

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

| | | | | | | | |
|--|--|--------------------------------|--|--|--|------------------|--|
| Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other | | | | Local Unit Name Michigan Public Power Agency | | County Ingham | |
| Fiscal Year End December 31, 2007 | | Opinion Date April 28, 2008 | | Date Audit Report Submitted to State April 30, 2008 | | | |

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

- YES NO **Check each applicable box below.** (See instructions for further detail.)
- All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
 - There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
 - The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
 - The local unit has adopted a budget for all required funds.
 - A public hearing on the budget was held in accordance with State statute.
 - The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
 - The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
 - The local unit only holds deposits/investments that comply with statutory requirements.
 - The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
 - There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
 - The local unit is free of repeated comments from previous years.
 - The audit opinion is UNQUALIFIED.
 - The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
 - The board or council approves all invoices prior to payment as required by charter or statute.
 - To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

| We have enclosed the following: | Enclosed | Not Required (enter a brief justification) | |
|--|-------------------------------------|--|------------------------------|
| Financial Statements | <input checked="" type="checkbox"/> | | |
| The letter of Comments and Recommendations | <input type="checkbox"/> | not applicable | |
| Other (Describe) | <input type="checkbox"/> | not applicable | |
| Certified Public Accountant (Firm Name) Virchow, Krause & Company, LLP | | Telephone Number (608) 249-6622 | |
| Street Address 10 Terrace Court | | City Madison | State WI |
| | | Zip 53707 | |
| Authorizing CPA Signature  | Printed Name Russell Hissom | | License Number 1101025951 |

MICHIGAN PUBLIC POWER AGENCY
Lansing, Michigan

FINANCIAL STATEMENTS

December 31, 2007

MICHIGAN PUBLIC POWER AGENCY

NOTES TO FINANCIAL STATEMENTS

December 31, 2007

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INDEPENDENT AUDITORS' REPORT

To the Board of Commissioners
Michigan Public Power Agency
Lansing, Michigan

We have audited the accompanying financial statements of the business-type activities and each major fund of Michigan Public Power Agency (MPPA) as identified in the accompanying table of contents as of and for the year ended December 31, 2007, which collectively comprise MPPA's basic financial statements. These financial statements are the responsibility of management. Our responsibility is to express opinions on these financial statements based on our audit. The prior year summarized comparative information has been derived from MPPA's 2006 financial statements and, in our report dated April 12, 2007, we expressed unqualified opinions on the respective financial statements of the business-type activities and each major fund.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to in the first paragraph present fairly, in all material respects, the respective financial position of the business-type activities and each major fund of MPPA as of December 31, 2007, and the changes in its financial position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 13, MPPA has changed its reporting for MISO gains and losses for the year ended December 31, 2007. As such, certain line items in the 2006 financial statements have been restated to be consistent with the current year presentation.

The Management's Discussion and Analysis on pages 3 – 9 is not a required part of the basic financial statements, but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures that consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

To the Board of Commissioners
Michigan Public Power Agency

Our audit was conducted for the purpose of forming an opinion on the financial statements taken as a whole. The financial information on pages 33 – 44 is presented for purposes of additional analysis and is not a required part of the financial statements of Michigan Public Power Agency. Such information for the year ended December 31, 2007 has been subjected to the auditing procedures applied in our audit of the financial statements and, in our opinion, is fairly stated in all material respects in relation to the combined financial statements taken as a whole. We have also previously audited, in accordance with auditing standards generally accepted in the United State of America, MPPA's basic financial statements for the year ended December 31, 2006, which are not presented with the accompanying financial statements. In our report dated April 12, 2007, we expressed unqualified opinions on the respective financial statements of the business-type activities and each major fund. In our opinion, the 2006 supplemental information is fairly stated in all material respects in relation to the basic financial statements for the year ended December 31, 2006, taken as a whole.

Virchow, Krause & Company, LLP

Madison, Wisconsin
April 28, 2008

**MANAGEMENT'S DISCUSSION
AND ANALYSIS**

MICHIGAN PUBLIC POWER AGENCY

MANAGEMENT'S DISCUSSION AND ANALYSIS December 31, 2007

The management of Michigan Public Power Agency (MPPA) offers all persons interested in the financial position of MPPA this narrative overview and analysis of MPPA's financial performance during the year ending December 31, 2007 and 2006. You are invited to read this narrative in conjunction with MPPA's financial statements.

FINANCIAL HIGHLIGHTS

- MPPA's total net assets increased \$110,607, or 16% from the prior year. This was due to member dues and other revenues in excess of general office operations.
 - MPPA's operating expenses in 2007 were \$13,527,000 higher than in 2006. This is a 10% increase in operating expenses from the prior year. Most of the increase was due to an increase in purchased power expense for the Dispatch Project. This cost increase was passed on to project participants resulting in an increase in operating revenues of \$10,942,000 or about 7%. The net effect was a decrease in operating income of \$2,585,000 compared to the prior year.
 - Total agency assets decreased \$12,603,000 while total liabilities decreased \$12,714,000. These are the result of normal operations including the issuance of debt, payment of debt and continuing capital asset improvements and depreciation.
-

OVERVIEW OF THE FINANCIAL STATEMENTS

Michigan Public Power Agency is a public body politic and corporate of the state of Michigan. MPPA was created in 1978 under Act 448 of the Public Acts of Michigan, 1976, as amended. The purpose of MPPA is to oversee the development and operation of various projects to supply electric power and energy to the project members. MPPA has thirteen members, each of which is a municipal corporation in the State of Michigan and owns and operates a municipal electric system.

This annual report consists of two parts: Management's Discussion and Analysis (this section) and the basic financial statements. MPPA is a self-supporting entity and follows proprietary fund reporting; accordingly, the financial statements are presented using the economic resources measurement focus and the accrual basis of accounting. Proprietary fund statements offer financial information about the activities and operations of MPPA.

The combined financial statements are designed to provide readers with a broad overview of MPPA's finances, in a manner similar to a private-sector business.

MPPA's operations consist of five power projects:

- Campbell No. 3
- Belle River
- Power Pool
- Combustion Turbine #1
- Dispatch

MICHIGAN PUBLIC POWER AGENCY

MANAGEMENT'S DISCUSSION AND ANALYSIS December 31, 2007

OVERVIEW OF THE FINANCIAL STATEMENTS (cont.)

In addition, MPPA members share in the administrative and general costs incurred to operate these projects.

It is very important to note however that due to contractual arrangements, which are the basis of each power project, no monies can be shared between projects. The cash flow of one power project, although combined with all others in the combined financial statement presentation as required by financial reporting rules, cannot and should not be considered available for any other project. Great care should be exercised in evaluating the financial condition of MPPA as a combined entity from the use of the Combined Financial Statements.

- The Combined Statement of Revenues, Expenses, and Changes in Net Assets presents information showing how MPPA's net assets changed during the most recent year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.
 - The Combined Statement of Cash Flows report the cash provided and used by operating activities, as well as other cash sources such as investment income and cash payments for repayment of bonds and capital additions.
 - The notes provide additional information that is essential to a full understanding of the data provided in the financial statements. The notes to the financial statements can be found beginning on page 15 of this report.
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MPPA FINANCIAL ANALYSIS

An analysis of MPPA's financial position begins with a review of the Balance Sheet, and the Statement of Revenues, Expenses and Changes in Net Assets report information. These two statements report MPPA's net assets and changes therein. As noted earlier, great care must be taken when evaluating MPPA's financial position and results of operations when using the combined financial presentations due to the legal separation that must be maintained between projects. However, broad patterns and trends may be observed at this level that should lead the reader to study carefully the financial statements of each project.

A summary of MPPA's Combined Balance Sheet is presented below in Table 1. The Combined Statement of Revenues, Expenses and Changes in Net Assets is summarized in Table 2.

MICHIGAN PUBLIC POWER AGENCY

MANAGEMENT'S DISCUSSION AND ANALYSIS December 31, 2007

MPPA FINANCIAL ANALYSIS (cont.)

Table 1
Condensed Balance Sheet

| | <u>2007</u> | <u>Restated 2006</u> |
|---|-----------------------|--------------------------|
| Current assets | \$ 133,152,303 | \$ 141,926,154 |
| Restricted assets | 35,400,745 | 39,754,471 |
| Non-current assets | | |
| Capital assets | 240,504,801 | 239,569,908 |
| Other assets | <u>2,482,953</u> | <u>2,893,591</u> |
| Total Assets | <u>\$ 411,540,802</u> | <u>\$ 424,144,124</u> |
| Current liabilities | \$ 44,729,853 | \$ 42,976,212 |
| Non-current liabilities | | |
| Deferred revenue to be recognized in future periods | 92,623,805 | 86,717,772 |
| Member Capital | 5,757,573 | 5,653,274 |
| Revenue bonds payable, less current portion | <u>267,631,321</u> | <u>288,109,223</u> |
| Total Liabilities | <u>410,742,552</u> | <u>423,456,481</u> |
| Net assets | | |
| Invested in capital assets, net of related debt | (44,198,567) | (58,980,424) |
| Restricted | 28,059,557 | 26,650,001 |
| Unrestricted | <u>16,937,260</u> | <u>33,018,066</u> |
| Total Net Assets | <u>798,250</u> | <u>687,643</u> |
| Total Liabilities and Net Assets | <u>\$ 411,540,802</u> | <u>\$ 424,144,124</u> |

MICHIGAN PUBLIC POWER AGENCY

MANAGEMENT'S DISCUSSION AND ANALYSIS December 31, 2007

MPPA FINANCIAL ANALYSIS (cont.)

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

| | <u>2007</u> | <u>Restated 2006</u> |
|---|---------------------|--------------------------|
| Operating Revenues | \$ 163,433,505 | \$ 152,491,130 |
| Non-Operating Revenues | 7,934,961 | 25,045,233 |
| Total Revenues | <u>171,368,466</u> | <u>177,536,363</u> |
| Depreciation Expense | 14,753,803 | 14,390,325 |
| Other Operating Expenses | 127,761,875 | 114,598,365 |
| Non-Operating Expenses | 14,244,938 | 15,013,922 |
| Total Expenses | <u>156,760,616</u> | <u>144,002,612</u> |
| Income Before Deferred Revenue | 14,607,850 | 33,533,751 |
| Deferred Revenue to be Recognized in Future Periods Net of Deferred Revenue Recognized in Current Period | <u>(14,497,243)</u> | <u>(33,405,170)</u> |
| Changes in Net Assets | 110,607 | 128,581 |
| Beginning Net Assets | <u>687,643</u> | <u>559,062</u> |
| Ending Net Assets | <u>\$ 798,250</u> | <u>\$ 687,643</u> |

MPPA uses fund accounting, Federal Energy Regulatory Commission accounting and special utility industry terminology to ensure and demonstrate compliance with finance-related legal requirements.

Campbell No. 3 Project

MPPA jointly owns and operates the Campbell Unit No. 3 electric generation facility with Consumer's Energy. Ten of MPPA's members participate in this project, consisting of a 4.8% undivided ownership interest in the coal-fired generating plant in Ottawa County, Michigan. Operating revenues for 2007 increased by 2% compared to 2006. During the same time period the cost of generated and purchased power decreased by 1%.

Belle River Project

With 11 of the member communities participating in this project, MPPA jointly owns and operates the Belle River Power Plant with Detroit Edison. MPPA has a 37.22% undivided ownership interest in Belle River Unit No.1, a coal-fired electric generating unit located in St. Clair County, Michigan. Operating expenses decreased by 2% from 2006 to 2007. Sales to participants decreased 5%.

MICHIGAN PUBLIC POWER AGENCY

MANAGEMENT'S DISCUSSION AND ANALYSIS December 31, 2007

MPPA FINANCIAL ANALYSIS (cont.)

Power Pool Project

The Power Pool Project was established to allow member communities to pool their generating resources and electric loads. The Power Pool uses economic dispatch principles in determining the moment-by-moment output of generating resources, along with any purchases of energy from third party resources, so as to obtain the lowest overall electric energy cost for the Power Pool that is reasonably attainable at any given point in time. The group experienced a 1% increase in sales and a corresponding 2% increase in operating expenses in 2007 compared to 2006. For 2007 purchased power made up 96% of the Power Pool operating costs. For 2007, the operating revenues of the Power Pool project exceeded the operating costs resulting in the deferral of revenue to future periods.

Combustion Turbine #1 Project

MPPA owns and operates the Combustion Turbine #1 Project (CT Project) for the benefit of five of its members. The CT Project is a natural-gas fired combustion turbine peaking generating unit which began producing power in 2002. For the year ended December 31, 2007 this project reported \$275,424 of deferred revenues to be recognized in a future period.

Dispatch Project

The dispatch project is setup to facilitate the purchase of capacity and energy from third parties for sale to certain MPPA members. The activity was for the benefit of two members of MPPA in 2007 and one member in 2006.

Transmission Project

All current members of MPPA participate in this project. The members of MPPA provided the initial capital needed to purchase an undivided interest in the transmission grid. This has lowered the transmission cost to MPPA and its members.

General Office Operations

MPPA accounts for the general office operations that cannot be attributed to any one specific project in an internal service fund. Member dues are based on the annual budgeted operating costs, with a portion of the operating costs allocated to each project as overhead. The income for the General Office Operations fund was \$110,607 in 2007 compared to an income of \$128,581 in 2006.

In addition, MPPA's Board directed MPPA to create a number of Service Committees in 2007. These Service Committees perform the function of easing the process of studying potential projects. The Service Committee also provides a venue for municipal utilities that are not MPPA members to participate in activities that do not require financing or the acquisition of assets. The Service Committees are treated as separate sub accounts under the General Office for accounting purposes.

MICHIGAN PUBLIC POWER AGENCY

MANAGEMENT'S DISCUSSION AND ANALYSIS December 31, 2007

CAPITAL ASSETS

MPPA's investment in capital assets as of December 31, 2007 amounts to \$240,505,000 (net of accumulated depreciation). This investment in capital assets includes investment in plants, transmission systems, land, buildings, improvements, machinery and equipment. MPPA's total net investment in capital assets for the year was virtually unchanged from the previous year. Each project contributed to this differently. The Campbell No. 3 Project net investment in capital assets increased by 14% with increased plant improvement initiatives and annual depreciation. The net investment in capital assets for the other projects declined primarily as a result of annual depreciation.

LONG-TERM DEBT

At December 31, 2007, MPPA had total liabilities outstanding of \$410,743,000 of which \$287,186,000 represents bond payments payable. These remaining principal payments on long-term debt, including current amounts due, are as follows:

| | |
|-------------------------------|-----------------------|
| Campbell No. 3 Project | \$ 26,614,000 |
| Belle River Project | 229,397,000 |
| Combustion Turbine #1 Project | <u>31,175,000</u> |
| Total | <u>\$ 287,186,000</u> |

See Note 6 for additional details.

ECONOMIC CONDITIONS

The 2007 budget was adopted amid a steady national economy, but with a relatively weak state economy. The member-cities' economies have shown varying amounts of growth in both demand and energy. In order to assist its members in meeting their future power supply requirements, MPPA performs annual planning reviews of load and resource projections for all of its members that request such service. These projections are utilized in preparing the annual budgets and evaluating the need for future capital projects. Because MPPA's members are billed based on actual costs, revenues will fluctuate with operating costs rather than be determined by any set rates.

MICHIGAN PUBLIC POWER AGENCY

MANAGEMENT'S DISCUSSION AND ANALYSIS December 31, 2007

CURRENTLY KNOWN FACTS

MPPA's transmission agreements have undergone changes over the past several years. Consumers' Energy has transferred its transmission assets to Michigan Electric Transmission Company (METC), a subsidiary of Consumer's Energy. MPPA undertook legal action that resulted in settlement agreements which require that MPPA's rights under the Consumers transmission Agreement will be honored and performed by METC, or any subsequent purchaser of METC or a substantial portion of the transmission facilities. The settlement agreement also provided for the purchase of additional transmission assets by MPPA. MPPA closed on this purchase in February, 2006, and is now receiving the benefits of this new purchase on behalf of its members. Also in 2006, ITC Holdings, the parent of ITC, purchased the assets of METC. As of the date of this report, MPPA has seen no change in its treatment or failure of ITC to honor the agreements with MPPA that were transferred to ITC. Detroit Edison has transferred its transmission system to ITC. MPPA's agreements with Detroit Edison have been assigned by ITC.

CONTACTING MPPA'S FINANCIAL MANAGEMENT

This financial report is designed to provide our customers, investors and creditors with a general overview of MPPA's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to Michigan Public Power Agency, 809 Centennial Way, Lansing, MI 48917.

Balance Sheets Follows

MICHIGAN PUBLIC POWER AGENCY

BALANCE SHEETS

December 31, 2007

(With Comparative Totals for December 31, 2006)

ASSETS

| | Campbell No. 3 | Belle River | Power Pool | Combustion | Dispatch | Transmission | General Office | Totals | |
|---|----------------------|-----------------------|----------------------|----------------------|---------------------|---------------------|---------------------|-----------------------|-----------------------|
| | Project | Project | Project | Turbine #1 | Project | Project | Operation | 2007 | 2006 |
| CURRENT ASSETS | | | | | | | | | |
| Cash and Cash Equivalents | | | | | | | | | |
| Project account | \$ 7,350,246 | \$ 18,679,602 | \$ - | \$ - | \$ - | \$ - | \$ - | \$ 26,029,848 | \$ 30,743,675 |
| Operation and maintenance account | 1,460,881 | 7,375,875 | - | 5,230,560 | 64,920 | 981,076 | - | 15,113,312 | 17,155,183 |
| Operation and maintenance reserve account | 250,000 | - | - | - | - | - | - | 250,000 | 250,000 |
| Fuel reserve account | 800,000 | - | - | - | - | - | - | 800,000 | 800,000 |
| Other | - | - | 8,243,286 | - | - | - | 549,354 | 8,792,640 | 8,080,496 |
| Total Cash and Cash Equivalents | 9,861,127 | 26,055,477 | 8,243,286 | 5,230,560 | 64,920 | 981,076 | 549,354 | 50,985,800 | 57,029,354 |
| Investments - Project Account | | | | | | | | | |
| US Government Agency notes | - | 60,904,220 | - | - | - | - | - | 60,904,220 | 64,139,887 |
| Accrued interest receivable | 10,605 | 770,729 | - | 6,296 | - | - | - | 787,630 | 1,017,915 |
| Accounts receivable | 611,124 | 3,870,129 | 5,647,561 | 533,091 | 967,670 | 12,393 | 42,913 | 11,684,881 | 11,054,526 |
| Fuel inventory | 1,045,260 | 4,422,740 | - | 337,963 | - | - | - | 5,805,963 | 5,880,185 |
| Materials and supplies inventory | - | 2,745,660 | - | 238,149 | - | - | - | 2,983,809 | 2,804,287 |
| Total Current Assets | 11,528,116 | 98,768,955 | 13,890,847 | 6,346,059 | 1,032,590 | 993,469 | 592,267 | 133,152,303 | 141,926,154 |
| RESTRICTED ASSETS | | | | | | | | | |
| Debt service account | 3,553,447 | 21,661,370 | - | 1,754,948 | - | - | - | 26,969,765 | 26,424,394 |
| Construction account | - | - | - | - | - | - | - | - | 5,315,300 |
| Reserve and contingency account | - | 8,416,245 | - | - | - | - | - | 8,416,245 | 8,000,001 |
| Scholarship fund | - | - | - | - | - | - | 14,735 | 14,735 | 14,776 |
| Total Restricted Assets | 3,553,447 | 30,077,615 | - | 1,754,948 | - | - | 14,735 | 35,400,745 | 39,754,471 |
| NON-CURRENT ASSETS | | | | | | | | | |
| Capital Assets | | | | | | | | | |
| Utility plant in service | 57,823,155 | 462,115,818 | 2,505,694 | 29,549,809 | - | 3,335,511 | 1,274,015 | 556,604,002 | 540,971,929 |
| Allowance for depreciation | (26,534,427) | (281,945,212) | (2,498,108) | (4,566,234) | - | (41,583) | (513,637) | (316,099,201) | (301,402,021) |
| Total Capital Assets | 31,288,728 | 180,170,606 | 7,586 | 24,983,575 | - | 3,293,928 | 760,378 | 240,504,801 | 239,569,908 |
| Other Assets | | | | | | | | | |
| Deferred bond issue costs - net | 301,748 | 1,566,867 | - | 614,338 | - | - | - | 2,482,953 | 2,893,591 |
| Prepaid long-term lease (deferred obligation) | - | 226,000 | - | - | - | - | (226,000) | - | - |
| Total Non-Current Assets | 31,590,476 | 181,963,473 | 7,586 | 25,597,913 | - | 3,293,928 | 534,378 | 242,987,754 | 242,463,499 |
| TOTAL ASSETS | \$ 46,672,039 | \$ 310,810,043 | \$ 13,898,433 | \$ 33,698,920 | \$ 1,032,590 | \$ 4,287,397 | \$ 1,141,380 | \$ 411,540,802 | \$ 424,144,124 |

MICHIGAN PUBLIC POWER AGENCY

BALANCE SHEETS

December 31, 2007

(With Comparative Totals for December 31, 2006)

| | LIABILITIES AND NET ASSETS | | | | | | | Totals | |
|---|-----------------------------------|--------------------------------|-------------------------------|----------------------------------|-----------------------------|---------------------------------|-------------------------------------|----------------|----------------|
| | <u>Campbell No. 3 Project</u> | <u>Belle River Project</u> | <u>Power Pool Project</u> | <u>Combustion Turbine #1</u> | <u>Dispatch Project</u> | <u>Transmission Project</u> | <u>General Office Operation</u> | <u>2007</u> | <u>2006</u> |
| CURRENT LIABILITIES | | | | | | | | | |
| Accounts payable and accrued expenses | \$ 426,119 | \$ 6,190,216 | \$ 8,932,479 | \$ 238,911 | \$ 999,902 | \$ 717,643 | \$ 328,395 | \$ 17,833,665 | \$ 16,537,042 |
| Current Liabilities Payable from Restricted Assets | | | | | | | | | |
| Accrued interest payable | 616,688 | 5,905,390 | - | 804,375 | - | - | - | 7,326,453 | 7,774,394 |
| Current portion of revenue bonds | 2,925,000 | 15,685,000 | - | 945,000 | - | - | - | 19,555,000 | 18,650,000 |
| Scholarship fund | - | - | - | - | - | - | 14,735 | 14,735 | 14,776 |
| Total Current Liabilities Payable from Restricted Assets | 3,541,688 | 21,590,390 | - | 1,749,375 | - | - | 14,735 | 26,896,188 | 26,439,170 |
| Total Current Liabilities | 3,967,807 | 27,780,606 | 8,932,479 | 1,988,286 | 999,902 | 717,643 | 343,130 | 44,729,853 | 42,976,212 |
| NON-CURRENT LIABILITIES | | | | | | | | | |
| Deferred revenue to be recognized in future periods | 19,014,864 | 69,317,784 | 2,543,892 | 1,480,334 | 32,688 | 234,243 | - | 92,623,805 | 86,717,772 |
| Capital contribution of members | - | - | 2,422,062 | - | - | 3,335,511 | - | 5,757,573 | 5,653,274 |
| Revenue bonds payable, less current portion | 23,689,368 | 213,711,653 | - | 30,230,300 | - | - | - | 267,631,321 | 288,109,223 |
| Total Non-Current Liabilities | 42,704,232 | 283,029,437 | 4,965,954 | 31,710,634 | 32,688 | 3,569,754 | - | 366,012,699 | 380,480,269 |
| Total Liabilities | 46,672,039 | 310,810,043 | 13,898,433 | 33,698,920 | 1,032,590 | 4,287,397 | 343,130 | 410,742,552 | 423,456,481 |
| NET ASSETS | | | | | | | | | |
| Invested in capital assets, net of related debt and obligations | 4,976,108 | (47,433,180) | 7,586 | (5,577,387) | - | 3,293,928 | 534,378 | (44,198,567) | (58,980,424) |
| Restricted | 2,936,759 | 24,172,225 | - | 950,573 | - | - | - | 28,059,557 | 26,650,001 |
| Unrestricted | (7,912,867) | 23,260,955 | (7,586) | 4,626,814 | - | (3,293,928) | 263,872 | 16,937,260 | 33,018,066 |
| Total Net Assets | - | - | - | - | - | - | 798,250 | 798,250 | 687,643 |
| TOTAL LIABILITIES AND NET ASSETS | \$ 46,672,039 | \$ 310,810,043 | \$ 13,898,433 | \$ 33,698,920 | \$ 1,032,590 | \$ 4,287,397 | \$ 1,141,380 | \$ 411,540,802 | \$ 424,144,124 |

See accompanying notes to financial statements.

MICHIGAN PUBLIC POWER AGENCY

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
 Year Ended December 31, 2007
 (With Comparative Totals for the Year Ended December 31, 2006)

| | Campbell No. 3 Project | Belle River Project | Power Pool Project | Combustion Turbine No.1 | Dispatch Project | Transmission Project | General Office Operation | Totals | |
|---|---------------------------|------------------------|-----------------------|----------------------------|---------------------|-------------------------|-----------------------------|--------------------|--------------------|
| | | | | | | | | 2007 | Restated 2006 |
| OPERATING REVENUES | | | | | | | | | |
| Sales to participants | \$ 17,072,163 | \$ 66,210,211 | \$ 57,876,819 | \$ 6,116,504 | \$ 14,088,468 | \$ 1,090,124 | \$ - | \$ 162,454,289 | \$ 151,634,993 |
| Allowances for sellbacks | - | (2,200,080) | - | - | - | (3,086,721) | - | (5,286,801) | (3,209,629) |
| Net sales to participants | 17,072,163 | 64,010,131 | 57,876,819 | 6,116,504 | 14,088,468 | (1,996,597) | - | 157,167,488 | 148,425,364 |
| Sales of excess transmission | - | 2,200,080 | - | - | - | 3,117,921 | - | 5,318,001 | 3,260,069 |
| Other | - | - | - | - | - | - | 948,016 | 948,016 | 805,697 |
| Total Operating Revenues | <u>17,072,163</u> | <u>66,210,211</u> | <u>57,876,819</u> | <u>6,116,504</u> | <u>14,088,468</u> | <u>1,121,324</u> | <u>948,016</u> | <u>163,433,505</u> | <u>152,491,130</u> |
| OPERATING EXPENSES | | | | | | | | | |
| Cost of Power | | | | | | | | | |
| Production | 4,197,686 | 31,938,432 | - | 2,513,867 | - | - | - | 38,649,985 | 38,609,738 |
| Purchased | 7,298,103 | 393,100 | 55,148,961 | - | 13,952,268 | - | - | 76,792,432 | 62,559,917 |
| Total Cost of Power | 11,495,789 | 32,331,532 | 55,148,961 | 2,513,867 | 13,952,268 | - | - | 115,442,417 | 101,169,655 |
| Transmission | 210,684 | 1,411,261 | 1,140,805 | 191,999 | 2,530 | 1,074,459 | - | 4,031,738 | 2,737,051 |
| General and administrative | 820,735 | 4,370,210 | 1,296,283 | 780,350 | 134,285 | 46,865 | 838,992 | 8,287,720 | 10,691,659 |
| Depreciation | 1,660,662 | 12,039,760 | 2,355 | 987,897 | - | 22,681 | 40,448 | 14,753,803 | 14,390,325 |
| Total Operating Expenses | <u>14,187,870</u> | <u>50,152,763</u> | <u>57,588,404</u> | <u>4,474,113</u> | <u>14,089,083</u> | <u>1,144,005</u> | <u>879,440</u> | <u>142,515,678</u> | <u>128,988,690</u> |
| Operating Income (Loss) | <u>2,884,293</u> | <u>16,057,448</u> | <u>288,415</u> | <u>1,642,391</u> | <u>(615)</u> | <u>(22,681)</u> | <u>68,576</u> | <u>20,917,827</u> | <u>23,502,440</u> |
| NONOPERATING REVENUES (EXPENSES) | | | | | | | | | |
| Interest cost incurred | (1,233,375) | (11,810,780) | (104,299) | (1,608,750) | - | - | - | (14,757,204) | (15,627,906) |
| Amortization of financing-related costs | (140,981) | 711,412 | - | (58,165) | - | - | - | 512,266 | 613,984 |
| Investment income | 658,621 | 5,000,988 | 335,390 | 299,948 | 26,287 | 42,616 | 42,031 | 6,405,881 | 7,093,645 |
| Net change in fair value of investments | - | 1,253,578 | - | - | - | - | - | 1,253,578 | 109,659 |
| Sale of emissions | 211,382 | 64,120 | - | - | - | - | - | 275,502 | 17,841,929 |
| Total Nonoperating Revenues (Expenses) | <u>(504,353)</u> | <u>(4,780,682)</u> | <u>231,091</u> | <u>(1,366,967)</u> | <u>26,287</u> | <u>42,616</u> | <u>42,031</u> | <u>(6,309,977)</u> | <u>10,031,311</u> |
| Income (Loss) Before Deferred Revenue | 2,379,940 | 11,276,766 | 519,506 | 275,424 | 25,672 | 19,935 | 110,607 | 14,607,850 | 33,533,751 |
| Deferred revenue to be recognized in future periods | (2,379,940) | (11,276,766) | (519,506) | (275,424) | (25,672) | (19,935) | - | (14,497,243) | (33,405,170) |
| | | | | | | | | 110,607 | 128,581 |
| CHANGE IN NET ASSETS | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>110,607</u> | | |
| NET ASSETS - Beginning of Year | | | | | | | <u>687,643</u> | <u>687,643</u> | <u>559,062</u> |
| NET ASSETS - END OF YEAR | | | | | | | <u>\$ 798,250</u> | <u>\$ 798,250</u> | <u>\$ 687,643</u> |

See accompanying notes to financial statements.

Statements of Cash Flows Follows

MICHIGAN PUBLIC POWER AGENCY

STATEMENTS OF CASH FLOWS
Year Ended December 31, 2007

(With Comparative Totals for the Year Ended December 31, 2006)

| | Campbell No. 3 Project | Belle River Project | Power Pool Project | Combustion Turbine #1 | Dispatch Project | Transmission Project | General Office Operation | Totals | |
|---|---------------------------|------------------------|-----------------------|--------------------------|---------------------|-------------------------|-----------------------------|----------------------|----------------------|
| | | | | | | | | 2007 | Restated 2006 |
| CASH FLOWS FROM OPERATING ACTIVITIES | | | | | | | | | |
| Received from customers | \$ 17,641,996 | \$ 53,864,532 | \$ 61,635,163 | \$ 6,047,895 | \$ 13,608,636 | \$ 1,229,449 | \$ 926,392 | \$ 154,954,063 | \$ 128,123,793 |
| Paid to suppliers for goods and services | (14,807,060) | (36,693,930) | (60,757,596) | (3,386,433) | (13,540,974) | (969,285) | (285,098) | (130,440,376) | (102,057,075) |
| Paid to employees for services | (115,219) | (275,556) | (374,973) | (234,182) | (51,007) | (11,627) | (335,164) | (1,397,728) | (1,104,052) |
| Net Cash Flows From Operating Activities: | <u>2,719,717</u> | <u>16,895,046</u> | <u>502,594</u> | <u>2,427,280</u> | <u>16,655</u> | <u>248,537</u> | <u>306,130</u> | <u>23,115,959</u> | <u>24,962,666</u> |
| CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES | | | | | | | | | |
| Acquisition and construction of utility plant | (5,572,330) | (5,036,995) | (1,787) | (115,024) | - | - | - | (10,726,136) | (16,419,577) |
| Sale of emissions | 211,382 | 64,120 | - | - | - | - | - | 275,502 | - |
| Capital contributions of participating members | - | - | 104,299 | - | - | - | - | 104,299 | 860,363 |
| Principal payment on revenue bonds | (2,770,000) | (14,975,000) | - | (905,000) | - | - | - | (18,650,000) | (17,765,000) |
| Interest paid on revenue bonds | (1,309,550) | (12,163,880) | - | (1,627,416) | - | - | - | (15,100,846) | (15,734,555) |
| Other | - | 24,000 | (104,299) | - | - | - | (472,214) | (552,513) | (137,800) |
| Net Cash Flows From Capital and Related Financing Activities | <u>(9,440,498)</u> | <u>(32,087,755)</u> | <u>(1,787)</u> | <u>(2,647,440)</u> | <u>-</u> | <u>-</u> | <u>(472,214)</u> | <u>(44,649,694)</u> | <u>(49,196,569)</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | | | | | | | |
| Long-term investments purchased | - | (8,999,670) | - | - | - | - | - | (8,999,670) | (2,999,900) |
| Long-term investments sold | - | 13,500,000 | - | - | - | - | - | 13,500,000 | 4,000,000 |
| Investment income | <u>687,057</u> | <u>5,201,669</u> | <u>335,390</u> | <u>301,116</u> | <u>26,287</u> | <u>42,616</u> | <u>41,990</u> | <u>6,636,125</u> | <u>6,945,412</u> |
| Net Cash Flows From Investing Activities | <u>687,057</u> | <u>9,701,999</u> | <u>335,390</u> | <u>301,116</u> | <u>26,287</u> | <u>42,616</u> | <u>41,990</u> | <u>11,136,455</u> | <u>7,945,512</u> |
| Net Change in Cash and Cash Equivalents | <u>(6,033,724)</u> | <u>(5,490,710)</u> | <u>836,197</u> | <u>80,956</u> | <u>42,942</u> | <u>291,153</u> | <u>(124,094)</u> | <u>(10,397,280)</u> | <u>11,086,103</u> |
| CASH AND CASH EQUIVALENTS - Beginning of Year | <u>19,448,298</u> | <u>61,623,802</u> | <u>7,407,089</u> | <u>6,904,552</u> | <u>21,978</u> | <u>689,923</u> | <u>688,183</u> | <u>96,783,825</u> | <u>85,697,722</u> |
| CASH AND CASH EQUIVALENTS - END OF YEAR | <u>\$ 13,414,574</u> | <u>\$ 56,133,092</u> | <u>\$ 8,243,286</u> | <u>\$ 6,985,508</u> | <u>\$ 64,920</u> | <u>\$ 981,076</u> | <u>\$ 564,089</u> | <u>\$ 86,386,545</u> | <u>\$ 96,783,825</u> |

MICHIGAN PUBLIC POWER AGENCY

STATEMENTS OF CASH FLOWS
Year Ended December 31, 2007

(With Comparative Totals for the Year Ended December 31, 2006)

| | Campbell No. 3 Project | Belle River Project | Power Pool Project | Combustion Turbine #1 | Dispatch Project | Transmission Project | General Office Operation | Totals | |
|--|---------------------------|------------------------|-----------------------|--------------------------|---------------------|-------------------------|-----------------------------|----------------------|----------------------|
| | | | | | | | | 2007 | Restated 2006 |
| RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH FLOWS FROM OPERATING ACTIVITIES | | | | | | | | | |
| Operating income (loss) | \$ 2,884,293 | \$ 16,057,448 | \$ 288,415 | \$ 1,642,391 | \$ (615) | \$ (22,681) | \$ 68,576 | \$ 20,917,827 | \$ 23,502,440 |
| Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities | | | | | | | | | |
| Depreciation | 1,660,662 | 12,039,760 | 2,355 | 987,897 | - | 22,681 | 40,448 | 14,753,803 | 14,390,325 |
| Changes in assets and liabilities | | | | | | | | | |
| Accounts receivable | 781,216 | (4,719,059) | 3,758,344 | (68,609) | (479,832) | 108,125 | (21,624) | (641,439) | (1,474,719) |
| Fuel inventory | (241,435) | 469,716 | - | (154,058) | - | - | - | 74,223 | 388,587 |
| Materials and supplies inventory | - | (175,211) | - | (4,311) | - | - | - | (179,522) | (105,443) |
| Deferred revenue | (211,382) | (7,626,620) | - | - | - | - | - | (7,838,002) | (22,151,869) |
| Accounts payable and accrued expense | (2,153,637) | 849,012 | (3,546,520) | 23,970 | 497,102 | 140,412 | 218,730 | (3,970,931) | 10,413,345 |
| NET CASH FLOWS FROM OPERATING ACTIVITIES | \$ 2,719,717 | \$ 16,895,046 | \$ 502,594 | \$ 2,427,280 | \$ 16,655 | \$ 248,537 | \$ 306,130 | \$ 23,115,959 | \$ 24,962,666 |
| RECONCILIATION OF CASH AND CASH EQUIVALENTS TO THE BALANCE SHEET | | | | | | | | | |
| Current Assets | \$ 9,861,127 | \$ 26,055,477 | \$ 8,243,286 | \$ 5,230,560 | \$ 64,920 | \$ 981,076 | \$ 549,354 | \$ 50,985,800 | \$ 57,029,354 |
| Restricted Assets | 3,553,447 | 30,077,615 | - | 1,754,948 | - | - | 14,735 | 35,400,745 | 39,754,471 |
| TOTAL CASH AND CASH EQUIVALENTS | \$ 13,414,574 | \$ 56,133,092 | \$ 8,243,286 | \$ 6,985,508 | \$ 64,920 | \$ 981,076 | \$ 564,089 | \$ 86,386,545 | \$ 96,783,825 |

MICHIGAN PUBLIC POWER AGENCY

NOTES TO FINANCIAL STATEMENTS December 31, 2007

NOTE 1 – NATURE OF OPERATIONS

Michigan Public Power Agency (MPPA) is a public body politic and corporate of the state of Michigan created in 1978 under Act 448 of the Public Acts of Michigan, 1976, as amended. MPPA was formed to undertake the planning, financing, development, acquisition, construction, improvement, operation and maintenance of projects to supply electric power and energy for the present or future needs of its members. Each MPPA member is a municipal corporation organized under the laws of the state of Michigan and owns and operates a municipal electric system. Of MPPA's thirteen members as of December 31, 2007, ten are participants in the Campbell No. 3 Project, eleven are participants in the Belle River Project, eight are participants in the Power Pool Project, five are participants in the Combustion Turbine No.1 Project, two participates in the Dispatch Project and all participate in the Transmission Project.

BASIS OF PRESENTATION

The financial activities of MPPA are recorded in separate proprietary funds described as follows:

Enterprise Funds

The Campbell No. 3, Belle River, Power Pool Project, Combustion Turbine No. 1, Dispatch and Transmission Funds account for the financing and operation of MPPA's interest in the respective projects, where costs are recovered through participant charges. The accounts of these Funds are maintained in accordance with the Uniform System of Accounts of the Federal Energy Regulatory Commission.

General Office Operations Fund

The General Office Operation Fund accounts for financing, through participant charges, the general and administrative activities of MPPA not related to any specific electric power supply project.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the utility's financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Utilities also have the option of following subsequent private-sector guidance subject to this same limitation. In addition, MPPA meets the criteria and, accordingly, follows the accounting and reporting requirements of Statement of Financial Accounting Standards (FAS) No. 71, "Accounting for the Effects of Certain Types of Regulation."

As required by GASB Statement No. 34, net assets are classified into three components – invested in capital assets, net of related debt; restricted; and unrestricted. These classifications are defined as follows:

- *Invested in capital assets, net of related debt and other obligations* – This component of net assets consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, obligations, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. If there are significant unspent related debt proceeds at year-end, the portion of the debt attributable to the unspent proceeds are not included in the calculation of invested in capital assets, net of related debt. Rather, that portion of the debt is included in the same net assets component as the unspent proceeds.

MICHIGAN PUBLIC POWER AGENCY

NOTES TO FINANCIAL STATEMENTS December 31, 2007

NOTE 1 – NATURE OF OPERATIONS (cont.)

BASIS OF PRESENTATION (cont.)

- *Restricted* – This component of net assets 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* – This component of net assets consists of net assets that do not meet the definition of “restricted” or “invested in capital assets, net of related debt”.

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

The basic financial statements include certain prior-year summarized comparative information in total but not at the level of detail required for a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with MPPA’s financial statements for the year ended December 31, 2006, from which the summarized information was derived.

BUDGETARY ACCOUNTING

The Board of Commissioners of MPPA adopts an operating budget each year for all funds, on the same basis of accounting used to reflect actual revenues and expenses in the financial statements. The General Manager exercises budgetary control.

USE OF ESTIMATES

Preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reported period. Actual results could differ from those estimates.

OPERATING REVENUES

MPPA distinguishes operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with MPPA’s principal ongoing operations. The principal operating revenues of MPPA are charges to members for sales and services. Operating expenses for MPPA include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

MICHIGAN PUBLIC POWER AGENCY

NOTES TO FINANCIAL STATEMENTS December 31, 2007

NOTE 1 – NATURE OF OPERATIONS (cont.)

UTILITY PLANT

Additions to and replacements of utility plant are recorded at original cost including an allowance for borrowed funds. Depreciation is recorded using the straight-line method using service lives of three to 54 years. The agency capitalizes assets with a cost greater than \$500.

Interest is capitalized on utility property acquired with tax-exempt debt. The amount of interest to be capitalized is calculated by offsetting interest expense incurred from the date of the borrowing until completion of the project with interest earned on invested proceeds over the same period.

INVENTORIES

Fuel inventories for the Belle River Project, Campbell No. 3 Project and the Combustion Turbine No. 1 Project are stated at average cost. The materials and supplies inventory is stated at average cost.

CASH EQUIVALENTS

For purposes of the statement of cash flows, cash equivalents are cash and investments having an initial maturity of three months or less.

INVESTMENTS

Investments are stated at fair market value, based on quoted market prices.

DEFERRED CHARGES

Bond issuance costs, premiums and discounts are deferred and amortized over the life of the bonds based on the effective interest method. Losses on advance refundings occurring after 1993 are deferred and amortized on a straight-line basis over the repayment period of the related debt.

DEFERRED REVENUES

The Agency applies the provisions of Statement of Financial Accounting Standards (FAS) No. 71, "Accounting for the Effects of Certain Types of Regulation" (FAS No. 71). This statement recognizes the effects of operating in a regulatory environment creating future economic benefits and obligations affecting its members. Accordingly, MPPA records these future economic benefits and obligations as regulatory assets and regulatory liabilities, respectively.

Regulatory assets represent probable future revenues associated with previously incurred costs that are expected to be recovered from customers. Regulatory liabilities represent probable future reductions in revenues associated with amounts that are expected to be refunded to members through the ratemaking process.

MICHIGAN PUBLIC POWER AGENCY

NOTES TO FINANCIAL STATEMENTS December 31, 2007

NOTE 1 – NATURE OF OPERATIONS (cont.)

DEFERRED REVENUES (cont.)

In order for MPPA to continue to apply the provisions of FAS No. 71, it must continue to meet the following three criteria: (1) MPPA's rates for services provided to its customers must be established by an independent third-party regulator or its own governing board empowered by a statute to establish rates that bind customers; (2) MPPA's rates must be designed to recover its costs of providing the services; and (3) in view of the demand for the services and the level of competition, it is reasonable to assume that rates set at levels that will recover MPPA's costs can be charged to and collected from customers.

In accordance with the provisions of FAS 71, revenues collected from members in excess of operating expenses are deferred to future periods when they will be recognized as revenues.

RATES

Members are billed monthly based on estimated usage, with amounts adjusted to actual costs in future month's bills. Accrued revenues are not considered material to these financial statements.

TAXES

MPPA is exempt from State and Federal income taxes.

COMPENSATED ABSENCES

Under terms of employment, employees are granted one and one quarter day of sick leave per month. Employees can accumulate up to sixty-five days of sick leave; however there is no payment for unused sick leave upon termination of employment.

NOTE 2 – JOINT PROJECT OWNERSHIP AGREEMENTS

CAMPBELL UNIT No. 3

MPPA and Consumers Energy Company (Consumers) entered into the following agreements dated October 1, 1979, as amended, relating to Consumers' Campbell Unit No. 3 steam-electric generating unit, which went into commercial operation in September 1980:

The Campbell Ownership Agreement provides for MPPA to own a 4.8% undivided interest in Campbell Unit No. 3, for Consumers to operate Campbell Unit No. 3, for the sale of surplus electric capacity to Consumers, for operating costs of Campbell Unit No. 3 to be shared on a pro rata basis, and for MPPA to purchase an undivided ownership interest in the fuel supply for Campbell Unit No. 3.

MICHIGAN PUBLIC POWER AGENCY

NOTES TO FINANCIAL STATEMENTS December 31, 2007

NOTE 2 – JOINT PROJECT OWNERSHIP AGREEMENTS (cont.)

CAMPBELL UNIT No. 3 (cont.)

The Campbell Transmission Agreement provides for MPPA to purchase a 58.06% undivided ownership interest in Consumers' Vergennes to Kenowa-Goss 345 KV transmission line, the method of determining certain charges for utilization of the Consumers transmission system, for the sale to Consumers of planned available transmission capacity in excess of MPPA's need, and for sharing transmission line operating expenses.

The Campbell Back-Up Agreement provides for Consumers to make backup electric capacity and energy available to MPPA from its electric system reserves in the event of total or partial unavailability of capacity and energy from Campbell Unit No. 3, and for determination of the associated backup electric capacity and energy charges to MPPA.

MPPA entered into a Power Sales Contract and a Project Support Contract with each of the ten members who elected to participate in the Campbell No. 3 Project. These contracts provide for the participant to purchase from MPPA the participant's entitlement share, as defined, of the generation and transmission of the Project. Each participant also shares proportionately in the proceeds from MPPA's sale of excess generating and transmission capacity to Consumers. Each participant is obligated to pay its share of the operating and debt service costs of the Project.

BELLE RIVER UNIT No. 1

On December 1, 1982, MPPA and the Detroit Edison Company (Edison) entered into the following agreements, as amended, relating to Edison's Belle River Unit No. 1 steam-electric generating unit, part of a two-unit generating station, which went into commercial operation in August 1984:

The Belle River Participation Agreement provides for MPPA to purchase a 37.22% undivided ownership interest in Belle River Unit No. 1 and an undivided ownership interest in certain common and joint facilities associated with Belle River Unit No. 1, for MPPA to purchase an undivided ownership interest in the fuel supply stockpile, for Edison to operate Belle River Units No. 1 and 2, for the sharing of operating costs of both units, for the sale of surplus electric capacity and energy to Edison, and for backup electric capacity and energy from Edison's electric system reserves to be available in the event of total or partial unavailability of power and energy from Belle River. Pursuant to the reliability exchange provisions in the Agreement, MPPA is entitled to 18.61% of the electric capacity and energy from each of the Belle River Units No. 1 and 2.

The Belle River Transmission Ownership and Operating Agreement with Edison provides for MPPA to purchase a 50.41% undivided ownership interest in Edison's Greenwood-St. Clair-Jewell-Stephens Transmission Line and the Monroe-Wayne-Coventry-Majestic Transmission Line, for Edison to operate the transmission lines, for the sharing of operating costs and for the sale of planned excess transmission capacity to Edison.

MICHIGAN PUBLIC POWER AGENCY

NOTES TO FINANCIAL STATEMENTS December 31, 2007

NOTE 2 – JOINT PROJECT OWNERSHIP AGREEMENTS (cont.)

BELLE RIVER UNIT No. 1 (cont.)

MPPA entered into the Belle River Transmission Ownership and Operating Agreement with Consumers, dated December 1, 1982, as amended, which provides MPPA with a 90% undivided ownership interest in certain Consumers-designated transmission lines, for Consumers to operate the transmission lines, for the sharing of operating costs and for the sale to Consumers of planned excess transmission capacity, if any.

MPPA entered into a Power Sales Contract and a Project Support Contract with each of the eleven members who elected to participate in the Belle River Project. These contracts provide for the participants to purchase from MPPA their entitlement share, as defined, of generation and transmission of the Project. Each participant also shares proportionately in MPPA's sale of excess generating and transmission capacity. Each participant is obligated to pay its share of power, transmission, backup, debt service and other project-related costs.

COMBUSTION TURBINE PROJECT No. 1

In 2002, MPPA completed construction of a 50 MW (nominal nameplate rating) simple-cycle combustion turbine generating unit fueled with natural gas (the CT Project No. 1). The unit is located in Kalkaska County, Michigan. The project included construction of natural gas pipeline and metering equipment to connect to Coral Energy, LLC's (Coral) natural gas facilities, a 69 kV electrical line tap and associated equipment to deliver the output of the CT Project No. 1 to the transmission system owned by Wolverine Power Supply Cooperative (Wolverine), and an undivided ownership interest in one or more as yet undesignated extra-high voltage electrical transmission lines on the METC transmission system. MPPA has purchased a parcel of land from Coral and entered into a long-term fuel purchase contract with Coral to supply the CT Project No.1.

MPPA entered into a Power Sales Contract with each of the five members who elected to participate in the CT Project No. 1. These contracts provide for the participants to purchase from MPPA their entitlement share, as defined, of generation and transmission of the Project. Each participant is obligated to pay its share of the operating and debt service costs of the Project.

TRANSMISSION PROJECT

In 2005, the MPPA members contributed capital for the purchase of transmission rights in the bulk transmission system. In 2006, MPPA purchased an undivided ownership in certain transmission lines giving rights to use of the bulk transmission system. All thirteen members participate in this project.

MICHIGAN PUBLIC POWER AGENCY

NOTES TO FINANCIAL STATEMENTS December 31, 2006

NOTE 3 – CASH AND INVESTMENTS

MPPA adopted an investment policy, in accordance with the bond resolutions, that allows it to invest in U.S. Treasury obligations, certain federal agency securities, new Michigan Housing Authority bonds, direct and general obligations of any state, certificates of deposit with qualified United States institutions, repurchase agreements with qualified institutions, municipal obligations, time deposits, bankers' acceptances, commercial paper and pooled investment funds.

CASH AND INVESTMENTS – DECEMBER 31, 2007

| | <u>Carrying Value</u> |
|-------------------------------|---------------------------|
| Restricted Assets | |
| Certificates of deposit | \$ 14,735 |
| Money market and mutual funds | <u>35,386,010</u> |
| | <u>35,400,745</u> |
| Current Assets | |
| Cash and cash equivalents | |
| Certificates of deposit | 15,000,000 |
| Money market and mutual funds | 35,597,279 |
| Demand and savings deposits | <u>388,521</u> |
| | 50,985,800 |
| U.S. Government Agency notes | <u>60,904,220</u> |
| | <u>111,890,020</u> |
| Total Cash and Investments | <u>\$ 147,290,765</u> |

Investments are stated at fair value, which is the amount at which an investment could be exchanged in a current transaction between willing parties. Fair values are based on quoted market prices. No investments are reported at amortized cost. The difference between the bank balance and carrying value is due to outstanding checks and/or deposits in transit.

Deposits in banks are insured by the FDIC in the amount of \$100,000 for all interest bearing accounts and \$100,000 for all noninterest bearing accounts.

Market values may have changed significantly since the balance sheet date.

CUSTODIAL CREDIT RISK

Deposits

Custodial credit risk is the risk that in the event of a financial institution failure, MPPA's deposits may not be returned to MPPA. At December 31, 2007 MPPA had \$32,120,934 in uninsured and uncollateralized deposits. MPPA's investment policy does not require collateralization of deposits but rather restricts the financial institutions that can be used based on the equity and market ratings of the financial institution's debt.

MICHIGAN PUBLIC POWER AGENCY

NOTES TO FINANCIAL STATEMENTS December 31, 2007

NOTE 3 – CASH AND INVESTMENTS (cont.)

CUSTODIAL CREDIT RISK (cont.)

Investments

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, MPPA will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. All investments held at December 31, 2007 were considered to be in risk category one (investments held in trust on behalf of MPPA), therefore, not subject to custodial credit risk. MPPA's policy is to have all investment securities held by its agent in MPPA's name.

CREDIT RISK

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. As of December 31, 2007 MPPA's investments were rated as follows:

| <u>Investment Type</u> | <u>Standard & Poor's</u> | <u>Moody's</u> |
|------------------------|------------------------------|----------------|
| US Agency Securities | AAA | Aaa |
| Mutual Funds | AAAm | Aaa |

MPPA's investment policy requires that all investments be rated in highest or second highest categories by the national rating agencies.

CONCENTRATIONS OF CREDIT RISK

Concentration of credit risk is the risk of loss attributed to the magnitude of MPPA's investment in a single issuer.

At December 31, 2007, investments held with issuers, each totaling more than 5 percent of the total portfolio, were concentrated as follows:

| <u>Issuer</u> | <u>% of Portfolio</u> |
|--|-----------------------|
| Federal Home Loan Bank | 11% |
| Federal National Mortgage Association | 12% |
| Federal Home Loan Mortgage Corporation | 14% |

MPPA's investment policy does not limit the amount of the portfolio that can be invested in US government agency securities or any one issuer of such investments.

MICHIGAN PUBLIC POWER AGENCY

NOTES TO FINANCIAL STATEMENTS December 31, 2007

NOTE 3 – CASH AND INVESTMENTS (cont.)

INTEREST RATE RISK

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

At December 31, 2007 MPPA's investments were as follows:

| Investment Type | Fair Value | Maturity In Years | | |
|---------------------------------|-----------------------|----------------------|----------------------|-------------|
| | | Less than 1 | 1 – 5 | Over 5 |
| US Government Agency Securities | \$ 60,904,220 | \$ 21,709,023 | \$ 39,195,197 | \$ - |
| Mutual Funds | 54,065,612 | 54,065,612 | - | - |
| Totals | <u>\$ 114,969,832</u> | <u>\$ 75,774,635</u> | <u>\$ 39,195,197</u> | <u>\$ -</u> |

MPPA's investment policy restricts operational funds to maturities of one year or less, reserve and contingency funds to five years or less and debt service reserve funds to fifteen years or less.

NOTE 4 – RESTRICTED ASSETS

MPPA's bond resolutions require the segregation of bond proceeds, establishment of various funds, and prescribe the application of MPPA's revenues. Also, it defines what type of securities MPPA may invest in. The funds established by the resolution are detailed in the balance sheet. MPPA is in compliance with all bond resolution funding requirements.

NOTE 5 – CHANGES IN CAPITAL ASSETS

A summary of changes in capital assets for 2007 follows:

| | Balance 1/1/07 | Additions/ Reclassi- fications | Deletions/ Reclassi- fications | Balance 12/31/07 |
|---------------------------------------|----------------------|--------------------------------------|--------------------------------------|----------------------|
| Capital assets not being depreciated: | | | | |
| Land | \$ 598,889 | \$ - | \$ - | \$ 598,889 |
| Capital assets being depreciated: | | | | |
| Utility Plant in Service | 540,373,040 | 15,632,073 | - | 556,005,113 |
| Less: Accumulated Depreciation | <u>(301,402,021)</u> | <u>(14,753,805)</u> | <u>56,625</u> | <u>(316,099,201)</u> |

Net Utility Plant

\$ 239,569,908\$ 240,504,801**MICHIGAN PUBLIC POWER AGENCY**NOTES TO FINANCIAL STATEMENTS
December 31, 2007**NOTE 6 – NON-CURRENT LIABILITIES*****CAMPBELL No. 3 PROJECT REVENUE BONDS***

The following bonds have been issued by MPPA:

| <u>Date</u> | <u>Purpose</u> | <u>Final Maturity</u> | <u>Interest Rates</u> | <u>Original Amount</u> |
|---------------|--------------------------------|-----------------------|-----------------------|------------------------|
| July 15, 1997 | Refund 1989 construction bonds | 01/01/09 | 5.5% | \$ 24,925,000 |
| May 1, 2002 | Finance cost of improvements | 01/01/13 | 4.0 – 4.25% | 11,000,000 |
| Jan 15, 2006 | Finance cost of improvements | 01/01/16 | 5.0% | 9,000,000 |

The following obligations are outstanding at December 31:

| | <u>2007</u> |
|------------------------------------|----------------------|
| 1997A bonds | \$ 6,010,000 |
| Unamortized premium on 1997A bonds | 11,590 |
| 2002A bonds | 11,000,000 |
| 2006A bonds | 9,000,000 |
| Unamortized premium on 2006A bonds | <u>592,778</u> |
| | 26,614,368 |
| Less: Current portion | <u>(2,925,000)</u> |
| Total | <u>\$ 23,689,368</u> |

MPPA's annual debt service requirements are collected from participating member municipalities and from transfers from the project account during the period preceding the required interest and principal payments. Debt service requirements to be collected during each of the five years following December 31, 2007, and in five-year increments thereafter to maturity, are as follows:

| <u>Year Ending December 31,</u> | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|---------------------------------|----------------------|---------------------|----------------------|
| 2008 | \$ 3,085,000 | \$ 1,072,500 | \$ 4,157,500 |
| 2009 | 2,570,000 | 902,825 | 3,472,825 |
| 2010 | 2,690,000 | 800,025 | 3,490,025 |
| 2011 | 2,810,000 | 689,735 | 3,499,735 |
| 2012 | 2,930,000 | 574,525 | 3,504,525 |
| 2013 – 2016 | <u>9,000,000</u> | <u>900,000</u> | <u>9,900,000</u> |
| Totals | <u>\$ 23,085,000</u> | <u>\$ 4,939,610</u> | <u>\$ 28,024,610</u> |

Substantially all revenues of the Campbell No. 3 Project are pledged until the debt is defeased.

MICHIGAN PUBLIC POWER AGENCY

NOTES TO FINANCIAL STATEMENTS
December 31, 2007

NOTE 6 – NON-CURRENT LIABILITIES (cont.)

CAMPBELL No. 3 PROJECT REVENUE BONDS (cont.)

Non-Current liabilities as of December 31, 2007:

| | <u>01/01/07 Balance</u> | <u>Additions</u> | <u>Reductions</u> | <u>12/31/07 Balance</u> |
|---|-----------------------------|-------------------------|-------------------------|-----------------------------|
| Revenue bonds | \$ 28,780,000 | \$ - | \$ (2,770,000) | \$ 26,010,000 |
| Unamortized loss on advanced refunding transaction | (175,772) | - | 175,772 | 0 |
| Unamortized premium on bonds | 711,630 | - | (107,262) | 604,368 |
| Current maturities | (2,770,000) | - | (155,000) | (2,925,000) |
| Deferred revenues | <u>17,024,967</u> | <u>2,379,940</u> | <u>(390,043)</u> | <u>19,064,864</u> |
| Total Long-Term Liabilities | <u>\$ 43,570,825</u> | <u>\$ 2,379,940</u> | <u>\$ 3,246,533</u> | <u>\$ 42,704,232</u> |

BELLE RIVER PROJECT REVENUE BONDS

The following bonds have been issued by MPPA:

| <u>Date</u> | <u>Purpose</u> | <u>Final Maturity</u> | <u>Interest Rates</u> | <u>Original Amount</u> |
|------------------|----------------------|---------------------------|---------------------------|----------------------------|
| December 2, 2002 | Refund 1993A&B bonds | 1/1/18 | 2.35 – 5.25% | \$ 280,180,000 |

The following obligations are outstanding at December 31:

| | <u>2007</u> |
|---|-----------------------|
| 2002A bonds | \$ 225,470,000 |
| Unamortized loss 2002A advanced refunding transaction | (8,113,113) |
| Unamortized premium on 2002A bonds | <u>12,039,766</u> |
| | 229,396,653 |
| Less: Current portion | <u>(15,685,000)</u> |
| Total | <u>\$ 213,711,653</u> |

MICHIGAN PUBLIC POWER AGENCY

NOTES TO FINANCIAL STATEMENTS December 31, 2007

NOTE 6 – NON-CURRENT LIABILITIES (cont.)

BELLE RIVER PROJECT REVENUE BONDS (cont.)

MPPA's annual debt service requirements are collected from participating member municipalities and from transfers from the project account during the period preceding the required interest and principal payments. Debt service requirements to be collected during each of the five years following December 31, 2007, and in five-year increments thereafter to maturity, are as follows:

| <u>Year</u> | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|-------------|-----------------------|----------------------|-----------------------|
| 2008 | \$ 16,505,000 | \$ 10,987,318 | \$ 27,492,318 |
| 2009 | 17,350,000 | 10,142,805 | 27,492,805 |
| 2010 | 18,265,000 | 9,231,930 | 27,496,930 |
| 2011 | 19,220,000 | 8,276,813 | 27,496,813 |
| 2012 | 20,225,000 | 7,268,362 | 27,493,362 |
| 2013– 2017 | <u>118,220,000</u> | <u>19,254,112</u> | <u>137,474,112</u> |
| Totals | <u>\$ 209,785,000</u> | <u>\$ 65,161,340</u> | <u>\$ 274,946,340</u> |

Substantially all revenues of the Belle River Project are pledged until the debt is defeased.

Non-current liabilities as of December 31, 2007:

| | <u>01/01/07 Balance</u> | <u>Additions</u> | <u>Reductions</u> | <u>12/31/07 Balance</u> |
|---|-----------------------------|----------------------|------------------------|-----------------------------|
| Revenue bonds | \$ 240,445,000 | \$ - | \$ (14,975,000) | \$ 225,470,000 |
| Unamortized loss on advanced refunding transaction | (9,583,651) | - | 1,470,538 | (8,113,113) |
| Unamortized premium on bonds | 14,505,661 | - | (2,465,895) | 12,039,766 |
| Current maturities | (14,975,000) | - | (710,000) | (15,685,000) |
| Deferred revenues | <u>66,242,185</u> | <u>11,276,766</u> | <u>(8,201,167)</u> | <u>69,317,784</u> |
| Total Non-current Liabilities | <u>\$ 296,634,195</u> | <u>\$ 11,276,766</u> | <u>\$ (24,881,524)</u> | <u>\$ 283,029,437</u> |

POWER POOL PROJECT

The non-current liabilities in the power pool project consist of deferred revenues to be recognized in future periods and capital contributions from members. Interest was paid to members of this project at a rate of 4.5% on their January 1 capital contribution balance.

MICHIGAN PUBLIC POWER AGENCY

NOTES TO FINANCIAL STATEMENTS December 31, 2007

NOTE 6 – NON-CURRENT LIABILITIES (cont.)

POWER POOL PROJECT (cont.)

Non-current liabilities as of December 31, 2007:

| | 01/01/07 Balance | Additions | Reductions | 12/31/07 Balance |
|--------------------------------------|---------------------|-------------------|-------------|---------------------|
| Deferred revenues | \$ 2,024,386 | \$ 519,506 | \$ - | \$ 2,543,892 |
| Capital contributions of members | 2,317,763 | 104,299 | - | 2,422,062 |
| Total Non-current Liabilities | \$ 4,342,149 | \$ 623,805 | \$ - | \$ 4,965,954 |

COMBUSTION TURBINE NO. 1 PROJECT REVENUE BONDS

The following bonds have been issued by MPPA:

| Date | Purpose | Final Maturity | Interest Rates | Original Amount |
|------------------|---------------------|-------------------|-------------------|--------------------|
| January 10, 2002 | Building of turbine | 1/1/27 | 3.75 – 5.4% | \$ 34,645,000 |

The following obligations are outstanding at December 31:

| | 2007 |
|---|----------------------|
| 2002A bonds | \$ 31,220,000 |
| Less: Unamortized discount on 2002A bonds | (44,700) |
| Sub-total | 31,175,300 |
| Less: Current portion | (945,000) |
| Total | \$ 30,230,300 |

MPPA's annual debt service requirements are collected from participating member municipalities and from transfers from the project account during the period preceding the required interest and principal payments. Debt service requirements to be collected during each of the five years following December 31, 2007, and in five-year increments thereafter to maturity, are as follows:

| Year Ending December 31, | Principal | Interest | Total |
|-----------------------------|----------------------|----------------------|----------------------|
| 2008 | \$ 985,000 | \$ 1,566,225 | \$ 2,551,225 |
| 2009 | 1,030,000 | 1,521,900 | 2,551,900 |
| 2010 | 1,080,000 | 1,475,550 | 2,555,550 |
| 2011 | 1,125,000 | 1,426,950 | 2,551,950 |
| 2012 | 1,185,000 | 1,367,888 | 2,552,888 |
| 2013 – 2017 | 6,925,000 | 5,838,525 | 12,763,525 |
| 2018 – 2022 | 8,945,000 | 3,819,375 | 12,764,375 |
| 2023 – 2027 | 9,000,000 | 1,211,437 | 10,211,437 |
| Totals | \$ 30,275,000 | \$ 18,227,850 | \$ 48,502,850 |

MICHIGAN PUBLIC POWER AGENCY

NOTES TO FINANCIAL STATEMENTS December 31, 2007

NOTE 6 – NON-CURRENT LIABILITIES (cont.)

COMBUSTION TURBINE NO. 1 PROJECT REVENUE BONDS (cont.)

Substantially all revenues of the Combustion Turbine No. 1 Project are pledged until the debt is defeased.

Non-current liabilities as of December 31, 2007:

| | 01/01/07 Balance | Additions | Reductions | 12/31/07 Balance |
|---------------------------------------|---------------------|------------|--------------|---------------------|
| Revenue bonds | \$ 32,125,000 | \$ - | \$ (905,000) | \$ 31,220,000 |
| Unamortized discount on term bonds | (48,645) | - | 3,945 | (44,700) |
| Current maturities | (905,000) | - | (40,000) | (945,000) |
| Deferred revenues | 1,204,910 | 275,424 | - | 1,480,334 |
| Total Non-current Liabilities | \$ 32,376,265 | \$ 275,424 | \$ (941,055) | \$ 31,710,634 |

DISPATCH PROJECT

The non-current liabilities in the dispatch project consist of deferred revenues to be recognized in future periods.

Non-current liabilities as of December 31, 2007:

| | 01/01/07 Balance | Additions | Reductions | 12/31/07 Balance |
|-------------------|---------------------|-----------|------------|---------------------|
| Deferred revenues | \$ 7,016 | \$ 25,672 | \$ - | \$ 32,688 |

TRANSMISSION PROJECT

The non-current liabilities in the transmission project consist of deferred revenues to be recognized in future periods and capital contributions from members.

Non-current liabilities as of December 31, 2007:

| | 01/01/07 Balance | Additions | Reductions | 12/31/07 Balance |
|-----------------------------------|---------------------|-----------|------------|---------------------|
| Deferred revenues | \$ 214,308 | \$ 19,935 | \$ - | \$ 234,243 |
| Capital contributions of members | 3,335,511 | - | - | 3,335,511 |
| Total Non-current Liabilities | \$ 3,549,819 | \$ 19,935 | \$ - | \$ 3,569,754 |

MICHIGAN PUBLIC POWER AGENCY

NOTES TO FINANCIAL STATEMENTS December 31, 2007

NOTE 7 – EMPLOYEE RETIREMENT PLAN

MPPA employees are covered by a defined contribution retirement pension plan, the Michigan Public Power Agency plan (the plan) which is administered by ICMA Retirement Corporation. MPPA makes an annual contribution based on a percentage of employee earnings on behalf of each employee. The plan follows the Standard 401a plan offered by the ICMA-RC. Required contributions by MPPA are 15% of employee salaries. Employees do not make contributions to the plan. The contribution requirements are established and can be amended by the MPPA Board of Commissioners. Total contributions to the plan by MPPA for the years ended December 31, 2007, 2006 and 2005 were approximately \$219,000, \$200,000, and \$179,000, respectively.

NOTE 8 – CONTRACTS AND COMMITMENTS

CONTRACT WITH CONSUMERS ENERGY

MPPA contracted with Consumers to purchase fuel coal in order to maintain a stockpile level of 8,800 wet tons (21,247 in 2006) for the Campbell Unit No. 3 plant. The coal is purchased at the prevailing market price at the time of delivery. MPPA also purchased an additional stockpile of coal as substitute for its proportionate interest in the materials and supply inventory at Campbell Unit No. 3. This stockpile is maintained at a level to approximate MPPA's ownership interest in the materials and supply inventory at the Campbell plant.

CONTRACT WITH DETROIT EDISON

MPPA's share of the stockpile of coal for the Belle River plant equals 260,500 tons.

CONTRACT WITH CORAL ENERGY

MPPA contracted with Coral Energy for natural gas for the CT Project No.1. The contract expires in 2012.

NOTE 9 – RISK MANAGEMENT

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

MICHIGAN PUBLIC POWER AGENCY

NOTES TO FINANCIAL STATEMENTS December 31, 2007

NOTE 10 – CONCENTRATION OF RISK

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

MPPA has two members who are considered a significant customer that accounted for \$20.6 million (13%) of MPPA revenues in 2007.

NOTE 11 – BOND COVENANT DISCLOSURES

CAMPBELL No. 3 PROJECT

Compliance with Funding Requirements

MPPA is in compliance with bond funding requirements.

Debt Service Coverage

| | <u>2007</u> |
|---|--------------------|
| Operating revenues | \$ 17,072,163 |
| Other revenues | <u>870,003</u> |
| | <u>17,942,166</u> |
| Operating expenses | 14,187,870 |
| Less: Depreciation | <u>(1,660,662)</u> |
| | <u>12,527,208</u> |
| Net revenues | <u>5,414,958</u> |
| Debt service | 4,158,375 |
| | x 1.10 |
| Required revenues | <u>4,574,213</u> |
| Revenues in Excess of Coverage Requirements | <u>\$ 840,745</u> |

MICHIGAN PUBLIC POWER AGENCY

NOTES TO FINANCIAL STATEMENTS
December 31, 2007

NOTE 11 – BOND COVENANT DISCLOSURES (cont.)

BELLE RIVER PROJECT

Compliance with Funding Requirements

MPPA is in compliance with bond funding requirements.

Debt Service Coverage

| | <u>2007</u> |
|---|---------------------|
| Operating revenues | \$ 66,210,211 |
| Other revenues | <u>5,065,108</u> |
| | <u>71,275,319</u> |
| Operating expenses | 50,152,763 |
| Less: Depreciation | <u>(12,039,760)</u> |
| | <u>38,113,003</u> |
| Net Revenues | <u>33,162,316</u> |
| Debt service | <u>27,495,780</u> |
| Revenues in Excess of Coverage Requirements | <u>\$ 5,666,536</u> |

COMBUSTION TURBINE No. 1 PROJECT

Compliance with Funding Requirements

MPPA is in compliance with bond funding requirements.

Debt Service Coverage

| | <u>2007</u> |
|---|-------------------|
| Operating revenues | \$ 6,116,504 |
| Other revenues | <u>299,948</u> |
| | <u>6,416,452</u> |
| Operating expenses | 4,474,113 |
| Less: Depreciation | <u>(987,897)</u> |
| | <u>3,486,216</u> |
| Net Revenues | <u>2,930,236</u> |
| Debt service | 2,553,750 |
| | X <u>1.10</u> |
| Required revenues | <u>2,809,125</u> |
| Revenues in Excess of Coverage Requirements | <u>\$ 121,111</u> |

MICHIGAN PUBLIC POWER AGENCY

NOTES TO FINANCIAL STATEMENTS December 31, 2007

NOTE 12 – RESTATEMENT OF CHANGE IN NET ASSETS

During 2007 MPPA determined that MISO gains and losses should be reported gross in the statement of revenues, expenses and changes in net assets rather than net and reported directly to deferred revenues as in the past. As a result, the 2006 income before deferred revenue and deferred revenue to be recognized in future periods for Campbell No. 3 and Belle River were restated as follows:

| | <u>Campbell No. 3</u> | <u>Belle River</u> |
|---|-----------------------|------------------------|
| Income before deferred revenue as previously reported | \$ 4,037,764 | \$ 27,440,952 |
| Restatement for MISO activity | <u>(221,307)</u> | <u>962,059</u> |
| Income before deferred revenue as restated | <u>\$ 3,816,457</u> | <u>\$ 28,403,011</u> |
| Deferred revenue to be recognized in future periods as previously reported | \$ (4,037,764) | \$ (27,440,952) |
| Restatement for MISO activity | <u>221,307</u> | <u>(962,059)</u> |
| Deferred revenue to be recognized in future periods as restated | <u>\$ (3,816,457)</u> | <u>\$ (28,403,011)</u> |

S U P P L E M E N T A L I N F O R M A T I O N

MICHIGAN PUBLIC POWER AGENCY

SCHEDULE OF CHANGES IN FUNDS ESTABLISHED BY THE CAMPBELL NO. 3 PROJECT REVENUE BOND RESOLUTION Year Ended December 31, 2007

| | Debt Service Account | Revenue Account | Operation and Maintenance Account | Operation and Maintenance Reserve Account | Fuel Reserve Account | Construction Account | Project Account | Totals |
|---|----------------------------|--------------------|--|---|----------------------------|-------------------------|---------------------|----------------------|
| Cash and investments at January 1, 2007 | \$ 3,462,863 | \$ - | \$ 1,139,435 | \$ 250,000 | \$ 800,000 | \$ 5,315,300 | \$ 8,480,700 | \$ 19,448,298 |
| Receipts | | 17,264,414 | | | | | | 17,264,414 |
| Investment receipts | 91,302 | | 517,373 | | | 78,382 | | 687,057 |
| Proceeds from bonds | | | | | | | | - |
| Payment of interest on bonds | (1,309,550) | | | | | | | (1,309,550) |
| Payment of bond principal | (2,770,000) | | | | | | | (2,770,000) |
| Disbursements | | (8,033,547) | (11,872,098) | | | | | (19,905,645) |
| Transfers – net | 4,078,832 | (9,230,867) | 11,676,171 | - | - | (5,393,682) | (1,130,454) | - |
| CASH AND INVESTMENTS AT DECEMBER 31, 2007 | <u>\$ 3,553,447</u> | <u>\$ -</u> | <u>\$ 1,460,881</u> | <u>\$ 250,000</u> | <u>\$ 800,000</u> | <u>\$ -0-</u> | <u>\$ 7,350,246</u> | <u>\$ 13,414,574</u> |

MICHIGAN PUBLIC POWER AGENCY

SCHEDULE OF CHANGES IN FUNDS ESTABLISHED BY THE BELLE RIVER PROJECT REVENUE BOND RESOLUTION
Year Ended December 31, 2007

| | Debt Service Account | Debt Service Reserve Account | Reserve and Contingency Account | Revenue Account | Operation and Maintenance Account | Project Account | Totals |
|--|----------------------------|---------------------------------------|--|---------------------|--|----------------------|-----------------------|
| Cash and investments at January 1, 2007 | \$ 21,233,490 | \$ - | \$ 8,000,001 | \$ - | \$ 10,127,336 | \$ 86,402,862 | \$ 125,763,689 |
| Receipts | | | | 59,256,784 | 3,585,115 | | 62,841,899 |
| Investment receipts | 558,550 | | 416,244 | | 330,383 | 3,896,492 | 5,201,669 |
| Net Increase (decrease) in fair value of investments | | | | | | 1,253,578 | 1,253,578 |
| Payment of interest on bonds | (12,163,880) | | | | | | (12,163,880) |
| Payment of bond principal | (14,975,000) | | | | | | (14,975,000) |
| Disbursements | | | | (38,523,210) | (3,464,301) | (8,897,132) | (50,884,643) |
| Transfers – net | <u>27,008,210</u> | <u>-</u> | <u>-</u> | <u>(20,733,574)</u> | <u>(3,202,658)</u> | <u>(3,071,978)</u> | <u>-</u> |
| CASH AND INVESTMENTS AT DECEMBER 31, 2007 | <u>\$ 21,661,370</u> | <u>-</u> | <u>\$ 8,416,245</u> | <u>\$ -</u> | <u>\$ 7,375,875</u> | <u>\$ 79,583,822</u> | <u>\$ 117,037,312</u> |

MICHIGAN PUBLIC POWER AGENCY

DETAILS OF REVENUES AND EXPENSES - CAMPBELL NO. 3 PROJECT

| | 2007 Budget | 2007 Actual | Restated 2006 Actual | 2007 Actual Over (Under) Budget |
|----------------------------------|-------------------|-------------------|----------------------------|---------------------------------------|
| OPERATING REVENUES | | | | |
| Sales to Participants | | | | |
| Power | \$ 6,916,054 | \$ 6,124,216 | \$ 6,384,245 | \$ (791,838) |
| Backup capacity | 588,000 | 744,695 | 562,665 | 156,695 |
| Transmission | 384,141 | 390,594 | 320,186 | 6,453 |
| Energy (fuel) | 3,891,519 | 3,042,789 | 5,560,267 | (848,730) |
| Backup energy | 6,555,000 | 6,553,408 | 4,076,233 | (1,592) |
| MISO gain (loss) | | 178,659 | (221,307) | 178,659 |
| Transmission utilization | - | 37,802 | 28,841 | 37,802 |
| Total Sales to Participants | <u>18,334,714</u> | <u>17,072,163</u> | <u>16,711,130</u> | <u>(1,262,551)</u> |
| Less allowance for sellback | | | | |
| Transmission | - | - | (4,080) | - |
| Net Sales to Participants | <u>18,334,714</u> | <u>17,072,163</u> | <u>16,707,050</u> | <u>(1,262,551)</u> |
| Sales of Excess Capacity | | | | |
| Transmission | - | - | 4,080 | - |
| Total Operating Revenue | <u>18,334,714</u> | <u>17,072,163</u> | <u>16,711,130</u> | <u>(1,262,551)</u> |
| OPERATING EXPENSES | | | | |
| Production | | | | |
| Fuel | 3,891,519 | 3,042,789 | 5,560,267 | (848,730) |
| Operation | 929,800 | 491,225 | 591,561 | (438,575) |
| Maintenance | 908,900 | 663,672 | 800,737 | (245,228) |
| Total Production | <u>5,730,219</u> | <u>4,197,686</u> | <u>6,952,565</u> | <u>(1,532,533)</u> |
| Purchased Power | | | | |
| Backup capacity | 588,000 | 744,695 | 562,665 | 156,695 |
| Backup energy | 6,555,000 | 6,553,408 | 4,076,232 | (1,592) |
| Total Purchased Power | <u>7,143,000</u> | <u>7,298,103</u> | <u>4,638,897</u> | <u>155,103</u> |
| Transmission | | | | |
| Operation | 93,516 | 162,221 | 35,684 | 68,705 |
| Maintenance | 6,600 | 10,661 | 20,055 | 4,061 |
| Utilization | - | 37,802 | 28,841 | 37,802 |
| Total Transmission | <u>100,116</u> | <u>210,684</u> | <u>84,580</u> | <u>110,568</u> |
| General and Administrative | | | | |
| Salaries and wages | 222,240 | 158,062 | 201,606 | (64,178) |
| Employee benefits | 359,940 | 304,090 | 322,881 | (55,850) |
| Outside services | 88,650 | 160,245 | 135,316 | 71,595 |
| Taxes | 72,000 | 55,437 | 55,841 | (16,563) |
| Insurance and liability | 160,617 | 102,683 | 134,722 | (57,934) |
| Meetings and travel | 8,508 | 6,377 | 4,601 | (2,131) |
| Office supplies | 23,220 | 14,597 | 29,081 | (8,623) |
| Rents | 19,620 | 8,467 | 8,689 | (11,153) |
| Miscellaneous | 40,290 | 10,777 | 32,959 | (29,513) |
| Total General and Administrative | <u>995,085</u> | <u>820,735</u> | <u>925,696</u> | <u>(174,350)</u> |

MICHIGAN PUBLIC POWER AGENCY

DETAILS OF REVENUES AND EXPENSES - CAMPBELL NO. 3 PROJECT (cont.)

| | <u>2007 Budget</u> | <u>2007 Actual</u> | <u>Restated 2006 Actual</u> | <u>2007 Actual Over (Under) Budget</u> |
|---|------------------------|------------------------|-------------------------------------|--|
| OPERATING EXPENSES (cont.) | | | | |
| Depreciation | \$ 1,500,000 | \$ 1,660,662 | \$ 1,457,930 | \$ 160,662 |
| Total Operating Expense | <u>15,468,420</u> | <u>14,187,870</u> | <u>14,059,668</u> | <u>(1,280,550)</u> |
| Operating Income | <u>2,866,294</u> | <u>2,884,293</u> | <u>2,651,462</u> | <u>17,999</u> |
| OTHER EXPENSES | | | | |
| Interest cost incurred | 1,233,372 | 1,233,375 | 1,354,475 | 3 |
| Amortization of financing-related costs | <u>141,415</u> | <u>140,981</u> | <u>139,704</u> | <u>(434)</u> |
| Total Other Expenses | <u>1,374,787</u> | <u>1,374,356</u> | <u>1,494,179</u> | <u>(431)</u> |
| OTHER REVENUES | | | | |
| Investment income | 330,000 | 658,621 | 949,297 | 328,621 |
| Sale of emission allowances | <u>109,600</u> | <u>211,382</u> | <u>1,709,877</u> | <u>101,782</u> |
| Total Other Income | <u>439,600</u> | <u>870,003</u> | <u>2,659,174</u> | <u>430,403</u> |
| Income before deferred revenue | <u>\$ 1,931,107</u> | 2,379,940 | 3,816,457 | <u>\$ 448,833</u> |
| Deferred revenue to be recognized in future periods | | <u>(2,379,940)</u> | <u>(3,816,457)</u> | |
| CHANGE IN NET ASSETS | | <u>\$ -</u> | <u>\$ -</u> | |

MICHIGAN PUBLIC POWER AGENCY

DETAILS OF REVENUES AND EXPENSES - BELLE RIVER PROJECT

| | 2007 Budget | 2007 Actual | Restated 2006 Actual | 2007 Actual Over (Under) Budget |
|----------------------------------|-------------------|-------------------|----------------------------|---------------------------------------|
| OPERATING REVENUES | | | | |
| Sales to Participants | | | | |
| Power | \$ 41,767,633 | \$ 37,929,727 | \$ 38,822,285 | \$ (3,837,906) |
| Backup capacity | 300,000 | 60,717 | 52,507 | (239,283) |
| Transmission | 3,688,956 | 4,342,249 | 7,011,056 | 653,293 |
| Energy (fuel) | 20,214,330 | 22,971,752 | 22,311,230 | 2,757,422 |
| Backup energy | 12,479,908 | 332,383 | 259,437 | (12,147,525) |
| MISO gain (loss) | | 574,549 | 962,059 | 574,549 |
| Transmission utilization | - | (1,166) | (15,027) | (1,166) |
| Total Sales to Participants | <u>78,450,827</u> | <u>66,210,211</u> | <u>69,403,547</u> | <u>(12,240,616)</u> |
| Less allowance for sellback | | | | |
| Transmission | - | (2,200,080) | (665,925) | - |
| Net Sales to Participants | <u>78,450,827</u> | <u>64,010,131</u> | <u>68,737,622</u> | <u>(12,240,616)</u> |
| Sales of Excess Capacity | | | | |
| Transmission | - | 2,200,080 | 665,925 | 2,200,080 |
| Total Operating Revenue | <u>78,450,827</u> | <u>66,210,211</u> | <u>69,403,547</u> | <u>(10,040,536)</u> |
| OPERATING EXPENSES | | | | |
| Production | | | | |
| Fuel | 20,214,330 | 22,971,752 | 22,311,230 | 2,757,422 |
| Operation | 3,348,000 | 2,290,583 | 2,477,668 | (1,057,417) |
| Maintenance | 5,400,000 | 6,676,097 | 5,583,966 | 1,276,097 |
| Total Production | <u>28,962,330</u> | <u>31,938,432</u> | <u>30,372,864</u> | <u>2,976,102</u> |
| Purchased Power | | | | |
| Backup capacity | 300,000 | 60,717 | 52,507 | (239,283) |
| Backup energy | 12,479,908 | 332,383 | 259,437 | (12,147,525) |
| Total Purchased Power | <u>12,779,908</u> | <u>393,100</u> | <u>311,944</u> | <u>(12,386,808)</u> |
| Transmission | | | | |
| Operation | 674,568 | 930,759 | 722,546 | 256,191 |
| Maintenance | 636,000 | 481,668 | 786,743 | (154,332) |
| Utilization | - | (1,166) | (15,027) | (1,166) |
| Total Transmission | <u>1,310,568</u> | <u>1,411,261</u> | <u>1,494,262</u> | <u>100,693</u> |
| General and Administrative | | | | |
| Salaries and wages | 1,684,476 | 384,754 | 1,492,528 | (1,299,722) |
| Employee benefits | 3,511,968 | 956,716 | 2,965,096 | (2,555,252) |
| Outside services | 614,908 | 1,251,876 | 1,312,661 | 636,968 |
| Taxes | 684,000 | 470,449 | 520,528 | (213,551) |
| Insurance and liability | 281,731 | 288,167 | 457,373 | 6,436 |
| Meetings and travel | 21,612 | 18,918 | 14,697 | (2,694) |
| Office supplies | 748,212 | 1,327,998 | 756,600 | 579,786 |
| Rents | 91,500 | 34,810 | 21,882 | (56,690) |
| Miscellaneous | 248,954 | (363,478) | (599,099) | (612,432) |
| Total General and Administrative | <u>7,887,361</u> | <u>4,370,210</u> | <u>6,942,266</u> | <u>(3,517,151)</u> |

MICHIGAN PUBLIC POWER AGENCY

DETAILS OF REVENUES AND EXPENSES - BELLE RIVER PROJECT (cont.)

| | 2007 Budget | 2007 Actual | Restated 2006 Actual | 2007 Actual Over (Under) Budget |
|---|---------------------|---------------------|----------------------------|---------------------------------------|
| OPERATING EXPENSES (cont.) | | | | |
| Depreciation | \$ 12,000,000 | \$ 12,039,760 | \$ 11,920,957 | \$ 39,760 |
| Total Operating Expense | <u>62,940,167</u> | <u>50,152,763</u> | <u>51,042,293</u> | <u>(12,787,404)</u> |
| Operating Income | <u>15,510,660</u> | <u>16,057,448</u> | <u>18,361,254</u> | <u>2,746,868</u> |
| OTHER EXPENSES | | | | |
| Interest cost incurred | 11,810,780 | 11,810,780 | 12,516,980 | - |
| Amortization of financing-related costs | <u>(711,412)</u> | <u>(711,412)</u> | <u>(813,203)</u> | <u>-</u> |
| Total Other Expenses | <u>11,099,368</u> | <u>11,099,368</u> | <u>11,703,777</u> | <u>-</u> |
| OTHER REVENUES | | | | |
| Investment income | 4,500,000 | 5,000,988 | 5,503,823 | 500,988 |
| Net change in fair value of investments | - | 1,253,578 | 109,659 | 1,253,578 |
| Sale of emission allowances | <u>-</u> | <u>64,120</u> | <u>16,132,052</u> | <u>64,120</u> |
| Total Other Income | <u>4,500,000</u> | <u>6,318,686</u> | <u>21,745,534</u> | <u>1,818,686</u> |
| Income (loss) before deferred revenue | <u>\$ 8,911,292</u> | 11,276,766 | 28,403,011 | <u>\$ 4,565,554</u> |
| Deferred revenue to be recognized in future periods | | <u>(11,276,766)</u> | <u>(28,403,011)</u> | |
| CHANGE IN NET ASSETS | | <u>\$ -</u> | <u>\$ -</u> | |

MICHIGAN PUBLIC POWER AGENCY

DETAILS OF REVENUES AND EXPENSES - POWER POOL PROJECT

| | 2007 Budget | 2007 Actual | 2006 Actual | 2007 Actual Over (Under) Budget |
|---|---------------------|-------------------|-------------------|---------------------------------------|
| OPERATING REVENUES | | | | |
| Sales to Participants | | | | |
| Power | \$ 46,285,449 | \$ 40,416,255 | \$ 39,274,156 | \$ (5,869,194) |
| Capacity | 13,704,823 | 16,495,511 | 17,188,549 | 2,790,688 |
| Transmission | 3,548,600 | 965,053 | 808,496 | (2,583,547) |
| Total Operating Revenue | <u>63,538,872</u> | <u>57,876,819</u> | <u>57,271,201</u> | <u>(5,662,053)</u> |
| OPERATING EXPENSES | | | | |
| Purchased Power | | | | |
| Capacity | 13,704,823 | 16,494,864 | 17,183,851 | 2,790,041 |
| Energy | 44,545,238 | 38,654,097 | 37,108,018 | (5,891,141) |
| Total Purchased Power | <u>58,250,061</u> | <u>55,148,961</u> | <u>54,291,869</u> | <u>(3,101,100)</u> |
| Transmission | | | | |
| Wheeling | <u>72,000</u> | <u>1,140,805</u> | <u>826,514</u> | <u>1,068,805</u> |
| General and Administrative | | | | |
| Salaries and wages | 449,008 | 374,973 | 405,434 | (74,035) |
| Employee benefits | 261,144 | 213,024 | 229,688 | (48,120) |
| Outside services | 627,681 | 636,426 | 665,590 | 8,745 |
| Insurance and liability | 14,442 | 10,156 | 10,096 | (4,286) |
| Meetings and travel | 26,604 | 17,809 | 15,752 | (8,795) |
| Office supplies | 19,956 | 13,865 | 21,938 | (6,091) |
| Rents | 42,354 | 23,620 | 25,682 | (18,734) |
| Miscellaneous | 13,358 | 6,410 | 15,290 | (6,948) |
| Total General and Administrative | <u>1,454,547</u> | <u>1,296,283</u> | <u>1,389,470</u> | <u>(158,264)</u> |
| Depreciation | <u>-</u> | <u>2,355</u> | <u>519</u> | <u>2,355</u> |
| Total Operating Expense | <u>59,776,608</u> | <u>57,588,404</u> | <u>56,508,372</u> | <u>(2,188,204)</u> |
| Operating Loss | <u>3,762,264</u> | <u>288,415</u> | <u>762,829</u> | <u>(3,473,849)</u> |
| OTHER EXPENSES | | | | |
| Interest costs incurred | <u>110,400</u> | <u>104,299</u> | <u>110,370</u> | <u>(6,101)</u> |
| OTHER REVENUES | | | | |
| Investment income | <u>108,000</u> | <u>335,390</u> | <u>246,720</u> | <u>227,390</u> |
| Loss before deferred revenue | <u>\$ 3,759,864</u> | 519,506 | 899,179 | <u>\$ (3,240,358)</u> |
| Deferred revenue to be recognized in future periods | | (519,506) | (899,179) | |
| Deferred revenue recognized in current period | | <u>-</u> | <u>-</u> | |
| CHANGE IN NET ASSETS | | <u>\$ -</u> | <u>\$ -</u> | |

MICHIGAN PUBLIC POWER AGENCY

DETAILS OF REVENUES AND EXPENSES - COMBUSTION TURBINE NO. 1 PROJECT

| | 2007 Budget | 2007 Actual | 2006 Actual | 2007 Actual Over (Under) Budget |
|----------------------------------|------------------|------------------|------------------|---------------------------------------|
| OPERATING REVENUES | | | | |
| Sales to Participants | | | | |
| Power | \$ 5,056,402 | \$ 4,173,019 | \$ 4,060,752 | \$ (883,383) |
| Transmission | 93,600 | 191,999 | 158,971 | 98,399 |
| Energy (fuel) | 1,752,000 | 1,751,486 | 495,447 | (514) |
| Total Operating Revenue | <u>6,902,002</u> | <u>6,116,504</u> | <u>4,715,170</u> | <u>(785,498)</u> |
| OPERATING EXPENSES | | | | |
| Production | | | | |
| Fuel | 1,752,000 | 1,674,954 | 568,082 | (77,046) |
| Operation | 566,736 | 566,730 | 753,604 | (6) |
| Maintenance | 402,160 | 272,183 | 35,258 | (129,977) |
| Total Production | <u>2,720,896</u> | <u>2,513,867</u> | <u>1,356,944</u> | <u>(207,029)</u> |
| Transmission | | | | |
| Operation | 110,362 | 191,999 | 157,908 | 81,637 |
| Maintenance | - | - | 1,063 | - |
| Total Transmission | <u>110,362</u> | <u>191,999</u> | <u>158,971</u> | <u>81,637</u> |
| General and Administrative | | | | |
| Salaries and wages | 302,266 | 234,182 | 193,450 | (68,084) |
| Employee benefits | 85,632 | 131,244 | 87,200 | 45,612 |
| Outside services | 253,000 | 252,121 | 271,441 | (879) |
| Taxes | | 2,935 | 8,288 | 2,935 |
| Insurance and liability | 114,743 | 113,555 | 1,892 | (1,188) |
| Meetings and travel | 12,336 | 25,869 | 17,127 | 13,533 |
| Office supplies | 6,540 | 9,321 | 6,709 | 2,781 |
| Rents | 13,884 | 9,018 | 6,039 | (4,866) |
| Miscellaneous | 1,909 | 2,105 | 1,105 | 196 |
| Total General and Administrative | <u>790,310</u> | <u>780,350</u> | <u>593,251</u> | <u>(9,960)</u> |

MICHIGAN PUBLIC POWER AGENCY

DETAILS OF REVENUES AND EXPENSES - COMBUSTION TURBINE NO. 1 PROJECT (cont.)

| | 2007 Budget | 2007 Actual | 2006 Actual | 2007 Actual Over (Under) Budget |
|---|-------------------|------------------|------------------|---------------------------------------|
| OPERATING EXPENSES (cont.) | | | | |
| Depreciation | \$ 940,800 | \$ 987,897 | \$ 954,742 | \$ 47,097 |
| Total Operating Expense | <u>4,562,368</u> | <u>4,474,113</u> | <u>3,063,908</u> | <u>(88,255)</u> |
| Operating Income | <u>2,339,634</u> | <u>1,642,391</u> | <u>1,651,262</u> | <u>(697,243)</u> |
| OTHER EXPENSES | | | | |
| Interest cost incurred | 1,608,750 | 1,608,750 | 1,646,081 | - |
| Amortization of financing-related costs | <u>58,165</u> | <u>58,165</u> | <u>59,515</u> | <u>-</u> |
| Total Other Expenses | <u>1,666,915</u> | <u>1,666,915</u> | <u>1,705,596</u> | <u>-</u> |
| OTHER REVENUES | | | | |
| Investment income | 216,000 | 299,948 | 298,328 | 83,948 |
| Net change in fair value of investments | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| Total Other Income | <u>216,000</u> | <u>299,948</u> | <u>298,328</u> | <u>83,948</u> |
| Income before deferred revenue | <u>\$ 888,719</u> | 275,424 | 243,994 | <u>\$ (613,295)</u> |
| Deferred revenue to be recognized in future periods | | <u>(275,424)</u> | <u>(243,994)</u> | |
| CHANGE IN NET ASSETS | | <u>\$ -</u> | <u>\$ -</u> | |

MICHIGAN PUBLIC POWER AGENCY

DETAILS OF REVENUES AND EXPENSES - DISPATCH PROJECT

| | 2007 Budget | 2007 Actual | 2006 Actual | 2007 Actual Over (Under) Budget |
|---|-------------------|-------------------|------------------|---------------------------------------|
| OPERATING REVENUES | | | | |
| Sales to Participants | | | | |
| Power | \$ 14,114,352 | \$ 14,088,468 | \$ 3,355,360 | \$ (25,884) |
| Total Operating Revenue | <u>14,114,352</u> | <u>14,088,468</u> | <u>3,355,360</u> | <u>(25,884)</u> |
| OPERATING EXPENSES | | | | |
| Purchased Power | | | | |
| Energy | 14,000,000 | 13,952,268 | 3,244,572 | (47,732) |
| Total Purchased Power | <u>14,000,000</u> | <u>13,952,268</u> | <u>3,244,572</u> | <u>(47,732)</u> |
| Transmission | - | 2,530 | - | 2,530 |
| General and Administrative | | | | |
| Salaries and wages | 52,176 | 51,007 | 47,930 | (1,169) |
| Employee benefits | 33,912 | 33,155 | 31,154 | (757) |
| Outside services | 13,787 | 40,324 | 20,947 | 26,537 |
| Taxes | - | - | - | - |
| Insurance and liability | 1,863 | 1,309 | 1,476 | (554) |
| Meetings and travel | 3,492 | 2,582 | 2,523 | (910) |
| Office supplies | 2,592 | 2,014 | 2,418 | (578) |
| Rents | 5,502 | 3,067 | 3,748 | (2,435) |
| Miscellaneous | 1,028 | 827 | 592 | (201) |
| Total General and Administrative | <u>114,352</u> | <u>134,285</u> | <u>110,788</u> | <u>19,933</u> |
| Total Operating Expense | <u>14,114,352</u> | <u>14,089,083</u> | <u>3,355,360</u> | <u>(27,799)</u> |
| OTHER REVENUES | | | | |
| Investment income | - | 26,287 | 7,016 | 26,287 |
| Net change in fair value of investments | - | - | - | - |
| Total Other Income | <u>-</u> | <u>26,287</u> | <u>7,016</u> | <u>26,287</u> |
| Income before deferred revenue | <u>\$ -</u> | <u>25,672</u> | <u>7,016</u> | <u>\$ 53,176</u> |
| Deferred revenue to be recognized in future periods | | <u>(25,672)</u> | <u>(7,016)</u> | |
| CHANGE IN NET ASSETS | | <u>\$ -</u> | <u>\$ -</u> | |

MICHIGAN PUBLIC POWER AGENCY

DETAILS OF REVENUES AND EXPENSES - TRANSMISSION PROJECT

| | <u>2007 Budget</u> | <u>2007 Actual</u> | <u>2006 Actual</u> | <u>2007 Actual Over (Under) Budget</u> |
|---|------------------------|------------------------|------------------------|--|
| OPERATING REVENUES | | | | |
| Sales to Participants | | | | |
| Transmission | \$ 1,125,796 | \$ 1,090,124 | \$ 178,585 | \$ (35,672) |
| Total Sales to Participants | <u>1,125,796</u> | <u>1,090,124</u> | <u>178,585</u> | <u>(35,672)</u> |
| Less Allowances for Sellback | | | | |
| Transmission | 2,100,000 | 3,086,721 | 2,539,624 | 986,721 |
| Sales of Excess Capacity | | | | |
| Transmission | 2,100,000 | 3,117,921 | 2,590,064 | 1,017,921 |
| Total Operating Revenue | <u>1,125,796</u> | <u>1,121,324</u> | <u>229,025</u> | <u>(4,472)</u> |
| OPERATING EXPENSES | | | | |
| Transmission | | | | |
| Operation | 1,075,000 | 1,074,459 | 172,724 | (541) |
| Maintenance | - | - | - | - |
| Total Transmission | <u>1,075,000</u> | <u>1,074,459</u> | <u>172,724</u> | <u>(541)</u> |
| General and Administrative | | | | |
| Salaries and wages | 600 | 11,627 | 4,683 | 11,027 |
| Employee benefits | 396 | 7,558 | 3,044 | 7,162 |
| Outside services | 49,200 | 235 | 48,293 | (48,965) |
| Taxes | - | - | - | - |
| Insurance and liability | - | - | - | - |
| Meetings and travel | 600 | 415 | 281 | (185) |
| Office supplies | - | 30 | - | 30 |
| Rents | - | - | - | - |
| Miscellaneous | - | 27,000 | - | 27,000 |
| Total General and Administrative | <u>50,796</u> | <u>46,865</u> | <u>56,301</u> | <u>(3,931)</u> |
| Depreciation | 22,700 | 22,681 | 18,901 | (19) |
| Total Operating Expense | <u>1,148,496</u> | <u>1,144,005</u> | <u>247,926</u> | <u>(4,491)</u> |
| OTHER REVENUES | | | | |
| Investment income | - | 42,616 | 54,414 | 42,616 |
| Net change in fair value of investments | - | - | - | - |
| Total Other Income | <u>-</u> | <u>42,616</u> | <u>54,414</u> | <u>42,616</u> |
| Income before deferred revenue | <u>\$ (22,700)</u> | 19,935 | 35,513 | <u>\$ 46,922</u> |
| Deferred revenue to be recognized in future periods | | <u>(19,935)</u> | <u>(35,513)</u> | |
| CHANGE IN NET ASSETS | | <u>\$ -</u> | <u>\$ -</u> | |

MICHIGAN PUBLIC POWER AGENCY

DETAILS OF REVENUES AND EXPENSES - GENERAL OFFICE OPERATION

| | 2007 Budget | 2007 Actual | 2006 Actual | 2007 Actual Over (Under) Budget |
|----------------------------------|------------------|-------------------|-------------------|---------------------------------------|
| OPERATING REVENUES | | | | |
| Participant membership fees | \$ 463,753 | \$ 463,331 | \$ 457,492 | \$ (422) |
| Charges for Services | | | | |
| Projects | 116,250 | 129,877 | 116,244 | 13,627 |
| Committees | 95,000 | 94,876 | | (124) |
| MMEA | 246,408 | 259,932 | 231,961 | 13,524 |
| Total Operating Revenue | <u>921,411</u> | <u>948,016</u> | <u>805,697</u> | <u>26,605</u> |
| OPERATING EXPENSES | | | | |
| General and Administrative | | | | |
| Salaries and wages | 335,196 | 335,164 | 255,499 | (32) |
| Employee benefits | 217,877 | 218,332 | 166,075 | 455 |
| Outside services | 95,000 | 94,420 | 79,537 | (580) |
| Insurance and liability | 4,955 | 3,476 | 4,263 | (1,479) |
| Meetings and travel | 35,472 | 31,824 | 23,058 | (3,648) |
| Office supplies | 13,092 | 22,593 | 25,503 | 9,501 |
| Rents | 27,780 | 15,386 | 19,383 | (12,394) |
| Miscellaneous | 142,392 | 141,797 | 124,569 | (595) |
| Total General and Administrative | <u>871,764</u> | <u>862,992</u> | <u>697,887</u> | <u>(8,772)</u> |
| Depreciation | 37,986 | 40,448 | 37,276 | 2,462 |
| Total Operating Expense | <u>909,750</u> | <u>903,440</u> | <u>735,163</u> | <u>(6,310)</u> |
| Operating Income (Loss) | <u>11,661</u> | <u>44,576</u> | <u>70,534</u> | <u>32,915</u> |
| OTHER REVENUES | | | | |
| Interest income | - | 42,031 | 34,047 | 42,031 |
| Prepaid lease income | 36,000 | 24,000 | 24,000 | (12,000) |
| CHANGE IN NET ASSETS | <u>\$ 47,661</u> | <u>\$ 110,607</u> | <u>\$ 128,581</u> | <u>\$ 62,946</u> |