH EQUIVALENTS TO THE BALANCE SHEET		
Current unrestricted cash and investments	$ 12,998,637	$ 14,165,275
Restricted cash and investments	580,684	539,634
Noncurrent unrestricted investments	7,985,814	12,208,524
Total Cash and Investments	21,565,135	26,913,433
Less: Noncash equivalents	(11,950,128)	(13,970,570)
CASH AND CASH EQUIVALENTS	$ 9,615,007	$ 12,942,863

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) 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 with 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. 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.

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, 2019 and 2018 was $500,000 and $900,000, respectively.

Regulatory Assets

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, and 7 for details.

Preliminary Survey and Investigation

The balance represents initial exploration costs related to purchasing additional capacity. The balance will be capitalized upon commencement of the project.

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 10.

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, 2019 and 2018.

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
Transmission facilities (composite)	55
Buildings	10 – 50
Transportation equipment	3 – 5
Furniture and fixtures	5 – 10
Project IV structure	50
Project IV equipment	40
Menominee/Oconto equipment	5

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 and 10 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. Any severance amounts due to ending of employment contracts or termination not yet paid have been accrued in the financial statements.

The current portion of the supplemental retirement obligation, detailed in Note 10, 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.

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 Statement No. 84, *Fiduciary Activities,* Statement No. 87, *Leases,* Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period,* Statement No. 90, *Majority Equity Interests – an amendment of GASB Statements No. 14 and No. 61* and Statement No. 91, *Conduit Debt Obligations.* 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, the fair value of the MI CLASS' assets were substantially equal to the Agency's share. As of June 30, 2019 and 2018, the Agency held a balance of $2,574,286 and $6,122,337 in MI CLASS, respectively. 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, 2019 are as follows:

> Market approach – asset- class- based matrix

Investment Type	Total	Level 1	Level 2	Level 3
U.S. Government Agency Securities	$ 7,475,715	$ -	$ 7,475,715	$ -
Governmental Money Market	78,190	-	78,190	-
Municipal Bonds	1,516,882	-	1,516,882	-
Totals	$ 9,070,787	$ -	$ 9,070,787	$ -

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, 2019 the fair value of the investment was $6,861,032. 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, 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 Money Market	157,681	-	157,681	-
Municipal Bonds	2,956,442	-	2,956,442	-
Totals	$ 11,221,686	$ -	$ 11,221,686	$ -

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.

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, 2019 and 2018 of the Agency’s total bank balances, $2,977,905 and $2,926,568. None of the Agency’s bank balances were known to be individually exposed to custodial credit risk.

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

Investments

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

As of June 30, 2019 and 2018, 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, 2019, 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	Aaa – Aa1
Michigan CLASS	AAAm	N/R

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

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, 2019 and 2018, the investment portfolio was concentrated as follows:

		Percentage of Investment Portfolio	
Investment Type	Issuer	2019	2018
U.S. Government Agency Securities	Federal Home Loan Bank	14%	11%
U.S. Government Agency Securities	Federal Farm Credit Bank	16%	8%
U.S. Government Agency Securities	Federal Home Loan Mortgage Corp	10%	13%

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, 2019 or 2018. 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, 2019, the Agency's investments were as follows:

		Maturity	
Investment Type	Fair Value	Less than 1 Year	1 – 5 Years
U.S. Government Agency Securities	$ 7,475,715	$ 994,340	$ 6,481,375
Municipal Bonds	1,516,882	1,236,115	280,767
Totals	$ 8,992,597	$ 2,230,455	$ 6,762,142

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

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

NET PENSION ASSET

Restricted assets have been reported in connection with the net pension asset balance since this balance must be used to fund employee benefits.

RESTRICTED NET POSITION

The following calculation supports the restricted net position:

	2019	2018
Restricted Assets		
Bond Service Fund	$ 580,684	$ 539,634
Net Pension Asset	-	485,736
Current Liabilities Payable from Restricted Assets	(37,547)	(39,400)
Total Restricted Net Position	$ 543,137	$ 985,970

The purpose of the restricted net position is as follows:

	2019	2018
Debt Service	$ 543,137	$ 500,234
Net Pension Asset	-	485,736
Total Restricted Net Position	$ 543,137	$ 985,970

MICHIGAN SOUTH CENTRAL POWER AGENCY

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended June 30, 2019 and 2018

NOTE 4 – CHANGES IN CAPITAL ASSETS

A summary of changes in capital assets for 2019 and 2018 follows:

	2019			
	Balance 7/1/18	Additions/ Reclassifications	Deletions/ Reclassifications	Balance 6/30/19
Capital assets, not being depreciated				
Land	$ 979,296	$ -	$ -	$ 979,296
Construction work in progress	39,107	195,017	234,124	-
Total Capital Assets, Not Being Depreciated	1,018,403	195,017	234,124	979,296
Capital assets being depreciated				
Transmission Facilities	7,378,417	114,624	-	7,493,041
Project IV	16,602,440	-	-	16,602,440
General Plant	276,655	119,500	-	396,155
Menominee/Oconto	13,159	-	-	13,159
Total Capital Assets Being Depreciated	24,270,671	234,124	-	24,504,795
Total Capital Assets	25,289,074	429,140	234,123	25,484,091
Less: Accumulated depreciation				
Transmission Facilities	3,590,592	121,275	-	3,711,867
Project IV	1,114,900	382,252	-	1,497,152
General Plant	182,571	22,578	-	205,149
Menominee/Oconto	10,089	3,070	-	13,159
Total Accumulated Depreciation	4,898,152	529,175	-	5,427,327
Net Capital Assets	$ 20,390,922			$ 20,056,764

NOTE 4 – CHANGES IN CAPITAL ASSETS (cont.)

	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 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 2019 and 2018 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, 2019 and 2018 are as follows:

	2019	2018
Regulatory Assets		
Cost to be billed once allocation is determined	$ 900,255	$ 693,433

The change in the components of regulatory assets for the years ended June 30, 2019 and 2018 are as follows:

	2019	2018
Accrued vacation, sick leave and severance costs	$ 238,657	$ 29,067
ITC Utilization estimate	-	(1,000,000)
ITC KVAR estimate	(31,835)	(55,595)
MISO back billed transmission cost estimate	-	(1,526,990)
Net Increase (Decrease) in Regulatory Costs	206,822	(2,553,518)
Balance at Beginning of Year	693,433	3,246,951
Balance at End of Year	$ 900,255	$ 693,433

NOTE 6 – DEFERRED RESOURCES FOR TRANSMISSION UTILIZATION

Based on various known circumstances the Board approves the accumulation of funds in advance of a major future operating expense. No activity occurred in fiscal 2019.

During fiscal 2018, the Board approved the accumulation of funds in advance of payment related to an estimated expense of MISO transmission costs under a revised tariff agreement of $491,598.

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

The change in deferred inflows of resources related to future operating expenses for the years ended June 30, 2019 and 2018 is as follows:

	2019	2018
Balance at Beginning of Year	$ 579,385	$ 3,106,385
Resources accumulated	-	491,598
Resources recognized	-	3,018,588
Balance at End of Year	$ 579,385	$ 579,395

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 2019, members including Hillsdale, Marshall and Union City requested distributions from accumulated resources of $4,085,645.

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 initial Agency 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
2019	$ 10,731,967	$ 1,312,861	$ 182,153	$ 5,002,020	$ 7,224,961
2018	8,024,676	3,594,569	135,974	1,023,252	10,731,967

NOTE 8 – LONG-TERM OBLIGATIONS

MSCPA has issued the following revenue bonds:

Date	Purpose	Final Maturity	Interest Rates	Original Issue	Outstanding Amount 6/30/19
February 10, 2014	Project IV	February 1, 2021	Variable	$ 16,000,000	$ 12,410,000

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

Year	Principal	Interest	Total
2020	$ 935,000	$ 470,940	$ 1,405,940
2021	11,475,000	264,008	11,739,008
Totals	$ 12,410,000	$ 734,948	$ 13,144,948

The interest payments shown above for the variable rate debt outstanding are estimated at 3.85%. 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.

NOTE 8 – LONG-TERM OBLIGATIONS (cont.)

LONG-TERM OBLIGATIONS SUMMARY

Long-term obligation activity for the year ended June 30, 2019 is as follows:

	Balance 7/1/18	Additions	Retirements	Balance 6/30/19	Due Within One Year
Long-term debt	$ 13,330,000	$ -	$ 920,000	$ 12,410,000	$ 935,000
Supplemental retirement obligation	85,335	634	29,039	56,930	29,039
Total Long-term Obligations	$ 13,415,335	$ 634	$ 949,039	$ 12,466,930	$ 964,039

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
Supplemental retirement obligation	113,926	448	29,039	85,335	29,039
Total Long-term Obligations	$ 14,348,926	$ 448	$ 934,039	$ 13,415,335	$ 949,039

In addition to the liabilities above, information on the net pension liability (asset) is provided in Note 10.

NOTE 9 – 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 9 – 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:

	2019	2018
Capital Assets		
Utility plant in service and work in progress	$ 25,484,091	$ 25,289,074
Allowance for depreciation	(5,427,327)	(4,898,152)
Sub-totals	20,056,764	20,390,922
Less: Capital related debt	(12,410,000)	(13,330,000)
Total Net Investment in Capital Assets	$ 7,646,764	$ 7,060,922

NOTE 10 – 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 10 – 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, 2019 and 2018 valuation date, the following employees were covered by the benefit terms:

	2019	2018
Inactive employees or beneficiaries currently receiving benefits	34	32
Inactive employees entitled to but not yet receiving benefits	24	23
Active employees	5	6
Totals	63	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 102% and 88% as of June 30, 2019 and 2018, respectively. One division that is open to new employees has an annual employer contribution amount of 95% and 86% during fiscal 2019 and 2018, respectively.

Net Pension Liability (Asset). The employer's Net Pension Liability (Asset) was measured as of December 31, 2018 and 2017. The total pension liability used to calculate the Net Pension Liability was determined by an annual actuarial valuation as of those dates.

NOTE 10 – 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, 2018 and 2017 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 10 – 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, 2019 and 2018 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) 2019

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (Asset) (a) - (b)
Balances at 12/31/18	$ 13,724,279	$ 14,210,015	$ (485,736)
Changes for the Year			
Service cost	43,663	-	43,663
Interest on total pension liability	1,030,977	-	1,030,977
Changes in benefits	-	-	-
Difference between expected and actual experience	3,410	-	3,410
Changes in assumptions	-	-	-
Employer contributions	-	518,926	(518,926)
Employee contributions	-	-	-
Net investment income	-	(550,778)	550,778
Benefit payments, including employee refunds	(886,362)	(886,362)	-
Administrative expense	-	(27,436)	27,436
Other changes	33,259	-	33,259
Net Changes	224,947	(945,650)	1,170,597
Balance as of 12/31/2019	$ 13,949,226	$ 13,264,365	$ 684,861

Note: Immaterial differences may occur due to rounding.

NOTE 10 – 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 (Asset) 2018

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (Asset) (a) - (b)
Balances at 12/31/17	$ 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 12/31/2018	$ 13,724,279	$ 14,210,015	$ (485,736)

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 2019

	1% Decrease	Current Discount Rate	1% Increase
Total Pension Liability (a)	$ 14,738,980	$ 13,949,226	$ 12,014,214
Fiduciary Net Position (b)	13,264,365	13,264,365	13,264,365
Net Pension Liability (Asset) (a-b)	$ 1,474,615	$ 684,861	$ (1,250,151)

NOTE 10 – 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 2018

	1% Decrease	Current Discount Rate	1% Increase
Total Pension Liability (a)	$ 15,706,753	$ 13,724,279	$ 12,944,204
Fiduciary Net Position (b)	14,210,015	14,210,015	14,210,015
Net Pension Liability (Asset) (a-b)	$ 1,496,738	$ (485,736)	$ (1,265,811)

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 of $450,922 and $186,827 as of June 30, 2019 and 2018, respectively. The employer reported deferred outflows and inflows of resources related to pensions from the following sources:

	2019		2018	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences in experience	$ -	$ (119,751)	$ -	$ (179,626)
Differences in assumptions	186,520	-	279,781	-
Net difference between projected and actual investment earnings	938,319	-	-	(333,667)
Contributions subsequent to the measurement date*	225,247	-	292,118	-
Totals	$ 1,350,086	$ (119,751)	$ 571,899	$ (513,293)

* The amount reported as deferred outflows of resources resulting from contributions subsequent to the measurement date will be recognized as reduction (increase) in the Net Pension Liability (Asset) for the subsequent fiscal year.

NOTE 10 – 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
2019	$ 420,740	$ (59,875)
2020	190,551	(59,876)
2021	186,196	-
2022	327,352	-
Totals	$ 1,124,839	$ (119,751)

For calendar years 2019 and 2018, the Agency's annual pension cost of $518,926 and $664,832, respectively, for the MERS was equal to the Agency's required and actual contributions.

The 2019 required contribution was determined as part of the December 31, 2018 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 2018; (b) projected salary increases of 3.75% in 2018; and (c) additional projected salary increases ranging from 0% to 11.0% in 2018 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 2018 required contribution was determined as part of the December 31, 2017 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 2017; (b) projected salary increases of 3.75% in 2017; and (c) additional projected salary increases ranging from 0% to 11.0% in 2017 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. The Agency made contributions to the plan of $0 and $4,890 in 2019 and 2018, respectively.

NOTE 10 – 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, 2017	$ 432	$ 29,039	$ 113,926	6,722.0%
June 30, 2018	448	29,039	85,335	6,481.9%
June 30, 2019	634	29,039	56,930	4,581.8%

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 1.34% and 1.04% for the years ended June 30, 2019 and 2018, respectively. There are no separately issued statements or reports on this plan.

NOTE 11 – LONG-TERM SUPPLY AGREEMENTS

The Agency and its Members have entered into multiple development agreements with AMP to secure long-term power supply for the future. Completed projects include one base load coal generation facility and a gas generation project and two hydro generation projects. Additionally, one solar generation project was 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 year 2020.

NOTE 11 – 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 12 – 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 13 – 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, 2019 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 14 – 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, 2019 and 2018.

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 14 – 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, 2019

NET REVENUES		
Operating Revenues		$ 52,454,104
Less: Operating Expenses		
Operations	$ (48,941,379)	
Maintenance	(41,045)	
Administration and General	(1,997,732)	
Total		(50,980,156)
Plus:		
Investment and miscellaneous income		263,893
Less:		
Pension payments made 7/1/18 to 6/30/19	(452,054)	
Add GASB 68 pension expense	450,922	
Total		(1,132)
TOTAL NET REVENUES, AS DEFINED		$ 1,736,709
DEBT SERVICE		$ 1,417,953
COVERAGE OF DEBT SERVICE BY NET REVENUES		122%

NOTE 14 – AGGREGATE BOND SERVICE COVERAGE (cont.)

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 expense	(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 7/1/16 to 6/30/17	(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%

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

NOTE 15 – SIGNIFICANT CUSTOMERS

The Agency has three members who are considered significant customers. These members accounted for 95% of operating revenues for years ended June 30, 2019 and 2018.

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, 2019

	2019	2018	2017	2016	2015
Total Pension Liability					
Service cost	$ 43,663	$ 40,721	$ 49,447	$ 215,708	$ 251,719
Interest	1,030,977	1,011,978	1,118,827	1,113,807	1,048,428
Changes of benefit terms	-	-	-	-	-
Difference between expected and actual experience	3,410	(20,360)	(2,240,529)	(359,251)	-
Changes of assumptions	-	-	-	559,563	-
Benefit payments including employee refunds	(886,362)	(756,243)	(1,388,901)	(546,321)	(449,023)
Other	33,259	32,645	770,492	34,805	32,764
Net Change in Total Pension Liability	224,947	308,741	(1,690,664)	1,018,311	883,888
Total Pension Liability beginning	13,724,279	13,415,538	15,106,202	14,087,891	13,204,003
Total Pension Liability ending	$ 13,949,226	$ 13,724,279	$ 13,415,538	$ 15,106,202	$ 14,087,891
Plan Fiduciary Net Position					
Contributions-employer	$ 518,926	$ 664,832	$ 758,929	$ 716,430	715,363
Contributions-employee	-	-	-	-	-
Net Investment income	(550,778)	1,681,314	1,345,778	(185,247)	707,308
Benefit payments including employee refunds	(886,362)	(756,243)	(1,388,901)	(546,321)	(449,023)
Administrative expense	(27,436)	(26,590)	(26,517)	(26,658)	(26,134)
Net Change in Plan Fiduciary Net Position	(945,650)	1,563,313	689,289	(41,796)	947,514
Plan Fiduciary Net Position beginning	14,210,015	12,646,702	11,957,413	11,999,209	11,051,695
Plan Fiduciary Net Position ending	$ 13,264,365	$ 14,210,015	$ 12,646,702	$ 11,957,413	$ 11,999,209
Employer Net Pension Liability (Asset)	$ 684,861	$ (485,736)	$ 768,836	$ 3,148,789	$ 2,088,682
Plan Fiduciary Net Position as a percentage of the Total Pension Liability	95.1%	103.5%	94.3%	79.2%	85.2%
Covered Employee Payroll	545,546	694,398	1,909,529	3,347,364	3,582,831
Employer's Net Pension Liability (Asset) as a percentage of covered employee payroll	125.5%	-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, 2019

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%
6/30/19	135,641	415,138	(279,497)	517,539	80%

NOTES TO SCHEDULE
For the Year Ended June 30, 2019

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.