

ILLINOIS MUNICIPAL ELECTRIC AGENCY

Springfield, Illinois

FINANCIAL STATEMENTS

Including Independent Auditors' Report

As of and for the Years Ended April 30, 2017 and 2016

ILLINOIS MUNICIPAL ELECTRIC AGENCY

TABLE OF CONTENTS As of and for the Years Ended April 30, 2017 and 2016

Independent Auditors' Report	1 – 2
Required Supplementary Information (Unaudited)	
Management's Discussion and Analysis	3 – 8
Financial Statements	
Statements of Net Position	9 – 10
Statements of Revenues, Expenses and Changes in Net Position	11
Statements of Cash Flows	12 – 13
Notes to Financial Statements	14 – 32

INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Illinois Municipal Electric Agency
Springfield, Illinois

Report on the Financial Statements

We have audited the accompanying financial statements of Illinois Municipal Electric Agency (IMEA), as of and for the years ended April 30, 2017 and 2016, and the related notes to the financial statements, which collectively comprise IMEA's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to IMEA's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of IMEA's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of IMEA as of April 30, 2017 and 2016, and the respective changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

To the Board of Directors
Illinois Municipal Electric Agency

Other Matter

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis information as listed in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Baker Tilly Virchow Krause, LLP

Madison, Wisconsin
July 21, 2017

MANAGEMENT'S DISCUSSION AND ANALYSIS

ILLINOIS MUNICIPAL ELECTRIC AGENCY

MANAGEMENT'S DISCUSSION AND ANALYSIS As of and for the Years Ended April 30, 2017 and 2016

The management of the Illinois Municipal Electric Agency ("IMEA") offers all persons interested in the financial position of IMEA this narrative overview and analysis of IMEA's financial performance during the years ending April 30, 2017 and 2016. Please read this narrative in conjunction with the accompanying financial statements and the accompanying notes to financial statements.

OVERVIEW OF THE FINANCIAL STATEMENTS

The Illinois Municipal Electric Agency is a body politic and corporate, municipal corporation and unit of local government of the State of Illinois. IMEA was created in 1984 under the provisions of Division 119.1 of Article II of the Illinois Municipal Code by a group of municipalities. The purpose of IMEA is to jointly plan, finance, own and operate facilities for the generation and transmission of electric power and energy to provide for the current and projected energy needs of the purchasing members. IMEA has thirty two (32) members, each of which is a municipal corporation in the State of Illinois and owns and operates a municipal electric system.

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

The Statements of Revenues, Expenses and Changes in Net Position present information showing how IMEA's net position changed during the most recent year due to IMEA's business activity. The Statements of Net Position report year end assets, deferred outflows of resources, liabilities and net position balances based on the original cost adjusted for any depreciation, amortization or unrealized gains/losses as appropriate. Over time, increases or decreases in IMEA's net position are one indicator of whether its financial health is improving or deteriorating. Other factors to consider include the Agency's wholesale electric rates and ability to maintain or exceed the debt coverage levels required by its bond resolution.

IMEA FINANCIAL ANALYSIS

An analysis of IMEA's financial position begins with the review of the Statements of Net Position and the Statements of Revenues, Expenses and Changes in Net Position. A summary of IMEA's Statements of Net Position is presented in Table 1 and the Statements of Revenues, Expenses and Changes in Net Position are summarized in Table 2.

ILLINOIS MUNICIPAL ELECTRIC AGENCY

MANAGEMENT'S DISCUSSION AND ANALYSIS
As of and for the Years Ended April 30, 2017 and 2016

IMEA FINANCIAL ANALYSIS (cont.)

Table 1
Condensed Statements of Net Position

	2017	2016	2015
Utility plant	\$ 1,057,664,235	\$ 1,069,961,113	\$ 1,081,957,424
Restricted assets	100,110,340	104,508,640	105,604,914
Current assets	123,063,773	158,135,713	121,816,491
Other assets	5,107,155	6,179,768	6,931,831
Deferred outflows of resources	38,487,944	40,415,512	44,266,182
Total Assets and Deferred Outflows of Resources	\$ 1,324,433,447	\$ 1,379,200,746	\$ 1,360,576,842
 Net Position:			
Invested in capital assets	\$ 97,784,908	\$ 72,267,542	\$ 46,944,830
Restricted	8,370,663	7,383,227	7,274,396
Unrestricted	88,767,194	94,266,823	93,660,713
Total Net Position	194,922,765	173,917,592	147,879,939
 Noncurrent liabilities			
Current liabilities	1,055,935,507	1,109,476,957	1,143,096,170
Total Liabilities	73,575,175	95,806,197	69,600,733
Total Liabilities	1,129,510,682	1,205,283,154	1,212,696,903
Total Net Position and Liabilities	\$ 1,324,433,447	\$ 1,379,200,746	\$ 1,360,576,842

STATEMENTS OF NET POSITION

Year Ended April 30, 2017

IMEA's total utility plant decreased by \$12,296,878 during the year ended April 30, 2017. The Agency made total payments of \$20,801,483 toward the capital improvements associated with the Prairie State project, Trimble County Units 1 & 2 projects and other smaller capital acquisitions and improvements. Total current liabilities associated with these capital improvements were \$2,000,759 which is reflected in current liabilities. These capital investments net of depreciation accounted for a majority of the changes in utility plant. Depreciation expense of \$34,848,247 was recorded during the year.

IMEA had a decrease in the cash and short-term investments held in operating reserve accounts of \$3,422,823 from the previous year. IMEA also returned the cash collateral it had received in the previous year from a supplier of long-term power supply. In exchange for the cash collateral, IMEA accepted a letter of credit as collateral for this agreement. These changes along with a decrease in the amount of prepayments made at the end of the year represent the majority of the decrease in current assets.

See accompanying independent auditors' report.

ILLINOIS MUNICIPAL ELECTRIC AGENCY

MANAGEMENT'S DISCUSSION AND ANALYSIS As of and for the Years Ended April 30, 2017 and 2016

IMEA FINANCIAL ANALYSIS (cont.)

STATEMENTS OF NET POSITION (cont.)

Proceeds of revenue bonds not yet expended are included in restricted assets. The decrease in restricted assets of \$4,398,300 was primarily caused by payments being made toward capital investments as well as a reduction in the market value of investments being held in restricted accounts.

Net position increased due to current year operations that resulted in net income of \$21,005,174.

Principal repayments associated with the Agency's outstanding revenue bonds totaled \$39,310,000. IMEA is scheduled to repay an additional \$41,095,000 on the outstanding revenue bonds on February 1, 2018 which is included in current liabilities. The Agency also made a payment of \$6,000,000 against a line of credit facility available to IMEA bringing the total outstanding draws on the line of credit to \$2,500,000. The total undrawn portion of this line of credit was \$47,500,000. Total current liabilities decreased by \$22,267,197 primarily due to the return of the cash collateral being held by IMEA to secure a long-term power supply agreement.

Year Ended April 30, 2016

IMEA's total utility plant decreased by \$11,996,311 during the year ended April 30, 2016. The Agency made total payments of \$11,342,996 toward the capital improvements associated with the Prairie State project, Trimble County Units 1 & 2 projects and other smaller capital acquisitions and improvements. IMEA also recorded an asset retirement obligation in the amount of \$11,286,455 associated with these projects. Total current liabilities associated with these capital improvements were \$770,287 which is reflected in current liabilities. These capital investments net of depreciation accounted for a majority of the changes in utility plant. Depreciation expense of \$34,320,066 was recorded during the year.

IMEA increased the cash and short-term investments held in operating reserve accounts by \$3,704,619 from the previous year. IMEA also received cash collateral in the amount of \$25,023,003 from a supplier of long-term power supply in exchange for previous collateral held in the form of a letter of credit. These changes along with an increase in the amount of prepayments made at the end of the year represent the majority of the increase in current assets.

Proceeds of revenue bonds not yet expended are included in restricted assets. The decrease in restricted assets of \$1,096,274 was primarily caused by payments being made toward capital investments.

Net position increased due to current year operations that resulted in net income of \$26,037,653.

Principal repayments associated with the Agency's outstanding revenue bonds totaled \$41,375,000. IMEA also paid an additional \$39,310,000 on the outstanding revenue bonds on February 1, 2017 which is included in current liabilities at April 30, 2016. The Agency also made a net draw of \$1,250,000 against a line of credit facility available to IMEA bringing the total outstanding draws on the line of credit to \$8,500,000. The total undrawn portion of this line of credit was \$41,500,000. Total current liabilities increased by \$26,205,464 primarily due to the cash collateral being held by IMEA to secure a long-term power supply agreement.

ILLINOIS MUNICIPAL ELECTRIC AGENCY

MANAGEMENT'S DISCUSSION AND ANALYSIS
As of and for the Years Ended April 30, 2017 and 2016

IMEA FINANCIAL ANALYSIS (cont.)

STATEMENTS OF NET POSITION (cont.)

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

	2017	2016	2015
Operating revenues	<u>\$ 320,985,228</u>	<u>\$ 318,081,254</u>	<u>\$ 312,314,685</u>
Depreciation expense	34,848,247	34,320,066	33,126,911
Other operating expenses	<u>221,174,284</u>	<u>211,992,597</u>	<u>205,766,755</u>
Total Operating Expenses	<u>256,022,531</u>	<u>246,312,663</u>	<u>238,893,666</u>
Operating Income	<u>64,962,697</u>	<u>71,768,591</u>	<u>73,421,019</u>
Investment income	1,873,942	2,013,301	3,425,234
Interest and amortization expense	(45,838,156)	(47,749,764)	(56,806,181)
Other income/(expense)	<u>6,690</u>	<u>5,525</u>	<u>(18,071)</u>
Total Non-Operating Expenses	<u>(43,957,524)</u>	<u>(45,730,938)</u>	<u>(53,399,018)</u>
Change in Net Position	21,005,173	26,037,653	20,022,001
Net Position, Beginning of Year	<u>173,917,592</u>	<u>147,879,939</u>	<u>127,857,938</u>
Net Position, End of Year	<u>\$ 194,922,765</u>	<u>\$ 173,917,592</u>	<u>\$ 147,879,939</u>

See accompanying independent auditors' report.

ILLINOIS MUNICIPAL ELECTRIC AGENCY

MANAGEMENT'S DISCUSSION AND ANALYSIS
As of and for the Years Ended April 30, 2017 and 2016

IMEA FINANCIAL ANALYSIS (cont.)

STATEMENTS OF REVENUE, EXPENSES AND CHANGES IN NET POSITION

Year Ended April 30, 2017

Sales to participating members of \$310,855,402 and 4,000,227,863 kilowatt hours ("kWh") were recorded during the fiscal year ended April 30, 2017. This represented an increase of \$5,457,969 (1.8%) in revenue from sales to participating members and an increase of 61,943,808 kWh (1.6%) as compared with the previous year. IMEA also supplies the Rural Electric Convenience Cooperative (RECC) with full requirements power supply service which accounted for additional revenue of \$9,604,445 which is reflected in sales to others. The contract with RECC will terminate on December 31, 2017.

IMEA recorded a coincident peak demand of 942 MW which was approximately 4% higher than the 905 MW experienced in the previous year. The total member non-coincident peak demand was 980 MW which included both sales to participating members and to RECC. This non-coincident peak demand was approximately 4.25% higher than the previous year.

The average cost of power sold to the participating members was 7.77 cents per kWh which was slightly higher (0.2%) than the previous year.

Total operating expenses increased by \$9,709,868 (4%) from the previous year due primarily to higher transmission expense. Interest and amortization expenses decreased by \$1,911,608 primarily due to payments made to reduce outstanding revenue bonds.

Year Ended April 30, 2016

Sales to participating members of \$305,397,433 and 3,938,284,055 kilowatt hours ("kWh") were recorded during the fiscal year ended April 30, 2016. This represented an increase of \$7,476,768 (2.5%) in revenue from sales to participating members and a decrease of 36,588,753 kWh (1%) as compared with the previous year. IMEA also supplies the Rural Electric Convenience Cooperative (RECC) with full requirements power supply service which accounted for additional revenue of \$9,250,649 which is reflected in sales to others.

IMEA recorded a coincident peak demand of 905 MW which was approximately 5% higher than the 863 MW experienced in the previous year. The total member non-coincident peak demand was 940 MW which included both sales to participating members and to RECC. This non-coincident peak demand was approximately the same as the previous year.

The average cost of power sold to the participating members was 7.75 cents per kWh which was approximately 3.5% higher than the previous year.

Total operating expenses increased by \$7,418,997 (3%) from the previous year due primarily to higher transmission expense. Interest income decreased during this year by \$1,411,933. Interest and amortization expenses decreased by \$9,056,417 primarily due to refinancing of bonds in the previous fiscal year.

See accompanying independent auditors' report.

ILLINOIS MUNICIPAL ELECTRIC AGENCY

MANAGEMENT'S DISCUSSION AND ANALYSIS
As of and for the Years Ended April 30, 2017 and 2016

IMEA FINANCIAL ANALYSIS (cont.)

DEBT SERVICE COVERAGE

IMEA's bond resolution requires the Agency to maintain a debt service coverage ratio of 110%. Debt service coverage during the years ended April 30, 2017 and 2016 was approximately 110% and 113% respectively after transfers to the rate stabilization account. IMEA transferred \$3,500,000 during the year ended April 30, 2017 and \$4,000,000 during the year ended April 30, 2016 into the rate stabilization account which reduced the debt service covered during both of these years. Without these rate stabilization transfers, debt service coverage would have been 114% for the year ended April 30, 2017 and 117% for the year ended April 30, 2016.

SIGNIFICANT EVENTS

RENEWABLE ENERGY RESOURCES

IMEA has a contract to purchase 70MW of wind energy from the Lee-Dekalb wind project owned by FPL Energy Illinois Wind, LLC. IMEA also entered into a contract with Altorfer Inc. for the purchase of approximately 1.5MW of solar energy located within two of IMEA member systems. These contracts currently provide IMEA with renewable energy resources totaling more than 5% of IMEA's energy requirements. IMEA continues to evaluate additional carbon-free resources and currently projects that these resources will provide over 10% of the total energy requirements by 2020.

CONTACTING IMEA'S MANAGEMENT

This financial report is designed to provide our members, investors and creditors with a general overview of IMEA's finances. Questions concerning any of the information provided in this report or requests for additional information should be addressed to Illinois Municipal Electric Agency, 3400 Conifer Drive, Springfield, IL 62711.

ILLINOIS MUNICIPAL ELECTRIC AGENCY

STATEMENTS OF NET POSITION
As of April 30, 2017 and 2016

	<u>2017</u>	<u>2016</u>
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES		
UTILITY PLANT		
Utility plant in service	\$ 1,235,748,260	\$ 1,230,788,362
Accumulated depreciation	(221,134,788)	(186,823,813)
Construction work in progress	<u>43,050,763</u>	<u>25,996,564</u>
Total Utility Plant	<u>1,057,664,235</u>	<u>1,069,961,113</u>
RESTRICTED ASSETS		
Cash and investments	<u>100,110,340</u>	<u>104,508,640</u>
CURRENT ASSETS		
Cash	41,678,468	44,779,651
Investments	29,173,669	29,495,308
Accounts receivable	25,510,593	25,005,068
Bond interest subsidy receivable	2,269,791	2,349,168
Renewable energy credits	2,799,015	3,476,737
Prepayments	21,632,237	28,006,778
Collateral held for others	<u>-</u>	<u>25,023,003</u>
Total Current Assets	<u>123,063,773</u>	<u>158,135,713</u>
OTHER ASSETS		
Regulatory costs for future recovery	3,514,208	3,878,725
Prairie State - other long term asset	<u>1,592,947</u>	<u>2,301,043</u>
Total Other Assets	<u>5,107,155</u>	<u>6,179,768</u>
 Total Assets	 <u>1,285,945,503</u>	 <u>1,338,785,234</u>
DEFERRED OUTFLOWS OF RESOURCES		
Unrealized loss on investments	1,856,212	-
Unamortized loss on advance refunding	<u>36,631,732</u>	<u>40,415,512</u>
Total Deferred Outflows of Resources	<u>38,487,944</u>	<u>40,415,512</u>
 TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	 <u>\$ 1,324,433,447</u>	 <u>\$ 1,379,200,746</u>

	<u>2017</u>	<u>2016</u>
NET POSITION AND LIABILITIES		
NET POSITION		
Net investment in capital assets	\$ 97,784,908	\$ 72,267,542
Restricted	8,370,663	7,383,227
Unrestricted	<u>88,767,194</u>	<u>94,266,823</u>
Total Net Position	<u>194,922,765</u>	<u>173,917,592</u>
NONCURRENT LIABILITIES		
Revenue bonds	965,480,000	1,006,575,000
Other long-term debt - line of credit	2,500,000	8,500,000
Unamortized premium	68,002,369	74,684,303
Other liabilities	<u>19,953,138</u>	<u>19,717,654</u>
Total Noncurrent Liabilities	<u>1,055,935,507</u>	<u>1,109,476,957</u>
CURRENT LIABILITIES		
Accounts Payable and Accrued Expenses		
Accounts Payable		
Purchased power and transmission	10,067,459	9,548,117
Jointly-owned facilities	8,247,210	6,765,067
Other	88,792	147,644
Other current liabilities	403,348	347,173
Collateral held for others	<u>-</u>	<u>25,023,003</u>
Total Accounts Payable and Accrued Expenses	<u>18,806,809</u>	<u>41,831,004</u>
Current Liabilities Payable from Restricted Assets		
Current maturities of revenue bonds	41,095,000	39,310,000
Accounts payable - jointly-owned facilities	-	407,127
Interest accrued	<u>13,673,366</u>	<u>14,258,066</u>
Total Current Liabilities Payable from Restricted Assets	<u>54,768,366</u>	<u>53,975,193</u>
Total Current Liabilities	<u>73,575,175</u>	<u>95,806,197</u>
Total Liabilities	<u>1,129,510,682</u>	<u>1,205,283,154</u>
TOTAL NET POSITION AND LIABILITIES	<u>\$ 1,324,433,447</u>	<u>\$ 1,379,200,746</u>

See accompanying notes to financial statements.

ILLINOIS MUNICIPAL ELECTRIC AGENCY

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION For the Years Ended April 30, 2017 and 2016

	2017	2016
OPERATING REVENUES		
Sales to participating members	\$ 310,855,402	\$ 305,397,433
Sales to others	9,604,445	9,250,649
Other income	525,381	3,433,172
Total Operating Revenues	320,985,228	318,081,254
OPERATING EXPENSES		
Purchased power and transmission	125,859,591	114,770,323
Prairie State and Trimble County Units No. 1 and 2		
Fuel	39,798,819	41,685,758
Operations and maintenance	36,229,144	36,285,399
Member Payments		
Fuel reimbursements	1,145,944	823,604
Capacity payments	9,027,785	9,183,749
Generation payments	22,628	2,728
Administration and general	7,290,386	7,313,294
Depreciation	34,848,247	34,320,066
Other utility operations	1,799,987	1,927,742
Total Operating Expenses	256,022,531	246,312,663
Operating Income	64,962,697	71,768,591
NONOPERATING REVENUES (EXPENSES)		
Investment income	1,873,942	2,013,301
Bond interest subsidy revenue	8,770,878	8,988,066
Interest expense	(57,142,671)	(59,263,347)
Amortization expense	2,533,637	2,525,517
Other income	6,690	5,525
Total Nonoperating Revenues (Expenses)	(43,957,524)	(45,730,938)
CHANGE IN NET POSITION	21,005,173	26,037,653
NET POSITION - Beginning of Year	173,917,592	147,879,939
NET POSITION - END OF YEAR	\$ 194,922,765	\$ 173,917,592

See accompanying notes to financial statements.

ILLINOIS MUNICIPAL ELECTRIC AGENCY

STATEMENTS OF CASH FLOWS
For the Years Ended April 30, 2017 and 2016

	<u>2017</u>	<u>2016</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Received from power sales	\$ 309,757,965	\$ 303,647,010
Paid to suppliers for purchased power and transmission	(125,340,249)	(115,761,841)
Paid to suppliers and employees for other services	<u>(77,006,119)</u>	<u>(91,401,625)</u>
Net Cash Flows from Operating Activities	<u>107,411,597</u>	<u>96,483,544</u>
CASH FLOWS FROM NONCAPITAL AND RELATED FINANCING ACTIVITIES		
Proceeds from line of credit draws	-	8,500,000
Payment of line of credit debt	<u>(6,000,000)</u>	<u>(7,250,000)</u>
Net Cash Flows from Noncapital Financing and Related Activities	<u>(6,000,000)</u>	<u>1,250,000</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Debt principal paid	(39,310,000)	(41,375,000)
Interest paid	(57,727,371)	(52,955,103)
Debt issuance costs	-	(200,650)
Bond interest subsidy received	8,850,255	9,026,422
Acquisition and construction of capital assets	(20,801,483)	(11,342,996)
Asset retirement obligation costs incurred	<u>(261,850)</u>	<u>(291,174)</u>
Net Cash Flows From Capital and Related Financing Activities	<u>(109,250,449)</u>	<u>(97,138,501)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Investment income	1,873,942	2,013,301
Purchase of long-term investments	(164,749,195)	(166,034,511)
Maturity of long-term investments	<u>165,577,000</u>	<u>133,345,000</u>
Net Cash Flows from Investing Activities	<u>2,701,747</u>	<u>(30,676,210)</u>
Net Change in Cash and Cash Equivalents	(5,137,105)	(30,081,167)
CASH AND CASH EQUIVALENTS – Beginning of Year	<u>47,814,132</u>	<u>77,895,299</u>
CASH AND CASH EQUIVALENTS – END OF YEAR	<u>\$ 42,677,027</u>	<u>\$ 47,814,132</u>
NONCASH CAPITAL AND RELATED FINANCING ACTIVITIES		
Change in asset retirement obligation liability	<u>\$ (195,373)</u>	<u>\$ 11,286,455</u>
Accretion expense	<u>\$ 654,959</u>	<u>\$ 159,240</u>
Unrealized loss on investments	<u>\$ 1,856,212</u>	<u>\$ -</u>
Amortization expense	<u>\$ 2,533,637</u>	<u>\$ 2,525,517</u>
Credits given on billings	<u>\$ (10,196,357)</u>	<u>\$ (10,010,081)</u>
Net gain on sale of assets	<u>\$ 6,690</u>	<u>\$ 5,525</u>

	<u>2017</u>	<u>2016</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH FLOWS FROM OPERATING ACTIVITIES		
Operating income	\$ 64,962,697	\$ 71,768,591
Noncash items included in operating income		
Depreciation	34,848,247	34,320,066
Other non-cash transactions	728,882	226,071
Changes in assets and liabilities		
Accounts receivable	(505,525)	(990,990)
Prepayments	6,374,541	(5,361,381)
Allowance inventory	677,721	(1,277,585)
Accounts payable	305,034	(2,161,228)
Other current liabilities	20,000	(40,000)
NET CASH FLOWS FROM OPERATING ACTIVITIES	<u>\$ 107,411,597</u>	<u>\$ 96,483,544</u>
RECONCILIATION OF CASH AND CASH EQUIVALENTS TO THE BALANCE SHEETS		
Restricted cash and investments	\$ 100,110,340	\$ 104,508,640
Cash	41,678,468	44,779,651
Investments	<u>29,173,669</u>	<u>29,495,308</u>
Total Cash and Investments	170,962,477	178,783,599
Less: investments	<u>(128,285,450)</u>	<u>(130,969,467)</u>
TOTAL CASH AND CASH EQUIVALENTS	<u>\$ 42,677,027</u>	<u>\$ 47,814,132</u>

See accompanying notes to financial statements.

ILLINOIS MUNICIPAL ELECTRIC AGENCY

NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended April 30, 2017 and 2016

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

REPORTING ENTITY

IMEA is a body politic and corporate, municipal corporation and unit of local government of the State of Illinois. IMEA was created in May 1984 under the provisions of Division 119.1 of Article II of the Illinois Municipal Code (the Act) by a group of municipalities for the purpose of jointly planning, financing, owning and operating facilities for the generation and transmission of electrical power and energy-related facilities which are appropriate to the present and projected energy needs to such municipalities. IMEA is owned and its policies governed by its member municipalities.

IMEA has provided the power and energy requirements of certain members since 1986, primarily through the purchase of wholesale requirements service from investor-owned utilities and through IMEA owned generation. The contracts with investor-owned utilities, which obligate IMEA to purchase electric energy for concurrent resale to its members, are in effect through September 2035.

As of April 30, 2017, IMEA had 32 member municipalities, all of which have executed long-term power sales contracts for the purchase of full requirements power and energy from IMEA. The termination date for all of the power sales contracts with participating members is September 30, 2035. These members participate in the IMEA owned generation facilities and pay rates sufficient to meet the obligations of IMEA's bond resolution.

MEASUREMENT FOCUS, BASIS OF ACCOUNTING AND FINANCIAL STATEMENT PRESENTATION

The financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used. Revenues, expenses, gains, losses, assets and liabilities resulting from exchange and exchange-like transactions are recognized when exchange takes place. IMEA uses the Uniform System of Accounts prescribed by the Federal Energy Regulatory Commission.

Preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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 reporting period. Actual results could differ from those estimates.

ILLINOIS MUNICIPAL ELECTRIC AGENCY

NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended April 30, 2017 and 2016

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

ASSETS, DEFERRED OUTFLOWS OF RESOURCES, LIABILITIES AND NET POSITION

Cash Equivalents

For purposes of the statement of cash flows, cash and cash equivalents have original maturities of three months or less from the date of acquisition.

Accounts Receivable and Allowance for Doubtful Accounts

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

Renewable Energy Credits

Energy credits consist of emission allowances held for sale and are valued at current market value. The emission allowances are obtained from Florida Power and Light through the purchase of renewable energy resources.

Prepayments

The amount in prepaid items represents amounts paid which will benefit future periods, IMEA's payment for collateral for operating activities in the MISO and PJM transmission markets and advance payments to Trimble County and Prairie State for working capital.

Restricted Assets

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

Collateral Held to/for Others

IMEA received collateral from Ameren Corp. pursuant to a guaranty agreement to be held on behalf of Dynegy Corp. The collateral is callable upon request and is classified as an offsetting asset and liability on the statement of net position. During 2017, the collateral was returned as Dynegy Corp. pledged a letter of credit to support performance under the contract.

Prairie State – Other Long Term Asset

Other long-term assets are comprised of the assets related to the prepayments made on a long-term parts agreement and collateral paid toward a self-insurance fund.

ILLINOIS MUNICIPAL ELECTRIC AGENCY

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended April 30, 2017 and 2016

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

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

Regulatory Costs for Future Recovery

Expenses incurred and paid in the current and prior periods in which the benefit of the expense will be recovered and realized in future periods in accordance with GASB Statement 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. See Note 9 for further discussion related to these assets.

Utility Plant

Utility plant is generally defined by IMEA as assets with an initial, individual cost of more than \$1,000 and an estimated useful life in excess of one year, except for jointly owned assets. In these cases, utility plant is capitalized based on policies defined by Louisville Gas & Electric Company and Prairie State Generating Company.

Utility plant of IMEA is recorded at cost or the estimated acquisition value at the time of contribution to IMEA. Major outlays for utility plant are capitalized as projects are constructed. Interest incurred during the construction phase is reflected in the capitalized value of the utility plant constructed, net of interest earned on the invested proceeds over the same period. Utility plant is depreciated using the straight-line method over the following useful lives:

	<u>Years</u>
Utility Plant	
Electric plant – Trimble County Units No. 1 and 2	20 – 53
Electric plant – Prairie State Units No. 1 and 2	10 – 40
Mobile generation	30
Land	–
Land improvements	10
Office building	10 – 31.5
Office furniture and equipment	5
Supervisory control and data acquisition equipment	5
Winnetka 138 interconnect	30
Other equipment	5

Coal reserves are depleted as the commodity is consumed using a rate which is based upon the cost to IMEA divided by the total estimated coal to be mined.

Deferred Outflow of Resources

A deferred outflow of resources represents a consumption of net position that applies to a future period and will not be recognized as an outflow of resources expense until that future time.

Loss on Refunding

The deferred change resulting from the refunding of debt is amortized over the shorter of the term of the refunding issue or the original term of the refunded debt.

ILLINOIS MUNICIPAL ELECTRIC AGENCY

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended April 30, 2017 and 2016

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

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

Unrealized Loss on Investments

Management has elected the use of regulatory accounting for its unrealized losses on investments. Changing market gains and losses are not recognized as investment income until such time investments are sold or mature. Net unrealized losses are reported as a deferred outflow on the Statement of Net Position.

Payables and Other Current Liabilities

Accounts payable represents current liabilities for power, jointly owned facilities and other payables. Other current liabilities represent accrued vacation benefits and accrued property taxes payable.

Other Liabilities

Other liabilities represent accrued sick leave and asset retirement obligation (Note 7). Under terms of employment, employees are granted one day of sick leave per month. One-half of accumulated sick leave benefits are paid if the employee terminates service after at least 10 years of service. Accumulated sick leave and vacation benefits have been recorded in the financial statements.

Long-Term Obligations

Long-term debt and other obligations are reported as liabilities. Bond discounts and premiums are amortized over the life of the bonds using the effective interest method. Gains or losses on prior refundings are amortized over the remaining life of the old debt or the life of the new debt, whichever is shorter. The balance at year end for premiums and discounts is shown as an increase or decrease in the liability section of the statement of net position. The balance at year end for the loss on refunding is shown as a deferred outflow in the statement of net position.

REVENUES AND EXPENSES

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

IMEA billings are rendered and recorded monthly based on month-end metered usage.

BOND SUBSIDY REVENUE AND RECEIVABLE

This amount represents the accrued amount receivable under the Build America Bond Program (BAB) which provides a 35% subsidy for interest expense on the Series 2009 and 2010 revenue bond issues. The interest expense reduction is classified as non-operating revenue.

ILLINOIS MUNICIPAL ELECTRIC AGENCY

NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended April 30, 2017 and 2016

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

BOND SUBSIDY REVENUE AND RECEIVABLE (cont.)

The United States Federal Government was subject to the process of sequestration for the budget year ending September 30, 2017 and 2016 whereby foreseeable spending reductions for many Federal programs, including issuers of the BAB's, may directly affect the recovery of the BAB's subsidy. See Note 6 for further details.

TAXES

IMEA is exempt from State and Federal income taxes.

RATES

Rates charged to members are evaluated annually by the Board of Directors and were increased January 1, 2017.

RECLASSIFICATIONS

Certain amounts in the prior year financial statements have been reclassified in order to conform to the current year's presentation.

EFFECT OF NEW ACCOUNTING STANDARDS ON CURRENT PERIOD FINANCIAL STATEMENTS

GASB has approved GASB Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, Statement No. 80, *Blending Requirements for Certain Component Units*, an amendment of GASB Statement No. 14, Statement No. 81, *Irrevocable Split-Interest Agreements*, Statement No. 82, *Pension Issues*, an amendment of GASB Statements No. 67, No. 68, and No. 73, Statement No. 83, *Certain Asset Retirement Obligations*, and Statement No. 84, *Fiduciary Activities*.. When they become effective, application of these standards may restate portions of these financial statements.

ILLINOIS MUNICIPAL ELECTRIC AGENCY

NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended April 30, 2017 and 2016

NOTE 2 – CASH AND INVESTMENTS

IMEA's cash and investments consist of the following:

	Carrying Value as of April 30		Associated Risks
	2017	2016	
The Illinois Funds	\$ 18,104,268	\$ 18,016,684	Credit and interest rate risks
Mutual funds	-	2,582,834	Credit and interest rate risks
U.S. agency securities – implicitly guaranteed	101,471,281	103,229,946	Custodial credit, credit, concentration of credit, and interest rate
U.S. agency securities – explicitly guaranteed	27,325,752	28,207,562	Credit and interest rate risks
Checking and savings	24,060,676	26,746,073	Custodial credit risk
Petty cash	500	500	Not applicable
Totals	\$ 170,962,477	\$ 178,783,599	

IMEA's Trust Indenture authorizes IMEA to deposit funds only in banks insured by the Federal Deposit Insurance Corporation (FDIC). IMEA may also make investments in U.S. Government and federal agency obligations, investment grade bonds, commercial paper rated at the highest classification established by at least two standard rating services, money market mutual funds, repurchase agreements and The Illinois Funds.

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

Deposits in each local and area bank are insured by the FDIC in the amount of \$250,000 for time and savings accounts and \$250,000 for demand deposit accounts (interest and noninterest bearing). Investments in The Illinois Funds are covered under securities pledged for all pool participants. As of April 30, 2017, cash held in checking and savings is fully collateralized. The difference between the bank balance and carrying value is due to outstanding checks, deposits in transit, and/or market value adjustments.

CUSTODIAL CREDIT RISK

Deposits

Custodial credit risk is the risk that in the event of a financial institution failure, IMEA's deposits may not be returned to IMEA. IMEA does not have any deposits exposed to custodial credit risk. IMEA's investment policy requires collateralization of deposits above the amount insured by the FDIC.

Investments

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, IMEA 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 as of April 30, 2017 and 2016, were considered to be in risk category one (investments held in trust on behalf of IMEA), therefore, not subject to custodial credit risk. IMEA's investment policy requires all investment securities be held by its agent in IMEA's name.

ILLINOIS MUNICIPAL ELECTRIC AGENCY

NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended April 30, 2017 and 2016

NOTE 2 – CASH AND INVESTMENTS (cont.)

CREDIT RISK

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. As of April 30, 2017 and 2016 IMEA's investments were rated as follows:

Investment Type	Standard & Poor's	Moody's
U.S. agency securities	AA+	Aaa-mf
Mutual funds	AAAm	Aaa-mf
The Illinois funds	AAAm	-

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

CONCENTRATION OF CREDIT RISK

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

As of April 30, 2017 and 2016, IMEA's investment portfolio was concentrated as follows:

Issuer	Investment Type	Percentage of Portfolio	
		2017	2016
Federal Home Loan Bank	US Agency Securities - Implicitly Guaranteed	22%	29%
Federal Farm Credit Banks Funding Corporation	US Agency Securities - Implicitly Guaranteed	45%	48%

IMEA's investment policy states that no more than 50% of the total portfolio may be invested in one type of investment with the exception of the US government and its agencies.

INTEREST RATE RISK

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

As of April 30, 2017 IMEA's investments were as follows:

Investment Type	Maturity (In Years)			
	Fair Value	Less than 1	1-5	Over 5
U.S. agency securities	\$ 128,797,033	\$ 29,974,319	\$ 50,539,501	\$ 48,283,213

ILLINOIS MUNICIPAL ELECTRIC AGENCY

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended April 30, 2017 and 2016

NOTE 2 – CASH AND INVESTMENTS (cont.)

INTEREST RATE RISK (cont.)

IMEA also has \$18,104,268 invested in The Illinois Funds with underlying investments of U.S. Treasuries and U.S. Agency Securities as of April 30, 2017. The average maturity of The Illinois Funds is 85 days.

As of April 30, 2016, IMEA’s investments were as follows:

Investment Type	Fair Value	Maturity (In Years)		
		Less than 1	1-5	Over 5
U.S. agency securities	\$ 131,437,508	\$ 36,019,912	\$ 58,939,795	\$ 36,477,801

IMEA also has \$2,582,834 invested in a mutual fund and \$18,016,684 in The Illinois Funds with underlying investments of U.S. Treasuries and U.S. Agency Securities as of April 30, 2016. The average maturity of the mutual fund is 51 days and The Illinois Funds is 43 days.

IMEA’s investment policy states that investment securities should not mature later than the monies will be needed for the respective use.

FAIR VALUE

IMEA categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

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

- > Market approach – matrix pricing or market collaborative pricing

Investment Type	Total	Level 1	Level 2	Level 3
U.S. agency securities	\$ 128,797,033	\$ -	\$ 128,797,033	\$ -

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

- > Market approach – matrix pricing or market collaborative pricing

Investment Type	Total	Level 1	Level 2	Level 3
U.S. agency securities	\$ 131,437,508	\$ -	\$ 131,437,508	\$ -
Mutual funds	2,582,834	-	2,582,834	-
Totals	\$ 134,020,342	\$ -	\$ 134,020,342	\$ -

ILLINOIS MUNICIPAL ELECTRIC AGENCY

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended April 30, 2017 and 2016

NOTE 3 – JOINTLY-OWNED FACILITIES

TRIMBLE COUNTY UNIT No. 1

Pursuant to an ownership agreement entered into in September 1990, IMEA acquired an undivided 12.12% ownership interest (approximately 62 MW), as tenant in common, in the Trimble County Unit No. 1 generating facility from Louisville Gas and Electric Company. Trimble County Unit 1 is a 514 MW subcritical pulverized coal fired unit.

TRIMBLE COUNTY UNIT No. 2

Trimble County Unit 2, which was placed into commercial operation in January 2011, is a pulverized-coal super-critical unit of 750 MW nominal net rating located adjacent to Trimble County Unit 1. IMEA owns a 12.12% (approximately 91 MW) undivided interest as tenant in common in the unit.

PRAIRIE STATE PROJECT

IMEA is part of the consortium known as the Prairie State Generating Company, LLC that developed the Prairie State Project. IMEA owns a 15.17% (approximately 240 MW) undivided interest in the project. The Prairie State Project is a nominal 1,600 MW plant, utilizing two supercritical steam units of approximately 800 MW in size. Prairie State includes contiguous coal reserves and the operation of a coal mine to supply coal to the power plant. The first unit was placed into commercial operation in June 2012 and the second unit was placed into commercial operation in November 2012.

IMEA's share of the operating costs associated with these joint owned facilities are included in the accompanying financial statements.

ILLINOIS MUNICIPAL ELECTRIC AGENCY

NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended April 30, 2017 and 2016

NOTE 4 – FUNDS

IMEA's Trust Indenture requires the segregation of bond proceeds, establishment of various funds and prescribes the application of IMEA's revenues. Also, it defines what type of securities that IMEA may invest in. Funds consist principally of cash, money market funds, federal securities and investments in The Illinois Funds. The fund's purposes and balances are summarized below.

Fund	Held By	Purpose
Revenue	IMEA	To initially receive revenues and to disburse them to other accounts.
Operations and Maintenance	IMEA	To pay operating and maintenance expenses.
Renewals and Replacements	IMEA	To provide funds to be applied to the payment of the costs of renewals, replacements and repairs.
General Reserve	IMEA	To receive surplus funds after all other accounts are funded.
Rate Stabilization	IMEA	To accumulate any revenues in excess of the 10% debt service coverage requirement which will be used to minimize rate fluctuations in the future.
Acquisition Fund	Trustee	To maintain unspent bond proceeds that will be used for construction projects.
Debt Service Account	Trustee	To accumulate principal and interest associated with each bond series.
Debt Service Reserve Account	Trustee	To establish a reserve to cover deficiencies in the Debt Service Account. Any excess may be used for other purposes.

The indenture requires that certain cash and investments be segregated. The following are accounts included in current and restricted assets at April 30, 2017 and 2016.

	<u>2017</u>	<u>2016</u>
Included in Current Assets:		
Revenue	\$ 2,015	\$ -
Operation and maintenance	23,341,178	26,746,073
Renewals and replacements	2,320,288	2,382,750
General reserve	5,488,156	8,945,369
Rate stabilization	39,700,000	36,200,000
PNC line of credit	-	267
General cash (not restricted by indenture)	<u>500</u>	<u>500</u>
Total Current Cash and Investments	<u>\$ 70,852,137</u>	<u>\$ 74,274,959</u>
Included in Restricted Investment Accounts:		
Acquisition fund	\$ -	\$ 1,669,376
Debt service	22,044,029	22,048,420
Debt service reserve	<u>78,066,311</u>	<u>80,790,844</u>
Total Restricted Cash and Investments	<u>\$ 100,110,340</u>	<u>\$ 104,508,640</u>

ILLINOIS MUNICIPAL ELECTRIC AGENCY

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended April 30, 2017 and 2016

NOTE 5 – CHANGES IN UTILITY PLANT

A summary of changes in utility plant for 2017 follows:

	Balance 5/1/16	Additions/ Reclassifications	Deletions/ Reclassifications	Balance 4/30/17
Utility Plant being depreciated				
Electric plant –				
Trimble County Unit No. 1	\$ 123,291,377	\$ 1,174,245	\$ (486,307)	\$ 123,979,315
Trimble County Unit No. 2	180,777,816	1,139,297	-	181,917,113
Prairie State Unit No. 1	351,891,188	725,263	-	352,616,451
Prairie State Unit No. 2	323,630,533	1,078,469	-	324,709,002
Mobile generation	3,117,860	-	-	3,117,860
Prairie State - Common	146,056,905	421,991	(5,101)	146,473,795
Prairie State - Jordan Grove	9,862,449	(108,630)	-	9,753,819
Prairie State - Nearfield	9,336,095	(1,539)	-	9,334,556
Prairie State - Other	7,752,809	36,632	-	7,789,441
Prairie State - Mine	39,666,710	868,623	-	40,535,333
Prairie State - Coal Reserves	17,369,010	325	-	17,369,335
Land ¹	5,966,369	-	-	5,966,369
Office building	8,146,290	41,791	-	8,188,081
Office furniture and equipment	509,577	11,985	-	521,562
Supervisory control and data acquisition equipment	2,346,220	43,329	-	2,389,549
Winnetka 138 interconnect	500,000	-	-	500,000
Other equipment	567,154	73,199	(53,674)	586,679
Total Utility Plant in Service	1,230,788,362	5,504,980	(545,082)	1,235,748,260
Construction work in progress ¹	25,996,564	20,791,753	(3,737,554)	43,050,763
Total Utility Plant	\$ 1,256,784,926	\$ 26,296,733	\$ (4,282,636)	\$ 1,278,799,023

¹ Utility plant that is not being depreciated.

ILLINOIS MUNICIPAL ELECTRIC AGENCY

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended April 30, 2017 and 2016

NOTE 5 – CHANGES IN UTILITY PLANT (cont.)

	Balance 5/1/16	Additions/ Reclassifications	Deletions/ Reclassifications	Balance 4/30/17
Less: Accumulated depreciation				
Electric plant –				
Trimble County Unit No. 1	\$ (63,102,212)	\$ (4,112,400)	\$ 486,307	\$ (66,728,305)
Trimble County Unit No. 2	(24,276,657)	(4,895,891)	-	(29,172,548)
Prairie State Unit No. 1	(33,333,948)	(8,810,052)	-	(42,144,000)
Prairie State Unit No. 2	(27,492,902)	(8,104,808)	-	(35,597,710)
Mobile generation	(1,445,547)	(103,929)	-	(1,549,476)
Prairie State - Common	(13,822,729)	(3,661,030)	5,101	(17,478,658)
Prairie State - Jordan Grove	(3,870,503)	(981,719)	-	(4,852,222)
Prairie State - Nearfield	(567,165)	(233,055)	-	(800,220)
Prairie State - Other	(1,492,963)	(388,404)	-	(1,881,367)
Prairie State - Mine	(9,974,779)	(2,683,173)	-	(12,657,952)
Prairie State - Coal Reserves	(1,741,519)	(472,750)	-	(2,214,269)
Office building	(2,205,749)	(263,586)	-	(2,469,335)
Office furniture and equipment	(487,848)	(10,693)	-	(498,541)
Supervisory control and data acquisition equipment	(2,252,441)	(52,009)	-	(2,304,450)
Winnetka 138 interconnect	(327,778)	(16,667)	-	(344,445)
Other equipment	(429,073)	(58,081)	45,864	(441,290)
Total Accumulated Depreciation	(186,823,813)	(34,848,247)	537,272	(221,134,788)
Net Utility Plant	\$ 1,069,961,113			\$ 1,057,664,235

ILLINOIS MUNICIPAL ELECTRIC AGENCY

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended April 30, 2017 and 2016

NOTE 5 – CHANGES IN UTILITY PLANT (cont.)

A summary of changes in utility plant for 2016 follows:

	Balance 5/1/15	Additions/ Reclassifications	Deletions/ Reclassifications	Balance 4/30/16
Utility Plant being depreciated				
Electric plant –				
Trimble County Unit No. 1	\$ 113,325,945	\$ 10,924,786	\$ (959,354)	\$ 123,291,377
Trimble County Unit No. 2	179,067,225	1,710,591	-	180,777,816
Prairie State Unit No. 1	352,525,328	431,349	(1,065,489)	351,891,188
Prairie State Unit No. 2	322,840,496	1,475,214	(685,177)	323,630,533
Mobile generation	3,116,660	1,200	-	3,117,860
Prairie State - Common	144,053,937	2,297,871	(294,903)	146,056,905
Prairie State - Jordan Grove	9,898,676	(36,227)	-	9,862,449
Prairie State - Nearfield	7,809,222	1,526,873	-	9,336,095
Prairie State - Other	7,670,430	82,379	-	7,752,809
Prairie State - Mine	39,204,298	462,412	-	39,666,710
Prairie State - Coal Reserves	17,369,010	-	-	17,369,010
Land ¹	5,966,369	-	-	5,966,369
Office building	8,139,715	6,575	-	8,146,290
Office furniture and equipment	506,298	3,279	-	509,577
Supervisory control and data acquisition equipment	2,328,070	18,150	-	2,346,220
Winnetka 138 interconnect	500,000	-	-	500,000
Other equipment	549,451	50,551	(32,848)	567,154
Total Utility Plant in Service	1,214,871,130	18,955,003	(3,037,771)	1,230,788,362
Construction work in progress ¹	22,478,972	10,845,824	(7,328,232)	25,996,564
Total Utility Plant	\$ 1,237,350,102	\$ 29,800,827	\$ (10,366,003)	\$ 1,256,784,926

¹ Utility plant that is not being depreciated.

ILLINOIS MUNICIPAL ELECTRIC AGENCY

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended April 30, 2017 and 2016

NOTE 5 – CHANGES IN UTILITY PLANT (cont.)

	Balance 5/1/15	Additions/ Reclassifications	Deletions/ Reclassifications	Balance 4/30/16
Less: Accumulated depreciation				
Electric plant –				
Trimble County Unit No. 1	\$ (60,299,569)	\$ (3,761,997)	\$ 959,354	\$ (63,102,212)
Trimble County Unit No. 2	(19,407,660)	(4,868,997)	-	(24,276,657)
Prairie State Unit No. 1	(25,607,193)	(8,792,244)	1,065,489	(33,333,948)
Prairie State Unit No. 2	(20,102,007)	(8,076,072)	685,177	(27,492,902)
Mobile generation	(1,341,638)	(103,909)	-	(1,445,547)
Prairie State - Common	(10,350,525)	(3,623,742)	151,538	(13,822,729)
Prairie State - Jordan Grove	(2,882,145)	(988,358)	-	(3,870,503)
Prairie State - Nearfield	(360,659)	(206,506)	-	(567,165)
Prairie State - Other	(1,108,205)	(384,758)	-	(1,492,963)
Prairie State - Mine	(7,353,540)	(2,621,239)	-	(9,974,779)
Prairie State - Coal Reserves	(1,266,471)	(475,048)	-	(1,741,519)
Office building	(1,943,900)	(261,849)	-	(2,205,749)
Office furniture and equipment	(465,581)	(22,267)	-	(487,848)
Supervisory control and data acquisition equipment	(2,193,204)	(59,237)	-	(2,252,441)
Winnetka 138 interconnect	(311,111)	(16,667)	-	(327,778)
Other equipment	(399,270)	(57,176)	27,373	(429,073)
Total Accumulated Depreciation	(155,392,678)	(34,320,066)	2,888,931	(186,823,813)
Net Utility Plant	\$ 1,081,957,424			\$ 1,069,961,113

ILLINOIS MUNICIPAL ELECTRIC AGENCY

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended April 30, 2017 and 2016

NOTE 6 – LONG TERM OBLIGATIONS

IMEA has issued the following revenue bonds:

<u>Date</u>	<u>Purpose</u>	<u>Final Maturity</u>	<u>Interest Rates</u>	<u>Original Issue</u>	<u>Outstanding Amount 4/30/17</u>
Nov. 5, 2007	Refinance 1998 bonds	Feb. 1, 2021	5.00 – 5.20%	\$ 51,360,000	\$ 19,160,000
Jul. 15, 2009	Debt service and capital improvements *	Feb. 1, 2035	5.33 – 6.13%	294,755,000	276,745,000
Nov. 30, 2010	Debt service and capital improvements *	Feb. 1, 2035	2.47 – 7.29%	140,290,000	118,885,000
April 1, 2015	Refunding 2006 and 2007A bonds	Feb. 1, 2035	4.00 – 5.00%	594,685,000	591,785,000

* The 2009C and 2010A revenue bonds are taxable Build America Bonds. IMEA receives a 35% interest subsidy from the federal government for these bonds. During Federal fiscal years 2017 and 2016, the U.S. federal government was subject to the process of sequestration reducing spending amounts for many programs including payments to the issuers of BAB's. A 6.9% and a 6.8% reduction in payments for the federal budget year ended September 30, 2017 and 2016, respectively, was experienced. The subsidy payment is not taken into account in the debt service displayed below.

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

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	\$ 41,095,000	\$ 55,615,262	\$ 96,710,262
2019	42,950,000	53,472,073	96,422,073
2020	44,895,000	51,234,173	96,129,173
2021	46,945,000	48,839,925	95,784,925
2022	43,660,000	46,315,150	89,975,150
2023 – 2027	249,370,000	192,803,417	442,173,417
2028 – 2032	312,790,000	114,171,676	426,961,676
2033 - 2035	<u>224,870,000</u>	<u>23,609,076</u>	<u>248,479,076</u>
Totals	<u>\$ 1,006,575,000</u>	<u>\$ 586,060,752</u>	<u>\$ 1,592,635,752</u>

Repayment of the bonds is secured by a pledge of IMEA's revenues.

ILLINOIS MUNICIPAL ELECTRIC AGENCY

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended April 30, 2017 and 2016

NOTE 6 – LONG TERM OBLIGATIONS (cont.)

Committed Line of Credit

On October 29, 2010, IMEA entered into a \$25 million Committed Line of Credit agreement (LOC Agreement) with PNC Bank. Under the LOC Agreement, IMEA may draw funds and/or post standby letters of credit. The LOC Agreement was increased to \$50 million on September 1, 2012 and expires on October 29, 2019. IMEA had \$2.5 million and \$8.5 million outstanding under the LOC Agreement as of April 30, 2017 and 2016, respectively.

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

	Balance 5/1/16	Additions	Reductions	Balance 4/30/17	Due Within One Year
Revenue bonds	\$ 1,045,885,000	\$ -	\$ 39,310,000	\$ 1,006,575,000	\$ 41,095,000
Line of credit agreement	8,500,000	-	6,000,000	2,500,000	-
Unamortized premium	74,684,303	-	6,681,934	68,002,369	-
Other liabilities	19,717,654	239,962	4,478	19,953,138	-
Totals	<u>\$ 1,148,786,957</u>	<u>\$ 239,962</u>	<u>\$ 51,996,412</u>	<u>\$ 1,097,030,507</u>	<u>\$ 41,095,000</u>

Long-term obligation activity for the year ended April 30, 2016 is as follows:

	Balance 5/1/15	Additions	Reductions	Balance 4/30/16	Due Within One Year
Revenue bonds	\$ 1,087,260,000	\$ -	\$ 41,375,000	\$ 1,045,885,000	\$ 39,310,000
Line of credit agreement	7,250,000	8,500,000	7,250,000	8,500,000	-
Unamortized premium	81,441,703	-	6,757,400	74,684,303	-
Other liabilities	8,519,467	11,200,901	2,714	19,717,654	-
Totals	<u>\$ 1,184,471,170</u>	<u>\$ 19,700,901</u>	<u>\$ 55,385,114</u>	<u>\$ 1,148,786,957</u>	<u>\$ 39,310,000</u>

ILLINOIS MUNICIPAL ELECTRIC AGENCY

NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended April 30, 2017 and 2016

NOTE 7 – ACCOUNTING FOR ASSET RETIREMENT OBLIGATIONS

An asset retirement obligation represents a legal obligation associated with the retirement of a tangible, long-lived asset that is incurred upon the acquisition, construction, development, or normal operation of that long-lived asset.

The asset retirement obligation includes the closure of ash ponds at the Trimble County plant site and mine closure and mine reclamation at the Prairie State Generating facility. Other asset retirement obligations are not significant to these financial statements. IMEA used estimated cash flows to determine the obligation.

The following table presents the details of IMEA's asset retirement obligations, which are included on the balance sheet in other noncurrent liabilities:

<u>Balance</u> <u>5/1/16</u>	<u>Liabilities</u> <u>Incurred</u>	<u>Accretion</u>	<u>Costs</u> <u>Incurred</u>	<u>Balance</u> <u>4/30/17</u>
<u>\$ 19,206,733</u>	<u>\$ (195,372)</u>	<u>\$ 654,959</u>	<u>\$ (261,851)</u>	<u>\$ 19,404,469</u>
<u>Balance</u> <u>5/1/15</u>	<u>Liabilities</u> <u>Incurred</u>	<u>Accretion</u>	<u>Costs</u> <u>Incurred</u>	<u>Balance</u> <u>4/30/16</u>
<u>\$ 8,052,212</u>	<u>\$ 11,286,455</u>	<u>\$ 159,240</u>	<u>\$ (291,174)</u>	<u>\$ 19,206,733</u>

NOTE 8 – NET POSITION

GASB No. 34 requires the classification of net position into three components – net investment in capital assets, restricted, and unrestricted. These classifications are defined as follows:

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

Restricted – This component of net position consists of constraints placed on net asset use through external constraints imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.

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

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

ILLINOIS MUNICIPAL ELECTRIC AGENCY

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended April 30, 2017 and 2016

NOTE 8 – NET POSITION (cont.)

The following calculation supports the net investment in capital assets:

	2017	2016
Utility plant in service	\$ 1,235,748,260	\$ 1,230,788,362
Accumulated depreciation	(221,134,788)	(186,823,813)
Construction work in progress	43,050,763	25,996,564
Sub-totals	1,057,664,235	1,069,961,113
Less: Capital related debt		
Current portion of capital related long-term debt	41,095,000	39,310,000
Long-term portion of capital related long-term debt	965,480,000	1,006,575,000
Unamortized loss on advance refunding	(36,631,732)	(40,415,512)
Unamortized premium	68,002,369	74,684,303
Sub-totals	1,037,945,637	1,080,153,791
Add: Unspent debt proceeds		
Debt service reserve from borrowing	78,066,310	80,790,844
Acquisition fund	-	1,669,376
Sub-totals	78,066,310	82,460,220
Total Net Investment in Capital Assets	\$ 97,784,908	\$ 72,267,542

The following calculation supports the amount of restricted net position:

	2017	2016
Restricted investments	\$ 100,110,339	\$ 104,508,640
Less: Restricted Assets Not Funded by Revenues		
Debt service reserve account	(78,066,310)	(80,790,844)
Acquisition funds	-	(1,669,376)
Total Restricted Net Position Not Funded by Revenues	(78,066,310)	(82,460,220)
Current liabilities payable from restricted assets	(13,673,366)	(14,665,193)
Total Restricted Net Position as Calculated	\$ 8,370,663	\$ 7,383,227

ILLINOIS MUNICIPAL ELECTRIC AGENCY

NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended April 30, 2017 and 2016

NOTE 9 – REGULATORY COSTS FOR FUTURE RECOVERY

Regulatory costs for future recovery includes unamortized debt issuance costs, which amounted to \$3,514,208 and \$3,878,725 for the years ended April 30, 2017 and 2016, respectively. IMEA has chosen to use the application of GASB 62 to recover these costs in future periods.

NOTE 10 – EMPLOYEE RETIREMENT PLAN

IMEA's employees are covered by the Illinois Municipal Electric Agency Pension Plan, a defined contribution money purchase pension plan with a 5 year vesting schedule. Benefit provisions and all other requirements are established by the board of IMEA. IMEA contributes 25% of eligible employee earnings on behalf of each employee. Employees that terminate service prior to being fully vested, forfeit the unvested portion of their account balance which is applied to future contributions to the plan. Total contributions to the plan by IMEA, net of applied forfeitures, for the years ended April 30, 2017, 2016 and 2015 were \$840,000, \$787,000, and \$705,000, respectively. Total covered payroll for the respective years was \$3,362,000, \$3,148,000, and \$3,108,000.

NOTE 11 – CONTRACTS AND COMMITMENTS

IMEA has long and short-term contracts and commitments with various wholesale power suppliers to supply energy, capacity and transmission services to its members. These contracts vary in length and have flexible terms and cancellation provisions. These contracts may be material to the financial statements.

In the normal course of business, IMEA may be involved in various disputes with other parties. While management cannot predict the ultimate outcome of these disputes, total exposure is not material to IMEA's financial position or results of operation.

NOTE 12 – SIGNIFICANT CUSTOMERS

IMEA has two significant customers who were responsible for 49% and 48% of operating revenue in 2017 and 2016, respectively.

NOTE 13 – RISK MANAGEMENT

IMEA 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 coverage in any of the past three years. There were no significant reductions in coverage compared to the prior year.